

R00A01
Headquarters
Maryland State Department of Education

Operating Budget Data

(\$ in Thousands)

	<u>FY 09</u> <u>Actual</u>	<u>FY 10</u> <u>Working</u>	<u>FY 11</u> <u>Allowance</u>	<u>FY 10-11</u> <u>Change</u>	<u>% Change</u> <u>Prior Year</u>
General Fund	\$115,086	\$82,186	\$80,411	-\$1,775	-2.2%
Contingent & Back of Bill Reductions	0	0	-740	-740	
Adjusted General Fund	\$115,086	\$82,186	\$79,671	-\$2,516	-3.1%
Special Fund	7,819	6,836	7,095	259	3.8%
Contingent & Back of Bill Reductions	0	0	-53	-53	
Adjusted Special Fund	\$7,819	\$6,836	\$7,042	\$205	3.0%
Federal Fund	116,564	135,640	133,476	-2,164	-1.6%
Contingent & Back of Bill Reductions	0	0	-1,977	-1,977	
Adjusted Federal Fund	\$116,564	\$135,640	\$131,499	-\$4,141	-3.1%
Reimbursable Fund	1,277	415	306	-109	-26.3%
Adjusted Reimbursable Fund	\$1,277	\$415	\$306	-\$109	-26.3%
Adjusted Grand Total	\$240,747	\$225,077	\$218,517	-\$6,560	-2.9%

Note: For purposes of illustration, the Department of Legislative Services has estimated the distribution of selected across-the-board reductions. The actual allocations are to be developed by the Administration.

- The fiscal 2011 allowance, including across-the-board reductions, is \$6.6 million less than the 2010 working appropriation.
- General funds before across-the-board reductions decrease by \$1.8 million. The largest decrease is \$1.1 million resulting from the transfer of Fine Arts grants to the Aid to Education program. A \$959,000 decrease results from the transfer of costs for the Office of Administrative Hearings to federal indirect cost recoveries. Assessment contracts decline by \$774,000.

Note: Figures in this analysis generally do not include R00A0110 Division of Early Childhood Development. This division is included in R00A99, which is the Department of Legislative Services analysis for Early Childhood Development. Figures in the Issues section include all divisions.

Numbers may not sum to total due to rounding.

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- The largest general fund increase is \$924,000 in the Division of Rehabilitation Services. General funds were reduced in fiscal 2010 as a cost containment action and were replaced with federal indirect cost recovery. The federal funds decline in 2011, and so general funds are increased to compensate.
- Federal funds decline by \$4.1 million, mostly from the American Recovery and Reinvestment Act of 2009.

Personnel Data

	<u>FY 09 Actual</u>	<u>FY 10 Working</u>	<u>FY 11 Allowance</u>	<u>FY 10-11 Change</u>
Regular Positions	1,407.60	1,234.10	1,234.10	0.00
Contractual FTEs	<u>109.47</u>	<u>111.78</u>	<u>121.08</u>	<u>9.30</u>
Total Personnel	1,517.07	1,345.88	1,355.18	9.30

Vacancy Data: Regular Positions

Turnover and Necessary Vacancies, Excluding New Positions	88.24	7.15%
Positions and Percentage Vacant as of 12/31/09	83.00	6.73%

- Overall, the level of regular personnel does not change from fiscal 2010 to the 2011 allowance.
- The allowance includes funds for 9.3 new contractual full-time equivalents. All of these positions are in the Division of Rehabilitation Services.
- Turnover expectancy increases from 6.35% in fiscal 2010 to 7.15% in fiscal 2011. This will require the Maryland State Department of Education (MSDE) to maintain at least 5 more vacancies than it had on December 31, 2009, throughout fiscal 2011.

Analysis in Brief

Major Trends

Audit Conducted of Data for Key Education Measures: Legislative auditors recently released a report on six MSDE Managing for Results measures. Measures of schools meeting adequate yearly progress in reading and math were certified. Measures of kindergarten readiness and proficiency on the Maryland School Assessment were classified as Certified with Qualification. Measures of high school graduation rate and high school dropouts were classified as Factors Prevented Certification.

Issues

Use of Loaned Educator Program Is Diminishing: The agency had more than 70 loaned educators engaged annually from fiscal 2006 to 2008. The number decreased to 67 in 2009 and to 62 in the 2010 working appropriation amid renewed concerns about the program. A recent legislative audit articulated a number of these concerns, including the practice of contracting with educators for many years rather than using them for short-term projects, and paying them more than what State employees earn in similar positions. **The Department of Legislative Services (DLS) recommends reducing loaned educator contracts by an amount that equates to furloughs applied to comparable State positions. Furthermore, DLS recommends that budget bill language be added that expresses intent that no individual loaned educator be engaged for more than three years, consistent with Executive Branch policy, and that a report is submitted before any new educator is engaged.**

Accountability and Assessment Report Does Not Reconcile with Budgeted Amounts for Contracts: MSDE's assessment contracts total at least \$30 million each year. The agency had often encumbered millions of dollars at the end of the fiscal year to cover some expected contract expenses in the coming year. In an effort to prevent this practice, the General Assembly added budget bill language in the 2009 session that directed MSDE to submit a cash flow report for assessment contracts. DLS was not able to reconcile the documents submitted with contract amounts budgeted for 2010 and 2011. **DLS recommends that the budget committees adopt narrative requesting that the legislative auditors review the assessment contracts currently in effect and report on the amounts owed each year under the contracts.**

Class of 2009 Was the First Group Required to Meet High School Assessment Requirements to Graduate: Only 11 students did not graduate due solely to inability to meet the new requirement in 2009. The majority of students (92.5%) required to pass High School Assessments (HSAs) did so by passing all four exams or by meeting the combined minimum score. **The agency should brief the committees on the outlook for HSAs for the class of 2010. The agency also should comment on whether proportions of students meeting the HSA requirement through bridge projects is expected to continue to be higher in some counties than others.**

Budgets for Major Information Technology Projects Are Unclear: MSDE is part of a joint effort to develop a longitudinal system that gathers data about student performance from pre-kindergarten through college and the workplace. MSDE information technology (IT) and budget documents about this effort do not match. **DLS recommends that committee narrative be adopted requesting a report on major IT projects related to longitudinal data on students and teachers.**

Recommended Actions

	<u>Funds</u>
1. Add language to delete \$455,091 for the deferred compensation match.	
2. Add language to reduce \$225,000 for loaned educators, an amount that equates to Statewide furlough reductions.	
3. Add language expressing intent that loaned educators not be engaged for more than three years and requiring reports.	
4. Delete remaining funds for Share the State Fair.	\$ 1,000
5. Adopt committee narrative requesting that legislative auditors review assessment contracts.	
6. Adopt narrative requesting a report on technology projects related to student and teacher longitudinal data.	
7. Reduce general fund increase for management studies.	225,309
8. Delete funds for a Race to the Top consultant.	200,000
Total Reductions to Fiscal 2010 Deficiency Appropriation	\$ 200,000
Total Reductions to Allowance	\$ 226,309

Updates

A \$13.3 Million Deficiency May Be Requested to Cover Federal Funds Not Received from Department of Human Resources: Legislative auditors reported that MSDE had unsubstantiated federal fund revenues totaling \$13.3 million related to the Temporary Assistance for Needy Families grant. MSDE tried to recover these funds from the Department of Human Resources (DHR), but DHR reported that the funds were already used and are no longer available. MSDE reported to auditors that it would seek a deficiency appropriation to cover the deficit.

Federal Audits Relating to School-based Health Services Appear Resolved: A federal Medicaid audit from March 2003 reviewed claims made in fiscal 2000, and the audit recommended that Maryland refund \$19.9 million based on lack of adequate documentation at the local level. Appeals reduced the amount, and the State is recovering \$13.0 million from local education agencies for their share of the refund owed. Also, a second federal Medicaid audit from May 2007 recommended that Maryland refund \$32.8 million based on a lack of adequate support for rates claimed for school-based health services. The State appealed the finding, and the federal disallowance has been withdrawn.

