

R00A01
Headquarters
Maryland State Department of Education

Operating Budget Data

(\$ in Thousands)

	FY 06	FY 07	FY 08	FY 07-08	% Change
	<u>Actual</u>	<u>Working</u>	<u>Allowance</u>	<u>Change</u>	<u>Prior Year</u>
General Fund	\$96,641	\$100,814	\$105,348	\$4,534	4.5%
Special Fund	6,760	7,968	7,532	-436	-5.5%
Federal Fund	119,476	136,610	124,937	-11,673	-8.5%
Nonbudgeted Fund	0	0	55	55	
Reimbursable Fund	<u>516</u>	<u>785</u>	<u>88</u>	<u>-697</u>	<u>-88.8%</u>
Total Funds	\$223,393	\$246,177	\$237,960	-\$8,217	-3.3%

- A deficiency of \$1.2 million in general funds is requested for fiscal 2007 for the Autism Waiver program. The deficiency represents funds for the 50% match that the Maryland State Department of Education (MSDE) contributes to Medicaid costs for children in the program.
- The fiscal 2008 allowance declines by \$8.2 million, making it 3.3% less than the fiscal 2007 working appropriation. In contrast to the overall decrease in the budget, general funds increase by \$4.5 million, driven by a \$3.1 million increase in funding for the Autism Waiver program and \$2.1 million increase in assessment test costs.
- Federal funds decline by \$11.7 million, which is an 8.5% reduction from the fiscal 2007 working appropriation. The drop, however, is overstated because the fiscal 2007 working appropriation includes federal funds carried over from prior years. Adjusting for the carryover funds, the federal fund allowance declines by approximately \$4.6 million.
- Health insurance expenses decline due to one-time savings. Adjusting for the one-time savings, the underlying decline in the proposed budget is \$2.9 million, or 1.2% from the fiscal 2007 working appropriation.

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

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Personnel Data

	<u>FY 06</u> <u>Actual</u>	<u>FY 07</u> <u>Working</u>	<u>FY 08</u> <u>Allowance</u>	<u>FY 07-08</u> <u>Change</u>
Regular Positions	1,405.80	1,454.80	1,468.80	14.00
Contractual FTEs	<u>155.35</u>	<u>138.60</u>	<u>147.05</u>	<u>8.45</u>
Total Personnel	1,561.15	1,593.40	1,615.85	22.45

Vacancy Data: Regular Positions

Turnover, Excluding New Positions	96.50	6.57%
Positions Vacant as of 12/31/06	128.70	8.85%

- The fiscal 2008 allowance includes 17 new positions, with 6 of those an outgrowth of MSDE's assumption of responsibility for educational programs in facilities operated by the Department of Juvenile Services (DJS). The allowance adds 8 positions in the Division of Rehabilitation Services, 2 education specialists for low-performing schools, and 1 secretary in the Division of Student, Family, and School Support. Three positions have been abolished.
- The allowance budgets turnover at 6.57%, or 96.5 vacancies. MSDE had an 8.85% vacancy rate as of December 31, 2006, or 32.2 more vacancies than the budgeted turnover in the allowance. Nineteen positions have been vacant for 13 months or longer.

Analysis in Brief

Issues

Mismatch of Funding and Spending Cycles for Assessments: During recent years, a pattern of large encumbrances has emerged for assessment tests because cycles for testing and the State budget do not coincide. **The Department of Legislative Services recommends funding assessment costs on a cash basis beginning with fiscal 2008. Therefore, a \$14.5 million reduction is recommended. The reduction still leaves sufficient funds to pay all assessment bills submitted during fiscal 2008.**

Costs Continue to Rise for Juvenile Correctional Education Services; Funding for Adult Correctional Education Declines: By 2012, MSDE must assume responsibility for educational programs at all residential facilities operated by DJS, as mandated by Chapter 431 of 2004. **Given the significant increase in fiscal 2008 funding, MSDE should discuss the resources needed to accomplish the expansion of services to the Carter Youth Facility and other DJS-operated facilities, with emphasis on funding in excess of amounts currently in the MSDE and DJS budgets. MSDE should include a description of the scope of planned services and the differentiation, if any, of those services for individuals based on their length of stay. MSDE**

should discuss any effects on the provision of educational services in the adult education program as a result of decreased funding in fiscal 2008.

MSDE Reports on Federal Grants: MSDE reported to the General Assembly in December 2006 that federal grants in effect on October 1, 2006, totaled \$1.5 billion. The portion that was unexpended, unappropriated, and available to be spent in fiscal 2007 was \$76.5 million, or 5.2% of the total grant amount. **Due to the large amounts of unexpended grants and MSDE’s acknowledgment of the difficulty in making projections, the Department of Legislative Services recommends budget bill language requiring MSDE to report on the status of federal grants in fiscal 2008.**

Recommended Actions

	<u>Funds</u>	<u>Positions</u>
1. Reduce funding for assessment tests.	\$ 14,500,000	
2. Delete Maryland Correctional Enterprises special funds.	1,000,000	
3. Delete three vacant positions.	149,310	3.0
4. Delete 2.5 long-term vacant positions.	137,574	2.5
5. Add budget bill language to require a report on encumbrances in the accountability and assessment testing program.		
6. Add budget bill language to require a report on federal funds.		
Total Reductions	\$ 15,786,884	5.5

Updates

Office of Legislative Audits Publishes MSDE Audits: In June 2006, the Office of Legislative Audits (OLA) reported the results of MSDE’s performance audit covering the period from February 2002 to June 2005. In January 2007, the fiscal 2006 closeout audit was published. OLA included in both audits findings relating to potential general fund liabilities for federal Temporary Assistance for Needy Families funds and disallowed federal Medicaid funds.

