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Office of the State Auditor

Department of Education
Direct State Services

July 1, 1999 to February 28, 2001

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State Auditor
Enclosed is our report on the audit of the Department of Education, Direct State Services for the period July 1, 1999 to February 28, 2001. 

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

April 23, 2001
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Department of Education
Direct State Services

Scope

We have completed an audit of the Department of Education (DOE), Direct State Services for the period July 1, 1999 to February 28, 2001. Direct State Services encompasses all activities of DOE except for the Marie H. Katzenbach School for the Deaf and state aid funding. Our audit included the financial activities accounted for in the state’s General Fund.

The prime responsibility of the Department of Education is to ensure that every New Jersey student has an equal opportunity to receive a thorough and efficient education. Annual expenditures and revenues of the department during the audit period were $78 million and $478 million, respectively. The major component of revenue was federal grants, which is expended as state aid funding.

Objectives

The objectives of our audit were to determine whether financial transactions were related to the department’s programs, were reasonable, and were recorded properly in the accounting system. We also tested for resolution of significant conditions 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 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, and large dollar transactions were examined.

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

Conclusions

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

We found that the department had not resolved two of the three issues noted in our prior report, dealing with fixed asset inventory records and motor vehicle minimum mileage requirements. These issues have been updated and restated in our current report.
Fiscal monitoring of school districts should be improved.

Fiscal Monitoring

The DOE’s mission statement states, “The department will ensure accountability for public dollars by motivating schools to provide high-quality and cost-efficient programs.” To this end, the department should assist school districts in improving their accounting controls and spending more efficiently.

There are three offices within the Department of Education that are primarily responsible for the oversight of the fiscal operations of local school districts. The Single Audit Unit within the Division of Finance is responsible for the receipt and review of the school district single audit reports prepared by independent auditors. The county superintendents’ offices, which are part of the Division of Field Services, serve as the liaison between the department and the school districts and are responsible for approving district budgets and conducting the school district evaluation process. The Office of Fiscal Standards and Efficiency collects expenditure data from school districts and prepares the Comparative Spending Guide, which compares districts’ per-pupil costs for school districts of similar size.

The department is not utilizing all available data resources to monitor the fiscal performance of the local school districts. In addition, there should be more coordination between the offices that are responsible for monitoring the districts’ fiscal operations. We noted the following situations where the department could perform additional functions to improve their fiscal oversight.

- The Single Audit Unit does not analyze the findings from the single audit reports for systemic problems that might impact the school districts.
- The Single Audit Unit does not communicate the results of these audit reports to the county superintendents’ offices.

- The county superintendents’ offices do not receive school district audit reports prepared by the Office of the State Auditor or school district budget reviews prepared by the Department of the Treasury’s Local Government Budget Review Program.

- The department does not use the Comparative Spending Guide to identify possible problem areas and opportunities for cost savings.

- County superintendents’ offices do not regularly communicate systemic fiscal problems and best practices developed from audit reports and other sources to their constituent school districts.

**Recommendation**

As a means to achieve DOE’s mission to motivate schools “to provide high-quality and cost-efficient programs,” we recommend that the Single Audit Unit develop and maintain a database of findings from the single audit reports. From this database, it should identify systemic problems and cost-savings opportunities and communicate these results to the county superintendents’ offices. The Single Audit Unit should also collect school district audit reports completed by the Office of the State Auditor and school district budget reviews performed by the Local Government Budget Review Program. The findings from these reports should be accumulated and the results communicated to the county offices.

County superintendents should notify the local superintendents and business administrators of the possible problems and opportunities for improved controls and cost-savings that result from their analyses of reports and the Comparative Spending Guide.
**Auditee’s Response**

We disagree with several points in the finding and recommendation. The report does not accurately represent the functions and responsibilities of the Single Audit Unit and does not accurately represent the scope and possible uses of the annual audit findings under the Single Audit Act.

It is the responsibility of the Single Audit Unit to ensure submission of the annual audit as required under New Jersey statute and as required under the Single Audit Act. The unit regularly sends out letters to districts not in compliance with submission of the audit and conducts other Single Audit Act responsibilities including completion of the requisite desk reviews of 600 plus school districts. The unit also ensures that the minutes of the board meeting, synopsis of the annual audit and corrective action plans (CAPs) are filed with the DOE as required. It does not conduct a qualitative review of the CAPs. This is done by the county office, which subsequently submits the minutes, synopsis and approved CAP to the Single Audit Unit, which reviews the submission for completeness.

