DEPARTMENT OF EDUCATION
STATE OF LOUISIANA

MANAGEMENT LETTER
ISSUED MAY 13, 2009

LEGISLATIVE AUDITOR
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POST OFFICE BOX 94397
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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.

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LOUISIANA LEGISLATIVE AUDITOR
STEVE J. THERIOT, CPA

April 23, 2009

DEPARTMENT OF EDUCATION
STATE OF LOUISIANA
Baton Rouge, Louisiana

As part of our audit of the State of Louisiana's financial statements for the year ended June 30, 2008, we considered the Department of Education's internal control over financial reporting and over compliance with requirements that could have a direct and material effect on a major federal program; we examined evidence supporting certain accounts and balances material to the State of Louisiana's financial statements; and we tested the department's compliance with laws and regulations that could have a direct and material effect on the State of Louisiana's financial statements and major federal programs as required by *Government Auditing Standards* and U.S. Office of Management and Budget Circular A-133.

The Annual Fiscal Reports of the Department of Education are not audited or reviewed by us, and, accordingly, we do not express an opinion on those reports. The department's accounts are an integral part of the State of Louisiana's financial statements, upon which the Louisiana Legislative Auditor expresses opinions.

In our prior management letter on the Department of Education for the year ended June 30, 2007, we reported findings relating to inaccurate and incomplete annual fiscal reports, inadequate subrecipient monitoring over single audits, untimely completion of A-87 payroll certifications, inadequate fiscal monitoring, noncompliance with federal equipment management regulations, inadequate control over coding of federal expenditures, inadequate controls over movable property - Recovery School District (RSD), failure to insure warehouse contents - RSD, theft of computers - RSD, inadequate oversight of school activity accounts - RSD, inadequate controls over payroll - RSD, and inappropriate charges for free and reduced price student meals - RSD. The findings relating to inaccurate and incomplete annual fiscal reports, inadequate subrecipient monitoring over single audits, failure to insure warehouse contents, and inappropriate charges for free and reduced price student meals have been resolved by management. The remaining findings have not been resolved and are addressed again in this letter.

Based on the application of procedures referred to previously, all significant findings are included in this letter for management's consideration. All findings included in this management letter that are required to be reported by *Government Auditing Standards* have also been included in the State of Louisiana's Single Audit Report for the year ended June 30, 2008.

**Inadequate Controls Over Payroll -
Recovery School District**

For the second consecutive year, the Recovery School District (RSD) of the Department of Education (DOE) did not ensure that employee separation dates were accurate, employees were paid correctly, and payroll charges were supported by adequate documentation. Office of Management and Budget (OMB) Circular A-87, Attachment A, Section C (1)(j) states that to be allowable under federal awards, costs must be adequately documented. DOE Policy EP 3.2 requires employees to sign in and out daily and to initial the biweekly time and attendance records at the end of each pay period. RSD's policies for housing subsidies and retention incentives require that eligible employees must be actively employed at the time of payment. Good internal controls would include that employees be paid only for days worked within the employment period; employee terminations be entered accurately into the payroll system before the close of the employee's last pay period; overpayments to employees be properly identified, tracked, and recouped; and employees who process payroll and personnel records be knowledgeable about the payroll system.

Audit procedures performed on RSD's payroll records identified the following problems:

- Employees who abandoned their jobs without explanation were placed on positive time entry status, which stopped paychecks from being automatically generated by ISIS/HR, the state's payroll system. However, the employer portion of insurance premiums continued to be paid by ISIS/HR until separation actions were processed.

- One employee was reported by school administrators as having abandoned his job in April 2007. RSD stopped the employee's paychecks in August 2007 and a claim against the employee of $1,029 was generated by ISIS/HR. However, the employee received pay from April 20, 2007, through August 12, 2007, totaling $8,904, which was not identified in ISIS/HR as an overpayment. The Minimum Foundation Program was charged for the entire overpayment of $9,933.

- Six employees were paid housing subsidies totaling $7,200 even though they were no longer employed by RSD. The Minimum Foundation Program was charged for $1,600 of the overpayment and the Immediate Aid to Restart School Operations Program (CFDA 84.938A) was charged for the remaining $5,600. These amounts were not identified by ISIS/HR as claims. No funds have been recouped.

- Two employees were paid retention incentives totaling $2,000 even though they had not returned for the new school year. The Hurricane Educator Assistance Program (CFDA 84.938K) was charged for these overpayments. These amounts were not identified by ISIS/HR as claims. No funds have been recouped.

