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

Department of Education
Office of Innovative Programs and Schools
Charter Schools

July 1, 2001 to November 21, 2003

Richard L. Fair
State Auditor
The Honorable James E. McGreevey  
Governor of New Jersey

The Honorable Richard J. Codey  
President of the Senate

The Honorable Albio Sires  
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, Office of Innovative Programs and Schools, Charter Schools for the period July 1, 2001 to November 21, 2003. If you would like a personal briefing, please call me at (609) 292-3700.

Richard L. Fair  
State Auditor  
May 24, 2004
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Department of Education
Office of Innovative Programs and Schools
Charter Schools

Scope

We have completed an audit of the Department of Education (DOE), Office of Innovative Programs and Schools (OIPS) / Charter Schools for the period July 1, 2001 to November 21, 2003. The audit included a review of the department’s monitoring procedures and state aid calculations, and a limited review of individual charter schools.

The Charter School Program Act of 1995 authorizes the Commissioner of Education to establish a charter school program. A charter school is a public school that operates independently of the local school district’s board of education under a charter granted by the Commissioner. Once the charter is approved and established, the school is managed by a board of trustees with status as a public agent authorized by the State Board of Education to supervise and control the school. A charter school is a corporate entity with all the powers needed to carry out its charter program.

There were 50 charter schools operating during the 2002-2003 school year serving 12,300 students. There are 48 operating for the 2003-2004 school year with an additional five charter schools scheduled to open in September 2004. The state and local school districts provided funds for charter schools in the amount of $105 million for school year 2001-2002 and $113 million for the 2002-2003 school year. The projected funding amount for the 2003-2004 year is $146 million.

Objectives

The objectives of our audit were to determine whether charter school aid was being calculated properly, whether charter schools were in compliance with selected statutory requirements, and whether the schools were being properly monitored by the DOE.
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 and interviewed department personnel to obtain an understanding of the program and internal controls. We also reviewed board minutes, policies and procedures, and audit reports issued by the charter school boards' certified public accounting firms. Our audit included field visits to nine charter schools.

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. Transactions were judgmentally selected for testing.

**Conclusions**

We found that the aid distributed to charter schools was calculated in accordance with applicable statutes. We also found that the charter schools were complying with and the department was monitoring the selected statutory requirements tested except for teacher certification and criminal history background checks. We also identified areas where the systems used to calculate charter school aid and to track average daily enrollments could be improved.
Closer monitoring of charter schools is needed.

Charter School Monitoring

The OIPS oversees the application, monitoring and evaluation process for charter schools. Monitoring consists of the on-site review at a charter school to corroborate and augment the annual reports and to verify compliance with statutes, regulations and the terms of the charter. We noted weaknesses in the monitoring of the charter schools.

All classroom teachers, principals, and professional support staff employed by the board of trustees of a charter school shall hold appropriate New Jersey certification in accordance with N.J.A.C. 6A:11-5.1. Documentation of this certification and criminal history background checks for employees of the charter schools is required to be submitted to the OIPS for review.

We reviewed the teacher certification database at the DOE and documents submitted from nine charter schools for evidence of certification. We could not substantiate proper certification for 66 of the 360 professionals examined. Teachers with no provisional certificates, expired provisional certificates, or no certificates were teaching classes. This included 12 school nurses of which six did not have the proper certification documentation. One school employed a nurse for eight months before terminating that employee due to lack of a license. At another school, the principal and vice principal did not hold the required certification. The condition was a result of charter schools hiring employees without proper certification, provisional certificates or renewing expired certificates. Although we noted a backlog in the licensing unit, there are alternate procedures available to schools to obtain certification. We further note the OIPS is not adequately verifying and monitoring for proper certification.
We also examined employee files at the charter schools and records at the department for evidence that all employees that come into contact with children under the age of eighteen had undergone a criminal history background check as required by N.J.S.A. 18A:6-7.1. The review included 592 employees from nine charter schools and found that 166 of these files contained no evidence of the background check. This situation is a result of insufficient monitoring for compliance by the charter schools and OIPS. This condition could put children at risk and result in potential liability to the charter schools and the state.

