

DEPARTMENT OF EDUCATION  
RECOVERY SCHOOL DISTRICT



COMPLIANCE AUDIT  
ISSUED NOVEMBER 18, 2009

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LOUISIANA LEGISLATIVE AUDITOR  
STEVE J. THERIOT, CPA

November 18, 2009

**SUPERINTENDENT PAUL G. PASTOREK**  
**LOUISIANA DEPARTMENT OF EDUCATION**  
Baton Rouge, Louisiana  
**SUPERINTENDENT PAUL VALLAS**  
**LOUISIANA RECOVERY SCHOOL DISTRICT**  
New Orleans, Louisiana

We have audited certain transactions of the Louisiana Recovery School District (RSD). Our audit was conducted in accordance with Title 24 of the Louisiana Revised Statutes to determine the propriety of certain financial transactions.

Our audit consisted primarily of inquiries and the examination of selected financial records and other documentation. The scope of our audit was significantly less than that required by *Government Auditing Standards*; therefore, we are not offering an opinion on the RSD's financial statements or system of internal control nor assurance as to compliance with laws and regulations.

The accompanying report presents our findings and recommendations as well as management's response. This correspondence is intended primarily for the information and use of management of the RSD. Copies of this report have been delivered to the District Attorney for the Orleans Judicial District of Louisiana and others as required by law.

Respectfully submitted,

A handwritten signature in blue ink, appearing to read "Steve J. Theriot", written over a circular stamp or seal.

Steve J. Theriot, CPA  
Legislative Auditor

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The Louisiana Administrative Code outlines the authorized use of and specific documentation, approval, and reporting requirements governing the assignment and use of state vehicles within the Executive Branch of state government. The Recovery School District (RSD) failed to ensure that these requirements were followed for the state vehicle assigned to Superintendent Paul Vallas as follows:

- RSD allowed Superintendent Vallas to use the state vehicle for personal purposes.
- The vehicle usage log was not properly maintained.
- Personal assignment and home storage for the vehicle was not properly documented or updated.
- No Safety Program Authorization and Driving History was completed for Superintendent Vallas.
- The vehicle was not marked with the proper decals.

In addition, some vehicle repair and maintenance charges were not fully supported with receipts and invoices. Also, the RSD failed to report as income the personal and commute miles incurred by RSD employees with personal assignment and home storage of RSD vehicles.

### **Background**

Superintendent Vallas was hired as the superintendent of the RSD on July 9, 2007. The term of his contract is from July 9, 2007, through June 30, 2009. His immediate supervisor is Mr. Paul Pastorek, Louisiana State Superintendent of Education. This office received information that the state vehicle assigned to Superintendent Vallas was used for out-of-state personal travel. This report addresses the use of this state vehicle at the RSD and other issues that arose during our audit.

According to his employment contract, Superintendent Vallas is, subject to the approval of the Division of Administration (DOA), allowed “use of a state vehicle as a personal assignment in the discharge of duties of the Office of the RSD Superintendent, which shall include transportation to and from the workplace and home storage.” Although not written in the employment contract, Superintendent Paul Pastorek, his supervisor, orally approved Superintendent Vallas to use the state vehicle for personal use. The RSD purchased a Dodge Durango on July 16, 2007, that Superintendent Vallas had use of, to include personal assignment and home storage.

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## Personal Use of a State Vehicle

The Louisiana Administrative Code<sup>1</sup> prohibits the use of a state vehicle for personal use. Superintendent Vallas' employment contract authorizes "use of a state vehicle as a personal assignment in the discharge of duties of the Office of the RSD Superintendent, which shall include transportation to and from the workplace and home storage." It does not authorize personal use of the vehicle; however, Superintendent Vallas stated it was his understanding that he could use the vehicle for non-business travel, which was confirmed by his supervisor, Superintendent Pastorek. Superintendent Pastorek stated he orally approved the personal use of the vehicle by Superintendent Vallas and that he was unaware of any legal prohibition against personal use of a state vehicle.