In a test of 24 employee separations, none were entered into ISIS/HR before the close of the employee's last pay period. Days late ranged from five to 282 days and resulted in overpayments to 17 (71%) employees totaling $117,712. The Minimum Foundation Program was charged for $110,275 of the overpayments. The Immediate Aid to Restart School Operations Program (CFDA 84.938A) was charged the remaining $7,437.

In a test verifying the accuracy of separation dates entered into ISIS/HR, the following problems were noted:

- Nine of 23 (39%) employee separation dates were incorrect.
- Six of 23 (26%) employee separations were not entered into ISIS/HR before the close of the employee's last pay period.
- Overpayments totaling $40,370 were made to 11 of 23 (48%) separated employees tested and overpayments not fully recouped. The Minimum Foundation Program was charged for $40,339 of the overpayments. The Graduate Exit Exam for the 21st Century program was charged the remaining $31.

In a test of five claims against employees that were overpaid during fiscal year 2008, four (80%) overpayments had not been fully recouped. RSD could not provide adequate documentation explaining why the claims were generated.

In a test of 15 claims against employees that were overpaid during fiscal year 2007, RSD could not provide documentation that overpayments were fully recouped for 13 (87%) employees.

In a test of employee time sheets, the following problems were identified:

- Four of 22 (18%) employees did not properly complete time sheets by signing in and out daily or initialing the time sheet at the end of the pay period.
- Three of 12 (25%) employees who took leave did not have their leave recorded in the ISIS/HR payroll system.
- Three of 22 (14%) employees' hours on the time sheets did not match the hours paid according to the remuneration statement, which is generated from ISIS/HR.

Management did not adequately identify overpayments and recoup funds. In addition, management did not emphasize compliance with established internal control policies and procedures relating to processing personnel transactions and documentation of payroll charges. Failure to support payroll charges with adequate documentation increases the risk that employees will be overpaid. Overpayments to former employees resulted in questioned costs of $13,037 for the Immediate Aid to Restart School Operations Program

(CFDA 84.938A) and $2,000 for the Hurricane Educator Assistance Program (CFDA 84.938K). Misuse of state funds totaled $162,147 for the Minimum Foundation Program and $31 for the Graduate Exit Exam for the 21st Century program.

RSD should follow federal and DOE policies and procedures relating to payroll and personnel, attempt to recoup overpayments to current and former employees, and provide further training to personnel who use the ISIS/HR payroll system. RSD should ensure that information entered into ISIS/HR is accurate and complete and develop processes to adequately track overpayments and recoupments. Management concurred with the finding and outlined a plan of corrective action (see Appendix A, pages 1-2).

Inadequate Internal Control Over Relocation and Retention Incentive Payments - Recovery School District

RSD did not maintain adequate internal control over the payment of relocation and retention incentives. Public Law 110-28 allocated funds for use in recruiting, retaining, and compensating new and current teachers and school staff who commit to work for at least three years in school-based positions in public elementary and secondary schools located in an area impacted by Hurricane Katrina or Hurricane Rita. RSD Policy EP 3.16.2 states that all non-Louisiana candidates who are certifiable in Louisiana, who make a three-year commitment to work, and who are hired for the 2007-2008 school year for teacher and certified/licensed school staff positions with the RSD are eligible to receive the benefits of the Out-of-State Relocation/Signing and Retention Incentive Package. This package includes a $2,500 relocation stipend/signing incentive, a $400 per month housing subsidy for one year, and a $5,000 per year end-of-year lump sum signing and retention payment for a maximum of two years. RSD policy also states that retention incentives are available for certain school-based employees who were employed in a RSD school during the 2006-2007 school session. These employees must have a satisfactory performance evaluation for work provided during the 2006-2007 school session, must have successfully completed work in a RSD school through the first grading period (nine weeks) of the 2007-2008, school session; must make a three-year commitment to work in a RSD school and remain employed by RSD with satisfactory evaluations for three years, and must provide evidence of having the appropriate certificates or licenses as required by RSD during their employment for the 2006-2007 school session. Certified teachers and other certified/licensed school-based professionals are eligible for a one-time payment of $5,000. School-based support staff are eligible for a one-time payment of $1,000.

In a test of 30 employees receiving incentive payments, 19 (63%) did not have a three-year commitment letter on file. Eight of these employees are no longer employed by the RSD. RSD provided no evidence of efforts to recover the incentive payments to those employees.