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Operating Budget Analysis

Program Description

The Maryland State Department of Education (MSDE) focuses on three program areas: public education, including juvenile correctional education; library development and services; and rehabilitation services.

Public Education

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 and the Child Care Subsidy Program (Purchase of Care) transferred to MSDE by executive order in fiscal 2007. A separate analysis on the Division of Early Childhood Development discusses these programs.

The divisions within the public education program work to achieve 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;
- ensuring that all schools are safe, drug free, and conducive to learning; and
- involving families in education.

Library Development and Services

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 (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 administered by DLDS to support library projects across the State.

DLDS works to achieve 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.

Rehabilitation Services

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 client services program plans and provides vocational rehabilitation services for individuals with disabilities so that they may maintain or achieve economic self-sufficiency through productive employment. The disability determination unit adjudicates claims for Social Security Disability Insurance and Supplemental Security Income based on medical evidence, vocational factors, and rules of the federal 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 for all rehabilitation services for blind and vision-impaired individuals.

DORS works to achieve 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.

Performance Analysis: Managing for Results

Audit Conducted of Data for Key Education Measures

In October 2009, legislative auditors released a report on 6 MSDE Managing for Results (MFR) measures as part of a systematic effort to audit the 62 MFR measures in the State Comprehensive Plan. The MSDE measures selected are shown in **Exhibit 1**. The auditors classify the results for each measure as either Certified, Certified with Qualification, Inaccurate, or Factors Prevented Certification.

The auditors recommended that MSDE establish procedures to ensure that all relevant data is included in the measure calculation and that the data, including data obtained from third parties, is reasonably accurate. MSDE should also establish written definitions for all measures and ensure that the reported performance measure represents the actual results of the related measure calculation. MSDE agreed with the auditors' findings and reported that it already has taken steps to address them.

Exhibit 1

Audit Results for Selected MSDE Performance Measures in Academic Year 2007

MSDE Performance Measure

Level of Certification

Percent of students entering kindergarten demonstrating full readiness on the Work Sampling System Kindergarten Assessment

Certified with Qualification.

MSDE reconciles data reported from LEAs with audited enrollment data, but the process was not adequately documented and controls were not in place.

Percent of students scoring "proficient" or better by content area, grade, and subgroup on the Maryland School Assessment

Certified with Qualification.

MSDE retained a third-party vendor to evaluate the testing vendor's processes and related results. However, MSDE could not adequately document the scope or the findings of the third-party evaluation.

High school graduation rate

Factors Prevented Certification.

MSDE did not adequately ensure that data reported by LEAs were complete and accurate. MSDE did not comprehensively review data but compared the data to the prior year to identify significant fluctuations and relied on LEA justifications of the fluctuations.

Chapter 558 of 2006 addressed similar concerns and directed MSDE to develop no later than October 2011 a system of statistical checks and to conduct on-site audits of local record keeping procedures related to graduation rates. Chapter 558 also directed MSDE to revise the graduation rate calculation beginning no later than October 2011 so it would include students that did not graduate with their four-year cohort.

MSDE Performance Measure

Level of Certification

Percent of high school dropouts

Factors Prevented Certification.

MSDE did not adequately ensure that data reported by LEAs were complete and accurate. MSDE did not comprehensively review data but compared the data to the prior year to identify significant fluctuations and relied on LEA justifications of the fluctuations. For example, the calculation considers student transfers but MSDE did not determine whether students designated as transferred actually re-enrolled in another school system.

Percent of schools that met Adequate
Yearly Progress in Reading

Certified.

A sub-measure was calculated correctly but incorrectly reported. This finding did not affect the overall classification for the measure as Certified.

Percent of Schools that met Adequate
Yearly Progress in Mathematics

Certified.

LEAs: local education agencies

MSDE: Maryland State Department of Education

Source: Department of Legislative Services, Office of Legislative Audits

Fiscal 2010 Actions

Proposed Deficiencies Include \$10.7 Million for Assessment Contracts and \$200,000 for Race to the Top Consultants

Proposed deficiencies for fiscal 2010 total \$20.0 million. About \$9.0 million of the deficiencies are for federal and special funds. A \$10.7 million general fund deficiency is for assessment contracts. These contracts are discussed in Issue 3 of this analysis.

Another general fund deficiency of \$200,000 is for retaining consultants to assist with the State's application for federal Race to the Top funds available through the American Recovery and Reinvestment Act of 2009 (ARRA). It is unclear how useful these funds will be to MSDE because, if approved by the General Assembly, they would not be available until April 2010 to support a request for proposals. **Since the Race to the Top application is due in June 2010, the Department of Legislative Services (DLS) recommends that these funds be denied.**

Impact of Cost Containment Includes Furloughs and Use of Indirect Cost Recovery from Federal Funds

The MSDE fiscal 2010 budget has been reduced by \$6.6 million from the legislative appropriation. Furloughs of State employees account for about \$1.2 million of the reductions. Two filled positions and 8 vacant positions have been eliminated, resulting in reductions of \$496,000. A deputy superintendent position is being held vacant through 2010, and 2 other positions will be supported with federal funds, saving \$286,000 in general funds.

Another \$2.1 million was saved by using indirect cost recovery from increased federal funds instead of general funds for agencywide operating expenses. Federal funds increased primarily from the ARRA. A barcode contract for \$650,000 was eliminated in the Division of Accountability and Assessment. Fine Arts grants to local education agencies (LEAs) were reduced by \$694,000. Operating expenses were reduced in the Office of the State Superintendent and in juvenile service facilities by \$314,000. An online learning initiative received increased special funds, enabling a \$249,000 general fund reduction, among other reductions.

Federal Stimulus Funds Total \$7.7 Million for Headquarters in 2010

As shown in **Exhibit 2**, MSDE has received \$7.7 million in ARRA funds in fiscal 2010 for its Headquarters budget. Most of the ARRA Headquarters funds go to the Division of Rehabilitation Services. The Aid to Education and Early Childhood Development programs also receive significant ARRA funds, which will be discussed in separate analyses.

Exhibit 2
Federal Funds Received by MSDE Headquarters
Fiscal 2009-2011
(\$ in Thousands)

<u>MSDE Headquarters</u>	<u>2009</u>	<u>Working Appropriation 2010</u>	<u>% Change 2009-2010</u>	<u>Allowance 2011</u>	<u>% Change 2010-2011</u>
ARRA		\$7,652		\$3,450	-54.9%
Other Federal Funds	\$116,564	127,988	9.8%	130,026	1.6%
Total	\$116,564	\$135,640	16.4%	\$133,476	-1.6%

ARRA: American Recovery and Reinvestment Act of 2009

MSDE: Maryland State Department of Education

Source: Maryland State Department of Education and Governor's Budget Books, Fiscal 2011

Adult Education Was Transferred to the Department of Labor, Licensing, and Regulation

In accordance with Chapter 134 of 2008, MSDE transferred funds for adult correctional education and other adult education to DLLR. The transfer occurred through a supplemental budget for fiscal 2010. **Exhibit 3** shows the number of positions and amount of funds transferred.

Exhibit 3 Transfer of Adult Education from MSDE to the Department of Labor, Licensing, and Regulation Fiscal 2010 Legislative Appropriation (\$ in Thousands)

	<u>Number of Positions</u>	<u>General Funds</u>	<u>Special Funds</u>	<u>Federal Funds</u>	<u>Reimbursable Funds</u>	<u>Total Funds</u>
Division of Career Technology and Adult Education	18.0	\$457	\$643	\$992	\$429	\$2,521
Division of Correctional Education	165.5	15,793	971	543		17,307
Aid to Education – Adult Continuing Education Grants		6,935		6,815		13,748
Division of Business Services			100	130	46	277
Total	183.5	\$23,184	\$1,714	\$8,481	\$475	\$33,854

MSDE: Maryland State Department of Education

Source: Maryland State Department of Education

Proposed Budget

The fiscal 2011 allowance, including across-the-board reductions, is \$6.6 million less than the 2010 working appropriation. **Exhibit 4** shows the changes by fund as well as key increases and decreases.

