



**New Jersey State Legislature  
Office of Legislative Services  
Office of the State Auditor**

---

**Department of Education  
Division of Early Childhood Education  
Preschool Education Aid**

July 1, 2009 to October 14, 2011

---

Stephen M. Eells  
State Auditor

LEGISLATIVE SERVICES COMMISSION

ASSEMBLYMAN  
JOSEPH L. ROBERTS, JR.  
*Chairman*

SENATOR  
THOMAS H. KEAN, JR.  
*Vice-Chairman*

SENATE

ANDREW R. CIESLA  
RICHARD J. CODEY  
NIA H. GILL  
ROBERT M. GORDON  
SEAN T. KEAN  
JOSEPH M. KYRILLOS, JR.  
LORETTA WEINBERG

GENERAL ASSEMBLY

PETER J. BIONDI  
JON M. BRAMNICK  
JOHN J. BURZICHELLI  
ALEX DECROCE  
ALISON LITTELL MCHOSE  
JOAN M. QUIGLEY  
BONNIE WATSON COLEMAN



# New Jersey State Legislature

## OFFICE OF LEGISLATIVE SERVICES

OFFICE OF THE STATE AUDITOR  
125 SOUTH WARREN STREET  
PO BOX 067  
TRENTON NJ 08625-0067

ALBERT PORRONI  
*Executive Director*  
(609) 292-4625

OFFICE OF THE STATE AUDITOR  
(609) 292-3700  
FAX (609) 633-0834

STEPHEN M. EELLS  
*State Auditor*

THOMAS R. MESEROLI  
*Assistant State Auditor*

JOHN J. TIERMYNA  
*Assistant State Auditor*

The Honorable Chris Christie  
Governor of New Jersey

The Honorable Stephen M. Sweeney  
President of the Senate

The Honorable Sheila Y. Oliver  
Speaker of the General Assembly

Mr. Albert Porroni  
Executive Director  
Office of Legislative Services

Enclosed is our report on the audit of the Department of Education, Division of Early Childhood Education, Preschool Education Aid for the period of July 1, 2009 to October 14, 2011. If you would like a personal briefing, please call me at (609) 292-3700.

Stephen M. Eells  
State Auditor  
December 19, 2011

## Table of Contents

	<b>Page</b>
Scope.....	1
Objectives .....	1
Methodology.....	1
Conclusions.....	2
Background.....	2
Findings and Recommendations	
Preschool Education Aid Carryover .....	3
Data Integrity .....	4
Special Revenue Fund Transfers .....	5
Auditee Response.....	8

---

**Department of Education  
Division of Early Childhood Education  
Preschool Education Aid**

***Scope***

We have completed an audit of the Department of Education, Division of Early Childhood Education, Preschool Education Aid per pupil rate calculation and carryover aid for the period July 1, 2009 to October 14, 2011. Our audit included financial activities accounted for in the state's Property Tax Relief Fund. Total Preschool Education Aid appropriations for fiscal years 2009, 2010, and 2011 were \$534,839,000, \$596,094,000, and \$613,330,000, respectively.

The primary responsibility of the Division of Early Childhood Education with regard to Preschool Education Aid is to award the aid to local school districts based on projected enrollment. The subsequent distribution of the aid is the responsibility of the department.

***Objectives***

The objectives of our audit were to determine whether the components of the per pupil rate calculation were in compliance with the Division of Early Childhood Education's High Quality Preschool Standards and whether the Preschool Education Aid carryover was accurately calculated and reported to the department by local school districts.

This audit was conducted pursuant to the State Auditor's responsibilities as set forth in Article VII, Section I, Paragraph 6 of the State Constitution and Title 52 of the New Jersey Statutes.

***Methodology***

Our audit was conducted in accordance with *Government Auditing Standards*, issued by the Comptroller General of the United States.

In preparation for our testing, we studied the School Funding Reform Act of 2008; N.J. Statute 18A:7F-45, Access to Full Day Preschool-Calculation of Preschool Education Aid; N.J. Administrative Code 6A:13A, Elements of High Quality Preschool Programs; and policies of the agency. Provisions we considered significant were documented, and compliance with those requirements was verified by interview, observation, and through our sampled recalculations of per pupil rates and Preschool Education Aid carryover. We also read the budget messages and interviewed agency personnel to obtain an understanding of the programs and the internal controls.

A nonstatistical sampling approach was used. Our samples of district and provider budgets used in calculating per pupil rates were designed to provide conclusions about the accuracy of data entry and compliance with the High Quality Preschool Standards, as

well as internal controls. Our samples of district carryover balances were designed to provide conclusions about the accuracy of the data entry and compliance with carryover calculation guidance, as well as internal controls. Sample populations were judgmentally selected for testing from those districts receiving Preschool Education Aid.