We reviewed the vehicle usage log for Superintendent Vallas' state vehicle and determined that most out-of-state trips taken in the vehicle were not recorded on the log. However, other RSD records indicated when and where Superintendent Vallas traveled. Based on these records, we identified 41 occasions where he left the state of Louisiana from July 2007 to April 2009. Superintendent Vallas reviewed a listing of these 41 trips and characterized 31 of them as personal in nature; 30 of the personal trips were to visit family in Illinois and along the Gulf Coast.

Superintendent Vallas did not seek reimbursement for hotel or meal expenses during these personal trips; however, in some instances, he used public funds for fuel purchases either through a Fuelman or Fueltrac card or reimbursements from expense reports. The cost of these fuel purchases was \$946. According to Jay Ginsberg, general counsel, for the RSD, these fuel purchases were related to particular business events during these trips, such as speeches or public appearances by Superintendent Vallas.

We reviewed Superintendent Vallas' time sheets during these 31 out-of-state personal trips. The time sheets show work time recorded on many days and portions of days during these trips. According to Superintendent Vallas and Superintendent Pastorek, he had permission to work from home; however, travel time on several of the personal trips was coded as work time. Although the coding of travel time on personal trips is questionable, it had no effect on Superintendent Vallas' compensation or unused leave balance.

## Accident Involving State Vehicle

On November 2, 2008, Superintendent Vallas was involved in a car accident while driving the state vehicle in Chicago on his way to a press conference regarding the Constitutional Convention for the state of Illinois. The RSD subsequently filed a claim with the Louisiana Office of Risk Management (ORM), resulting in a \$774 payment to the owner of the damaged vehicle.

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<sup>1</sup> LAC Title 34 Part XI Section 103(A) 2d(iii) states, in part, "No state vehicle owned or leased shall be used by a public or private individual for other than performing official state business. The personal use of a state-owned or leased vehicle is prohibited with the exception of home storage commute miles if approved by the Commissioner of Administration via the DOA form MV-2."

The Louisiana Administrative Code<sup>2</sup> provides insurance coverage for state-owned vehicles being operated with proper authorization during the course and scope of state employment. The RSD supplied documentation to the ORM indicating that Superintendent Vallas was attending a press conference for the Illinois Constitutional Convention on the day of the accident. Notes in the adjustor's claim file suggest that the information supplied by the RSD indicated that Superintendent Vallas was within the scope of his employment at the time of the accident.

According to Superintendent Vallas, because he was allowed to use his state vehicle for personal travel, it was appropriate for the state to pay the claim for this accident. Superintendent Pastorek stated that ORM's payment of the claim was appropriate because his agreement with Superintendent Vallas allowed personal use of the state vehicle, and therefore the accident should have been covered by ORM.

Superintendent Vallas further stated that his attendance at the press conference for the Illinois Constitutional Convention on the day of the accident was related to the business of the RSD. Given the nature of the event, we could not verify the public purpose.

### **RSD's Failure to Report Personal and Commute Miles as Income**

The Louisiana Administrative Code<sup>3, 4</sup> requires the value of personal use of a state vehicle must be included as taxable compensation and reported as such for income tax purposes. According to the RSD's former Chief Financial Officer Cedric Lewis, he was not aware of these reporting requirements and the RSD did not report personal and commute mileage for employees to the Internal Revenue Service.

### **Poor Documentation for Vehicle**

#### Vehicle Usage Log Not Properly Maintained

The Louisiana Administrative Code requires that a vehicle usage log be maintained for all state vehicles.<sup>5</sup> Before February 2008, Superintendent Vallas had an RSD security officer as his personal driver. This employee maintained the log through February 2008, when he was reassigned. After February 2008, another RSD employee completed the log based on Fuelman/Fueltrac statements. During our review of the log, we noted that after February 2008, no out-of-state trips were recorded even though most of the out-of-state travel occurred subsequent to this point. In addition, many of the mileage logs are not signed. According to Superintendent Vallas, he was not aware of the requirement to maintain the vehicle usage log.