MSDE Reports on Encumbrances: In September 2006, MSDE submitted a report to the General Assembly on amounts and purposes of funds encumbered at the close of fiscal 2006. Total encumbrances were \$262.5 million, with 81% in federal funds.

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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, Family, and School Support; 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 transferred from the Department of Human Resources (DHR) in July 2005. In fiscal 2007, budgetary and operational responsibility for the Child Care Subsidy Program (Purchase of Care) was transferred to MSDE by executive order. A separate analysis on the Division of Early Childhood Development will discuss these programs.

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 Division of Library Development and Services (DLDS) is divided into two branches – the Public Library State Network Branch and the Library for the Blind and Physically Handicapped

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(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. Chapter 494 of 2006 established a capital grant program to support library projects across the State which will be administered by DLDS.

The DLDS works toward achieving the following goals:

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

DORS works toward achieving the following goals:

- promoting employment and independent living for individuals with disabilities through rehabilitation programs; and
- maximizing self-sufficiency for individuals with disabilities through the State's disability determination program.

Fiscal 2007 Actions

Proposed Deficiency

The allowance requests a deficiency of \$1.2 million for the Home and Community Based Services Waiver for Children with Autism Spectrum Disorder. Under an agreement with the Department of Health and Mental Hygiene (DHMH), MSDE is required to provide the 50% State match to cover Medicaid costs for children in the program. Based on recent quarterly payments

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transferred to DHMH by MSDE, the cost of the program in fiscal 2007 is projected to be \$1.2 million more than the \$7.7 million appropriation. Program enrollment is capped at 900 children, and the program is operating at capacity. The increase in costs is driven by the scope and cost of the services offered by providers.

Governor’s Proposed Budget

As shown in **Exhibit 1**, the fiscal 2008 allowance decreases by \$8.2 million, or 3.3% from the fiscal 2007 working appropriation (before deficiencies). When the fiscal 2007 appropriation is adjusted to include the \$1.2 million deficiency for the Autism Waiver program, the allowance represents a \$9.4 million decrease (3.8%).

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>
2007 Working Appropriation	\$100,814	\$7,968	\$136,610	\$0	\$785	\$246,177
2008 Governor’s Allowance	<u>105,348</u>	<u>7,532</u>	<u>124,937</u>	<u>55</u>	<u>88</u>	<u>237,960</u>
Amount Change	\$4,534	-\$436	-\$11,673	\$55	-\$697	-\$8,217
Percent Change	4.5%	-5.5%	-8.5%		-88.8%	-3.3%

Where It Goes:

Personnel Expenses

Increments and other compensation, including Institutional Educator Pay Plan.....	\$2,861
Employee retirement costs.....	1,452
Seventeen new positions.....	758
Employee and retiree health insurance costs decline due to one-time savings.....	-4,304
Three abolished positions	-214
Workers’ compensation premium assessment.....	-136
Other fringe benefits.....	1

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Where It Goes:

Other Changes

General Funds

Autism Waiver program – State match for Medicaid services	3,100
Contracts for services provided in connection with assessment tests.....	2,104
Renovation of a relocatable classroom for Carter Youth Facility	430
Educator Information System – expansion and technical support.....	278
Instructional supplies for educational programs at the Department of Juvenile Services residential facilities	180
Decrease in contractual services in Correctional Education.....	-892
Management contract – completion of Prince George’s County review	-565
Reduction in Indirect Cost Plan.....	-399
Reduction in Bridge to Excellence contract	-139

Federal Funds

Vocational rehabilitation federal grant reduction for the Division of Rehabilitation Services clients	-2,370
Reading First grants.....	-2,280
Longitudinal Data System grant – three-year funds will be restored by carryover	-1,042
Improving Teacher Quality grants.....	-1,018
Vocational education grants	-840
State Improvement grants for Students with Disabilities	-675
Other federal grants	-3,400

Reimbursable Funds

Inmate Welfare Fund	-360
Adult education initiative for outreach and development of on-line General Education Diploma offerings.....	-306

Special Funds

Reduction result of fiscal 2006 carryover funds.....	-137
Other	-304

Total **-\$8,217**

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

Personnel Changes

The allowance contains a \$758,000 increase for 17 new positions.

- Eight positions are added in DORS through the conversion of contractual positions to PINs. Eighty percent of the total cost of the positions is federally funded, with the remaining 20% requiring general funds. Four of these positions, including an accountant, two fiscal accounts

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clerks, and a programmer analyst, are in the Fiscal Management and Management Information System branches. The other four positions are building and grounds and security personnel.