In a test of 18 employees who received retention incentives for 2006-2007 school-based employees, the following were noted:

- For 14 of 18 (78%) employees tested, no evidence that the employee received a satisfactory performance evaluation for work provided during the 2006-2007 school session was on file.

- For 15 of 18 (83%) employees tested, no evidence that the employee successfully completed work in a RSD school through the first grading period of the 2007-2008 school session was on file.

- For one of 10 (10%) employees tested who were required to have a certificate or license, no evidence of the proper certification was on file.

In a test of 12 employees who received out-of-state relocation/signing and retention incentives, no evidence that the employee was a non-resident of Louisiana was on file for any of the employees. In addition, two employees received housing subsidies totaling $5,600 under the out-of-state relocation/signing and retention incentive package even though they did not qualify to receive them. Those employees were ineligible because they were employed by RSD during the 2006-2007 school year.

RSD management did not emphasize compliance with established internal control policies and procedures relating to incentive payments. Failure to support incentive payments with adequate documentation increases the risk that employees will be overpaid and may result in disallowed federally funded expenditures. These incentive payments were funded by the Hurricane Education Recovery Act, Hurricane Educator Assistance Program (CFDA 84.938K). Incentive payments to the 32 employees noted above represent questioned costs totaling $127,000.

RSD should follow established policies and procedures relating to incentive payments and should attempt to recover any overpayments. DOE should work with the grantor to resolve the questioned costs. Management concurred in part with the finding and outlined a plan of corrective action. Management stated that employees who received the retention incentive were paid after the first grading period and that only current employees were paid the incentive (see Appendix A, pages 3-4).

Additional Comments: DOE provided no additional evidence to dispute the exceptions noted in the finding. In our finding titled "Inadequate Controls Over Payroll - Recovery School District," we noted that employee separations are not reported timely, before the end of the last pay period. Since the separation dates in the payroll system cannot be relied upon, paying those listed as current employees does not ensure that the retention incentives were paid only to eligible employees.

Inadequate Fiscal Monitoring

For the third consecutive year, DOE did not perform adequate fiscal monitoring of federal awards. OMB Circular A-133 requires pass-through entities of federal awards to monitor the activities of subrecipients as necessary to ensure that federal awards are used for authorized purposes in compliance with laws, regulations, and provisions of contracts or grant agreements. DOE's policy is to perform fiscal monitoring for all subrecipients at least once every four years.

The following deficiencies were noted regarding fiscal monitoring:

- As of June 30, 2008, DOE had not performed any monitoring for the Hurricane Education Recovery - Immediate Aid to Restart School Operations Program (CFDA 84.938A) since its inception in fiscal year 2006.

- DOE failed to monitor 24 of 68 (35%) local educational agencies at least once within the past four years.

- DOE failed to monitor 47 of 70 (67%) charter schools, state agencies, and other local institutions at least once within the past four years.

Management did not adequately emphasize the importance of fiscal monitoring to its program managers. Without adequate monitoring, DOE did not ensure that only allowable expenditures were charged to the following major federal programs: Title I Grants to Local Educational Agencies (CFDA 84.010), Title II Improving Teacher Quality State Grants (CFDA 84.367), Special Education - Grants to States (CFDA 84.027), and Special Education - Preschool Grants (CFDA 84.173). Failure to monitor subrecipients could also result in possible misuse of federal funds by subrecipients.

Management should perform adequate fiscal monitoring on all federal awards, as required by federal regulations. Management concurred with the finding and outlined a corrective action plan (see Appendix A, pages 5-6).

Noncompliance With Federal and State Equipment Management Regulations

For the second consecutive year, DOE did not comply with federal and state equipment management regulations. DOE did not tag and report equipment as required, did not submit one inventory certification report by the date required, and did not maintain accurate information in the state's movable property system, Protégé.

Federal equipment means tangible nonexpendable property purchased with a federal award, having a useful life of more than one year, and an acquisition cost of $5,000 or more per unit. OMB Circular A-87 requires a state to use, manage, and dispose of equipment acquired under a federal grant in accordance with state laws and procedures. The Louisiana Administrative Code (LAC) requires that all movable property having an original acquisition cost of $1,000 or more be tagged with a uniform state of Louisiana identification tag and all pertinent inventory information be forwarded to the Louisiana Property Assistance Agency (LPAA) within 60 calendar days after receipt of these items. The LAC also requires that the agency property manager conduct a complete physical inventory of the property owned by the agency each fiscal year and not more than 12 calendar months since the last physical inventory.

