Department of Education
State Aid

July 1, 2000 to June 30, 2001
The Honorable Donald T. DiFrancesco
Acting Governor of New Jersey

The Honorable Donald T. DiFrancesco
President of the Senate

The Honorable Jack Collins
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, State Aid for the period July 1, 2000 to June 30, 2001.

If you would like a personal briefing, please call me at (609) 292-3700.

September 14, 2001
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Department of Education  
State Aid  

**Scope**  
We have completed an audit of the Department of Education, State Aid for the period July 1, 2000 to June 30, 2001. Our audit included the financial activities accounted for in the state’s General Fund and Property Tax Relief Fund.

The prime responsibility of the Department of Education in the area of State Aid is to administer and distribute state school aid to local school districts. Total state aid appropriations for fiscal year 2001 were $6.7 billion.

**Objectives**  
The objectives of our audit were to verify that state aid had been calculated in compliance with the established methodology and to assess the reliability of the data upon which the calculations were based.

This audit was conducted pursuant to the State Auditor's responsibilities as set forth in Article VII, Section 1, 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 legislation, administrative code, circular letters promulgated by the State Comptroller, and policies of the department. Provisions that we considered significant were documented and compliance with those requirements was verified by interview, observation, and through our samples of financial transactions. We also read the budget message, reviewed financial trends, and interviewed department personnel to obtain an understanding of the programs and internal control.
A nonstatistical sampling approach was used. Our samples of financial transactions were designed to provide conclusions about the validity of transactions as well as internal control and compliance attributes. Sample transactions were selected judgmentally based upon analytical procedures.

**Conclusions**

We found that state aid had been calculated in compliance with the established methodology and that the data upon which the calculations were based was reliable. In making this determination, we noted certain internal control weaknesses meriting management’s attention.
Student Count Errors

The Department of Education issues audit guidelines, known as The Audit Program, which detail the financial reporting and auditing requirements for school districts. The Audit Program requires that the student counts reported by the school districts on the Application for State School Aid and on the District Report of Transported Resident Students, which are the basis for state aid calculations, be audited. Errors in these counts are to be reported in the Schedule of Audited Enrollments which is included in the audit management report. Our review of sample school district audit reports and interviews with CPA firms (10 firms performing 249 school district audits) revealed that reported student count errors do not necessarily indicate ineligibility for state aid. In many cases, the errors signified that required documentation was not available for the auditors’ review. Because of this ambiguity, the department’s Office of School Finance does not know whether school districts with errors have included ineligible students in their student counts or merely lack proper records. This prevents the department from assessing the risk involved in relying on school districts’ student counts for determining state aid.

Recommendation

The department should revise The Audit Program to require school district auditors to report whether student count errors indicate ineligibility or lack of adequate documentation.

Auditee’s Response

An audit finding that discloses student enrollment count errors provides sufficient and relevant information to the department; and, this information enables the department’s school register audit unit to generate a detailed error analysis of each school district’s Application for State School Aid. The detailed analysis is used, in conjunction with other criteria, to assess risk and determine those school districts that will be scheduled for register audits by the department. Therefore, it is not necessary to
require independent auditors to differentiate between lack of adequate documentation and ineligibility to trigger a register audit by the department.

We will use the reported student enrollment errors as a management tool in determining which districts to schedule for register audits.