### ***Conclusions***

We found that the components of the per pupil rate calculation were in compliance with the division's High Quality Preschool Standards and that the Preschool Education Aid (PEA) carryover was accurately calculated and reported to the department by local school districts. However, in making these determinations, we noted an opportunity for a change in the department's procedures for distributing PEA that would reduce current allocations by \$50 million. We also noted the need for the department to monitor the accuracy of electronic data submitted by the school districts. Finally, we concluded that the districts should ensure that funds are properly transferred for special education inclusion preschoolers.

### ***Background***

The School Funding Reform Act of 2008 (SFRA) was signed into law on January 13, 2008. The SFRA required free, full-day preschool to be provided for three-year olds and four-year olds in districts with District Factor Groups A and B and to those districts with District Factor Group CD that have a concentration of at-risk pupils equal to or greater than 40 percent. All other districts are required to provide free preschool to those pupils who are at-risk. The definition of at-risk was expanded by the SFRA to include those pupils who qualify for free and reduced lunch. District Factor Groups are a means of ranking school districts based on their socioeconomic status.

The SFRA required the department to develop three per pupil rates for full-day preschool. The rates were to reflect the costs of the educational setting at an in-district, Head Start, or private provider program. The rates are adjusted for the Consumer Price Index annually. The department's Division of Early Childhood Education (division) was responsible for developing the methodology for calculating the three per pupil rates. The division designed a complex calculation based on the 2007-2008 preschool budgets of the 31 former Abbott school districts. The calculation reflected the costs of education at in-district, Head Start, and private provider programs and was in compliance with the division's High Quality Preschool Standards as required by the SFRA.

Districts that qualified for Preschool Education Aid began receiving aid in school year 2008-2009 based on their projected pupil enrollment multiplied by the corresponding rate. Preschool Education Aid is appropriated to and maintained in a district's special revenue fund. Unspent aid may be carried forward annually, but must remain in the fund unless special authorization is granted by the department Commissioner to transfer monies to another fund.

## Preschool Education Aid Carryover

**The department should adjust Preschool Education Aid distributions for any available and unbudgeted carryover.**

Districts that receive Preschool Education Aid (PEA) and have unspent aid at school year-end are instructed to budget the anticipated carryover balance to support the subsequent year's program. We found that many districts did not calculate their carryover correctly. In addition, the department is not aware of the total balance of available and unbudgeted carryover held by the districts.

The department's budget guidance states that districts should budget anticipated preschool carryover to the subsequent school year in their annual electronic budget submission. Proper calculation and inclusion of carryover should reduce the districts' total needs from the state. Since districts do not have an accurate picture of total preschool expenditures during budget season, it is reasonable to expect there to be differences between the anticipated carryover and the actual carryover balance.

At school year-end, districts prepare comprehensive financial statements that are audited by independent CPA firms. A budgetary expenditure schedule for the preschool program, which should be supported by a calculation of available and unbudgeted PEA carryover, is required in the financial statements. Instructions for the calculation of the carryover are provided in the department's annual audit guidance. These audited Comprehensive Annual Financial Reports (CAFRs) are submitted to the department and data from the CAFRs are also submitted electronically.

The department was aware that CAFR line items related to the PEA carryover that were posted to the electronic data collection programs were unreliable and that the calculations of available and unbudgeted carryover were inaccurate at times. Using only the information presented in the budgetary expenditure schedule, the department had calculated total available and unbudgeted carryover at 45 districts to be \$47.3 million at the end of school year 2009-2010.

We recalculated the PEA carryover for 86 districts whose combined aid payments represented approximately 98 percent of total PEA payments distributed for school years 2008-2009 and 2009-2010. We used the districts' preschool budgetary expenditure schedules and the audited data received through the electronic data collection program. We found that the 86 districts had approximately \$82 million in total carryover balances at school year-end 2009-2010, of which only \$32 million was budgeted for school year 2010-2011. The available and unbudgeted carryover was approximately \$50 million. We also found that the districts' calculations of carryover had both positive and negative errors totaling \$14.2 million. We adjusted our analysis for these known errors. Although our total recalculated available and unbudgeted carryover at the 86 districts did not differ significantly from the department's summary of 45 districts, the difference at individual districts was as much as \$1.7 million.