Cost Containment

The fiscal 2011 budget reflects several across-the-board actions to be allocated by the Administration. This includes a combination of employee furloughs and government shut-down days similar to the plan adopted in fiscal 2010; a reduction in overtime based on accident leave management; streamlining of State operations; hiring freeze and attrition savings; a change in the injured workers' settlement policy and administrative costs; and a savings in health insurance to reflect a balance in that account. For purposes of illustration, DLS has estimated the distribution of selected actions relating to employee furloughs, health insurance, and the Injured Workers' Insurance Fund cost savings.

Exhibit 4
Proposed Budget
MSDE – Headquarters
(\$ in Thousands)

How Much It Grows:	<u>General</u> <u>Fund</u>	<u>Special</u> <u>Fund</u>	<u>Federal</u> <u>Fund</u>	<u>Reimb.</u> <u>Fund</u>	<u>Total</u>
2010 Working Appropriation	\$82,186	\$6,836	\$135,640	\$415	\$225,077
2011 Allowance	<u>80,411</u>	<u>7,095</u>	<u>133,476</u>	<u>306</u>	<u>221,287</u>
Amount Change	-\$1,775	\$259	-\$2,164	-\$109	-\$3,790
Percent Change	-2.2%	3.8%	-1.6%	-26.3%	-1.7%
Across-the-board Reduction	-\$740	-\$53	-\$1,977	\$0	-\$2,770
Adjusted Change	-\$2,516	\$205	-\$4,141	-\$109	-\$6,560
Adjusted Percent Change	-3.1%	3.0%	-3.1%	-26.3%	-2.9%

Where It Goes:

Personnel Expenses

Changes in salary (e.g. reclassifications) net of furloughs	\$345
Employees' retirement system.....	1,374
Employee and retiree health insurance	754
Deferred compensation match	455
Social Security contributions and other adjustments	101
Turnover adjustments	-943
Workers' compensation premium assessment	-43

Other Changes

Other education contracts, including some related to a longitudinal data system	2,895
Management studies and consultants.....	1,254
9.3 contractual staff for Division of Rehabilitation Services – Client Services	470
Rent and other fixed charges	416
Grants to nongovernmental entities providing services such as special education professional development and Braille materials	383
Other grants and subsidies related primarily to rehabilitation services	345
Building interiors and heating.....	215
Other	49

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Where It Goes:

Major information technology contracts.....	-5,698
Division of Rehabilitation Services – Client Services contracts for medical services	-5,479
Educational grants including Fine Arts and Reading First	-2,047
Assessment contracts	-803
Loaned educator contracts	-603
Total	-\$6,560

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

Furloughs for MSDE are estimated at \$2.3 million considering all funds. The general fund amount is about \$1.2 million. The furlough reduction largely offsets the \$2.7 million increase in increments and other compensation in the allowance.

Personnel Changes

The allowance also includes \$470,000 for 9.3 new contractual full-time equivalents. All of these positions are related to DORS, as shown in Exhibit 4. The Client Services program receives funds for vocational rehabilitation specialists, the Workforce and Technology Center program receives funds for a staff specialist, the Disability Determination Service program receives funds for a physician specialist and an office secretary, and DORS Headquarters receives funds for maintenance and security.

Other Changes

Education contracts increase \$2.9 million in the fiscal 2011 budget, mostly for a longitudinal data system. Other contract increases include \$1.3 million for management studies and consultants. Decreases in contracts include \$800,000 for assessments and \$600,000 for loaned educators.

Other decreases in the allowance include \$5.7 million for major information technology projects, except the longitudinal data system mentioned above. DORS – Client Services contracts for medical support services decline by \$5.5 million primarily due to a reduction in federal funds. A \$2.0 million decline in educational grants is mostly due to the transfer of \$1.2 million in Fine Arts grants to the Aid to Education budget. Also, several federally funded education grants have been discontinued, including Reading First, which supported the purchase of reading materials, kindergarten through third grade reading coaches, intervention teachers, and teacher and principal professional development. Javits grants are no longer available to elementary schools to nurture and challenge pre-kindergarten through second grade students in underrepresented populations.

Changes in Federal Funds

MSDE is budgeted to receive \$3.5 million in ARRA funds in fiscal 2011 for its Headquarters budget, as shown in Exhibit 2. This is a 51% decrease from the ARRA funds received in 2010. However, Headquarters federal funds altogether decline only 1.6% from 2010 to 2011. The Aid to Education and Early Childhood Development programs also receive significant ARRA funds, which will be discussed in separate analyses.

Most of the ARRA funds at MSDE Headquarters are in DORS – Client Services. Federal funds for this program are \$27.3 million in 2010, of which \$3.3 million is from the ARRA. The 2011 allowance includes \$23.7 million in federal funds for this program. A proposed \$6.6 million federal fund deficiency for 2010 would create an even larger decrease (\$10.2 million) from 2010 to 2011.

MSDE reports that the additional federal funds available in fiscal 2010 result from a carryforward of 2009 ARRA funds as well as a federal reallocation at the end of the federal fiscal year in September. Besides the decline in the ARRA funds, DORS funds decline in 2011 from a reduction in the Independent Living Older Blind federal grant and the discontinuation of a grant with DHR. In any case, while the \$23.7 million allowance for DORS – Client Services is less than the 2010 working appropriation, it is more than the 2009 amount spent in the program, which was \$21.2 million.

Another change of note is the \$959,000 decrease in general funds in the Office of the State Superintendent. MSDE reports that this decrease is primarily from the transfer of costs associated with MSDE's use of the Office of Administrative Hearings (OAH) to federal indirect cost recoveries.

Issues

1. Use of Loaned Educator Program Is Diminishing

The Loaned Educator program at MSDE allows local school systems to enter into a contract with the State so that a local school system employee may work for MSDE for a finite period of time, gain knowledge from working at the State level, and bring that knowledge back to the school system. The benefit to the State is that these employees bring local knowledge to special projects.

To use loaned educators, MSDE executes annual contracts with local school systems, and MSDE reimburses the systems for the educators' salaries and certain fringe benefits. MSDE has long used loaned educators. In fiscal 2006 to 2008, more than 70 educators were engaged annually, as shown in **Exhibit 5**. The number decreased to 67 in 2009 and to 62 in the 2010 working appropriation amid renewed concerns about the program.

Findings in an August 2009 report by legislative auditors articulated a number of these concerns. During fiscal 2009, 15 loaned educators were in executive management or director positions, which means that State employees were prevented from advancing into these senior positions. Many educators have worked at MSDE for long periods, ranging up to 15 years, even though they are supposed to be at MSDE on a temporary basis. A number of educators made decisions with statewide programmatic and fiscal impact, including in their own school systems. Loaned educators sometimes earn salaries that are significantly higher than State employees in similar positions. Also, MSDE did not clearly report the costs of educators in its budget.

Exhibit 5
Loaned Educator Contracts
Fiscal 2006-2011

<u>Fiscal Year</u>	<u>Loaned Educators</u>	<u>Total Cost</u>	<u>Average Cost per Educator</u>
2006	79	\$8,429,816	\$106,707
2007	73	8,459,269	115,880
2008	74	9,256,372	125,086
2009	67	8,167,734	121,906
2010 Working Approp.	62	6,796,545	109,622
2011 Allowance	49	6,193,188	126,392

Source: Maryland State Department of Education and Governor's Budget

The Agency Is Required to Justify Any New Contracts; Five Educators Have Converted to Regular Positions

In the 2009 legislative session, the General Assembly added budget bill language that expressed intent that loaned educator contracts should be used for special, short-term projects where local talent is a necessity. The language required MSDE to report each year on the number of loaned educator contracts and any conversion of these personnel to regular positions. MSDE also is required to submit a report to the budget committees justifying the need for any new loaned educator contract before the contract is executed. In June 2009, the Office of the Attorney General issued an opinion confirming that loaned educators should be engaged on a temporary basis, or they should become State employees. However, the opinion does not define what is meant by a temporary basis. By comparison, the Department of Budget and Management prohibits contractual conversions to regular full-time positions for functions that are not needed for at least three fiscal years. Thus, functions under three fiscal years are, by logical extension, for a “temporary basis”.