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<sup>2</sup> LAC Title 37 Part I Chapter 7 (709)B states in part, "The State of Louisiana provides insurance coverage for liability and physical damages to state-owned and leased licensed vehicles. . .while being operated with proper authorization during the course and scope of state employment."

<sup>3</sup> LAC Title 4 Part V Chapter 41 Section 4105 (A) states, "It shall be the policy of the state of Louisiana to report all taxable compensation and withhold all applicable taxes for such compensation as required by the Internal Revenue Code on each scheduled pay period."

<sup>4</sup> LAC Title 4 Part V Chapter 41 Section 4115 (A)3a states, "The value of personal use of a state vehicle must be included as taxable compensation."

<sup>5</sup> LAC Title 34 Part XI Section 103 (A) 2g (i) states, "It shall be the responsibility of the agency transportation coordinator to insure that: all Daily Vehicle Usage Logs (DOA Form MV-3) containing accurate information on miles traveled, repair/maintenance costs, and operating costs are completed, approved, and forwarded to the state fleet manager by the thirtieth day following the end of the month to which the report pertains."

Personal Assignment and Home Storage Not Properly Documented

The Louisiana Administrative Code<sup>6</sup> requires annual approval of the Commissioner of Administration via the DOA form MV-2 for personal assignment and home storage of fleet vehicles. In addition, it is the responsibility of the agency transportation coordinator to insure that this form or an alternative is submitted annually to insure that personal assignment and home storage can continue into the new fiscal year.

According to the agency transportation coordinator for the RSD, Brent Washington, he does not have an MV-2 documenting the personal assignment and home storage for the state vehicle assigned to Superintendent Vallas. The state fleet manager at the DOA confirmed that he had not received an MV-2 for Superintendent Vallas. However, the RSD has correspondence dated June 22, 2007, indicating Superintendent Pastorek requested a vehicle, personal assignment, and home storage for Superintendent Vallas. The correspondence is signed as approved by the Commissioner of Administration, but the letter does not indicate which vehicle was personally assigned to Superintendent Vallas nor was an MV-2 subsequently completed or annually resubmitted to the DOA for Superintendent Vallas as required by state law. MV-2's were completed and forwarded to the DOA for the other RSD employees with personal assignment and home storage of fleet vehicles.

Driver Safety Program Documentation Not Maintained

The Loss Prevention Program administered by ORM includes a Driver Safety Program. This program requires that for each employee, agencies verify possession of a valid driver's license, review official driving records to ensure that employees meet program requirements, complete an ORM-recognized defensive driving course within 90 days of hire, and verify that employees have a signed and dated DA 2054 form. Compliance with these requirements is documented on the DA 2054 form. The Louisiana Administrative Code<sup>7</sup> also requires state agencies to maintain DA 2054 forms for all drivers of state vehicles.

We reviewed the DA 2054 forms maintained by the RSD for all employees except Superintendent Vallas. The RSD did not have a DA 2054 form for Superintendent Vallas; therefore, we cannot verify that Superintendent Vallas met the requirements for the state's Driver Safety Program as required by ORM.

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<sup>6</sup> LAC Title 34 Part XI Section 103 (A) 2g(i) states, "It shall be the responsibility of the agency transportation coordinator to insure that: . . .(b) all Personal Assignment and/or Home Storage Agreements (DOA form MV-2) are completed and forwarded to the state fleet manager for approval prior to the assignment of a personal vehicle to an employee, or the allowance of home storage and annually by May 1 thereafter; . . ."

<sup>7</sup> LAC Title 34 Part XI Section 103 (A) 2g(i) states, "It shall be the responsibility of the agency transportation coordinator to insure that: (a) a completed and signed Louisiana State Employee Driver Safety Program Authorization/Driving History form (DA 2054) is on file at the agency for every driver of fleet vehicles;. . ."