We identified a variety of errors that caused the carryover balances to be inaccurate. Some districts did not present the preschool budgetary expenditure schedule and supporting carryover calculation in their CAFR, as is required of all districts receiving PEA. Numerous districts did not use accurate original and final budgetary expenditures or calculate actual expenditure variances needed for the carryover calculation. Some districts used an inaccurate PEA allocation and incorrect prior year total carryover, or did not include budgeted transfers. Finally, many districts did not include the correct amount of anticipated carryover budgeted for the subsequent year. All of these examples caused the final calculation of available and unbudgeted carryover to be inaccurate and did not provide the department with accurate information on the additional PEA monies available at these districts.

The department depends on the accuracy of the preschool carryover calculation to determine total available and unbudgeted carryover balances. The electronic budget program and the electronic audit data collection program provide all of the line items necessary for the department to calculate district PEA carryover. Reliance on the budgetary expenditure schedule and supporting calculation of carryover is not necessary provided districts accurately post information to the electronic programs.

### **Recommendation**

Districts should accurately post information to the electronic data collection programs. The department should begin calculating available and unbudgeted carryover by using this information and adjust current year PEA distributions for this calculated amount.



### **Data Integrity**

**Accurate and complete financial data should be posted to the Budget Statement and Audit Summary programs so that the department can more efficiently calculate district Preschool Education Aid carryover balances.**

School district personnel post budget information to the department's Budget Statement Software program. School district auditors post year-end financial data to the department's electronic Audit Summary data collection program. The Budget Statement and Audit Summary information are transmitted securely to the department annually.

The Audit Summary information should reflect the results of the district's audited Comprehensive Annual Financial Report (CAFR). Posted line items include those from the Other Supplementary Information section of the CAFR. This Other Supplementary Information is not audited; auditors only apply certain limited procedures to this financial section. However, once the Audit Summary is complete, the auditor sends printouts and data files to the district along with a signed transmittal form which states, in part, that the data submitted have been edited for completeness and accuracy. The district reviews the

reports for accuracy and signs the transmittal form as well. Similar certification of accuracy and completeness is required for the electronic Budget Statement prepared and transmitted by district personnel. The Preschool Education Aid (PEA) budgetary basis expenditure schedule and carryover calculation are part of the Other Supplementary Information in a district CAFR. Budgeted and actual expenditure information are required for proper preparation of the schedule and calculation of carryover. This information can be used by the department to more efficiently determine available balances.

Our recalculations of a sample of 76 districts' PEA carryover disclosed differences between the information posted to the electronic programs and that which was presented in the CAFRs. We tested 608 postings for both the 2008-2009 and 2009-2010 school years. We found 91 and 107 differences, respectively, which resulted in an error rate of over 16 percent.

There are edits in both electronic programs to ensure that certain line items foot. However, there is no requirement to compare the results of the CAFR to the entries made to the electronic programs or the footed lines.

### **Recommendation**

The department should reinforce the importance of accurate data entry in the electronic data collection programs to the districts and their independent auditors and institute monitoring procedures to ensure the accuracy and completeness of the data.



## **Special Revenue Fund Transfers**

**The department should enforce the requirement to make transfers to the Preschool Education Aid Special Revenue Fund to support special education inclusion preschoolers and enforce its rules on transfers from the fund.**

### *Transfers for Special Education Inclusion Preschoolers*

Preschool Education Aid (PEA) is appropriated to and maintained in a district's special revenue fund. Special education inclusion preschoolers are assigned to regular classrooms in one of the three program settings at a district. According to the School Funding Reform Act of 2008 (SFRA), PEA funds are not intended to cover the cost of special education inclusion preschoolers; these costs are to be paid for from a district's General Fund.

The Division of Early Childhood Education (division) is responsible for overseeing the preschool program and for providing guidance to districts on proper budgeting procedures. The division's 2008-2009 guidance states that districts should subtract the cost of inclusion preschoolers from their total preschool budget by multiplying the number of inclusion students by the Department of Education's approved average per pupil rate for each district. The division's 2009-2010 guidance states that the cost associated with the inclusion preschoolers should be subtracted from the total preschool budget. The amount calculated based on the guidance is the minimum that should be transferred since the calculation in either year represents only the cost at the regular student rate. Inclusion students presumably require additional educational tools which would cost more.

The department's budget program and guidance provided separate line items to account for inclusion preschoolers in a supporting document used to budget preschool expenses. The funds budgeted to cover the cost of inclusion preschoolers should be transferred from the district's General Fund to the PEA Special Revenue Fund.