MSDE submitted a report in December 2009 indicating the status of the loaned educator program at that time. The number of educators budgeted in the fiscal 2011 allowance declines to 49 through a combination of budget reductions, educators returning to counties, and conversion of educators to regular positions, among other actions.

MSDE was granted 13 regular positions in July 2009 to convert some educators to regular positions. The conversions do not require any new funds, but represent a transfer of dollars from the budget for contracts to the personnel budget. At this point, five educators have converted to regular positions, and the fiscal 2011 allowance accounts for four more who have said they will convert.

Reporting of educator costs is now more transparent in that the fiscal 2011 allowance includes a stand-alone budget line for loaned educator contracts. MSDE reports that the \$6.2 million budgeted includes a reduction of \$355,000 applied to the salaries of educators who have been at MSDE for more than five years. The adjustment was made to align the educators’ salaries with comparable State positions. However, these positions were not included in across-the-board furlough reductions in the back of the budget bill. **DLS recommends reducing loaned educator contracts by an amount that equates to furloughs applied to comparable State positions. Furthermore, DLS recommends adding budget bill language that expresses intent that no individual loaned educator be engaged for more than three years, consistent with the Executive Branch policy, and that a report is submitted before any new educator is engaged.**

2. Accountability and Assessment Report Does Not Reconcile with Budgeted Amounts for Contracts

MSDE contracts with several firms to conduct its student assessments, including the High School Assessments (HSAs) and the Maryland School Assessments. These contracts usually span five years and total at least \$30 million each year. MSDE had often encumbered millions of dollars at

the end of the fiscal year to cover some of the expected assessment contract expenses in the coming year. This practice requires the State to hold general funds in accounts longer than is necessary.

In an effort to prevent this practice, the General Assembly made a one-time reduction in fiscal 2008 in order to align appropriations with expenditures for assessments. In the 2009 session, budget bill language directed MSDE to submit a cash flow report for fiscal 2009, 2010, and 2011 indicating the amounts owed for assessment contracts each year. MSDE was also required to submit copies of contracts that MSDE has executed with the vendors.

DLS was not able to reconcile the documents submitted by MSDE with assessment contract amounts budgeted for fiscal 2010 and 2011. **Exhibit 6** shows that the total amount budgeted for 2010, including a deficiency request, is \$46.0 million. MSDE's cash flow estimate of funds owed in 2010 totals \$39.3 million, \$6.8 million less than the 2010 working appropriation plus the deficiency. However, MSDE's estimates show a \$10.0 million shortfall in fiscal 2011, resulting in estimated underbudgeting of \$3.3 million over 2010-2011. Based on MSDE's estimates, then, appropriations and expenditures for assessment contracts are not aligned in fiscal 2010 and 2011.

Exhibit 6
Assessment Contracts
Fiscal 2010-2011

	<u>2010 Work Approp.</u>	<u>2011</u>	<u>2010-2011 Total</u>
Assessment contracts budget	\$35,374,622	\$34,571,735	\$69,946,357
Deficiency for assessment contracts	10,669,436		10,669,436
Total	\$46,044,058	\$34,571,735	\$80,615,793
Contract amount due per MSDE cash flow report	\$39,279,739	\$44,638,237	\$83,917,976
Difference between budget + deficiency and MSDE cash flow report	6,764,319	(10,066,502)	(3,302,183)

MSDE: Maryland State Department of Education

Source: Maryland State Department of Education

DLS recommends that the budget committees adopt narrative requesting that legislative auditors review the assessment contracts currently in effect and report on the amounts owed each year under the contracts.

3. Class of 2009 Was the First Group Required to Meet High School Assessment Requirements to Graduate

The Maryland HSAs consist of four end-of-course tests designed to measure school and individual student academic performance in English, algebra/data analysis, biology, and government. Statewide planning and development of the HSAs began nearly 15 years ago with the goal of raising high school standards and replacing the Maryland Functional Tests, which were being used at the time as a requirement for high school graduation. In 2004, the State Board of Education voted to make passage of the HSAs a graduation requirement beginning with students entering ninth grade in fall 2005 (the class of 2009).

In October 2007, after a significant amount of additional study and discussion, including five public hearings held throughout the State at the request of the General Assembly, the State board voted 8-4 to retain the HSAs as a graduation requirement. In the process of reviewing the HSAs, the State board made two modifications to the policies that had been in place. The board approved the Bridge Plan for Academic Validation, thus providing a student who is unable to pass the HSAs with the option of completing one or more subject-based projects in lieu of passing the assessments. The board also altered the minimum score requirement. Previously, a student was eligible for graduation with a qualifying combined score on the four tests as long as a minimum score on each test was achieved. The qualifying combined score option was retained but with no minimum required scores for individual tests.

After receiving additional information about students' progress in meeting HSA requirements in fall 2008, the State board voted again (7-4 this time, with 1 member absent) to retain HSAs as a graduation requirement for the class of 2009. However, the board adopted an appeals process for students from the class of 2009 with extenuating circumstances at its December 2008 meeting. Emergency regulations were issued to allow a student who has not passed all four HSAs to receive a waiver and graduate if the student (1) has met all other graduation requirements; (2) has taken or will take all four tests; (3) has taken advantage of all extra help; and (4) the circumstances that have prevented the student from passing the test are beyond the student's control.

Impact of the HSAs on the Class of 2009 Graduation Rates

Only 11 students did not graduate due solely to inability to meet the new requirement in 2009. An additional 2,280 students did not graduate because they failed to meet local graduation requirements, and of these, 682 students also failed to meet the HSA requirement. The 2009 graduation rate of 84.24%, which counts all graduates, not just those who graduate in four years, is comparable to recent graduation rates, including last year's rate of 85.09%. The percentage of high school students who dropped out was the lowest it has been in over 10 years (2.8%).

Most Students Met New Requirement Through Examination

The majority of students, 92.5% (50,683 students), required to pass the HSAs did so by passing all four exams or by meeting the combined minimum score. Another 3,481 students

(6.3%) completed one or more bridge plan projects to meet the requirement. The number of projects a student needed to complete was based on the student's scores on the HSA exams. An additional 531 students (1.0%) received waivers for one or more of the exams, and another 3,418 students who entered high school prior to 2005 and were not required to meet the HSA requirement graduated in 2009. The percentage of students who used each method to meet the HSA requirement is shown by county in **Exhibit 7**. Prince George's County and Baltimore City granted the highest percentages of HSA waivers, at 2.8 and 2.6%, respectively.

Bridge Project Approval Rates Increased Over Year

Baltimore City had the greatest percentage of students, 20.9%, meeting the HSA requirement by completing bridge projects. Prince George's, Wicomico, and Somerset counties also had more than 10.0% of students meeting the requirement through projects.

Bridge projects were designed by MSDE content specialists and were scored by panels assembled by the local school systems. First time approval rates for projects increased from 68% for projects graded before December 9, 2009, to 85 or 90% from that point until the end of the school year. Coordinators attributed this increase to project monitors becoming more familiar with the projects, their format, and the expectations of scoring panels. Over 90% of resubmitted projects were approved. Some counties only allowed students to resubmit projects for rescoring once, while others allowed multiple submissions. Students working on bridge projects were encouraged to continue retesting, and there were anecdotal reports of students passing the HSAs after completing bridge projects.

Most of the Class of 2010 Has Met HSA Requirements

With respect to the State's new graduation requirement, the students from the class of 2010 are on par with the class of 2009 at the end of grade 11. As of June 2009, there are 55,801 students in the class of 2010 who must complete the requirement and are otherwise on pace to graduate in June 2010. Of the total, 47,145 students (84.5%) had already taken and passed all four exams or met the requirement by reaching the combined minimum score by June 2009; at the same point the prior year, 83.4% of the class of 2009 had passed the HSAs.