- Six new general fund positions are included in the Division of Correctional Education for expansion to the Carter Youth Facility. This is the fourth facility operated by the Department of Juvenile Services (DJS) at which MSDE will direct educational programs as part of the expansion required by Chapter 431 of 2004. The new positions include a principal, two teachers, two teachers' aides, and a secretary.
- The allowance includes three federally funded positions in the Division of Student, Family, and School Support for two education specialists for low-performing schools and a secretary. As part of its federal grant monitoring process, the U.S. Department of Education has advised MSDE to provide more assistance to low-performing schools.
- Three positions have been abolished, including a staff specialist in the Division of Accountability and Assessment and two positions (a teacher and a librarian) in the Division of Correctional Education's program for juvenile facilities.

Funding for salaries increases in the allowance by approximately \$2.8 million. Funds for contractual services in the Correctional Education program have been reduced to fund salaries. The increased salary expenses flow from the Institutional Educator Pay Plan, which applies to teachers in correctional institutions and rehabilitation services. The plan's salary levels were significantly enhanced in fiscal 2007.

Other Budget Changes

General funds increase by \$4.5 million, or 4.5% in the allowance. Significant increases include:

- \$3.1 million for the Autism Waiver program, bringing total funding to \$10.8 million. The projected cost increase is based on recent quarterly payments from MSDE to DHMH, which include a 2.5% addition to the cost of services, as required by the program's regulations;
- \$2.1 million for assessment test contracts, including \$1.0 million for the High School Assessment (HSA), \$581,000 for the Maryland School Assessment (MSA) for grades three through eight, and \$569,000 for the new Science MSA;
- \$610,000 for expansion of educational programs to DJS-operated facilities, including \$430,000 to renovate a relocatable classroom for the Carter Youth Facility and \$180,000 for instructional supplies; and
- \$278,000 for the Educator Information System (EIS), including licensing and maintenance costs and the expansion of services to six additional local education agencies (LEAs). EIS

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provides LEAs with web-based teacher certification records and facilitates the certification process for prospective teachers.

Federal funding for vocational rehabilitation grants declines by \$2.4 million applicable to the client services program in DORS. The funding decrease will impact services to some of the most severely disabled individuals eligible for the program. In May 2006, due to increased caseloads, DORS began providing services only to Category One clients, those who have the most severe disabilities. With the reduction in federal funding, MSDE projects that the current waiting list for non-Category One clients will increase from 1,500 to at least 3,000 clients.

The overall \$11.7 million reduction in federal funds misrepresents the difference in estimated federal funding levels in fiscal 2007 and 2008. MSDE submitted a budget amendment, received by the Department of Legislative Services (DLS) in December 2006, which requested that the agency's fiscal 2007 federal fund budget be increased by \$11.4 million. The budget request states that all of the increase constitutes funds carried over from fiscal 2006, resulting in a fiscal 2007 working appropriation total that includes \$11.4 million in fiscal 2006 federal funds. Of approximately \$16.0 million in federal fund budget amendments submitted by MSDE in fiscal 2007, \$11.4 million represents carryover funds. Adjusting for the funds carried over from fiscal 2006, federal funding in the allowance is approximately \$4.6 million – not \$11.7 million – less than in fiscal 2007.

Issues

1. Mismatch of Funding and Spending Cycles for Assessments

Maryland annually measures student performance as required by the federal No Child Left Behind Act on the MSA in grades 3 through 8 and the HSA in grades 9 through 12. MSDE has multi-year contracts with several vendors, with costs typically spread over three to five years. The services furnished by vendors include developing and phasing in new tests; generating tests for the annual testing cycle; scoring and reporting results; and maintaining records.

During recent years, a pattern of large encumbrances has emerged in assessment test funds because the testing cycle does not coincide with the State budget cycle. Students take MSAs in March and HSAs in May at the conclusion of courses. Meanwhile, MSDE accrues encumbrances until test scores are validated. Typically, MSDE does not finish its review and release of funds until late summer or early fall. As a result, much of the funding provided on the fiscal year cycle is not spent until the following fiscal year.

Exhibit 2 shows the funds available to MSDE for assessment testing and accountability contracts in fiscal 2007 and 2008. Included in the exhibit are the estimated expenditures for the same period, which were provided to DLS by MSDE. The working appropriation and allowance figures are limited to the funding for education contracts for the Division of Accountability and Assessment. At the close of fiscal 2006, MSDE had encumbered a total of \$36.8 million in general funds for assessment and accountability contracts. Combined with the fiscal 2007 working appropriation and fiscal 2008 allowance, total funding available for these contracts is \$96.7 million.

MSDE has indicated that expenditures in fiscal 2007 for assessment and accountability contracts are expected to be \$36.7 million and in fiscal 2008 approximately \$42.7 million. Building an additional \$2.7 million in expenditures into fiscal 2007 for a new HSA contract, total expenditures are \$82.1 million. Based on the information provided to DLS by MSDE, \$14.6 million of the total \$96.7 million in funds available would remain unspent at the close of fiscal 2008. **DLS recommends funding assessment costs on a cash basis beginning with fiscal 2008. Therefore, a \$14.5 million reduction is recommended. The reduction still leaves sufficient funds to pay all assessment bills submitted during fiscal 2008.**

Exhibit 2
Total Available Assessment Funds
Fiscal 2007-2008

Funding Sources

Fiscal 2005 Encumbrances	\$13,046,260
Fiscal 2006 Encumbrances	23,735,714
Fiscal 2007 Working Appropriation	29,109,131
Fiscal 2008 Allowance	30,781,945
Total Funds Available through Fiscal 2008	\$96,673,050

Expenditures

MSDE Estimated Bills Paid During Fiscal 2007	-\$36,700,000
MSDE Estimated Bills Paid During Fiscal 2008	-27,700,000
Projected High School Assessment Bills in Fiscal 2007 and 2008*	-17,700,000
Total Anticipated Expenditures through Fiscal 2008	-\$82,100,000

Funds Remaining at Close of Fiscal 2008 **\$14,573,050**

*The High School Assessment contract is currently in the rebidding process. The current contract averages approximately \$10 million per year. The estimate allows for substantial escalation in costs in fiscal 2008.