### Unmarked Vehicle

Louisiana Law<sup>8</sup> requires all state vehicles to display markings identifying the agency that owns the vehicle. We inspected the state vehicle assigned to Superintendent Vallas and it had no insignia with the name of the agency. According to the agency transportation coordinator, Mr. Brent Washington, his supervisors at the time told him that no decal was required for the Durango because Superintendent Vallas was exempt from this requirement.

### Missing Invoices/Receipts for Maintenance and Repair Work

Between July 2007 and March 2009, maintenance and repair work totaling approximately \$4,937 was performed on the state vehicle assigned to Superintendent Vallas. This amount is based on the maintenance and repair charges recorded in the RSD's Fuelman and Fueltrac statements. Supporting receipts supplied by the RSD account for only \$3,226 of this amount, leaving \$1,710 of maintenance and repair charges undocumented. Louisiana Law<sup>9</sup> requires public records to be kept for a period of three years.

### **Lack of Control Over Time Recording**

During our audit, we reviewed the time sheets submitted by Superintendent Vallas from July 9, 2007, through March 22, 2009. Louisiana Law<sup>9</sup> requires public records be kept for a period of three years, but the RSD could not provide two of Superintendent Vallas' time sheets. We also noted 19 of 45 time sheets did not have supervisory approval of Superintendent Pastorek, six of 12 instances of annual leave were not supported by approved leave requests, and 80 hours of travel time on personal out-of-state trips were improperly coded as work hours. Although 80 hours were improperly coded as work hours, this did not result in additional payroll funds or effect the unused leave balance.

### **Recommendations**

We recommend the RSD implement the following recommendations to strengthen controls, improve operations, and comply with state law:

- Ensure that all employees with access to state fleet vehicles understand and strictly adhere to the prohibition against non-business use of state vehicles.
- Ensure that all accident claims submitted to ORM have a documented, verifiable business purpose.

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<sup>8</sup> R.S. 49:121 A(1) states, in part, "Every boat, watercraft, aircraft, automobile, truck, or other vehicle belonging to the state or to any of its political subdivisions, or to any department, board, commission, or agency of any of its political subdivisions ... shall have inscribed, painted, decaled, or stenciled conspicuously thereon. . . an insignia containing ... the name of the board, commission, department, agency, or subdivision of the state to which the boat, watercraft, aircraft, automobile, truck, or other vehicle belongs."

<sup>9</sup> R.S. 44:36(A) states, in part, "All persons and public bodies having custody or control of any public record, other than conveyance, probate, mortgage, or other permanent records required by existing law to be kept for all time, shall exercise diligence and care in preserving the public record for the period or periods of time specified for such public records in formal records retention schedules developed and approved by the state archivist and director of the division of archives, records management, and history of the Department of State. However, in all instances in which a formal retention schedule has not been executed, such public records shall be preserved and maintained for a period of at least three years from the date on which the public record was made."

- Ensure that the value of all non-salary and non-wage income, to include the value of personal use and home storage of state vehicles, be reported as income to RSD employees.
- Ensure that properly completed Daily Vehicle Usage Logs are maintained on all RSD vehicles as required by state law. The logs should include all trips and clearly specify the business purpose of the trip.
- Ensure that all personal assignment and home storage for RSD vehicles is supported by an MV-2, approved by the Division of Administration, and updated yearly as required by state law.
- Ensure that the RSD maintains for all employees driving fleet vehicles a Louisiana State Employee Driver Safety Program Authorization/Driving History form (DA 2054).
- Ensure that all RSD vehicles are properly decaled as required by state law.
- Ensure that receipts and invoices are maintained for all repairs and maintenance work performed on RSD vehicles.
- Ensure that all leave requests are supported by a signed leave approval form.
- Ensure that all time sheets have documented supervisory approval.

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The Recovery School District (RSD) is a special state school district administered by the Louisiana Department of Education. Created by legislation passed in 2003, the RSD is dedicated to turning underperforming schools into successful schools. The State Board of Elementary and Secondary Education serves as the oversight board for the RSD. There are a total of 112 schools in the RSD. The majority of the schools are in the New Orleans area, but the district has responsibility for schools in other parts of the state.