The recommendation for the single audit unit to develop a comprehensive database of findings and use it to identify systemic problems and communicate these results to the county offices would require additional FTEs for the unit. The unit currently has only two FTEs, one of which is vacant, that are dedicated to implementing the comprehensive scope of the Single Audit Act. With its limited resources, the Single Audit Unit completes the activities identified above and also summarizes/categories the findings of the annual CAFRs in the areas of ASSA findings, grant findings, child nutrition findings and general accounting and forwards the summaries to the respective parties for follow up as appropriate. Clearly, additional FTEs would be necessary to implement an expanded database development and distribution of the CAFR findings as well as for other audit report findings beyond what is already provided.
without any guarantee that the database summaries would result in cost savings.

The recommendation that the Single Audit Unit further identify from this comprehensive database “cost-savings opportunities” is not possible because the annual audit required by the Single Audit Act is a financial and compliance audit, not an operational audit. A financial audit determines the reliability and integrity of the financial information and a compliance audit determines whether the entity has complied with specific policies, procedures, laws, regulations, or contracts that affect operation or reports. These types of audits do not identify cost-savings or efficiency opportunities. An operational audit deals with the economic and efficient use of resources and the achievement of established objectives and goals for operations or programs that would identify cost-savings opportunities. The annual audits submitted by school districts are not operational audits.

The finding states that the department “does not use the Comparative Spending Guide to identify possible problem areas and opportunities for cost-savings.” It is not the department’s role to tell local districts how to spend their school funds. The department does not have the statutory authority to do so and would supercede voters’ rights if it did so. However, we do publish the Comparative Spending Guide to inform districts and their constituents about their performance in several areas of operation. The guide is an advisory tool to be used by districts in their decision making process when they negotiate salaries, purchase equipment and supplies, and put together a local district budget.

The county superintendent and his/her staff is responsible for the implementation of N.J.A.C. 6A:30 which is the Evaluation of the Performance of School Districts annually and a once every seven year on-site visit. As part of the eight Elements and 33 Indicators contained in this code, there are
significant fiscal oversight responsibilities of the county superintendent. Annual responsibilities are as follows:

1. By August 1, the districts are required to submit the A148/149, as of June 30.

2. The districts are required to submit these reports monthly to their BOE with a monthly certification that they have sufficient monies to meet all of their financial obligations until the end of the fiscal year.

3. Districts are required to report immediately to the county superintendent any suspicion or actuality that the district is in deficit in any major account.

4. The district submits the external audit to the county superintendent with a Corrective Action Plan (CAP) to address any deficiencies. Districts are required to discuss the audit at a public meeting of the BOE and include the CAP document in the minutes.

5. The external auditor, in the following year’s audit, must attest that the CAP has been implemented and the status of the corrective action.

6. Districts are required to submit their budgets to the county superintendent prior to final adoption and submission to the voters at the annual school election. The county superintendent and his/her staff review the budget for educational adequacy and fiscal accuracy.

In addition, the following practices are also in place, although not consistently throughout all 21 counties:

1. County roundtables, meetings held with all chief school administrators in county, are utilized by some county superintendents to routinely discuss the kinds and types of non-compliant behaviors
noted in the external audits. These discussions are also held at the monthly meetings of school business administrators headed by the county school business administrator.

2. Abbott districts are required to submit the A148/149 to the county superintendent monthly. County superintendents are working with districts experiencing difficulty meeting this requirement. Among the non-Abbots, seemingly troubled districts, or districts experiencing problems may be placed under the same requirement at the discretion of the county superintendent.

3. The county superintendent’s use of the Comparative Spending Guide is somewhat limited to a tool used to identify areas, which may be reduced, by a district as a result of a budget defeat.

County superintendents have routinely not been in the loop when audits are done of the school districts in their county by the Office of the State Auditor (Single Audit) or the Department of the Treasury’s Local Government Budget Review Program. The sharing of this information with county school business administrators would be especially helpful so that they are aware of general trends in terms of audit problems and concerns statewide. The fact that county superintendents have been left out of the loop is not a good idea. Consultation with county superintendents prior to going into the district can assist the auditors in identifying problem areas. Including county superintendents at the exit conference can ensure that a CAP will be created and implemented.

Lastly, the use of the Comparative Spending Guide by the county offices as cited in OLS’s report does not appear to be the proposed objective of creating this document. This document was designed to be an informational document for the public. As
previously stated, this document is another tool for the county superintendent to use in the settlement of a defeated budget.

Although the comments and recommendations are in dispute, the recommendations will be considered as the department continuously reassesses its mission and strategic plan in a changing environment.

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**Grant Recoveries**

Unexpended grant funds should be collected by the department.

Treasury Circular Letter 89-19-OMB states that grantees will refund to the department any unexpended funds or unobligated cash advanced, unless the department has authorized the retention of such funds. We found that 8 of 14 sample school districts with June 30, 1999 unexpended grant funds of $400,000 had not been billed for these amounts by the department as of January 31, 2001.