Other deficiencies found during our school visits included:

- three schools not having fire inspection certificates;
- one school utilizing a new modular building for high school classes without the department being aware of the building;
- three charter schools not being able to provide board approved school policies and procedures manuals; and,
- substitutes being used as full-time teachers at one school in subjects where they are not certified.

We noted that the OIPS / Charter Schools unit does not have a policies manual, although they are in the process of developing one.

**Recommendation**

The OIPS / Charter Schools unit needs to actively monitor compliance items particularly teacher certification and criminal history background checks. The Charter schools also need to ensure that all their employees have complied with these requirements.
Charter School Aid Calculation

Charter school aid is calculated by the DOE, Office of School Funding / Charter Schools based on the formulas established by N.J.S.A. 18A:36A-12 and N.J.S.A. 18A:7F. Charter school aid distributed through the local school districts includes a per pupil amount and categorical aid. Aid distributed by direct payments from the state consists of local mandate, nonpublic, and Abbott Kindergarten aid. Aid calculations are performed quarterly based on enrollment counts. The computer software which calculates the aid was developed internally in 1997 and has been continually updated with new calculations in response to changes in legislation. As a result the system has become cumbersome and unreliable. The unit spends the majority of their time reviewing calculations and correcting errors. Some errors are not caught and result in incorrect payments of aid. Although we did not detect material incorrect payments, our testing identified system errors including an error in the computer program logic, an error where a category of aid was not calculated, and errors where the aid amount was improperly calculated. We also noted instances where the amount paid differed from the aid calculation and the support documentation was not available. The DOE is aware of the need to correct these deficiencies and is in the process of developing a new program to accurately calculate charter school aid.

We recommend the Office of School Funding expedite the development and implementation of the new computer program to calculate charter school aid. In the meantime, they should continue to closely monitor and inspect aid calculation results.
Average Daily Enrollment Errors

Enrollment records need to be properly maintained and the DOEnet needs improvements.

The Department of Education Network (DOEnet) tracks and maintains enrollment counts for charter school students. Enrollment counts are converted to average daily enrollment (ADE) which is used in the calculation of charter school aid. ADE is determined by dividing the total days a student is enrolled in the school by the total days a school is in session. Each student can have a maximum ADE of one if enrolled for the entire school year. If a student transfers in or out during the school year, the school must manually compute the number of days enrolled and enter the number in the DOEnet. We tested enrollments at eight schools for 413 students who had less than one ADE in a sending district. We noted that the ADE for 32 students was incorrect based on the transfer in or out dates, the ADE for nine students totaled more than one, and the ADE for 24 students could not be verified at one charter school due to missing student files. Charter schools are responsible for the accuracy of the information. Inaccurate ADEs can result in incorrect charter school aid payments. We further noted that the system lacks a specific identifier for each student which can result in aid for a student being paid to two districts simultaneously.

Recommendation

We recommend that the system be modified to improve the accuracy of the ADE calculation by adding additional edit checks including a student specific identifier.
April 8, 2004

Mr. Richard L. Fair, 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. Fair:

Subject: Response to OLS Audit Report of the Department of Education, Office of Innovative Programs and Schools, Charter Schools

The New Jersey Department of Education (DOE) has received and reviewed the findings and recommendations contained in the Office of Legislative Services (OLS) Audit Report of the Department of Education, Office of Innovative Programs and Schools, Charter Schools for the period July 1, 2001 to November 21, 2003. With our response, it is important to provide some background information since the office primarily responsible for charter schools underwent a number of significant organizational changes during the audit period. This background information, the findings and recommendations, along with our responses are as follows:

BACKGROUND INFORMATION

In February 2002, the former Office of Charter Schools (OCS) was dramatically downsized as a result of lay-offs and attrition. Just prior to February 2002, the Office of Charter Schools responsible for program issues consisted of 18 staff members that included a Director 2 position, two Manager 1 positions, three support staff, 11 professional staff positions (nine filled professional and two vacant positions).

In June 2002, the Office of Innovative Programs and Schools (OIPS) was reorganized and expanded to include Charter Schools, Interdistrict Public School Choice, Innovative Programs, Englewood and Career Academies. The Office of Vocational-Technical, Career and Adult Programs (Vo-Tech) has recently been added to this office as well.