We calculated the transfer amount for inclusion preschoolers based on projected and self-reported actual enrollment for 31 districts that received the majority of PEA funds. We compared the calculated transfers to the budgeted and actual transfers from the General Fund to the preschool program. For school year 2008-2009, we found 16 districts did not budget transfers sufficient to cover the inclusion preschoolers. When compared to the districts' self-reported actual enrollment and actual transfers, we found 16 districts did not transfer sufficient funds. The actual insufficient transfers totaled \$3.4 million. For school year 2009-2010, 25 districts did not budget sufficient funds. Our test of actual transfers found 30 districts did not transfer sufficient funds; the actual insufficient transfers totaled \$10.1 million.

It should be noted that 28 of the 30 districts had available and unbudgeted carryover at the end of school year 2009-2010, suggesting that the districts were able to run their High Quality Preschool program with existing funds. The lack of transfers to the PEA Special Revenue Fund for inclusion preschoolers spreads those funds across more preschoolers than intended. The division's guidance on how to calculate the inclusion cost and reduce the total preschool budget was inconsistent and did not provide great detail. However, it was clear in the division's guidance, the department's guidance, and the SFRA that PEA is not intended to cover the cost of special education inclusion preschoolers.

*Transfers from the Preschool Education Aid Special Revenue Fund*

Preschool Education Aid (PEA) is supposed to remain in the district's PEA Special Revenue Fund and may not be transferred to the General Fund unless a district receives approval from the department Commissioner. Transfers of prior year carryover from Early Childhood Program Aid (ECPA), a program that preceded PEA, are allowable.

We found two districts that made ECPA transfers to the General Fund during school years 2008-2009 and 2009-2010 that were in excess of their ECPA carryover balance by \$1 million. We also found two other districts that transferred \$1.9 million to their General Funds without authorization.

**Recommendation**

The department and division should clarify the instructions for calculating and transferring funds to cover the cost of special education inclusion preschoolers and enforce the requirement for districts to receive authorization prior to making transfers from the PEA fund.





**State of New Jersey**

DEPARTMENT OF EDUCATION

PO Box 500

TRENTON, NJ 08625-0500

CHRIS CHRISTIE  
*Governor*

KIM GUADAGNO  
*Lt. Governor*

CHRISTOPHER D. CERF  
*Acting Commissioner*

December 14, 2011

Mr. Stephen M. Eells, State Auditor  
Office of Legislative Services  
Office of the State Auditor  
125 South Warren Street  
P.O. Box 067  
Trenton, NJ 08625-0067

Dear Mr. Eells:

SUBJECT: Response to OLS Audit Report of the Department of Education, Division of Early Childhood Education, Preschool Education Aid

The New Jersey Department of Education (DOE) has received and reviewed the Office of Legislative Services (OLS) Audit Report of the Department of Education, Division of Early Childhood Education, Preschool Education Aid for the period July 1, 2009 to October 14, 2011. The auditors' conclusions, along with our comments are as follows:

**Finding 1, Page 3 - Preschool Education Aid Carryover**

**The department should adjust Preschool Education Aid distributions for any available and unbudgeted carryover.**

Districts that receive Preschool Education Aid (PEA) and have unspent aid at school year-end are instructed to budget the anticipated carryover balance to support the subsequent year's program. We found that many districts did not calculate their carryover correctly. In addition, the department is not aware of the total balance of available and unbudgeted carryover held by the districts.

**Recommendation**

Districts should accurately post information to the electronic data collection programs. The department should begin calculating available and unbudgeted carryover by using this information and adjust current year PEA distributions for this calculated amount.

Mr. Stephen M. Eells  
Page 2  
December 14, 2011

### **DOE Response**

The department reviews Comprehensive Annual Financial Report (CAFR) data and the current year budget data to determine the amount of unbudgeted carryover available to support the subsequent year's budget for all universal preschool districts.

The department is adding a new line to the electronic data collection program to capture the available and unbudgeted carryover. The department reviewed FY10 Preschool Education Aid expenditures reported in the Audit Summary and instructed many auditors to submit revisions. Carryover reporting for all districts will also be reviewed in the future.

The department is reviewing the recommendation to adjust current year PEA distributions based on carryover amounts; however, additional legislative authority will be required to make this possible.

### **Finding 2, Page 4 – Data Integrity**

**Accurate and complete financial data should be posted to the Budget Statement and Audit Summary programs so that the department can more efficiently calculate district Preschool Education Aid carryover balances.**

School district personnel post budget information to the department's Budget Statement Software program. School district auditors post year-end financial data to the department's electronic Audit Summary data collection program. The Budget Statement and Audit Summary information are transmitted securely to the department annually.