The grant program which makes up most of the unbilled balance is TPAF Social Security, which is administered by the School Finance Unit. This balance has not been collected because the school district had not reported to the department that it was overpaid. However, this information was available to the department in the school district’s single audit report.

**Recommendation**

We recommend that the School Finance Unit establish procedures for recovering unexpended state grant funds which have not been refunded by the districts.

**Auditee’s Response**

We agree with the finding. The department will establish a procedure to recover unexpended TPAF Social Security funds that are not reported to the department, as required, by the school district and that are identified in a school district’s single audit.
The department should deposit all revenue in a timely manner. In addition, the department has taken the appropriate actions to recover the unexpended state funds identified in the audit report.

Timeliness of Deposit

Treasury Circular Letter 94-24-OMB states that agencies are to ensure that all moneys are deposited on the same day as received. We found two units within the department (the Criminal History Review Unit and the Office of Licensing and Credentials) which did not deposit their receipts in a timely manner. These programs collected a total of $6.2 million in fiscal year 2000.

Criminal History Review receipts are deposited late because the unit sends checks to the Revenue and Grants Unit once every two weeks for deposit. Teacher Certification receipts are deposited three weeks late because the Office of Licensing and Credentials keeps checks with submitted documents throughout the processing cycle, which involves numerous steps. In addition, checks for both programs are not restrictively endorsed when received and Teacher Certification checks are not kept in a secure location prior to deposit. Untimely deposit and lack of control increase the risk of lost funds.

Recommendation

We recommend that the department revise the procedures for handling Criminal History Review and Teacher Certification receipts so that all checks can be deposited timely in accordance with Treasury Circular Letter 94-24-OMB. In addition, all checks should be restrictively endorsed upon receipt and kept in secure locations.

Auditee’s Response

We agree with the finding. The Criminal History Review Unit now takes deposits to the Revenue and Grants Unit on a daily basis.
The Office of Licensing and Credentials together with the Office of Technology has contracted with Mathtech, Inc. to develop a Request for Proposal (RFP) to update and improve the office operation. Specifically, the RFP will develop a system that will be an integrated solution which will include document management and workflow software to improve tracking and the flow of work in this office. It is anticipated that this RFP will be completed and released by the end of May 2001.

In addition, the Office of Licensing and Credentials now restrictively endorses all checks upon receipt and keeps them in a secure location.

The department should analyze pool vehicle usage.

Motor Vehicles

Our prior audit report had recommended that the department request minimum mileage exemptions from the General Services Administration for some of its motor pool vehicles. The department did obtain such an exemption in 1996, but the composition of its motor vehicle fleet has changed substantially since then. We performed tests on the current fleet and found that 14 of the department’s 37 pool vehicles averaged less than 750 miles per month over the twelve-month period from January 1, 2000 to December 31, 2000. Treasury Circular Letter 93-04A, State Vehicular Assignment and Use Policy, states that agency pool vehicles should demonstrate official state business usage in excess of 750 miles per month, unless a frequency of use for less mileage can be satisfactorily justified to the Director of the Division of Purchase and Property. The department has not provided a justification for less mileage for these vehicles. As a result, the department is not in compliance with the circular letter’s requirements regarding pool vehicle utilization and may have more vehicles than it
requires. It may be more economical to reimburse certain employees for business mileage.

**Recommendation**

The department should evaluate the assignment of its pool vehicles and determine whether minimum mileage exemptions should be requested from the Director of the Division of Purchase and Property or vehicle assignments should be revised.

**Auditee’s Response**

We agree with the finding. The department will reevaluate the assignment of its pool vehicles and reassign those vehicles that are not meeting minimum monthly mileage requirements.

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**Fixed Assets**

The department should maintain current fixed asset records.

Treasury Circular Letter 91-32-OMB requires that equipment with an original cost of $1000 or more and an expected useful life of three years or more must be maintained on an equipment inventory record. The department does maintain a fixed asset report, but the report is not complete. We selected a sample of 30 computers purchased during fiscal year 2000 and 22 items of equipment located throughout the department’s offices and found that none of these items were included in the department’s report. The building services coordinator explained that the department has completed fixed asset input forms for all of its equipment but has not completed inputting the information to its fixed asset report. The lack of up-to-date inventory records increases the risk that state equipment may not be identified or recovered if it is lost or stolen. Our previous audit report had noted that computers were not recorded on the department’s fixed asset listing.

**Recommendation**

We recommend that the department comply with Treasury Circular Letter 91-32-OMB and maintain complete and accurate inventory records.
Auditee’s Response

We agree with the finding. While the questioned fixed asset information had been recorded on data input forms, it had not yet been entered into the system at the time of the audit. The department is currently in the process of upgrading its computerized fixed asset inventory systems into a single integrated application.