

CITY OF BAKER SCHOOL BOARD



ADVISORY SERVICES REPORT
ISSUED OCTOBER 11, 2006

**LEGISLATIVE AUDITOR
1600 NORTH THIRD STREET
POST OFFICE BOX 94397
BATON ROUGE, LOUISIANA 70804-9397**

LEGISLATIVE AUDIT ADVISORY COUNCIL

SENATOR J. "TOM" SCHEDLER, CHAIRMAN
REPRESENTATIVE CEDRIC RICHMOND, VICE CHAIRMAN

SENATOR ROBERT J. BARHAM
SENATOR WILLIE L. MOUNT
SENATOR EDWIN R. MURRAY
SENATOR BEN W. NEVERS, SR.
REPRESENTATIVE RICK FARRAR
REPRESENTATIVE HENRY W. "TANK" POWELL
REPRESENTATIVE T. TAYLOR TOWNSEND
REPRESENTATIVE WARREN J. TRICHE, JR.

LEGISLATIVE AUDITOR

STEVE J. THERIOT, CPA

DIRECTOR OF ADVISORY SERVICES

JOY S. IRWIN, CPA

Under the provisions of state law, this report is a public document. A copy of this report has been submitted to the Governor, to the Attorney General, and to other public officials as required by state law. A copy of this report has been made available for public inspection at the Baton Rouge office of the Legislative Auditor.

This document is produced by the Legislative Auditor, State of Louisiana, Post Office Box 94397, Baton Rouge, Louisiana 70804-9397 in accordance with Louisiana Revised Statute 24:513. Eleven copies of this public document were produced at an approximate cost of \$27.28. This material was produced in accordance with the standards for state agencies established pursuant to R.S. 43:31. This report is available on the Legislative Auditor's Web site at www.la.state.la.us. When contacting the office, you may refer to Agency ID No. 7177 or Report ID No. 06803397 for additional information.

In compliance with the Americans With Disabilities Act, if you need special assistance relative to this document, or any documents of the Legislative Auditor, please contact Wayne "Skip" Irwin, Director of Administration, at 225/339-3800.



STEVE J. THERIOT, CPA
LEGISLATIVE AUDITOR

OFFICE OF
LEGISLATIVE AUDITOR
STATE OF LOUISIANA
BATON ROUGE, LOUISIANA 70804-9397

1600 NORTH THIRD STREET
POST OFFICE BOX 94397
TELEPHONE: (225) 339-3800
FACSIMILE: (225) 339-3870

August 22, 2006

**MR. C. LESTER KLOTZ, SUPERINTENDENT,
AND MEMBERS OF THE CITY OF BAKER
SCHOOL BOARD**

Baker, Louisiana

We reviewed the City of Baker School Board's (school board) actions to resolve the audit findings reported in its June 30, 2005, audited financial statements. As you are aware, the school board's independent auditor previously reported significant findings relating to the fiscal operations of the school board and rendered a disclaimer of opinion on both the 2004 and 2005 audited financial statements.

We understand there has been personnel changes made in the business department and that a consultant was hired in February 2005 (approximately 1½ years ago) to assist in addressing the various findings and accounting issues and was directed in the summer of 2005 (approximately one year ago) to reconcile all bank accounts of the school district. As of April 30, 2006, the school board has paid this consultant a total of \$85,550 for her services and I understand that her contract extends through September 30, 2006.

In general, we determined that the school board has made significant improvement in many of the problem areas; however, we are very concerned about the lack of progress in properly reconciling the bank accounts. Advisors from my staff visited the school board office on four different days (July 5, 6, 13, and 14) to specifically assess whether bank reconciliations are properly reconciled and whether documentation is maintained to support the reconciling items/adjustments. Attachment I provides our findings and recommendations resulting from our assessment. The response from management of the school board is presented in Appendix A.

Our recommendations are intended to improve controls over financial operations, provide advice in implementing good business practices, and ensure compliance with state laws. However, management of the school board should consider the costs of implementing our recommendations compared to the benefits they will provide. This assessment is substantially less in scope than an audit conducted in accordance with generally accepted auditing standards; therefore, we are not offering an opinion on the school board's financial statements or system of internal control nor assurance as to compliance with laws and regulations.

Respectfully submitted,

Steve J. Theriot, CPA
Legislative Auditor

Findings and Recommendations

The following are the findings and recommendations resulting from our advisory services that relate to the bank account reconciliations of the school board. The recommendations are presented to improve the controls that safeguard, manage, and account for the cash of the school board. However, management of the school board should consider the costs of implementing these recommendations compared to the benefits they will provide. For those recommendations not implemented, the school board should be aware of the risks of not implementing such controls.

Management's response to the findings and recommendations is included in Appendix A.