Source: Maryland State Department of Education; Department of Legislative Services

2. Costs Continue to Rise for Juvenile Correctional Education Services; Funding for Adult Correctional Education Declines

The fiscal 2008 allowance includes \$6.2 million for four educational programs in the juvenile correctional education program. Chapter 431 of 2004 requires that MSDE assume responsibility for education at all DJS-operated facilities by 2012. MSDE plans to expand its programs to the J. DeWeese Carter Youth Facility in fiscal 2008, adding it to the Hickey School, the Lower Eastern Shore Center (LESC), and the Baltimore City Juvenile Justice Center (BCJJC). The increase in program funding over the fiscal 2007 working appropriation is \$890,713, or a 16.8% change. Significant increases in the allowance include:

- \$430,000 for renovating a relocatable classroom at the Carter Youth Facility;
- \$180,00 for instructional supplies; and
- \$271,000 for six new positions at the Carter Youth Facility.

In fiscal 2006, MSDE redirected funding for the Hickey School to LESC and BCJJC with the announcement of the closure of committed programs for the Hickey School. MSDE's actual costs in fiscal 2006 were \$4.3 million, which was \$818,724 less than the appropriation. **Given the significant increase in fiscal 2008 funding, MSDE should discuss the resources needed to accomplish the expansion of services to the Carter Youth Facility and other DJS-operated facilities, with emphasis on funding in excess of amounts currently in the MSDE and DJS budgets. MSDE should include a description of the scope of planned services and the differentiation, if any, of those services for individuals based on their length of stay.**

In contrast to the increased funding for the juvenile services correctional education program in fiscal 2008, funding for the adult portion of the program declines. Funding in fiscal 2007, including budget amendments, is \$20.0 million, which accounts for \$1.0 million in Maryland Correctional Enterprises (MCE) funding that was not transferred from the Department of Public Safety and Correctional Services (DPSCS). The fiscal 2008 allowance includes \$1.0 million in MCE funds that DPSCS has indicated may not be forthcoming. Without the transfer of these funds, fiscal 2008 funding will be \$18.2 million, nearly \$2.0 million less than in fiscal 2007. **MSDE should discuss any effects on the provision of educational services in the adult education program as a result of decreased funding in fiscal 2008.**

3. MSDE Reports on Federal Grants

Section 36 of the fiscal 2007 budget bill required MSDE to submit a report to the budget committees on federal grants in effect on October 1, 2006. The report identified six categories of grant amounts: awarded; expended prior to fiscal 2007; appropriated in the budget bill; appropriated by approved budget amendment after passage of the budget bill; unexpended, unappropriated, and available in fiscal 2007; and eligible to be spent by MSDE and eligible to be spent by local education agencies.

Grant awards received by MSDE as of October 1, 2006, totaled close to \$1.5 billion, with 5.2% of that amount, or \$76.5 million unexpended, unappropriated, and available to be spent in fiscal 2007. Local school systems are eligible to spend \$45.5 million of the unexpended grants, while the remaining \$31.0 million is available to MSDE to spend. In fiscal 2006, a higher amount and higher percentage of federal funding remained to be spent than in fiscal 2005. In October 2005, MSDE reported a total of \$41.0 million in unexpended, unappropriated, and available funds, representing 3.2% of its total federal funds.

Three grant encumbrances account for approximately one-third of the \$76.5 million in grants available for spending in fiscal 2007. The distribution of Reading First grants (\$2.3 million) is backlogged due to a delay in the release of federal funding in fiscal 2003. Total funding for the three-year Statewide Data Systems grant (\$4.8 million) was distributed in a single award to be spread over the grant term. Child Care and Development Fund funds totaling \$19.8 million must be used for set-asides, earmarks, and staff salaries.