Another 5,477 students (9.8%) had taken all four exams but did not achieve passing scores on all four or the minimum combined score option. This is comparable to the 9.1% of students from the prior year. These students have begun to work on their bridge plan projects. In addition, there are 3,121 students (5.6%) statewide who have yet to take one or more of the HSAs, which is somewhat less than the 7.5% who were in that position the prior year. The HSA exams are offered four times per year. **The agency should brief the committees on the outlook for the HSAs for the class of 2010. The agency also should comment on whether proportions of students meeting the HSA requirement through bridge projects is expected to continue to be higher in some counties than others.**

Exhibit 7
Method by Which Students Met the High School Assessment Requirement
Class of 2009

<u>County</u>	<u>% of Students Who Met Requirement Through Examination</u>	<u>Bridge Projects</u>	<u>Waiver</u>	<u>% Who Did Not Meet Requirement</u>
Allegany	92.5	7.3	0.0	0.1%
Anne Arundel	95.1	4.1	0.8	0.0%
Baltimore City	76.1	20.9	2.6	0.3%
Baltimore	93.4	6.1	0.5	0.0%
Calvert	98.1	1.9	0.0	0.0%
Caroline	94.4	5.4	0.0	0.3%
Carroll	98.0	1.9	0.1	0.0%
Cecil	98.0	2.0	0.0	0.0%
Charles	92.4	7.6	0.0	0.0%
Dorchester	93.1	6.3	0.0	0.7%
Frederick	97.2	2.7	0.1	0.0%
Garrett	95.2	4.8	0.0	0.0%
Harford	97.4	1.8	0.9	0.0%
Howard	98.4	1.4	0.0	0.1%
Kent	91.1	8.2	0.0	0.6%
Montgomery	95.7	3.0	1.2	0.1%
Prince George's	83.4	13.1	2.8	0.6%
Queen Anne's	94.8	5.2	0.0	0.0%
Saint Mary's	98.1	1.6	0.2	0.1%
Somerset	88.8	11.2	0.0	0.0%
Talbot	90.8	8.9	0.0	0.3%
Washington	97.9	2.0	0.1	0.0%
Wicomico	87.7	12.2	0.0	0.1%
Worcester	93.6	6.4	0.0	0.0%
State	92.5	6.3	1.0	0.1%

Note: Numbers may not equal 100% due to rounding.

Source: Maryland State Department of Education

4. Budgets for Major Information Technology Projects Are Unclear

MSDE is part of a joint effort to develop a longitudinal data system that eventually will gather data about student performance from pre-kindergarten through college and the workplace. Detailed

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teacher data also will be gathered. The system has a web interface so schools can enter their data more easily and the data can be more effectively checked.

A group appointed by the Governor and chaired by the President of the State Board of Education and the University System of Maryland Chancellor has made recommendations on a framework for a State longitudinal data system. MSDE's Accountability and Assessment Division has provided program information about its goals and requirements for the longitudinal data system, including how it relates to Race to the Top criteria. However, at this point, information technology and budget documents associated with the effort do not match.

The Education Data Warehouse (EDW)/Maryland Longitudinal Data System (MLDS) major IT project for fiscal 2011 represents a combination of prior projects. The 2011 Governor's Budget Books indicate that the total project cost is \$7.9 million, but MSDE reports that the amount now is \$5.5 million because federal funds were awarded only for that amount. A related project called the Longitudinal Data System (LDS) is in the 2011 budget, but MSDE reports that the application for federal funds has not yet been submitted and so detailed information about the project is not available.

DLS recommends that committee narrative be adopted requesting a report on major IT projects related to longitudinal data on students and teachers.

Recommended Actions

1. Add the following language:

Provided that a reduction of \$455,091 is made for the Deferred Compensation Match (comptroller subobject 0172). This reduction shall be allocated among the divisions according to the following fund types:

<u>Fund</u>	<u>Amount</u>
<u>General</u>	<u>\$107,757</u>
<u>Special</u>	<u>\$6,911</u>
<u>Federal</u>	<u>\$340,423</u>

Explanation: This action deletes the Maryland State Department of Education fiscal 2011 allowance for the Deferred Compensation Match, which should be deleted in all agencies. The total reduction should be split as indicated above among general, special, and federal funds.

2. Add the following language:

Further provided that a \$225,000 reduction is made to implement furloughs for loaned educator contracts (comptroller subobject 0885). This reduction shall be allocated among the divisions according to their use of loaned educators.

Explanation: The loaned educator program at the Maryland State Department of Education (MSDE) allows local school system employees to work for MSDE on special projects. These personnel should incur salary reductions equivalent to furloughs incurred by State employees in similar positions.

As of January 2010, MSDE has 44 loaned educators who earn more than \$100,000 annually, and it is assumed that their salaries average \$125,000. There are five loaned educators who earn between \$50,000 and \$100,000, and it is assumed their salaries average \$75,000. The furlough for State employees earning more than \$100,000 is roughly 3.84% of their salary, and the amount for those earning between \$50,000 and \$100,000 is roughly 3.45%.

3. Add the following language:

Further provided that it is the intent of the General Assembly that no individual loaned educator be engaged by the Maryland State Department of Education (MSDE) for more than

three years. This intent is consistent with a June 1, 2009 opinion from the Office of the Attorney General that loaned educators should be engaged on a temporary basis, and with Executive Branch policy with respect to contractual conversions that effectively defines a temporary basis as being for functions less than three years.

Further provided that MSDE shall provide a report on the number of loaned educator contracts and any conversion of these personnel to regular positions to the General Assembly by December 15, 2010. MSDE shall also provide a report to the budget committees prior to entering into any new loaned educator contract to provide temporary assistance to the State. The budget committees shall have 45 days to review and comment from the date of receipt of any report.

Explanation: The loaned educator program at the Maryland State Department of Education allows local school system employees to work for MSDE on special projects. If these personnel need to be engaged for more than three years, they should be hired as regular MSDE personnel and not through loaned educator contracts.

Information Request	Author	Due Date
Report on loaned educator contracts	MSDE	December 15, 2010

- | | <u>Amount Reduction</u> |
|---|--------------------------------|
| 4. Delete remaining funds for the Share the State Fair program. Statute requires the agency to budget \$25,000 annually for the program, but demand is low. Only one local education agency has applied for fiscal 2010 funds (each local education agency may apply for up to \$1,000 per year). A separate recommendation will propose eliminating the statutory mandate. | \$ 1,000 GF |
| 5. Adopt the following narrative: | |

Audit of Assessment Contracts: In the 2009 legislative session, the General Assembly added language to the budget bill that directed the Maryland State Department of Education (MSDE) to submit a report on the cash flow needed for assessment contracts for fiscal years 2009, 2010, and 2011. The budget committees are concerned that MSDE's cash flow report for fiscal 2010 and 2011 does not reconcile with the amounts budgeted for assessment contracts in those years.

The assessment contracts total at least \$30 million annually. Given the magnitude of these

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contracts, the committees request that the legislative auditors review assessment contracts and related documents and provide a report to the committees by December 1, 2010. The report should include the amount owed by month for each contract currently in effect, taking into account that these contracts extend over multiple years.

Information Request	Author	Due Date
Audit of MSDE assessment contracts	Office of Legislative Audits	December 1, 2010

6. Adopt the following narrative:

Major Information Technology Projects on Longitudinal Data: MSDE has major information technology (IT) projects underway to gather longitudinal data about student performance from pre-kindergarten through college and the workplace. Detailed teacher data also will be gathered.

At this point, information technology and budget documents associated with the effort do not match. Frequent changes in these documents make it difficult to track overall progress on the longitudinal data effort. The budget committees request that the Maryland State Department of Education (MSDE), the Maryland Higher Education Commission (MHEC), and the Department of Information Technology (DoIT) jointly submit a report by October 1, 2010, about the overall design and requirements of the longitudinal data effort. The report should describe the anticipated number of IT projects and phases involved, the projected schedule, and available federal funds. Project cost estimates should be provided to the extent possible.

