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

Department of Education
State Aid

July 1, 2003 to June 30, 2005

Richard L. Fair
State Auditor
The Honorable Richard J. Codey  
Acting Governor of New Jersey

The Honorable Richard J. Codey  
President of the Senate

The Honorable Albio Sires  
Speaker of the General Assembly

Mr. Albert Porrioni  
Executive Director  
Office of Legislative Services

Enclosed is our report on the audit of the Department of Education, State Aid, for the period of July 1, 2003 to June 30, 2005. If you would like a personal briefing, please call me at (609) 292-3700.

Richard L. Fair  
State Auditor  
September 22, 2005
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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, 2003 to June 30, 2005. Our audit included the expenditure 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 years 2004 and 2005 were $8.1 billion and $8.9 billion, respectively.

Objectives

The objectives of our audit were to verify that state aid to local school districts had been calculated in compliance with the established methodology and to determine whether expenditure transactions were recorded properly in the accounting systems.

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, 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 read the budget message, reviewed financial trends, and interviewed department personnel to obtain an understanding of the programs and internal controls.

A nonstatistical sampling approach was used. Our
samples of expenditure transactions were designed to provide conclusions about the validity of transactions as well as internal control and compliance attributes. Transactions were judgmentally selected for testing.

Conclusions

We found that state aid to local school districts was calculated in compliance with the established methodology and was reported properly in the accounting system. In making this determination, we noted an opportunity for cost savings in the School Choice Program meriting management’s attention.
School Choice Aid

The Interdistrict Public School Choice Program was established as a 5 year pilot program starting with fiscal year 2001. The program increases educational opportunities for students by providing the option of attending a public school located outside their district of residence without paying any tuition costs. Parents must notify the district of residence of the student's intention to participate in the program and submit an application to the choice district for acceptance. Choice districts are approved by the Commissioner of Education. There were 15 choice districts during fiscal year 2005.

Program expenditures during fiscal years 2004 and 2005 were $6.5 million and $8 million, respectively. The department was appropriated $8 million for the program in fiscal year 2006.

Choice districts receive a fixed amount of aid per student based on a projected enrollment. Our review disclosed that most districts had projected enrollments that were greater than the actual enrollments. In fiscal year 2004 the total program projected enrollment was 766 students while the actual enrollment was 623. In fiscal year 2005 the projected enrollment was 929 while the actual program enrollment was only 773. One district received $166,000 for 20 projected students but only one student actually attended. Our review also noted that two districts had an actual enrollment that was greater than the projected enrollment. The department does not adjust payments based on actual enrollment. If choice aid payments were adjusted for actual enrollment, the department could have saved a total of $2.5 million during fiscal years 2004 and 2005.

Recommendation

We recommend that the department adjust School Choice Aid for actual enrollments.
September 15, 2005

Mr. James B. Patterson  
Assistant State Auditor  
Office of the State Auditor  
125 South Warren Street  
PO Box 067  
Trenton, New Jersey 08625-0067

Dear Mr. Patterson:

I am pleased that you have completed the state aid audit for the 2004-05 fiscal year. I am also pleased that you found the Department of Education (DOE) compliant with all statutory provisions and to have recorded and reported the aid properly.

I would like, however, to make the following comment in response to your observations about School Choice Aid:

School Choice Aid was calculated and awarded to districts in accordance with language provided each year in the Appropriations Act authorizing that fiscal year's payments. It is my view that the DOE acted properly in adhering to the language and intent of the legislature to hold Choice Districts harmless. As a result, the DOE did not have the authority to adjust that state aid category, even though it would have saved money.

Please include the above comment in your final report. I trust that your experience with the DOE was good, and I commend you and your team members for the professional manner in which they performed their tasks.

Sincerely,

Lucille E. Davy  
Acting Commissioner