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The report cites several reasons for the difference between projected and actual federal grant awards. First, MSDE's grant projections for the State budget request must be based on federal budgetary decisions that often change after the State budget is determined. Second, federal grant cycles – which may be as long as 27 months – do not correspond to the State budget cycle. Third, carryover revenue from unspent multi-year federal grants is difficult to forecast due to the often lengthy sub-granting process to LEAs. **Due to the large amounts of unexpended grants and the acknowledged difficulty in making federal grant projections, DLS recommends budget bill language requiring MSDE to report on the status of federal grants in fiscal 2008.**

Recommended Actions

	<u>Amount Reduction</u>		<u>Position Reduction</u>
1. Reduce funding for assessment tests. Large encumbrances have accumulated in the Maryland State Department of Education’s (MSDE) Division of Accountability and Assessment for multi-year contracts for assessment tests. On the current funding cycle, funds are provided to MSDE that are not spent until the fiscal year following the appropriation. The \$14.5 million reduction is a one-time adjustment to align MSDE’s assessment test funding with its annual spending.	\$ 14,500,000	GF	
2. Delete \$1.0 million in Maryland Correctional Enterprises (MCE) funds. In fiscal 2007, the Maryland State Department of Education (MSDE) will not receive \$1.0 million in budgeted MCE funds from the Department of Public Safety and Correctional Services. While other special funds in MSDE’s Correctional Education program have partially substituted for the shortfall in fiscal 2007, receipt of the budgeted \$1.0 million in MCE funds in fiscal 2008 is in doubt and should be deleted.	1,000,000	SF	
3. Delete three vacant positions in the juvenile correctional education program. The positions include two teachers (#083374 and #084018), which have been vacant for more than two years, and one teacher’s aide (#083348), which has been vacant for 15 months. The allowance contains six new positions to fill positions in the program.	149,310	GF	3.0
4. Delete 2.5 positions that have been vacant between 18 and 30 months. The positions include a computer network specialist (#084020), an administrative position (#039781), and a management associate position (#082576).	137,574	FF	2.5

5. Add the following language to the general fund appropriation:

, provided that \$250,000 of this appropriation may not be expended until the Maryland State Department of Education submits a report by September 15, 2007, to the budget committees on the amount of funds encumbered at the close of fiscal 2007 in the accountability and assessment program. The report shall itemize the amounts encumbered, identify the contracts against which the amounts are encumbered, and specify the fiscal year of the funding.

Explanation: At the close of fiscal 2006, the department encumbered \$23.7 million in general funds for assessment contracts. The language requests a detailed report on fiscal 2007 encumbrances, which shall be submitted by September 15, 2007.

Information Request	Author	Due Date
Amounts and description of encumbrances at the close of fiscal 2007	MSDE	September 15, 2007

6. 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, 2007, listing for each federal grant in effect on October 1, 2007, the total amount:

- (A) Awarded;
- (B) Expended prior to fiscal year 2008;
- (C) Appropriated in the fiscal 2008 budget as approved by the General Assembly;
- (D) Appropriated by approved budget amendment after the fiscal 2008 budget was approved by the General Assembly;
- (E) Unexpended and unappropriated and available in fiscal year 2008; 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, 2007.

Information Request	Author	Due Date
Report on federal grants	MSDE	December 15, 2007

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Total Reductions	\$ 15,786,884	5.5
Total General Fund Reductions	\$ 14,649,310	
Total Special Fund Reductions	\$ 1,000,000	
Total Federal Fund Reductions	\$ 137,574	

Updates

1. Office of Legislative Audits Publishes MSDE Audits

In June 2006, the Office of Legislative Audits (OLA) reported the results of its performance audit of MSDE covering the period from February 2002 to June 2005. The auditors made 20 findings and recommendations, including six repeat findings, in the areas of program monitoring, fiscal operations, and network security. Significant findings centered on inadequacies in monitoring and updating teacher certification status, grant monitoring, procuring and monitoring service contracts, and maintenance of computer network security.

In its January 2007 report of the *Statewide Review of Closeout Transactions for Fiscal 2006*, OLA included two of the performance audit findings. Finding 1 focused on \$15.4 million in accrued federal fund revenues in the Temporary Assistance for Needy Families (TANF) program that could not be substantiated. MSDE has not recovered TANF funds from DHR for expenses incurred in fiscal 2002 and 2003. DHR has responded that the funds have been spent and are no longer available, which could result in a \$15.4 million general fund liability to eliminate the deficit.

The second finding repeated from the performance audit is Finding 4, concerning \$19.9 million in disallowed federal Medicaid claims, which MSDE categorized as a contingent liability with a pending appeal. A 2003 federal audit report recommended the refund of \$19.9 million in funds that were used for health-related services provided in schools. A decision is expected at the federal level sometime in 2007. Although MSDE expects to recover any amounts found due from the LEAs that provided the health-related services, OLA concluded that the \$19.9 million refund may need to be paid with general funds.

2. MSDE Reports on Encumbrances

The fiscal 2007 budget bill required MSDE to submit a report to the budget committees on the amount and purposes of funds encumbered at the end of fiscal 2006. The report indicates that a total of \$262.5 million was encumbered in fiscal 2006, including funds from fiscal 2002 through 2006. A total of \$212.8 million, or 81% of the total amount encumbered represents aid to education grants, with \$160.0 million of that amount in federal funds. Encumbrances for purchase orders total \$49.7 million, with \$29.6 million of that amount for assessment test contracts.

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 2006					
Legislative Appropriation	\$101,616	\$5,184	\$122,928	\$458	\$230,186
Deficiency Appropriation	0	0	0	0	0
Budget Amendments	-4,833	3,043	12,292	788	11,290
Reversions and Cancellations	-141	-1,468	-15,744	-730	-18,083
Actual Expenditures	\$96,642	\$6,759	\$119,476	\$516	\$223,393
Fiscal 2007					
Legislative Appropriation	\$98,373	\$5,215	\$120,513	\$446	\$224,547
Budget Amendments	2,441	2,753	16,097	338	21,629
Working Appropriation	\$100,814	\$7,968	\$136,610	\$785	\$246,177

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

Fiscal 2006

Actual fiscal 2006 expenditures were \$6.8 million less than the legislative appropriation. While budget amendments increased the appropriation by \$11.3 million, reversions and cancellations totaled \$18.0 million, primarily due to federal fund cancellations.