Our recalculations of a sample of 76 districts' PEA carryover disclosed differences between the information posted to the electronic programs and that which was presented in the CAFRs. We tested 608 postings for both the 2008-2009 and 2009-2010 school years. We found 91 and 107 differences, respectively, which resulted in an error rate of over 16 percent.

There are edits in both electronic programs to ensure that certain line items foot. However, there is no requirement to compare the results of the CAFR to the entries made to the electronic programs or the footed lines.

### **Recommendation**

The department should reinforce the importance of accurate data entry in the electronic data collection programs to the districts and their independent auditors and institute monitoring procedures to ensure the accuracy and completeness of the data.

### **DOE Response**

The department included the following language in the current year audit summary letter to the Public School Auditors stressing the importance of accurate audit summary data, "As audit summary data can impact State and Federal aid and required Federal reporting, we will again review audit summary submissions and compare them against other sources and Comprehensive Annual Financial Reports. Incorrect data will require revision and re-submission." The letter then listed areas that required revisions including Preschool Education Aid by many districts last year.

The department will revise the audit guidance for the data collection and convey this to the districts via the county offices. Also, the Division of Administration and Finance may reinstitute a review of the PEA electronic audit data with the CAFR schedule. Staff limitations have necessitated prioritizing of such work. Where there is a discrepancy between the CAFR and the electronic data, department staff will contact the audit firm to correct either the electronic data or the CAFR schedule.

### **Finding 3, Page 5 – Special Revenue Fund Transfers**

**The department should enforce the requirement to make transfers to the Preschool Education Aid Special Revenue Fund to support special education inclusion preschoolers and enforce its rules on transfers from the fund.**

Transfers for Special Education Inclusion Preschoolers - We calculated the transfer amount for inclusion preschoolers based on projected and self-reported actual enrollment for 31 districts that received the majority of PEA funds. We compared the calculated transfers to the budgeted and actual transfers from the General Fund to the preschool program. For school year 2008-2009, we found 16 districts did not budget transfers sufficient to cover the inclusion preschoolers. When compared to the districts' self-reported actual enrollment and actual transfers, we found 16 districts did not transfer sufficient funds. The actual insufficient transfers totaled \$3.4 million. For school year 2009-2010, 25 districts did not budget sufficient funds. Our test of actual transfers found 30 districts did not transfer sufficient funds; the actual insufficient transfers totaled \$10.1 million.

It should be noted that 28 of the 30 districts had available and unbudgeted carryover at the end of school year 2009-2010, suggesting that the districts were able to run their High Quality Preschool program with existing funds. The lack of transfers to the PEA Special Revenue Fund for inclusion preschoolers spreads those funds across more preschoolers than intended. The division's guidance on how to calculate the inclusion cost and reduce the total preschool budget was inconsistent and did not provide great detail. However, it was clear in the division's guidance, the department's guidance, and the SFRA that PEA is not intended to cover the cost of special education inclusion preschoolers.

Mr. Stephen M. Eells  
Page 4  
December 14, 2011

Transfers from the Preschool Education Aid Special Revenue Fund - We found two districts that made ECPA transfers to the General Fund during school years 2008-2009 and 2009-2010 that were in excess of their ECPA carryover balance by \$1 million. We also found two other districts that transferred \$1.9 million to their General Funds without authorization.

### **Recommendation**

The department and division should clarify the instructions for calculating and transferring funds to cover the cost of special education inclusion preschoolers and enforce the requirement for districts to receive authorization prior to making transfers from the PEA fund.

### **DOE Response**

The department issued instructions to reiterate and clarify budgeting guidelines for preschool program costs for children with disabilities in a memorandum dated September 20, 2011. This memorandum was distributed to superintendents of school districts that receive preschool education aid.

The department will work to clarify the instructions for calculating and transferring funds and add two new lines to the budget software and the audited data collection for 2012-13 for transfers from the general fund 1) for special education students in inclusion classes and 2) one for regular education students. These transfers could be reviewed by the County Offices during budget preparation and during the mid-year review. Guidance will be issued to the districts through the county offices for requesting authorization to transfer PEA funds.

We trust that our comments satisfy the concerns raised in the audit report. Should you have any questions or need further information, please contact me at 984-5593.

Sincerely,



Robert J. Cicchino, Director  
Office of Fiscal Accountability and Compliance

RJC/YT/EW/CP/doe response- ECE Audit

c: Christopher D. Cerf  
David Hespe  
Penny MacCormack  
David Corso  
Bari Erlichson  
Yut'se Thomas  
Ellen Wolock  
Justin Barra