Department of Education
Division of Student and Field Services
Office of Student Support Services
Contracted Home Instruction Services

July 1, 2011 to March 31, 2014

Stephen M. Eells
State Auditor
The Honorable Chris Christie  
Governor of New Jersey

The Honorable Stephen M. Sweeney  
President of the Senate

The Honorable Vincent Prieto  
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, Division of Student and Field Services, Office of Student Support Services, Contracted Home Instruction Services for the period of July 1, 2011 to March 31, 2014. If you would like a personal briefing, please call me at (609) 847-3470.

Stephen M. Eells  
State Auditor  
November 13, 2014
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Scope

We have completed an audit of contracted home instruction services within the Department of Education, Division of Student and Field Services, Office of Student Support Services, for the period July 1, 2011 to March 31, 2014. Our audit included a review of school districts’ administration of contracted home instruction services and the proper recording of related expenditures in the school districts’ audited financial statements and the department’s Audit Summary application (AUDSUM).

Home instruction expenditures as reported in AUDSUM totaled $103.5 million and $115.6 million for fiscal years 2012 and 2013, respectively. School districts are responsible for complying with New Jersey Statutes and New Jersey Administrative Code, establishing internal controls, and the financial reporting of home instruction program costs.

Objectives

The objectives of our audit were to determine whether contracted home instruction services were in compliance with existing laws and regulations. In addition, an objective was to determine whether expenditures for home instruction were properly recorded in the districts’ audited annual financial reports and AUDSUM.

This audit was conducted pursuant to the State Auditor’s responsibilities as set forth in Article VII, Section I, 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. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

In preparation for our testing, we studied legislation, the administrative code, and policies of the department and select school districts. Provisions we considered significant were documented and compliance with those requirements was verified by interview, observation, and through our testing of financial transactions. We also interviewed department and school district personnel to obtain an understanding of the programs and the internal controls.

To assess the reliability of the department’s AUDSUM data, we reviewed existing documentation related to the data sources, electronically tested the data to identify obvious issues with completeness or accuracy, and interviewed knowledgeable department officials about the data. The districts’ independent certified public accounting firms enter the Comprehensive Annual Financial Report data into AUDSUM. Our review of selected districts disclosed that home instruction expenditures were entered into AUDSUM incorrectly. Despite
these errors, the cost data is sufficiently reliable as an indicator of the general range of home instruction costs and overall trends.

A nonstatistical sampling approach was used. Our samples of financial transactions were designed to provide conclusions on our audit objectives as well as internal controls and compliance. Sample populations were sorted and transactions were judgmentally and randomly selected for testing.

**Conclusions**

We found that overall contracted home instruction services were in compliance with existing laws and regulations. In making this determination, we noted districts are contracting with unapproved companies and are not requiring documentation of the requisite professional certifications and background checks. We also noted inaccuracies with reported home instruction expenditures on districts’ annual audited financial reports and AUDSUM.
Contracted Home Instruction Services

Districts are obtaining services from unauthorized companies without requiring proof of professional certifications and background checks.

Unauthorized Home Instruction Services

New Jersey Administrative Code (NJAC) requires that home instruction be provided to students who are unable to attend their regular schools for various reasons, such as a temporary or chronic health condition. NJAC also states districts are responsible for the costs of providing home instruction services directly, through online services, or through contract with another board of education, educational services commission, jointure commission, or Department of Education (DOE) approved clinic or agency.

Our survey of 37 school districts and three field visits, disclosed 23 districts contracted with 31 New Jersey companies that did not fall under any of these categories. In most of these cases, the students were placed in a medical or treatment facility at the discretion of the students’ parent/guardian or doctor. Facilities generally contract with companies or employ instructors for home instruction services that may not fall under the authorized categories.

Professional Certifications and Criminal History Background Checks

Pursuant to New Jersey Statutes, any person employed as a teaching staff member shall hold a valid and appropriate certificate. In addition, statutes require all entities under the supervision of the DOE to obtain criminal history background checks for persons serving in positions which involve regular contact with students. The results of these checks are approved by the DOE’s Criminal History Review Unit (CHRU).

