State of New Jersey

Department of Education - State Aid

Audit Report

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We have completed an audit of the **Department of Education-State Aid** for the period July 1, 1994 to April 30, 1996.

We found that the financial transactions included in our testing were related to the agency's programs, were reasonable, and were recorded properly in the accounting systems. However, we did note areas where improvement is needed. We found that transportation aid was overfunded as a result of the department not utilizing reported pupil enrollment count adjustments. Details of this and other findings and recommendations are included in our report.

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.

Richard L. Fair  
State Auditor  
September 25, 1996
Department of Education - State Aid

Scope

We have completed an audit of the Department of Education-State Aid for the period July 1, 1994 to April 30, 1996. Our audit included financial activities accounted for in the state's General Fund and The Property Tax Relief Fund.

Total expenditures of the agency during the 22 month audit period were $8.5 billion. The prime responsibility of the Department of Education-State Aid is to administer and distribute state school aid.

Objectives

The objectives of our audit were to determine whether financial transactions were related to the agency's programs, were reasonable and were recorded properly in the accounting systems. We also tested for resolution of significant issues noted in our prior report.

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 agency. Provisions that we considered significant were documented and compliance with those requirements was verified by interview and observation and through our samples of financial transactions. We also read the budget message, reviewed financial trends, and interviewed agency personnel to obtain an understanding of the programs and the internal control structure.

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. Other transactions were judgmentally selected.

To ascertain the status of findings included in our prior report, we identified corrective action, if any, taken by the agency and walked through the system to determine if the corrective action was effective.

Conclusions

We found that the financial transactions included in our testing were related to the agency’s programs, were reasonable, and were properly recorded in the accounting systems. In making this determination, we noted certain significant internal control weaknesses meriting management’s attention.

We also found that the agency has resolved the significant issues noted in our prior report except for matters related to annual independent school district audits. This issue has been updated and restated in our current report.

Details of our findings and recommendations follow.
EXPENDITURE MODIFICATION TRANSACTIONS

FINDING

Our review of state aid expenditures noted that the department processed Expenditure Modification (EM) transactions to transfer fiscal year 1995 and 1996 appropriations for nonpublic handicapped aid and nonpublic auxiliary/handicapped transportation aid to the nonpublic auxiliary services aid account from which payments for all three programs were made. The EM transaction is used to make adjustments to the accounting distribution of an expenditure transaction. Utilizing EM transactions in this manner results in the New Jersey Comprehensive Financial System (NJCFS) reporting incorrect expenditures for individual programs for fiscal years 1995 and 1996 because the entire appropriation is reported as expended. Future years appropriations for the above accounts may be excessive as indicated by the lapses of $4.0 million and $8.1 million for fiscal years 1994 and 1995, respectively.

RECOMMENDATION

We recommend the department process financial transactions for the nonpublic accounts which would accurately measure the account activity.
ANNUAL SCHOOL DISTRICT AUDITS

FINDING

Ninety-eight school districts were overfunded an estimated $3.5 million for fiscal year 1996 transportation aid. This overfunding is the result of the department not utilizing pupil enrollment count adjustments reported in the 1995 annual school district audit reports. This condition was disclosed in our prior audit. Adjustments were not made because the department’s audit unit was concentrating on a review of 1993 through 1995 entitlements. If adjustments were made it would have enabled the department to more accurately determine each district’s fiscal year 1996 transportation aid entitlement and would have reduced the amount of transportation funding.

RECOMMENDATION

We recommend the Department of Education utilize adjustments reported in the annual school district audit reports in determining transportation aid entitlements.