General funds were reduced by \$7.8 million, which represented a reorganization within MSDE Headquarters transferring the Early Learning Branch from the Division of Instruction to the newly created Division of Early Childhood Development (DECD). The funding transfer was offset by budget amendments that increased general funds, for a total decrease of \$4.8 million from the legislative appropriation. The major general fund amendments included:

- two transfers totaling \$879,000 from DPSCS related to MSDE’s assumption of responsibility for educational services at juvenile justice facilities, as mandated by Chapter 431 of 2004. MSDE received \$456,076 for contracting services and purchasing instructional materials to address inmate waiting lists and \$423,000 for the continuation of the Reentry Enforcement Services Targeting Addiction, Rehabilitation, and Treatment (RESTART) pilot programs;
- the transfer of \$826,000 in excess funds from the Aid to Education Compensatory Education formula to the Autism Waiver program (\$441,000) to cover higher than anticipated costs for services, the Fine Arts program (\$300,000) for grants to local school systems, and the Maryland Summer Youth Connection program (\$150,000);
- the transfer from the Department of Budget and Management (DBM) of \$445,000 for the cost-of-living adjustment (COLA) for State employees; and
- the realignment of \$861,555 in funds associated primarily with the new DECD.

Federal fund budget amendments added \$12.3 million to the fiscal 2006 appropriation. Notable increases included carryover balances in the following programs:

- \$1.5 million in Gaining Early Awareness and Readiness for Undergraduate Programs (GEAR-UP) funding for supporting at-risk students in completing school;
- \$1.1 million in Special Education State Program Improvement grants for professional development for providers of early intervention, educational, and transition services to disabled individuals;
- \$1.1 million in Vocational Education State grants;
- \$900,000 in Reading First grants that have been sub-granted, but not spent;

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- \$654,000 in the Child Care and Development Fund block grant to adjust funding related to the transfer of the Child Care Administration from the Department of Human Resources;
- \$528,000 in the Social Security Benefits Planning, Assistance, and Outreach program for work incentive programs assisting disabled individuals' return to work;
- \$493,000 in Team Nutrition Training grants for the Healthy School Meals program;
- \$341,000 in a vocational rehabilitation program for individuals with severe disabilities;
- \$334,000 in Title I Neglected and Delinquent Children funds for providing educational services to youth in correctional institutions;
- \$299,000 in the Transition to Teaching program for recruiting and training teachers; and
- \$234,000 in Adult Education State grants.

Other increases to the federal fund appropriation included:

- \$1.3 million in unanticipated reimbursements under the Social Security – Disability Insurance program;
- \$920,000 through a new grant under the Statewide Data Systems program for developing a longitudinal data system to track the progress of individual students;
- \$518,000 in two Fund for the Improvement of Education Program grants, including the development of mental health care programs for school systems; and
- \$500,000 for a grant received under the Social Security – Disability Insurance Program for replacing a portion of earnings lost due to disability.

Special funds increased by \$3.0 million. DPSCS transferred \$1.1 million to MSDE for RESTART pilot programs as required by fiscal 2006 budget bill language. MSDE also received \$1.0 million more than anticipated in revenues from Maryland Correctional Enterprises. Smaller increases included a \$226,000 grant from the Annie E. Casey Foundation for leadership programs and carryover balances of \$443,000 in the Bill and Melinda Gates Foundation for leadership and technology training and \$125,000 in the Teacher of the Year program.

Reimbursable funds increased by \$788,000 in fiscal 2006. MSDE received \$725,000 under a memorandum of understanding with the Department of Labor, Licensing, and Regulation (DLLR) for a Work Incentive Act grant relating to information technology and workforce preparation. Additional funding of \$40,000 was received for the School-based Sexual Assault Prevention and Awareness

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Program and \$23,000 for a curriculum development liaison position shared between MSDE and the Maryland African American Museum.

Reversions and cancellations reduced the legislative appropriation by \$18.0 million, with federal funds accounting for \$15.7 million of the total. The following major cancellations occurred in federal funding, with funds available for carryover unless otherwise noted:

- \$3.9 million in Title I funding available to LEAs for improving low-performing schools. Applications were not received by the end of the fiscal year;
- \$1.9 million in Reading First grants;
- \$1.6 million in Improving Teacher Quality grants;
- \$1.5 million in Teacher Technology and Transition to Teaching funding;
- \$735,000 in Vocational Rehabilitation grants;
- \$550,000 in GEAR-UP funding due to receipt of a lower grant than appropriated;
- \$500,000 in 21st Century Community Learning Center funds due to insufficient grant applications;
- \$481,000 in Vocational Education grants;
- \$264,000 in Social Security Disability Insurance;
- \$190,000 in Title I Neglected and Delinquent funds due to a federal program reduction; and
- \$101,000 in Supplemental Security Income funding.

