



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

**Department of Education
School District Administrative Costs**

July 1, 2011 to April 30, 2014

**Stephen M. Eells
State Auditor**

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Enclosed is our report on the audit of the Department of Education, School District Administrative Costs for the period of July 1, 2011 to April 30, 2014. If you would like a personal briefing, please call me at (609) 847-3470.

A handwritten signature in black ink, appearing to read "Stephen M. Eells".

Stephen M. Eells
State Auditor
July 22, 2014

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Scope

We have completed an audit of the Department of Education (DOE), School District Administrative Costs for the period July 1, 2011 through April 30, 2014. Our audit included a review of the department's monitoring of district administrative costs, as well as a limited assessment of district teacher staffing. We did not include charter schools in our review because the DOE's Office of Charter Schools monitors charter school administrative costs. We previously issued an audit report for the Office of Charter Schools on May 24, 2012.

Reported administrative costs for the more than 600 school districts averaged \$1.55 billion annually during our audit period. The DOE's Office of School Finance is responsible for developing and maintaining fiscal policy for New Jersey's public school districts and administers the annual school budget process. The office collects annual budget and audit summary application (AUDSUM) data. It also develops and maintains the audit program, which contains all annual audit policies, standards, and guidelines consistent with generally accepted governmental auditing standards, as well as state laws and regulations.

The county offices provide general support and oversight to local districts, and each county office is led by an executive county superintendent. The executive county superintendent is responsible for reviewing and approving district budgets and administrative contracts, and promoting administrative and operational efficiencies and cost savings within the school districts in the county. The County Office Administrative Unit under the DOE's Division of Student and Field Services is responsible for assessing the performance of the executive county superintendents.

Objectives

The objectives of our audit were to determine whether the department's controls over school district administrative costs were adequate and whether financial data were recorded properly in the department's accounting systems. In addition, we were to determine compliance with applicable laws, rules, and regulations.

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. Provisions we considered significant were documented and compliance with those requirements was verified by interview, observation, and testing. We also read the budget messages and the Taxpayers' Guide to Education Spending, reviewed administrative cost trends, and interviewed agency personnel to obtain an understanding of the programs and the internal controls.

To assess the reliability of the department's school district budget and 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 department officials about the data. We determined that the data were sufficiently reliable for the purposes of this report.

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

Conclusions

We found the department's controls over school district administrative costs to be adequate and financial data to be recorded properly in the department's accounting systems. We also found the department to be in compliance with applicable laws, rules, and regulations, with the exception of the appointments of executive county superintendents. In making these determinations, we noted opportunities to improve operations with regard to district consolidation and teacher schedules.

Executive County Superintendents

The department is not complying with existing law.

The governor is required by NJSA 18a:7-1 to appoint “for each county” a suitable person to be the executive county superintendent (ECS). Further, 18A:7-5 requires each ECS to “devote his entire time to the duties of his office”. Since January 2011, most ECSs have each been responsible for more than one county. Over calendar years 2011, 2012, and 2013, an average of 3 ECSs were responsible for one county each, while 6 ECSs were responsible for 2 counties each, and 2 ECSs were responsible for 3 counties each. The department maintains that NJSA 18A:7-2 allows the commissioner to designate another suitable person to exercise the powers and perform the duties of the ECS during periods of vacancy. However, this provision is for a temporary replacement. Several of the ECSs covering multiple counties have done so for more than a year, and five have done so for at least three years in a row.

All but one ECS told us that having more than one county under their purview has, or would have, a negative impact on their job performance. Additionally, they indicated they could perform their duties, but would be able to do a better job if they could devote all of their time to one county, mainly by establishing better relationships and being more proactive. While district administrative costs have been well controlled overall, 176 of 545 regular districts (32%) saw administrative costs increase at least 5 percent, of which 66 had an increase of at least 10 percent in fiscal year 2012 over fiscal year 2011. Additionally, we noted the following number of districts exceeded various limits established by the department:

- 149 regular districts exceeded their approved fiscal year 2012 per pupil budget by at least 2.5 percent, 73 of which did so for more than one year.
- 48 regular districts exceeded their approved fiscal year 2012 per pupil budget by at least 10 percent, 17 of which did so for more than one year.
- 53 regular districts exceeded their fiscal year 2012 regional limit, 30 of which did so for more than one year

Additionally, high turnover is an issue for the ECS positions. Just 8 of New Jersey’s 21 counties had the same ECS for the entire 2012 and 2013 calendar years and 6 counties had at least 3 different ECSs during that two-year period. Each ECS is required by statute to have at least one performance assessment review (PAR) during their three-year term. However, most ECSs during our audit period were Temporary Employment Service (TES) employees and not subject to this statutory requirement. As a result, just 4 of the 12 ECSs had a performance assessment review in 2013, limiting the department’s ability to assess each ECS’s performance. The statute also states the assessment shall be based on the ability of the ECS to monitor and promote administrative and operational efficiencies and cost savings, and include such factors as administrator-to-teacher ratios, administrator-to-student ratios, and per-pupil administrative expenditures. The PARs did not include an evaluation of the factors identified above.