Bank Account Reconciliations

Our assessment revealed that of the district's eight bank accounts, five were not properly reconciled, two have not been reconciled in fiscal year 2006, and we could not determine the propriety of one bank reconciliation because of a lack of documentation. None of the bank accounts are being reconciled on a timely basis (within 30 days of the close of the month). Reconciling a bank account is of great concern to us and should be to the school board as well. As previously discussed with the superintendent, reconciling a bank account is a key component of good controls over cash and is a relatively simple accounting process. It is troubling that the school board's bank accounts have not been properly reconciled for over three years.¹

In addition, our assessment revealed that significant adjustments are reflected on certain bank reconciliations that have not been recorded in the books (general ledger) of the school board. Without timely, accurate, and complete financial information, the school board cannot effectively exercise its fiduciary responsibilities of managing the school district's fiscal operations.

The following is a summary of our assessment of the bank reconciliations:

- Operating Bank Account
 1. Four operating bank accounts (general ledger numbers 11010, 11011, 11012, and 11013) are maintained. The monthly activity in all four bank accounts is combined and reconciled together on one reconciliation form. Good controls require that bank accounts be individually reconciled and agreed to the balance in the related general ledger account. Also, eliminating/closing three of the operating bank accounts would strengthen controls over cash.

¹Reconciling the bank balances with the book balances is necessary to ensure that (1) all receipts and disbursements are recorded by the school board (an essential process ensuring complete and accurate monthly financial statements); (2) checks are clearing the bank in a reasonable time; (3) reconciling items (errors, unrecorded deposits and checks, et cetera) are appropriate and are being recorded; and (4) the reconciled cash balances agree to the general ledger cash balances. Louisiana Revised Statute 10:4-406(d)(2) allows the school board 30 days to examine bank statements and canceled checks for unauthorized signatures or alterations. After 30 days, the school board is precluded from asserting a claim against the bank for unauthorized signatures or alterations.

2. The operating bank accounts are not reconciled timely as the most recent reconciliation prepared was as of April 30, 2006 (more than two months before our request in July 2006).
3. Although the April 30, 2006, operating bank account reconciliation appears to be reconciled as the book and bank balances shown are in agreement, we found that it is not properly reconciled because of the following:
 - a. The combined book balances reflected on the bank reconciliation do not agree to the combined balances in the general ledger. The book balance on the bank reconciliation reflects \$12,905,619.35 and the combined general ledger balances total \$12,954,229.88, a difference of \$48,610.53.
 - b. The outstanding check listing reflects checks that previously cleared the bank. Our review of a sample of the outstanding checks revealed that six checks totaling \$5,473.15 cleared the bank in 2003, and 11 other checks listed cleared in 2003-2004 for amounts different than the amounts shown as outstanding.
4. The bank reconciliation reflects credit adjustments (net) of approximately \$9.4 million of which approximately \$841,000 relates to prior fiscal years (2004 and 2005). Although the consultant has documentation to support these adjustments, no adjusting entries have been recorded in the books of the school board to account for these significant transactions (e.g., unrecorded checks and deposits, et cetera). The combined operating cash balances on the books (general ledger) total approximately \$12.9 million, whereas the combined adjusted bank balances are approximately \$3.5 million (difference of \$9.4 million).

- Payroll Bank Account

1. Although the April 30, 2006, payroll bank account reconciliation appears to be reconciled as the book and bank balances shown are in agreement, we found that it is not properly reconciled because of the following:
 - a. The reconciled balance is reflected as (\$267,914.88); however, the reconciliation contains mathematical errors that, when corrected, results in a reconciled balance of (\$490,151.05), a difference of (\$222,236.17).
 - b. The outstanding check listing reflects checks that previously cleared the bank. We determined that six checks totaling \$2,832.27 cleared the bank in 2005-2006, and six other checks listed cleared for amounts different than the amounts shown as outstanding.

2. The April 30, 2006, reconciled balance is negative (\$490,151.05). We understand that the payroll bank account should operate on a zero-balance imprest basis, which means that monies are periodically transferred into the payroll account in the exact amount of the expenditures so that a zero balance results after checks have been paid/cleared.
3. The bank reconciliation reflects debit adjustments (net) of approximately \$9.3 million. Although the consultant has documentation to support these adjustments, no adjusting entries have been recorded in the books of the school board to account for these significant transactions (e.g., unrecorded deposits, et cetera). The payroll cash balances on the books (general ledger) total (\$9,810,987.30), whereas the adjusted bank balance is approximately (\$490,151.05), a difference of approximately \$9.3 million.

- School Food Services Bank Account

1. The school food service bank account is not reconciled timely as the most recent reconciliation provided to us was as of January 31, 2006 (five months ago).
2. We could not determine the propriety of a reconciling item (debit adjustment) described as “Deposit to be recorded” for \$19,255.27 on the January 31, 2006, bank reconciliation. On July 7, 2006, the consultant was asked to provide the supporting documentation for this item; however, no documentation was provided.

- “Summer Pay” Bank Account

The “Summer Pay” bank account is not reconciled timely. The business manager and consultant informed us that this bank account was not reconciled in fiscal year 2006 (July 2005 through June 30, 2006).