Special fund cancellations totaled approximately \$1.5 million. Notable cancellations included underattainment of expected revenue in the Blind Vendors Program (\$445,700), indirect costs in the Division of Accountability and Assessment (\$330,700); Public Education Partnership funding (\$252,000); continuing education and General Education Diploma fees (\$143,200); and Maryland Correctional Enterprises and the Special Inmate Welfare Fund (\$143,200.)

Reimbursable fund cancellations totaled approximately \$730,000, with \$588,100 cancelled in the Workforce Incentive Act grant that MSDE received through DLLR. The funding relates to the development of on-line adult educational services and is available for carryover.

General fund reversions amounted to \$140,914, with the largest amounts in the Correctional Education program and the Career Technology and Adult Education program.

Fiscal 2007

The legislative appropriation has increased by \$21.6 million through budget amendments. General funds increased by \$2.4 million due almost entirely to transfers from DBM for salary adjustments. MSDE received \$536,000 for a COLA for State employees and \$1.4 million for increases tied to the Annual Salary Review, teacher aide adjustments, and the Institutional Educator Pay Plan. DPSCS transferred \$423,000 to MSDE for RESTART pilot programs for providing educational and transitional services to inmates reentering the community. The fiscal 2007 budget appropriated RESTART funds to DPSCS but authorized the transfer of education funds to MSDE. A transfer of \$100,000 was received from the Science, Technology, Engineering, and Mathematics Initiative in the Aid to Education budget for administration of the program.

Federal funds have increased by \$16 million. The increase is primarily attributable to fiscal 2006 federal grant funds carried over to the fiscal 2007 appropriation.

Audit Findings

Audit Period for Last Audit:	February 2002 – June 30, 2005
Issue Date:	June 2006
Number of Findings:	20
Number of Repeat Findings:	6
% of Repeat Findings:	30%
Rating: (if applicable)	n/a

- Finding 1:** The teacher certifications for 11 convicted sex offenders were not terminated as required by State law, including 7 for which MSDE had not been notified by the LEAs.
- Finding 2:** Sufficient procedures and controls were not established to ensure that individuals convicted of qualifying crimes were not working in Maryland public schools.
- Finding 3:** MSDE did not have adequate procedures to ensure nonpublic school compliance with criminal background check requirements.
- Finding 4:** **MSDE lacked adequate procedures and controls to ensure that local school systems complied with certain critical student transportation safety requirements.**
- Finding 5:** **Sufficient procedures and controls were not established to ensure compliance with certain teacher certification requirements.**
- Finding 6:** MSDE did not pursue reimbursement for approximately \$21.0 million in federal fund expenditures, possibly resulting in the inability to recover the funds and, at a minimum, resulting in lost interest of \$1.5 million.
- Finding 7:** **MSDE lacked adequate procedures and controls over certain grants and could not properly account for certain grant funds.**
- Finding 8:** MSDE did not ensure that grantees met certain financial contribution requirements.
- Finding 9:** Certain related party transactions and questionable grant expenditures relating to funds awarded to the grantee were identified. These matters have been referred to the Office of the Attorney General’s Criminal Investigations Division.
- Finding 10:** MSDE did not adequately monitor the vocational education grant and did not take appropriate follow-up action when questionable uses of grant funds were identified.

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- Finding 11:** Retirement and pension costs recovered from local jurisdictions were not commensurate with MSDE’s related payments, resulting in lost investment income to the State of approximately \$92,000.
- Finding 12:** MSDE created improper purchase orders to avoid reverting funds to the State’s general fund.
- Finding 13:** Adequate supporting documentation was not maintained for accrued federal fund revenues totaling approximately \$50 million.
- Finding 14:** MSDE did not procure and/or monitor certain service contracts in accordance with State regulations.
- Finding 15:** MSDE lacked adequate procedures and controls for approving DORS service providers, for providing rehabilitative services, and for approving the purchases of goods and services for clients.
- Finding 16:** **MSDE did not maintain its equipment and related records in accordance with State regulations.**
- Finding 17:** **Network password and account controls were inadequate, and monitoring and controls over a critical server need improvement.**
- Finding 18:** **An adequate information technology disaster recovery plan did not exist.**
- Finding 19:** The MSDE computer network was not adequately secured.
- Finding 20:** The internal network was exposed to security risks because of weaknesses involving MSDE’s firewall.