Information Request	Authors	Due Date
Major IT projects related to longitudinal data	MSDE, MHEC, and DoIT	October 1, 2010

	<u>Amount Reduction</u>	
7. Reduce the general fund increase for management studies (subobject 0821). The reduction still leaves \$2.5 million for these studies in fiscal 2011, including the increase of \$1.1 million from special and federal funds. The reduction may be allocated among the department's divisions.	225,309	GF
8. Delete fiscal 2010 deficiency funds for a Race to the	200,000	GF

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Top consultant. If approved, the funds would not be available until April 2010, and the Race to the Top application is due in June 2010.

Total Reductions to Fiscal 2010 Deficiency	\$ 200,000
Total General Fund Reductions to Allowance	\$ 226,309

Updates

1. A \$13.3 Million Deficiency May Be Requested to Cover Federal Funds Not Received from Department of Human Resources

In a January 2010 report on budget closeout for fiscal 2009, legislative auditors repeated their finding that MSDE had unsubstantiated federal fund revenues totaling \$13.3 million related to the Temporary Assistance for Needy Families (TANF) grant. This accrued revenue, or federal funds receivable, relates to MSDE's failure to recover TANF grant expenditures incurred during fiscal years 2002 and 2003. DHR, which processes the federal fund recoveries, advised that the TANF grants for those years have already been used and are no longer available to reimburse the MSDE expenditures. MSDE reported to auditors that it would seek a deficiency appropriation to cover the \$13.3 million deficit.

2. Federal Audits Relating to School-based Health Services Appear Resolved State Is Recovering \$13 Million from Local Education Agencies

The federal Medicaid Program provides funds for school-based health services for eligible special education students. The Department of Health and Mental Hygiene (DHMH) and MSDE, in conjunction with the LEAs, administer the funding. A federal audit from March 2003 reviewed claims made in fiscal 2000, and the audit recommended that Maryland refund \$19.9 million based on lack of adequate documentation at the local school level. After appeals reduced the amount owed to \$16.4 million, it was determined that DHMH was responsible for a portion, and \$13.0 million was attributable to five LEAs: Baltimore City and Anne Arundel, Baltimore, Prince George's, and Wicomico counties.

The federal government recovered the \$16.4 million in July 2007 by reducing Medicaid reimbursements to DHMH. DHMH requested that the five LEAs reimburse DHMH for their portions over a three-year period beginning in fiscal 2009. Four of the five LEAs appealed the DHMH request to OAH. Notwithstanding the appeal, DHMH began to withhold a portion of the five LEAs' medical assistance reimbursement payments to fund the \$13.0 million of sanctions. A recent report by legislative auditors states that in March 2009, OAH ruled that DHMH and MSDE had the legal authority to recover the overpayments from the LEAs.

A Federal Disallowance of \$32.8 Million Was Withdrawn

A second federal audit dated May 2007 focused on Medicaid expenditures claimed in fiscal 2002 to 2004. The audit recommended the refund of \$32.8 million based on a lack of adequate support for rates claimed for school-based health services. The rates were established by DHMH and MSDE and uniformly charged by all local school systems. DHMH and MSDE appealed the finding. A recent legislative audit states that in November 2009, the U.S. Department of Health and Human Services (DHHS) and DHMH, acting for the State, entered into a settlement agreement and the

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disallowance was withdrawn. The settlement agreement required DHMH to submit certain documentation and take certain actions to address DHHS' concerns in the future.

Current and Prior Year Budgets

Current and Prior Year Budgets
Maryland State Department of Education – Headquarters
(\$ in Thousands)

	<u>General Fund</u>	<u>Special Fund</u>	<u>Federal Fund</u>	<u>Reimb. Fund</u>	<u>Total</u>
Fiscal 2009					
Legislative Appropriation	\$115,371	\$8,136	\$131,357	\$865	\$255,729
Deficiency Appropriation	7,492	841	8,559	0	16,891
Budget Amendments	1,002	22	-2,900	1,299	-577
Cost Containment	-8,683	-28	-393	0	-9,104
Reversions and Cancellations	-95	-1,152	-20,059	-887	-22,193
Actual Expenditures	\$115,086	\$7,819	\$116,564	\$1,277	\$240,747
Fiscal 2010					
Legislative Appropriation	\$88,745	\$6,867	\$132,362	\$415	\$228,388
Cost Containment	-6,558	-31	0	0	-6,589
Budget Amendments	0	0	3,278	0	3,278
Working Appropriation	\$82,186	\$6,836	\$135,640	\$415	\$225,077

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

Fiscal 2009

The fiscal 2009 budget closed at \$240.7 million, \$15.0 million less than the legislative appropriation. Deficiency appropriations increased the budget by \$16.9 million; however, this was offset by a \$9.1 million reduction to the appropriation through cost containment and a \$0.6 million reduction through other budget amendments. Reversions and cancellations further reduced the budget by \$22.2 million.

Actual general funds expenditures were \$115.1 million, \$0.3 million less than the legislative appropriation. A deficiency appropriation for testing contracts increased the appropriation by \$7.5 million. The appropriation was further increased through budget amendments by \$1.0 million, including a \$0.7 million cost-of-living adjustment (COLA) for State employees.

BPW cost containment reduced the appropriation by \$8.7 million. Major cost containment reductions included;

- \$1.9 million from the abolition of 35 positions;
- \$1.9 million through the reduction of administrative costs including travel, supplies; professional development and contractual positions; and
- \$2.0 million reduction to assessment contract spending achieved through delaying the implementation of the modified assessment exam for elementary students.

MSDE's portion of the statewide furlough reduced the appropriation by \$0.9 million, including the furlough of Loaned Educators. Federal funds were used in lieu of general funds in various divisions of MSDE for a savings of \$0.8 million. \$1.2 million in other cost containment reductions included the reduction of funds for fine arts professional development programs and grants (\$0.5 million), reduction in general funds to maintenance contracts for the library for the Blind and Physically Handicapped (\$0.1 million), the reduction for school improvement grants (\$0.1 million) and reductions in funds for the chess program, charter school grants, Share the State Fair, the Principals Academy, and the elimination of the Reboot program (\$0.3 million aggregated). The agency reverted \$95,166.

Special fund expenditures totaled \$7.8 million, \$0.3 million less than the legislative appropriation. Deficiency appropriations increased the legislative appropriation by \$0.8 million. Notable special fund deficiencies include \$0.5 million for the Blind Vendors' program, \$0.2 million in Inmate Welfare Funds, and \$0.1 million from Web-based Learning Initiatives. A COLA increased the appropriation by \$21,892, but this was offset by cost containment reductions of \$27,869, due mostly to the statewide furlough. Cancellations further reduced the appropriation by \$1.2 million; including \$0.5 million from the Blind Vendors program due to declining vending machine commissions, \$0.3 from GED fee revenue, and \$0.1 from Web-based Learning Initiatives.

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Federal funds closed at \$116.6 million, \$14.8 million less than the legislative appropriation. Deficiency appropriations increased the working appropriation by \$8.6 million including;

- \$3.8 million to the Division of Rehabilitation Services available through the ARRA;
- \$1.4 million to the Division of Business Services to provide support for the Child and Adult Care Food Program from prior year balances;
- \$0.9 million for the Division of Accountability and Assessment available from prior year balances;
- \$0.7 million for Major Information Technology Development Projects available from prior year balances;
- \$0.5 for Correctional Education available from carry over funds from prior year balances;
- \$0.4 million available through carry over funds from prior year balances;
- \$0.3 million for Career Technology and Adult Learning available through carry over funds from prior year balances; and
- \$0.2 million for Quality Teacher Programs available through the ARRA.

Budget amendments decreased the appropriation by a net \$2.9 million, including a \$1.9 million transfer from the Major Information Technology Development program to the Division of Early Childhood Development for maintenance of the Child Care Administration Tracking System, and a \$0.5 million appropriation transfer from DORS Disabilities Determination Services to the Aid to Education budget to cover an increase in funds available through the Assistance to States for Educating Students with Disabilities. Cost containment further reduced the appropriation by \$0.4 million. The agency cancelled \$20.1 million; however, it is expected that \$15.8 million will be carried over to fiscal 2010. The Social Security Disability program cancelled \$3.9 million due to lower than anticipated need.