Each of these areas is highly visible, mission-critical and strategically important to the department’s goal of transforming public education. Englewood (implementation and oversight is a major desegregation effort), newly assigned to OIPS, is a complex, highly sensitive initiative of major proportion to the DOE. Also new to OIPS are the administration of Title V funds; the

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Career Academies, a Governor’s initiative; and, the Vo-Tech Office, requiring intensive, ongoing interaction with the Department of Labor. To support this expanded operation and its functions, OIPS has applied for four grants, one was approved for $11 million, two are pending and one was denied. However, although the responsibilities of OIPS have significantly increased, staff size has significantly decreased. All of this restructuring reduced the cost and layers of upper management. It required expanded responsibilities and authority by all other staff.

At the time of the audit, the former OCS, consisted of one Manager 1, seven professional staff members and three secretaries. The scope, complexity and volume of the work, however, have all increased. As a new initiative of the department, many of the most critical issues, some with legal and/or far-reaching implications, are just emerging. The unit has been restructured to strengthen oversight of the charter schools, facilitate interdivisional/agency support and intervention, streamline and standardize policy and practices, and to enhance the overall quality and efficiency of services. The work requires attention to detail, strong customer service skills, excellent analysis of complex issues, accurate multiple tasking and technical skills, in a fast-paced, ever-changing environment. Consequently, the scope and volume of the work, combined with a reduced staff, required additional restructuring and revised job specifications to meet the demands of the office. The staff has been receptive to a new management style and the reorganization of the office, including a team approach and cross-training for major functions, as well as increased use of technology solutions.

Finding Number 1, Page 3

Closer monitoring of charter schools is needed.

Recommendation Number 1

The OIPS/Charter Schools unit needs to actively monitor compliance items particularly teacher certification and criminal history background checks. The Charter schools also need to ensure that all their employees have complied with these requirements.

Department Response to Finding Number 1

The audit review took place during the unit’s transition period. Many of the findings of the audit substantiated the observations made by the new, current manager and staff and changes were underway to address areas in need of improvement.

Documentation - From February 2002-July 2002, the unit was in transition and without a manager or director to fill the management/leadership positions vacated by the layoffs. Consequently, the process and the function were not adequately addressed during the time of transition.
Mr. Richard L. Fair  
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To correct the problem and to ensure adequate oversight, the following changes were implemented by the new, current manager/director.

- Assigned a new coordinator of documentation;
- Coordinator reviewed prior procedures to streamline and standardized the documentation process;
- Initiated weekly Friday updates with staff to ensure timely tracking and follow-up;
- Improved the documentation electronic tracking system;
- Generate weekly status printouts;
- Currently working on pilot technology solution;
- Provided additional training for charter schools;
- Introducing procedures to clarify board’s responsibility;
- Defined and/or standardized role of county offices and regional offices;
- Continuing to revise the documentation process and procedures; and
- Collaborate with other offices to expedite review process.

**Licensing/Certification** - The Office of Licensure and Credentials (OLC) historically has operated with a high backlog of cases of 3-6 months, and the transition to a new system has temporarily introduced new challenges and added to the backlog. Charter Schools hire a high percentage of new teachers each year and consequently are adversely impacted by the backlog in OLAC, this requires dealing with licensing on an ongoing basis. The audit certification findings are largely due to a single school which was on probation at the time and has a history of corrective actions; the school will be closed, effective June 30, 2004.

To address the problem OIPS/Charter Schools implemented the following changes:

- Increased the number of charter school professional staff with access to OLC’s certification look-up for certification review from one to five;
- Established official liaisons between the two offices to facilitate accuracy and timeliness in both processes/procedures;
- Provided additional training for charter schools;
- Introducing procedures to clarify board’s responsibility;
- Defined and/or standardized role of county offices and regional offices;
- Researching technology applications to further enhance process; and
- Included in newly required on site visitation, in addition to program review and renewal processes.

**Criminal History** – The Criminal history review system was in transition from one agency to another, with new procedures, and an outside private agency handling the fingerprinting process. In addition, a new technology system was recently introduced and requires modification. These factors contributed to the backlog in the Criminal History Office and again, charter schools were adversely affected by these changes due to the volume of new teacher hires.