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## Management's Response





STATE OF LOUISIANA  
**DEPARTMENT OF EDUCATION**  
**RECOVERY SCHOOL DISTRICT**  
1641 POLAND AVE., NEW ORLEANS, LA 70117  
(504) 373-6200 • [www.rsdlc.net](http://www.rsdlc.net)



November 5, 2009

Steve J. Theriot, CPA  
Legislative Auditor  
1600 North Third Street  
Post Office Box 94397  
Baton Rouge, Louisiana 70804-3987

RE: Reference: Compliance Audit Report dated October 15, 2009 - Use of  
State Vehicles

Dear Mr. Theriot:

Please accept this response to the above-referenced compliance audit report on behalf of both State Superintendent of Education Paul Pastorek and Recovery School District Superintendent Paul Vallas.

As provided in the background portion of the report, you initiated your audit in response to information "that the state vehicle assigned to Superintendent Vallas was used for out-of-state personal use". From our first contact with your office, we acknowledged that Superintendent Vallas used the state vehicle assigned to him for out-of-state personal use. As confirmed by your report, Superintendent Vallas was not aware of any state mandated limitations concerning the use of a state vehicle during the relevant time period; nor was he aware of the reporting requirements associated with the use of a state vehicle. We will also note that Superintendent Vallas' use of a state vehicle was a negotiated benefit that he reported in his federal and state income tax returns. Initially, the parties discussed Superintendent Vallas spending part of his time in Louisiana and part of his time working from his residence in Illinois. However, Superintendent Vallas determined that commuting back and forth on a regular basis was not practical or in the best interest of the Recovery School District. Instead, as is common for school superintendents, Superintendent Vallas agreed to a full time position as superintendent with one condition, which was a vehicle provided for his personal use. Had Superintendent Vallas known of the restrictions and requirements that attach to the use of a state vehicle, he could have negotiated other arrangements for personal transportation without the restrictions and requirements outlined in your report. To eliminate any issues regarding this matter in the future, as of the date of this response, Superintendent Vallas no longer operates a state vehicle.

Superintendent Vallas is a tireless worker who tends to schedule work related activities when he is outside the state visiting his family in Chicago. As your report

reflects, it is not always easy to separate work time from personal time because Superintendent Vallas is always working. During the relevant period, Superintendent Vallas contributed at minimum an additional eight work weeks to the RSD, a total of over three hundred (300) additional hours without compensation. For all this time, Mr. Vallas did not take or use any compensatory time with the exception of two days that he accepted during Hurricane Gustav. We realize that the long hours and personal resources contributed by Superintendent Vallas are not relevant to your audit; however, we appreciate your acknowledgement that the Superintendent's non-compliance **"had no effect on Superintendent Vallas' compensation or unused leave balance."**

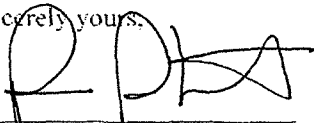
Regarding missing invoices and receipts for maintenance and repairs, we are certain that all charges were for legitimate maintenance and repairs, and we can confirm that all maintenance and repair costs were accurately recorded on the books and records of the Recovery School District. We will also note that safety and security personnel also used Superintendent Vallas' assigned vehicle, and were responsible for the vehicle's maintenance and repair.

We understand that one purpose of your audit is to make recommendations to strengthen controls, improve operations and comply with state law. We are a young organization with a colossal mission and limited resources to accomplish our goals as a school district. We are continuing to make adjustments to state regulations that were not created with school districts in mind.


We recognize that all details of the operation are important, and we appreciate your attention to those details. In response to your audit, we have strengthened our controls, improved our operations and to our knowledge we are compliant with state law as related to those issues raised by your audit. In short, we have accepted all of your recommendations and have implemented them if they were not already in place.

We appreciate your office's professionalism and fair treatment during the audit process.

Sincerely yours,



Superintendent Paul Pastorek  
Louisiana Department of Education



Superintendent Paul Vallas  
Louisiana Recovery School District