In a test of 30 items of equipment purchased with federal grants, the following exceptions were noted:

- Thirteen (43%) items were not tagged.
- Twenty-two (73%) items were not entered into Protégé within 60 days. The delays in entering the equipment ranged from two to 511 days.
- Fifteen (50%) items were not properly recorded in Protégé.
- Four (13%) items were not in the location reported.

In our review of movable property at RSD, the following exceptions were noted:

- The annual property certification was due to LPAA on April 30, 2008, but was not submitted until June 25, 2008.
- During a general review of the asset listing, auditors noted that RSD incorrectly entered the purchase order number as the acquisition cost for four assets, thereby overstating the asset values by $12.8 million.

In a test of 14 movable property acquisitions at RSD, the following exceptions were noted:

- Two (14%) items were not located.
- All 14 items were not tagged and entered into Protégé within 60 days. The delays in entering the equipment ranged from 111 to 281 days, with two items undetermined because of no evidence of the receipt date.
- Four (29%) items were not properly recorded in Protege.
- Six (43%) items were not in the reported location.

A review of the Protégé late additions reports as of April 30, 2008, disclosed the following information regarding property items that were not reported within 60 days of acquisition as required:

- For Property Certification Agency 26816, Non-Public Schools, 2,687 items totaling $5,774,880 were reported from one to 341 days late.
- For Property Certification Agency 26815, RSD, 1,388 items totaling $3,110,540 were reported from one to 437 days late.

- For Property Certification Agency 26804, DOE Operational Support Services, 97 items totaling $177,450 were reported from two to 358 days late.

- For Property Certification Agency 26812, DOE Special School District, 13 items totaling $18,563 were reported from 29 to 59 days late.

DOE failed to comply with federal and state regulations because the department has not developed, implemented, and enforced adequate internal controls over movable property, and off-site property liaisons were not adequately instructed and monitored. Failure to comply with federal and state equipment management regulations increases the risk that assets may be misreported, lost, or stolen.

Management should ensure that equipment is tagged and reported accurately and timely in accordance with state and federal regulations. Management should also ensure that records are corrected when equipment is relocated. Management concurred with the finding and outlined a plan of corrective action (see Appendix A, pages 7-8).

Failure to Maintain Public Control Over Restart Program Funds

DOE failed to maintain sufficient public control over funds provided to non-public entities through the Immediate Aid to Restart School Operations (Restart) Program (CFDA 84.938A). The Hurricane Education Recovery Act, Section 102(h)(3) states the control of funds for services and assistance provided to a non-public school and title to materials, equipment, and property purchased with such funds, shall be in a public agency. The public agency shall administer such funds, materials, equipment, and property and shall provide services, or may contract for the provision of such services with a public or private entity. Guidance issued by the U.S. Department of Education (USDOE) states that the public agency must maintain an inventory of such materials, equipment, or property made available to private schools, and periodically update that inventory. Furthermore, to maintain sufficient control over the Restart program funds, a public agency must determine that (1) the private school's expenditures represent allowable Restart program expenses; (2) the private school has sufficient documentation supporting such expenditures; and (3) the school actually received the services or assistance related to those expenditures. Restart program funds may be used to reimburse a private school for expenses that the school previously incurred if the expenses directly relate to services that are secular, neutral, and non-ideological. Future expenses should be provided directly by a public agency or through a contract between a public agency and a third party.

During fiscal year 2008, expenditures for the Restart program totaled $117 million. Of this amount, $39 million (33%) went to non-public entities. Testing of the Restart program identified the following exceptions:

- DOE did not compile an inventory of items purchased for non-public entities. Materials, equipment, and property purchased by DOE under $1,000 were not identified or tracked separately.

- When non-public entities were reimbursed directly for previously incurred costs, DOE did not obtain adequate documentation to determine that costs were allowable and that the public agency was not required to contract the service. In addition, DOE did not perform follow-up monitoring to verify the validity of data submitted by non-public entities, even though the Restart program is in its third year.

Management did not establish procedures to identify the specific services and assistance provided to non-public entities through Restart program funds. Failure to maintain public control over Restart program funds to non-public entities results in noncompliance with the Hurricane Education Recovery Act. We were unable to determine the amount of questioned costs.