We visited three districts and noted none of these districts have documentation to show that the individuals who are providing home instruction to their students have professional certifications or have had criminal history background checks. Since the districts did not verify certification or background checks, we requested from the districts, a list of their contracted home instruction services employees to verify that instructors are currently certified and have gone through the CRHU process. Of the 23 New Jersey based vendors utilized by these districts, we received a complete listing of employees for four vendors and partial listings for five vendors, for a total of 112 individuals. No lists were provided for 14 vendors. For the individuals provided, we found that the majority were certified and had obtained a CHRU background check and had no disqualifying offenses. However, we found one instance where an individual had convictions for burglary and obtaining/selling a controlled and dangerous substance in public, which would have permanently disqualified them from employment if they had gone through the CHRU process. This person works at a facility covered under the Department of Human Services (DHS) and received the required DHS background check. However, the convictions are not disqualifying per DHS statute.
Recommendation

We recommend the districts establish contracts with providers of home instruction services which contain language requiring documented compliance with state laws and regulations regarding professional certifications and criminal history background checks. In addition, the department should establish procedures to monitor compliance with the implementation of these requirements. We further recommend that the department revisit the administrative code requirement which specifies the approved categories and consider whether medical and treatment facilities should be added as authorized providers.

AUDSUM and CAFR Reporting

Home instruction expenditures are inaccurately reported.

New Jersey Statutes require an annual audit of a school district’s financial statements as reported in their Comprehensive Annual Financial Report (CAFR) and New Jersey Administrative Code requires districts follow the Department of Education’s Chart of Accounts (COA) when classifying expenditures. After the district’s CAFR is prepared, the data is entered into the department’s Audit Summary application (AUDSUM) by the independent certified public accounting firm and approved by the district Business Administrator. This financial data is transferred into the department’s budget software and is used for all formal publications and ad hoc reporting of actual school district costs.

We obtained a download of AUDSUM expenditure data to quantify home instruction expenditures for our audit period. To verify the reliability of the data, we selected a random sample of 50 school districts with home instruction expenditures reported in AUDSUM for fiscal year 2012 and compared them with the districts’ CAFRs. We found that eight of these districts had home instruction expenditures incorrectly recorded in AUDSUM, including six that recorded these expenditures as undistributed instruction on their CAFR. Home instruction expenditures in AUDSUM for sample districts were overstated by $2 million (26%).

In addition, we selected a sample of 42 school districts (two per county) to obtain home instruction data and determine the reliability of the information presented in the districts’ CAFRs for fiscal year 2013. We received responses from 37 school districts, of which six are not following the COA for home instruction expenditures. We found they are placing home instruction in the wrong program codes or combining all home instruction expenditures in the same object codes, rather than separating them as required. For example, one district included salaries of teachers for home instruction services with salaries of teachers for regular instruction. Another district included all home instruction expenditures, including payments for contracted services, as salaries for teachers for home instruction. While these expenditures are for home instruction services, it creates the perception that all expenditures were for district teacher salaries.
The department was made aware of these errors and will continue to stress to the districts the importance of properly recording and entering data. The proper reporting of expenditures is important for preparing future budgets which serve as a tool for comparison and control. This will also ensure the accuracy of reports issued by the department for formal publication.

Recommendation

We recommend the department verify district compliance with the established chart of accounts to ensure proper classification of transactions and improve the reliability of reported data and district budgets.
November 7, 2014

Mr. Stephen M. Eells, State Auditor
Office of Legislative Services
Office of the State Auditor
125 South Warren Street
P.O. Box 067
Trenton, NJ 08625-0067

Dear Mr. Eells:

SUBJECT: Response to OLS Audit Report of the Department of Education, Contracted Home Instruction Services

The New Jersey Department of Education (DOE) has received and reviewed the Office of Legislative Services (OLS) Audit Report of the Department of Education, Contracted Home Instruction Services for the period July 1, 2011 to March 31, 2014. The auditors’ findings, recommendations and our responses are as follows.

Finding Number 1, Page 3

Districts are obtaining services from unauthorized companies without requiring proof of professional certifications and background checks.

