Office of the State Auditor

Audit Report

Department of Education

Direct State Services

July 1, 1993 to June 30, 1995
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The Honorable Christine Todd Whitman
   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

We have completed an audit of the Department of Education - Direct State Services for the period July 1, 1993 to June 30, 1995.

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 system. However, we did note areas where improvement is needed. Details of the 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 1.6 of the State Constitution and Title 52 of the New Jersey Statutes.

Richard L. Fair
   State Auditor
Department of Education
Direct State Services

Scope

We have completed an audit of the Department of Education - Direct State Services for the period July 1, 1993 to June 30, 1995. Our audit included financial activities accounted for in the state's General Fund.

Total expenditures of the agency during the 24 month audit period were $96 million excluding the State Library and the Marie H. Katzenbach School for the Deaf. The prime responsibility of the Department of Education - Direct State Services is the administration and distribution of moneys to local public school districts, this includes reviews and audits of the local budgets. The department also provides technical assistance to the local districts in designing and implementing new educational programs. These objectives are met through the various divisions maintained in the department. Revenues of the agency totaled $154 million during our audit period and the major component was federal grants.

Objectives

The objectives of our audit were to determine whether financial transactions were related to the agency's programs, were reasonable and were properly recorded 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 1.6 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. Revenue populations were stratified and large dollar transactions were examined. Other transactions were randomly 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 system. In making this determination, we noted certain significant internal control weaknesses and matters of compliance with laws and regulations 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 motor vehicles. This issue has been updated and restated in our current report.

Details of our findings and recommendations follow.
Motor Vehicles

Finding

Our prior audit report dated May 13, 1993 recommended the department evaluate its need for motor vehicles based on an accurate description of the vehicles’ usage (individual or pool assignments) or seek exemption from the Department of the Treasury regarding mileage requirements. We found that the department continues to designate vehicles as pool assignments when in fact they are being used by an individual. The Department of the Treasury Circular Letter 93-04 GSA requires that individually assigned vehicles travel a minimum of 1600 miles per month on state business. Continued pool designation of vehicles assigned to individuals circumvents the minimum mileage requirements.

Recommendation

We restate our prior recommendation that minimum mileage exemptions be requested from the Director, General Services Administration.
Fixed Assets

Finding

In conjunction with the audit, we performed site visits and sent questionnaires to the various county superintendents’ offices and the regional training centers. Our review noted internal control weaknesses in the maintenance of fixed asset records required by the Department of the Treasury Circular Letter 94-05. We identified omissions and errors where department computers were not recorded on the fixed asset listing dated August 16, 1995. We also noted many of these computers did not have Department of Education inventory tags affixed. The information supplied by these offices had inaccuracies indicating that these regional offices are not accountable for the fixed assets assigned to their locations. This could result in the loss of this equipment. We also found that the department reported to the Department of the Treasury that a physical count had been taken in March 1995 when no such count had taken place.

Recommendation

We recommend the maintenance of a complete list of fixed assets which includes all equipment under its guardianship, and that a physical inventory be taken at least once a year in order to be in compliance with the Department of the Treasury Circular Letter 94-05.
Purchases

Finding

Our review of expenditures for office and stationery supplies noted excessive purchases from contract vendors for items available at the State Distribution Center. The Division of Administration routinely purchased items including copy and computer paper, pens, markers, etc. from contract vendors rather than requesting these items from the Distribution Center. The Distribution Center was developed by the state as a means of purchasing items at bulk in order to secure cost savings for state agencies requesting those supplies. Department of the Treasury Circular Letter 93-23-GSA states that agencies are required to procure items available at the center rather than utilize Delegated Purchase Authority (DPA) or contract vendors.

Recommendation

We recommend the purchasing requirements set forth in Department of the Treasury Circular Letter 93-23-GSA be complied with.