DOE should develop and implement procedures to comply with federal regulations, including maintaining a listing of all items purchased with Restart program funds on behalf of non-public entities. DOE should periodically verify that non-consumable items are still in the possession of the non-public entity. Finally, DOE should obtain sufficient documentation to determine the allowability of costs when reimbursing non-public entities directly for previously incurred costs. Management did not concur with the finding. Management noted, in part, that the USDOE did not intend to place more cumbersome requirements on DOE regarding the non-public funding; that the non-public schools were instructed to maintain documentation of expenditures; and that expenditures were pre-audited (see Appendix A, pages 9-11).

Additional Comments: The department provided no evidence to dispute the facts of our finding. When asked to provide evidence that USDOE waived specific requirements for maintaining periodic inventories, the department did not provide any documentation. The department's instruction to the non-public schools to maintain adequate documentation did not relieve DOE of its responsibility to adequately review documentation before reimbursement. Also, the department's efforts to pre-audit payments did not relieve it of its requirement to monitor federal program expenditures.

Noncompliance With A-87 Payroll Certification Regulations

For the third consecutive year, DOE did not ensure that certifications for payroll expenditures charged to federal programs were completed as required by federal regulations. OMB Circular A-87, "Cost Principles for State and Local Governments," states that if employees work on multiple activities or cost objectives, a distribution of their salaries must be supported by personnel activity reports or equivalent documentation reflecting an after-the-fact distribution of the actual activity. These personnel activity reports must be prepared at least monthly, must be signed by the employee, and must be based on the work performed and not on budget. If employees work solely on a single federal award or cost objective, the certifications must be prepared at least semiannually.

Audit procedures were performed on 21 biweekly certifications and nine semiannual certifications. For 15 certifications tested at the department level, two of the 15 (13%) certifications were signed before the end of the period, so actual effort could not have been known.

For 15 certifications tested at RSD, the following exceptions were noted:

- For two employees (13%) working on federal programs, no certification was provided for the employees for the period tested.

- For five certifications (33%), the certification was not completed at least monthly as required.

- For three certifications (20%), no date was written on the certification, so compliance with submission requirements could not be determined.

- For six certifications (40%), the cost distribution report did not agree to the program and percentage charged per the certification, and no adjustment was completed to reflect the actual effort of the employee.

DOE's failure to prepare and maintain required payroll certifications increases the risk that expenditures are not fairly and accurately allocated to federal programs and results in noncompliance with OMB Circular A-87.

Management should establish and enforce policies and procedures for completing payroll certifications to comply with federal regulations. Management concurred with the finding and outlined a plan of corrective action (see Appendix A, page 12).

Inadequate Control Over Coding of Federal Expenditures

For the second consecutive year, DOE failed to maintain adequate control over the coding of federal program expenditures in the state's accounting system, ISIS, for two federal programs. Expenditures for the Disaster Grants - Public Assistance (Presidentially Declared Disasters) (CFDA 97.036) and the Hurricane Education Recovery Act (CFDA 84.938) Immediate Aid to Restart School Operations (Restart) programs were not coded accurately in ISIS as of the fiscal year-end. Good internal control requires that adequate control procedures be developed and implemented to ensure that expenditures are coded in ISIS to identify and match the expenditures to the proper federal program revenue. While DOE appears to have valid expenditures to support the revenue received through these programs, invalid expenditures and other errors could exist and go undetected without adequate controls to ensure proper coding in the accounting system.

As of fiscal year-end June 30, 2008, eight of 30 (27%) expenditure transactions tested relating to the Public Assistance (PA) program reimbursements were miscoded in ISIS as follows:

- Four invoices were coded in ISIS to the Restart program even though reimbursement was received from the PA program.
- One invoice was coded in ISIS to the Minimum Foundation Program (a state-funded program) even though reimbursement was received from the PA program.
- Three invoices were misclassified in ISIS. The invoices related to contents but were coded as construction expenses.

In addition, five of 30 (17%) invoices tested included out-of-scope costs totaling $111,020 that were coded to the PA program but were ineligible for reimbursement from the PA program. This amount represents questioned cost.

Management of DOE should strengthen its internal controls over the coding in ISIS to ensure that all federal program expenditures are coded accurately to identify and properly match federal expenditures to federal program revenue. Management did not concur with the finding and noted that to maximize funds from multiple sources, final coding of expenditures can only be determined when recovery projects are completed (see Appendix A, pages 13-14).