Reimbursable funds closed at \$1.3 million, \$0.4 million greater than the legislative appropriation. Budget amendments increased the appropriation by \$1.3 million including \$1.2 million from the Department of Public Safety and Correctional Services (DPSCS). The agency cancelled \$0.9 million due to the transfer of Adult Education to DLLR.

Fiscal 2010

The fiscal 2010 working appropriation is \$3.3 million less than the legislative appropriation. Cost containment actions account for a \$6.6 million reduction in general and special funds.

Federal funds have increased by \$3.3 million. These funds were awarded from the U.S. Department of Education’s Special Education – Grants to States program for children with disabilities.

Audit Findings

Audit Period for Last Audit:	July 1, 2005 – June 30, 2008
Issue Date:	August 2009
Number of Findings:	16
Number of Repeat Findings:	4
% of Repeat Findings:	25%
Rating: (if applicable)	

- Finding 1:** Loaned Educator Program: Certain aspects of the program appear to be in conflict with State law and regulations.
- Finding 2:** Loaned Educator Program: The program raises concerns with the applicability of the financial disclosure requirements and possible conflict of interest issues.
- Finding 3:** Loaned Educator Program: The extent and total cost of the program were not specifically disclosed to the General Assembly’s Budget Committees and to the State Board of Education.
- Finding 4:** Child Care Programs: Inspections of child care facilities were not conducted as required.
- Finding 5:** Child Care Programs: Processing of child care subsidy applications and related payments by local departments of social services was not properly monitored.
- Finding 6:** Child Care Programs: Access to critical system functions on the child care administration tracking system was not sufficiently restricted or controlled.
- Finding 7:** **Federal Funds: MSDE recorded unsubstantiated federal fund revenues totaling approximately \$13.3 million at June 30, 2008.**
- Finding 8:** Family Support Centers: Contract for the management services of family support centers was not adequately monitored.
- Finding 9:** Division of Rehabilitation Services: Certain aspects of the Maryland Business Enterprise Program for the Blind did not appear to be in accordance with State laws and regulations and did not ensure that blind individuals benefitted as intended.
- Finding 10:** **Division of Rehabilitation Services: Adequate procedures and controls were lacking for providing rehabilitative services, for approving service providers, and for approving provider payments.**

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- Finding 11:** Information Systems Security and Control: An adequate information technology disaster recovery plan did not exist.
- Finding 12:** Information Systems Security and Control: A default administrative database account had full access to a critical database.
- Finding 13:** Information Systems Security and Control: Monitoring of security related events for critical network devices was inadequate and several critical servers were improperly located in the network.
- Finding 14:** **Purchases and Disbursements: Adequate controls were lacking over certain purchases and disbursements.**
- Finding 15:** Nonpublic Special Education Costs: Certain expenditures reported to MSDE to calculate State funding for nonpublic special education were not verified.
- Finding 16:** **Equipment: Equipment records were not adequately maintained.**

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

Major Information Technology Projects

Exhibit 9 MSDE – MD Accountability & Reporting System (MARS) – Nutrition

Project Description:	The MARS project replaces the current system used to manage and track \$170 million in federal funds administered by the School and Community Nutrition Programs Branch. The project's purpose is to increase efficiency in managing Federal and State nutrition programs, including the Special Milk Program, the Summer Food Service Program, and the After School Care program.							
Project Business Goals:	(1) Retire out-of-date software applications; (2) reduce manual processing associated with small database systems containing data redundancy with main systems data; (3) expand processing and data capabilities; (4) minimize processing time and expand accuracy; and (5) reduce the amount of day-to-day administrative processing to allow staff to focus on strategic analysis, forecasting, and planning activities. Enable staff to identify interrelationships and trends and measure program improvements.							
Estimated Total Project Cost:	\$4,897,154				New/Ongoing Project:		Ongoing	
Project Start Date:	Fiscal 2009			Projected Completion Date:		Fiscal 2011		
Schedule Status:	The project includes two releases. A development contract was awarded in October 2008 and Release I, Milestone I work was completed in fiscal 2009. Milestone II work is in review and Milestone III work began in the fourth quarter of 2009. Release I is planned for February 2010 and Release II is planned for November 2010. Note that a Release III is planned but the requirements are outside the scope of this contract. This approach was necessary because the Child Administration and Tracking System master contract expires in December 2010. The Maryland State Department of Education (MSDE) expects to pursue a sole source contract with the MARS contractor to complete development.							
Cost Status:	Projected expenditures in fiscal 2009 were \$2.3 million. Projected costs have more than doubled.							
Scope Status:	The project is planned to be released in two phases and includes one year for testing in between the releases.							
Project Management Oversight Status:	Portfolio Review Meetings occurred in November 2007, March 2008, and February 2009. IV&V assessments were initiated in October 2009. No peer review committees are assigned.							
Identifiable Risks:	An end of contract risk could become an issue if schedule slippage causes Release II to be implemented past the end of the CATS master contract. Release III may be delayed if a new procurement is required. The Department of Information Technology and MSDE report that they will closely monitor progress and work together on appropriate contract options if a schedule slip occurs.							
Additional Comments:	None.							
Fiscal Year Funding (000)	Prior Years	FY 2011	FY 2012	FY 2013	FY 2014	FY 2015	Balance to Complete	Total
Personnel Services	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Professional and Outside Services	\$3,337,774	\$1,035,380	0.0	0.0	0.0	0.0	0.0	\$4,373,154
Other Expenditures	324,000	200,000	0.0	0.0	0.0	0.0	0.0	524,000
Total Funding	\$3,661,774	\$1,235,380	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$4,897,154

Exhibit 10
MSDE – Enhanced Child Care Administration Tracking System II (ECCATS)

Project Description:	This project is an upgrade to the existing CCATS system. The initial CCATS system was developed by the Department of Human Resources. It has design flaws and does not accommodate business processes at the Maryland State Department of Education (MSDE).							
Project Business Goals:	Improve the operational efficiency, system performance and end-to-end support of MSDE child care business processes. New functions will provide enhanced subsidy payments processing and tracking, correction of deficiencies in the credentialing interface to FMIS, business object report development, and implementation of a robust reporting architecture.							
Estimated Total Project Cost:	\$8,379,268.					New/Ongoing Project:	Ongoing.	
Project Start Date:	Fiscal 2009			Projected Completion Date:	Fiscal 2014			
Schedule Status:	The project began in February 2009 with the award of a contract for project management services. The concept development and planning phases are in progress. The requirements definition phase is expected to result in a procurement document in the fourth quarter of fiscal 2010.							
Cost Status:	The cost estimate may change after project requirements are fully developed.							
Scope Status:	Once the project requirements are completed and approved, the project will have a baseline scope.							
Project Management Oversight Status:	A Portfolio Review Meeting was held in February 2009. The fiscal 2011 allowance does not include funds for IV&V. A peer review committee was assigned in June 2009.							
Identifiable Risks:	MSDE plans to use a mix of funds for the project, including federal stimulus funds, which must be expended by September 30, 2011. A rough order of magnitude estimate of the cost estimate has been established, a more accurate estimate will not be available until the requirements have been defined. Also, the schedule is aggressive, requiring teams to work concurrently on different segments.							
Additional Comments:	None.							
Fiscal Year Funding (000)	Prior Years	FY 2011	FY 2012	FY 2013	FY 2014	FY 2015	Balance to Complete	Total
Total Federal Funds	\$253.280	\$3,854.364	\$1,925.954	\$1,075.670	\$1,270.000	\$0.0	\$0.0	\$8,379.268

Exhibit 11
MSDE – Education Data Warehouse (EDW)/MD Longitudinal Data System (MLDS)