Recommendation

We recommend the districts establish contracts with providers of home instruction services which contain language requiring documented compliance with state laws and regulations regarding professional certifications and criminal history background checks. In addition, the department should establish procedures to monitor compliance with the implementation of these requirements. We further recommend that the department revisit the administrative code requirement which specifies the approved categories and consider whether medical and treatment facilities should be added as authorized providers.

NJDOE Response

The Department will convene staff from the appropriate offices to review the recommendations and determine future actions regarding contracted home instruction services, the recommended monitoring, and the suggested changes to New Jersey Administrative Code.
Finding Number 2, Page 4

Home instruction expenditures are inaccurately reported. The auditors selected a random sample of 50 school districts for fiscal year 2012 and 42 school districts for fiscal year 2013 with home instruction expenditures reported in AUDSUM and compared them to the districts’ CAFRS for each year. The auditors found eight instances in fiscal year 2012 and six instances in fiscal year 2013 where home instruction expenditures were incorrectly recorded in AUDSUM.

Recommendation

We recommend the department verify district compliance with the established chart of accounts to ensure proper classification of transactions and improve the reliability of reported data and district budgets.

NJDOE Response

N.J.A.C. 6A:23A-16.2(f) requires that the district board of education/charter school board of trustees adopt a chart of accounts that is prepared in conformity with the guidelines established by the Department of Education consistent with NCES reporting requirements. The minimum level of detail (minimum outline) for expenditure accounts to be maintained in the chart of accounts for compliance with Department of Education and federal reporting requirements is presented in Appendix A of The Uniform Minimum Chart of Accounts for New Jersey Public Schools (2008 Edition). This Chart of Accounts (COA) can be found on the website http://www.nj.gov/njded/finance/fp/af/coa/ and was effective July 1, 2009. The independent public auditor’s procedures should include tests of the appropriate classification of expenditures in accordance with the prescribed chart of accounts and supporting guidance (e.g. Appendix C of the 2011-12 and 2012-13 Budget Guidelines). Improper coding of expenditures is considered noncompliance with N.J.A.C. 6A:23A-16.2(f) and noted instances must be reported in the Auditor’s Management Report. Auditors are directed to test the proper coding of expenditures during their review of the districts’/charter school’s internal controls and the application of standard testing methods, as well as during compliance testing and the performance of single audit procedures. That is, each general fund or special revenue fund expenditure transaction tested for those procedures must also be tested for propriety of classification. Exceptions should not be reported for instances where the department has not given specific coding guidance in the aforementioned documents. The sample should be expanded if significant coding problems are noted.

The guidance is documented in section 1-6 of the annual independent auditor’s Audit Program issued by the NJDOE. To encourage school district and charter school compliance and independent auditor awareness of the proper classification of expenditures for home instruction:

- The NJDOE will emphasize the importance of expenditure classification, as it directly relates to home instruction, by adding a sample finding(s) to the 2014-15 Audit Program, section III-4 specific to the classification of home instruction (e.g. erroneous classification of teacher salaries for home instruction services classified as salaries for teachers for regular instruction; payments for contracted home instruction services recorded and reported as teacher salaries for home instruction.)
Mr. Stephen M. Eells  
Page 3  
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- Discussion at a regular meeting of the Executive County Business Officials will be scheduled to address the importance of proper classification of home instruction appropriations. The Department believes that enhanced awareness of the correct accounts for appropriation of home instruction costs will result in compliance with the established guidelines for recording and reporting of home instruction expenditures.
- The Department is intending to enhance agreement between the classification of expenditures reported in the Comprehensive Annual Audit Report (CAFR) and the electronic Audit Sum by creating a single entry system as opposed to the existing system of independent creation of each. Of course, our efforts to achieve this goal are dependent upon available resources.

We trust that our responses satisfy the concerns raised in the audit report. If you have any questions or need further information, please contact Charles Peffall, Manager, Internal Audit Unit at 292-1319.

Sincerely,

[Nancy Curry's signature]
Nancy Curry, Director  
Office of Student Support Services

[Yut'se Thomas's signature]
Yut'se Thomas, Director  
Office of School Finance

NC/YT/cp/doe response- CHIS 2014  
c:  
David Hespe  
Susan Martz  
Robert Bumpus  
Robert Cicchino  
Charles Peffall