To address the problem, OIPS/Charter Schools implemented the following changes:

- Developed a hands-on working relationship between the two offices;
• OIPS/CS manager now meets with the manager of the Criminal History Office periodically;
• Requested to have printouts sent to OIPS/CS to improve timeliness of information and corrective actions if needed;
• Assigned an official liaison to Criminal History Office; and
• Included in newly required on site visitation, in addition to program review and renewal processes.

Manual - Prior to July 2002, there were few written policies and procedures and functions were isolated. To correct this, in the Fall of 2002, the current manager initiated the development of written policies, procedures and protocols:
• Written policies/procedures have been developed in all core areas;
• Electronic versions are accessible to charter schools on the DOE website; and
• Policies and procedures are regularly evaluated, updated and revised.

Staff - Prior to July 2002, functions were isolated and fragmented. Consequently, the loss of personnel contributed to gaps and/or discontinuity in some functions and information. The new manager implemented the following changes:
• Introduced team approach and cross training to promote coherency, continuity and creativity in addressing all matters;
• Redesigned the accountability systems to be seamless, encourage continuous school improvement for the schools and create a tracking system for the office to monitor progress, impose sanctions or incentives;
• Added another school contact from current staff members to reduce the load per staff member and improve capacity to monitor and provide technical assistance to the schools;
• Revised job specifications to address core functions, better use of skills and experiences;
• Established compliance monitoring as a priority and linked it to all major functions, including technical assistance;
• Promote professional development of staff to enhance performance;
• Conduct regular, formal staff meetings with written agenda and minutes;
• Formal staff meetings include representatives from the Office of School Funding/Charter Schools and the regional offices of education; others are invited based on the agenda;
• Coordinate with other offices in the department due to scope of responsibility;
• Standardized procedures and introduced written guidelines for in-depth interviews for approving the charter application phase;
• Continuous review of policies/procedures to improve process;
• Developed and/or revised guidelines, technical assistance materials and timelines for the following functions:
  1. Application development and review
  2. Program review
  3. Renewal
  4. Post renewal, a new process this year for schools that have been renewed
  5. Annual report
6. Documentation
7. Charter amendment process
8. Site Visitations

- Extensive outreach to improve ongoing communications between OIPS/CS and other NJDOE offices/divisions;
- New incentives and sanctions to promote charter school compliance, sound governance and fiscal practices, and educational excellence and equity; and
- Charter School Roundtables, meetings for charter school lead persons, are now conducted on county, regional and statewide levels.

Finding Number 2, Page 5

Program improvements are needed for charter school aid calculations.

Recommendation Number 2

We recommend the Office of School Funding expedite the development and implementation of the new and reliable computer program to calculate charter school aid. In the meantime they should continue to closely monitor and inspect aid calculation results.

Department Response to Finding Number 2

The specifications have been developed during FY 2004 on which the IT computer program will be written to do the calculation of charter school aid. Estimated implementation is sometime during FY 2005.

Finding Number 3, Page 6

Enrollment records need to be properly maintained and the DOEnet needs improvement.

Recommendation Number 3

We recommend that the system be modified to improve the accuracy of the ADE calculation by adding additional edit checks including a student identifier.

Department Response to Finding Number 3

The collection of enrollment data and the calculation of average daily enrollment are currently done using the DOE NET charter school enrollment count system. Input of student data is the responsibility of the charter school. The primary responsibility for the accuracy of the enrollment data lies with the school district. For this reason, the step was added in the process to make districts confirm the student data by inputting the assigned school code. Districts are provided with a list of all students and should check and compare the information from multiple
schools. They can insert either a 000 or a 999 if there is a question about a student record. The independent auditor reviews the enrollment data during the year-end audit for accuracy. In addition, a school register audit can be performed periodically by the DOE.

The DOE will be switching to a web based system during FY 2005. This system should enable the DOE to develop queries/reports to edit the enrollment information. We cannot use the student's social security number as the student identifier, however, we are looking into alternatives that would probably consist of using 3-4 elements of the student record. Even with this system that will provide reporting capability at the district level, districts will still be the responsible agency to ensure accuracy.