Project Description:	MSDE collects educational data from school systems throughout the State, including attendance, student assessment participation and outcomes, student enrollment, and staff data. Currently, different divisions within MSDE collect and store the data in different formats. EDW is a web-based data collection system that allows school systems to enter data online and will standardize data collection, reduce errors and improve quality and security. Students will be linked to their unique student identifier and outcomes will be tracked from kindergarten through graduation. The system will include six modules: school data; attendance; statistical process control; staff; class level membership; and federal program. The MLDS project adds advanced business analysis and reporting tools to the current longitudinal systems.							
Project Business Goals:	EDW will increase the ability to examine longitudinal data and student performance outcomes, and it will enable MSDE to better analyze and evaluate school system programming. The MLDS project will enable collection of student course-related information used for program evaluation, analysis and reporting; it will increase the current system to encompass higher education and workforce data; and it will allow access by a larger user base.							
Estimated Total Project Cost:	\$7,912,000				New/Ongoing Project:	Ongoing		
Project Start Date:	Fiscal 2009			Projected Completion Data:	Fiscal 2014			
Schedule Status:	Consultant contracts for three subprojects are expected to be made by the end of March 2010.							
Cost Status:	The project cost has been reduced from \$7.9 million to \$5.5 million, but it appears that MSDE may parse out components of the overall effort and pursue funding for them separately.							
Scope Status:	This project is related to other MSDE information technology projects to collect longitudinal data and provide a web interface for schools. Project costs and scopes have changed, making the scope of the overall effort unclear.							
Project Management Oversight Status:	The fiscal 2011 allowance includes \$200,000 for IV&V but MSDE reports that federal funds awarded for the project are less than expected.							
Identifiable Risks:	A number of risks have been identified, including the need for more clearly defined governance among the agencies working on MLDS (MSDE, the Department of Labor, Licensing, and Regulation, and the Maryland Higher Education Commission). The project is funded solely with federal funds and the award of funds may be for less than the amount requested. After original implementation of the system, State funding will be required to support and administer it.							
Additional Comments:	None.							
Fiscal Year Funding (000)	Prior Years	FY 2011	FY 2012	FY 2013	FY 2014	FY 2015	Balance to Complete	Total
Personnel Services	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Professional and Outside Services	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other Expenditures	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Total Funding	\$452.425	\$1,143.975	\$1,597.298	\$1,601.890	\$663.642	\$0.0	\$0.0	\$5,459.230

**Object/Fund Difference Report
MSDE Headquarters**

<u>Object/Fund</u>	<u>FY09 Actual</u>	<u>FY10 Working Appropriation</u>	<u>FY11 Allowance</u>	<u>FY10 - FY11 Amount Change</u>	<u>Percent Change</u>
Positions					
01 Regular	1407.60	1234.10	1234.10	0	0%
02 Contractual	109.47	111.78	121.08	9.30	8.3%
Total Positions	1517.07	1345.88	1355.18	9.30	0.7%
Objects					
01 Salaries and Wages	\$ 106,279,499	\$ 87,623,175	\$ 93,476,477	\$ 5,853,302	6.7%
02 Technical and Spec. Fees	29,968,112	40,542,910	35,491,655	-5,051,255	-12.5%
03 Communication	1,634,820	1,670,811	2,036,118	365,307	21.9%
04 Travel	1,190,525	982,610	809,315	-173,295	-17.6%
06 Fuel and Utilities	998,944	1,150,790	1,213,536	62,746	5.5%
07 Motor Vehicles	573,967	561,811	674,043	112,232	20.0%
08 Contractual Services	70,378,091	63,428,425	59,943,188	-3,485,237	-5.5%
09 Supplies and Materials	2,463,034	1,932,003	1,619,514	-312,489	-16.2%
10 Equipment – Replacement	491,939	1,093,944	997,139	-96,805	-8.8%
11 Equipment – Additional	899,164	773,949	675,678	-98,271	-12.7%
12 Grants, Subsidies, and Contributions	21,367,549	21,399,761	19,805,324	-1,594,437	-7.5%
13 Fixed Charges	4,324,677	3,852,969	4,268,656	415,687	10.8%
14 Land and Structures	176,203	64,000	276,552	212,552	332.1%
Total Objects	\$ 240,746,524	\$ 225,077,158	\$ 221,287,195	-\$ 3,789,963	-1.7%
Funds					
01 General Fund	\$ 115,086,462	\$ 82,186,456	\$ 80,410,998	-\$ 1,775,458	-2.2%
03 Special Fund	7,819,406	6,836,258	7,094,844	258,586	3.8%
05 Federal Fund	116,563,595	135,639,944	133,475,783	-2,164,161	-1.6%
09 Reimbursable Fund	1,277,061	414,500	305,570	-108,930	-26.3%
Total Funds	\$ 240,746,524	\$ 225,077,158	\$ 221,287,195	-\$ 3,789,963	-1.7%

Note: The fiscal 2010 appropriation does not include deficiencies.

**Fiscal Summary
MSDE – Headquarters**

<u>Program/Unit</u>	<u>FY09 Actual</u>	<u>FY10 Wrk Approp</u>	<u>FY11 Allowance</u>	<u>Change</u>	<u>FY10 - FY11 % Change</u>
01 Office of the State Superintendent	\$ 11,253,053	\$ 10,747,084	\$ 10,834,782	\$ 87,698	0.8%
02 Division of Business Services	8,564,787	8,830,759	9,803,759	973,000	11.0%
03 Division for Leadership Development	2,265,197	2,138,353	2,016,871	-121,482	-5.7%
04 Division of Accountability and Assessment	51,114,881	37,481,371	38,379,187	897,816	2.4%
05 Office of Information Technology	2,701,555	3,018,417	3,084,115	65,698	2.2%
06 Major Information Technology Development Projects	1,946,857	7,658,774	7,003,720	-655,054	-8.6%
11 Division of Instruction	10,289,852	9,797,618	7,351,653	-2,445,965	-25.0%
12 Division of Student, Family and School Support	6,911,480	6,808,695	7,386,161	577,466	8.5%
13 Div. of Special Educ./Early Intervention Srvc	11,312,013	13,308,962	13,182,398	-126,564	-1.0%
14 Division of Career Technology and Adult Learning	5,508,967	4,054,909	3,278,234	-776,675	-19.2%
15 Division of Correctional Education	27,816,316	8,151,203	7,452,000	-699,203	-8.6%
17 Division of Library Development and Services	2,249,048	2,856,889	3,391,043	534,154	18.7%
18 Division of Certification and Accreditation	3,786,254	3,219,116	3,238,637	19,521	0.6%
19 Home and Comm. Based Waiver for Children w/Autism	10,817,928	10,817,928	10,817,928	0	0%
20 Div. of Rehab Services – Headquarters	7,714,543	9,484,617	9,424,730	-59,887	-0.6%
21 Div. of Rehab Services – Client Services	32,359,417	37,248,641	34,576,701	-2,671,940	-7.2%
22 Div. of Rehab Services – Workforce and Tech. Ctr.	8,482,625	8,972,460	9,102,982	130,522	1.5%
23 Div. of Rehab Serv - Disability Determination Serv	28,038,832	31,798,232	32,655,321	857,089	2.7%
24 Div. of Rehab. Serv. – Blindness & Vision Services	7,612,919	8,683,130	8,306,973	-376,157	-4.3%
Total Expenditures	\$ 240,746,524	\$ 225,077,158	\$ 221,287,195	-\$ 3,789,963	-1.7%
General Fund	\$ 115,086,462	\$ 82,186,456	\$ 80,410,998	-\$ 1,775,458	-2.2%
Special Fund	7,819,406	6,836,258	7,094,844	258,586	3.8%
Federal Fund	116,563,595	135,639,944	133,475,783	-2,164,161	-1.6%
Total Appropriations	\$ 239,469,463	\$ 224,662,658	\$ 220,981,625	-\$ 3,681,033	-1.6%
Reimbursable Fund	\$ 1,277,061	\$ 414,500	\$ 305,570	-\$ 108,930	-26.3%
Total Funds	\$ 240,746,524	\$ 225,077,158	\$ 221,287,195	-\$ 3,789,963	-1.7%

Note: The fiscal 2010 appropriation does not include deficiencies.