The department is in the early stages of a pilot program that restructures the county offices of Atlantic, Cape May, Cumberland, Gloucester, and Salem counties into one regional office. The regional office is led by an executive regional superintendent and organized into three groups: Regional Achievement Center, which focuses on Priority and Focus districts; Regional Academic Office, which focuses on academic achievement of all other districts; and Regional Administration Office, which focuses on the budget and fiscal issues in the districts. The executive regional superintendent will perform the duties of the executive county superintendent, but will not hold that title.

Recommendation

We recommend the department establish compliance with the statutes by adhering to current requirements or actively pursuing statutory changes necessary to redefine the structure and responsibilities of the executive county superintendent.



Observations

School District Consolidation

The department should increase its efforts toward school district consolidation.

Under NJSA 18a:7-8(h), each executive county superintendent (ECS) was required to recommend to the commissioner a school district consolidation plan to eliminate all districts, other than county-based districts and other than preschool or kindergarten through grade 12 districts in the county, through the establishment or enlargement of regional school districts. The administrative code establishes the procedures to develop the recommendations, including the requirement to perform feasibility studies. Each ECS submitted a report to the commissioner in March 2010. (One county did not need to because all of its districts are K-12.) Of the 20 reports, 7 identified 30 feasibility studies that should be completed, potentially eliminating at least 104 districts. None of the recommended feasibility studies have been performed by the DOE. Each report indicated there was no funding available to perform the recommended feasibility studies.

In fiscal year 2013, there were 278 K-6/K-8 school districts with a total of 507 schools and total administrative costs of \$270 million. This includes 144 single-school K-6/K-8 districts with total administrative costs of \$63.5 million, of which \$26.9 million was for general administrative costs, including \$14.8 million in general administration salaries. We further obtained salary information for 131 of these districts and found 90 districts with a full-time superintendent and/or a full-time principal, with combined salaries of \$13.4 million, and 70 also paid school business administrators \$5.3 million in combined salaries. In addition, there were 18 with both a full-time superintendent and a full-time principal earning an average of \$121,000 each.

In the absence of consolidation, the county offices have made efforts to get districts to share services, particularly within their administrative structures. These efforts are likely a primary reason for the decrease in school and general administrative salary costs reported by the districts in fiscal year 2013. While we acknowledge the difficulties in getting districts to consolidate, the department should increase its efforts to get districts to do so while continuing its efforts in the area of shared services.

Teachers' Schedules

The department should consider setting a minimum standard for teacher classroom instruction time.

We judgmentally selected nine districts with low student-to-teacher ratios and reviewed their current Position Control Rosters (PCR) and schedules for 1,859 certified teachers having salaries totaling \$118.5 million. We found 90 teachers (4.8%) with salaries totaling \$5.5 million who were on their district's PCR but had no classroom schedule. We also found an additional 57 teachers (3%) with combined salaries of \$3.9 million who had fewer than 16 classroom hours per week. For certification purposes, NJAC 6A:9-2.1 defines full-time teaching as the equivalent of 900 clock-hours of teaching per year. What constitutes "teaching" is not defined. However, according to the department's Office of Licensure and Credentials, non-teaching assignments qualify towards fulfilling the 900 clock-hour standard, including hall monitor duty and In-School Suspension duty. It is up to each district to determine what minimum course load a teacher is required to have. We reviewed the contracts for the sampled districts and, although most specify a maximum number of classes or hours to be taught, none specified a minimum. However, one of the nine districts did impose a pro-rated reduction in salary for teaching less than the standard work load.



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KIM GUADAGNO
Lt. Governor

DAVID C. HESPE
Acting Commissioner

July 14, 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, School District Administrative Costs

The New Jersey Department of Education (DOE) has received and reviewed the Office of Legislative Services (OLS) Audit Report of the Department of Education, School District Administrative Costs for the period July 1, 2011 to April 30, 2014. The auditors' finding, recommendation, and observations, along with our responses are as follows:

Finding Number 1, Page 3

The department is not complying with NJSA 18A:7-1 to appoint "for each county" a suitable person to be the executive county superintendent (ECS). Also, the department is not complying with NJSA 18A:7-5 which requires each ECS to "devote his entire time to the duties of his office."

Recommendation

We recommend the department establish compliance with the statutes by adhering to current requirements or actively pursuing statutory changes necessary to redefine the structure and responsibilities of the executive county superintendent.