- “City of Baker” Bank Account

The “City of Baker” bank account is not reconciled timely. The business manager and consultant informed us that this bank account was not reconciled in fiscal year 2006 (July 2005 through June 30, 2006).

As a result of these findings related to the school board’s bank account reconciliations, management is directed to address these issues by developing a corrective action plan for submittal to the Legislative Auditor by September 30, 2006. In addition to ensuring that all bank accounts are reconciled timely and properly and that all adjustments are posted to the books of the school board in fiscal year 2006, we suggest the following for your consideration:

- Assess the need for further changes to personnel, which may include:
 1. Hiring a CPA firm to assist in reconciling cash and posting the necessary adjusting entries to the books of the school board
 2. Hiring a CPA with adequate experience in directing the various business and accounting functions of a school board
 3. Stabilizing the district's accounting department personnel by hiring permanent employees instead of relying on temporary staff
- Assess the need for personnel to receive additional training on the Pentamation accounting system being used by the school board

Other Matter

Subsequent to our fieldwork, the superintendent notified the Legislative Auditor of a possible misappropriation of school activity funds. We understand that the matter is currently under investigation and that we will be informed of the results when the investigation is completed.

Management's Response



City of Baker School System

Post Office Box 680
Baker, Louisiana 70704-0680
Phone (225) 774-5795
Fax (225) 774-5797
www.bakerschools.org

October 3, 2006

Board Members

Elaine G. Davis
President
District 1

Dana Carpenter, Ph.D.
Vice President
District 2

Calvin Dees
District 5

Jane Freudenberger
District 4

George Gallman
District 3

Mr. Steve J. Theriot, CPA
Office of Legislative Auditor
State of Louisiana
Baton Rouge, LA 70804-9397

Dear Mr. Theriot:

Please accept this correspondence in response to the findings and recommendations stated in the Advisory Service Report dated August 14, 2006. We understand and appreciate the Advisory Services efforts to assist our system to improve the controls and safeguards of cash resources of the City of Baker School System.

Administrative Staff

C. Lester Klotz, Jr.
Superintendent

Ulysses Joseph
Director, Instruction

Keith Johnson
Director, Support

Jan Ballard
Transportation

Henry Belin
Child Nutrition

Loretta Davis
School Nurse

Alfred Douglas
Special Education

Sheila Lambert
Human Resources

Barbara Parker
Federal Programs

Everett Parker
Technology

Allen Spears
School Relations

Sidney Stewart
Business Manager

Iris Walker
Elementary

J. B. Williams
Hearing Officer

In February, 2005 we hired a consultant to assist the school board in preparing fiscal procedure and operating manuals to ensure that controls and best practices were in place to secure the resources of the System. Additional to preparing manuals, the consultant volunteered to assist with the Bank Reconciliations for the System and to train staff on the procedures contained in the procedural manuals.

All procedures prepared by the consultant have been adopted by the Board and are now Board Policy. We have made tremendous improvements in the City of Baker School System's financial operations and all controls safeguarding cash are in place. We appreciate your recognition of this improvement.

We recognize that at the time of the Advisory Services' assessment there were many discrepancies regarding bank reconciliations. We have made significant progress towards correcting the discrepancies noted in the Advisory Services report. The status of our progress and the activities that remain incomplete are identified as follows:

Bank Account Reconciliations:

Staff has identified the discrepancies of the bank reconciliations reviewed by the advisory services audit team. We are in the process of reconciling all bank accounts for the System. Upon completion of this effort, appropriate adjustments will be made to the General Ledger. Staff will then issue final balanced reconciliation reports and a corrective action plan to the Legislative Auditor's office.

The City of Baker School System does not discriminate on the basis of race, color, national origin, gender, age or qualified disability.

Mr. Steve J. Theriot, CPA
Page 2
October 3, 2006

The City of Baker School Board has reduced the number of bank accounts for the 2007 fiscal year. The remaining accounts are that of the general operating accounts and a payroll account. Our plan is that reconciliations of each account will be completed by the 15th of each month.

Recommendations:

The Advisory Services report recommended that the System hire a C.P.A. to assist in reconciling cash and posting the necessary adjusting entries to the system's books. Whereas cash reconciliations has been completed, and all necessary adjusting entries are in the process of being posted; it is the belief of this administration that the current Business Manager, with consulting assistance of a C.P.A., as identified below, can provide compliant management of our finances.

The recommendation of Advisory Services report was that the System secure the services of a part time C.P.A. to assist in the fiscal activities. We agree with this recommendation and plan to request Board authorization for employment or contract of a part-time C.P.A. to assist in the internal audit functions of they system and provide fiscal guidance as appropriate.

The City of Baker School Board has advertised positions currently filled by temporary employees or which are vacant and anticipates hiring permanent employees as soon as qualified applicants are available.

I appreciate your continued patience and support in this very important matter. If additional information is needed please feel free to contact me at 225-778-2362.

Sincerely,



C. Lester Klotz, Superintendent
City of Baker School System

CLK:SS:dad