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

**Object/Fund Difference Report
MSDE – Headquarters**

<u>Object/Fund</u>	<u>FY06 Actual</u>	<u>FY07 Working Appropriation</u>	<u>FY08 Allowance</u>	<u>FY07-FY08 Amount Change</u>	<u>Percent Change</u>
Positions					
01 Regular	1,405.80	1,454.80	1,468.80	14.00	1.0%
02 Contractual	155.35	138.60	147.05	8.45	6.1%
Total Positions	1,561.15	1,593.40	1,615.85	22.45	1.4%
Objects					
01 Salaries and Wages	\$ 93,652,854	\$ 102,008,759	\$ 102,427,128	\$ 418,369	0.4%
02 Technical and Spec Fees	33,989,963	39,190,214	39,332,593	142,379	0.4%
03 Communication	1,526,169	2,203,569	2,278,659	75,090	3.4%
04 Travel	1,364,369	1,268,320	1,103,878	-164,442	-13.0%
06 Fuel and Utilities	962,581	992,203	1,287,607	295,404	29.8%
07 Motor Vehicles	650,878	665,124	618,616	-46,508	-7.0%
08 Contractual Services	54,670,745	67,537,898	56,998,460	-10,539,438	-15.6%
09 Supplies and Materials	3,138,997	2,726,475	2,655,547	-70,928	-2.6%
10 Equipment – Replacement	2,405,276	727,791	1,231,872	504,081	69.3%
11 Equipment – Additional	2,006,904	1,071,191	918,875	-152,316	-14.2%
12 Grants, Subsidies, and Contributions	25,120,386	23,900,366	24,977,310	1,076,944	4.5%
13 Fixed Charges	3,767,000	3,719,392	3,985,040	265,648	7.1%
14 Land and Structures	137,215	165,534	144,682	-20,852	-12.6%
Total Objects	\$ 223,393,337	\$ 246,176,836	\$ 237,960,267	-\$ 8,216,569	-3.3%
Funds					
01 General Fund	\$ 96,641,358	\$ 100,814,167	\$ 105,347,953	\$ 4,533,786	4.5%
03 Special Fund	6,759,660	7,967,675	7,532,048	-435,627	-5.5%
05 Federal Fund	119,476,116	136,610,329	124,937,217	-11,673,112	-8.5%
07 Nonbudgeted Fund	0	0	55,049	55,049	n/a
09 Reimbursable Fund	516,203	784,665	88,000	-696,665	-88.8%
Total Funds	\$ 223,393,337	\$ 246,176,836	\$ 237,960,267	-\$ 8,216,569	-3.3%

Note: The fiscal 2007 appropriation does not include deficiencies, and the fiscal 2008 allowance does not reflect contingent reductions.

**Fiscal Summary
MSDE – Headquarters**

<u>Program/Unit</u>	<u>FY06 Actual</u>	<u>FY07 Wrk Approp</u>	<u>FY08 Allowance</u>	<u>Change</u>	<u>FY07-FY08 % Change</u>
01 Office of the Superintendent	\$ 12,212,679	\$ 17,657,697	\$ 13,803,799	-\$ 3,853,898	-21.8%
02 Division of Business Services	8,062,113	10,315,635	9,418,277	-897,358	-8.7%
03 Division of Professional and Strategic Development	2,597,485	2,605,002	2,232,597	-372,405	-14.3%
04 Division of Planning, Results, and Information Man	37,308,864	34,914,536	36,576,705	1,662,169	4.8%
05 Office of Information Technology	2,414,834	2,502,087	2,624,104	122,017	4.9%
11 Division of Instruction and Staff Development	9,702,463	14,158,122	11,106,618	-3,051,504	-21.6%
12 Division of Student and School Services	9,980,493	9,525,896	7,298,426	-2,227,470	-23.4%
13 Division of Special Education	11,546,480	14,525,903	13,846,835	-679,068	-4.7%
14 Division of Career Technology and Adult Learning	6,591,933	7,273,974	5,792,128	-1,481,846	-20.4%
15 Division of Correctional Education	22,937,083	26,004,646	25,401,677	-602,969	-2.3%
17 Division of Library Development and Services	2,453,018	2,608,112	2,751,714	143,602	5.5%
18 Division of Certification and Accreditation	4,335,588	4,265,633	4,433,661	168,028	3.9%
19 Autism Waiver Program	7,158,928	7,717,928	10,817,928	3,100,000	40.2%
20 Div of Rehab Services – Program and Admin. Support	8,645,497	9,191,356	9,195,045	3,689	0%
21 Div of Rehabilitation Services – Client Services	33,693,021	35,998,136	33,497,866	-2,500,270	-6.9%
22 Div. of Rehabilitative Services Workforce and Tech. Center	9,612,083	10,427,150	10,553,771	126,621	1.2%
23 Div. of Rehab Services – Disability Determination Services	25,435,845	28,797,191	30,544,189	1,746,998	6.1%
24 Div. of Rehab. Services – Blindness and Vision Services	8,704,930	7,687,832	8,009,878	322,046	4.2%
25 Ordinary Clearing Account – Nonbudgeted Funds-Headquarters	0	0	55,049	55,049	0%
Total Expenditures	\$ 223,393,337	\$ 246,176,836	\$ 237,960,267	-\$ 8,216,569	-3.3%
General Fund	\$ 96,641,358	\$ 100,814,167	\$ 105,347,953	\$ 4,533,786	4.5%
Special Fund	6,759,660	7,967,675	7,532,048	-435,627	-5.5%
Federal Fund	119,476,116	136,610,329	124,937,217	-11,673,112	-8.5%
Nonbudgeted Fund	0	0	55,049	55,049	n/a
Total Appropriations	\$ 222,877,134	\$ 245,392,171	\$ 237,872,267	-\$ 7,519,904	-3.1%
Reimbursable Fund	\$ 516,203	\$ 784,665	\$ 88,000	-\$ 696,665	-88.8%
Total Funds	\$ 223,393,337	\$ 246,176,836	\$ 237,960,267	-\$ 8,216,569	-3.3%

Note: The fiscal 2007 appropriation does not include deficiencies, and the fiscal 2008 allowance does not reflect contingent reductions.