NJDOE Response

The department currently has 13 individuals who are performing the duties of the executive county superintendent (ECS). Two of these individuals are also performing the duties of the executive county school business administrator (ECSBA) – in Monmouth and Passaic counties. The department is in the process of filling the two ECSBA vacancies; once those positions are filled, the ECS assigned to those counties will perform the ECS duties full time.

Change in Audited Admin Cost Per Pupil 2010-11 to 2011-12

Percent Change Category	<i>From TGES (Unadj)</i>		<i>From TGES (CPI Adj*)</i>		<i>From OLS Report</i>	
	Dist Count	Tot Pct	Dist Count	Tot Pct	Total	Tot Pct
Increased at Least 10%	66	12.11%	48	8.81%	66	12.11%
Between +5% and +10%	110	20.18%	54	9.91%	110	20.18%
Between -5% and +5%	275	50.46%	295	54.13%	?	?
Between -5% and -10%	45	8.26%	83	15.23%	?	?
Declined at Least 10%	49	8.99%	65	11.93%	?	?
Total	545	100.00%	545	100.00%	545	100.00%

*District percentage change adjusted by 2.63% CPI (Source: NJ Dept. Treasury)

Our own analysis of the audited per pupil data from 2011 and 2012 found the same number of districts showing at least a ten percent increase in administrative costs as reported in the OLS findings. However, when these same audited per pupil costs are adjusted for inflation, less than a fifth of all districts showed an increase of at least five percent, versus almost a third using the unadjusted numbers. That said, it can be argued that relying on per pupil amounts may not be the optimal measure of year-to-year change in administrative costs as such costs are much more likely to be structural and longer term and thus less tied to enrollment. Consequently, an examination of total dollars may be more informative.

To this end, if we retain the percent change categories but use total dollars instead of per pupil amounts while correcting for inflation, it dramatically changes the distribution of districts across the change categories: now less than 13 percent of regular districts had “noteworthy” increases in the Administrative Costs (i.e. at least five percentage points after adjusting for inflation) while more than 25 percent evidenced a noteworthy decline (falling more than five percent after adjustment). There was also a modest increase in the number of districts showing little or no change, which boosts this “middling” category to over 60 percent of regular districts. Therefore, viewed through the lens of inflation, it appears that districts are not showing marked increases in administrative costs, but rather have been effective in decreasing their administrative costs overall by holding the line or making cuts from 2010-11 to the 2011-12 school year.

Change in Audited Total Admin Cost Reported from 2010-11 to 2011-12

Percent Change Category	<i>Unadjusted</i>		<i>Adjusted by CPI*</i>	
	Dist Count	Tot Pct	Dist Count	Tot Pct
Increased at Least 10%	41	7.52%	30	5.50%
Between +5% and +10%	91	16.70%	37	6.79%
Between -5% and +5%	329	60.37%	337	61.83%
Between -5% and -10%	58	10.64%	98	17.98%
Declined by at Least 10%	26	4.77%	43	7.89%
Total	545	100.00%	545	100.00%

*District percentage change adjusted by 2.63% CPI (Source: NJ Dept. Treasury)

Mr. Stephen M. Eells
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Observation Number 1, Page 4

The department should increase its efforts toward school district consolidation.

NJDOE Response

The Acting Commissioner has established a Division of Field Services, with an assistant commissioner, in order to focus increased oversight and attention on the county offices of education. The Acting Assistant Commissioner is conducting an assessment of consolidation efforts in each county, with the goal toward refocusing the work to accomplish school district consolidations and shared services to increase efficiencies and to improve educational deliveries.

Observation Number 2, Page 5

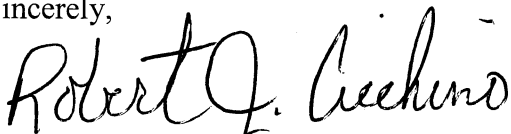
The department should consider setting a minimum standard for teacher classroom instruction time.

NJDOE Response

The department disagrees with the Observation. As noted in the Observation, each individual school district sets the number of classroom hours required for their teachers during contract negotiations. The Observation notes situations where teachers have no classroom time scheduled or less than 16 classroom hours a week scheduled. However, the Observation does not note what the teachers **are** doing during the school day. It does not state whether teachers are performing one-on-one tutoring, small group instruction, monitoring In-school suspensions or intervention programs, etc. which may count towards fulfilling the 900 hour standard. The department believes that it is not its role to become involved in contract negotiations and therefore, not set a minimum standard for teacher classroom instruction time.

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

Sincerely,



Robert J. Cicchino, Director
Office of Fiscal Accountability and Compliance

RJC/PC/cp/doe response- SDAC 2014

c: David Hesse
Tracey Severns
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