Additional Comments: DOE provided no additional evidence to dispute the exceptions noted in the finding. While we acknowledge the challenge presented by ongoing recovery projects, DOE and the state are required to accurately report financial and program information by fiscal year. DOE and the state cannot accomplish accurate financial reporting without internal controls to ensure that federal revenue and expenditures are coded and matched accurately in ISIS.

Theft of Computers - Recovery School District

For the second consecutive year, RSD failed to maintain adequate control over movable property, resulting in the loss of 35 laptop computers and one digital scanner with a total cost of $55,802. Good internal control requires that adequate control procedures be in place to ensure that movable property is properly safeguarded against loss arising from unauthorized use or theft. Louisiana Revised Statute (R.S.) 39:325 requires entities to conduct an annual inventory of movable property and identify amounts of unlocated property in an annual certification submitted to LPAA.

The certification of annual property inventory submitted to the LPAA on June 25, 2008, listed 27 items, 26 computers and one scanner, purchased at a cost of $42,429 that could not be located when the annual property inventory was performed. RSD reported these items as stolen and notified the district attorney and the legislative auditor of the thefts. In addition, audit procedures identified nine additional computers purchased at a cost of $13,373 that were determined to be stolen and not reported as unlocated on the certification of annual property. All of these items were purchased with funds from the federal Hurricane Education Recovery - Immediate Aid to Restart School Operations Program (CFDA 84.938).

Failure to maintain controls over movable property increases the risk of loss arising from unauthorized use of property. Because of the services provided by RSD, there is an increased risk that sensitive information could be retrieved improperly from the stolen computers.

RSD management should strengthen its internal controls over movable property to prevent theft of equipment and possible loss of sensitive data. Management concurred with the finding and outlined a plan of corrective action (see Appendix A, page 15).

Noncompliance With the Cash Management Improvement Act

DOE did not report refunds to the Office of Statewide Reporting and Accounting Policy (OSRAP) to provide for the calculation of interest liabilities to federal agencies. The Cash Management Improvement Act (CMIA) of 1990 requires the timely transfer of funds between federal agencies and the state and an exchange of interest when transfers are not made in a timely manner, as defined by the Treasury-State Agreement (TSA) applicable for July 1, 2007, through June 30, 2008. According to Section 8.4 of the TSA, the state is liable for interest on refunds of $50,000 or greater. The state interest liability is based on the difference in whole days between the date the refund is deposited in a state account and the date the refund is offset against a subsequent draw (deposit) of federal funds. Section 5.3.5(6) of OSRAP's policies and procedures manual requires state agencies to maintain information relating to the date the refund is credited to a state account, the amount of the refund, and the date of the subsequent draw (deposit) of federal funds that the refund is offset against. Section 8 states that standardized spreadsheets will be provided by OSRAP to the agencies to capture CMIA data. Section 9(D) states that an AFS ODIT screen or spreadsheet showing the amount and date of refunds received should be submitted as backup documentation for the CMIA spreadsheet.

DOE failed to report five refunds of $50,000 or more to OSRAP so that the interest liability could be calculated. Four of the refunds related to Hurricane Education Recovery - Immediate Aid to Restart School Operations (CFDA 84.938) and one refund related to the National School Lunch Program (CFDA 10.555). These refunds totaled $1,089,369.

- For four of the refunds, the difference in whole days between the date the refund was deposited in a state account and the date the refund was offset against a subsequent draw (deposit) of federal funds ranged from three to 107 days.

- One refund of $127,873 had not yet been offset against a subsequent draw (deposit) of federal funds at the time of our testing.

DOE management did not ensure that refunds of $50,000 or more were properly reported to OSRAP for calculation of interest liabilities. Failure to report refunds to OSRAP causes the state to be in noncompliance with the TSA.

DOE management should strengthen its control procedures to ensure that refunds of $50,000 or greater are reported to OSRAP in a timely manner for the calculation of interest liabilities to the appropriate federal agencies. Management concurred with the finding and outlined corrective action (see Appendix A, page 16).

Inadequate Oversight of School Activity Funds - Recovery School District

For the second consecutive year, RSD did not provide adequate oversight over its school activity fund accounts. R.S. 17:414.3 requires principals of every public elementary and secondary school to maintain a school activity account for the management of any money that accrues to benefit a school. The money shall be deposited in a single bank account, preferably interest-bearing, on which checks may be drawn. No monies shall be drawn on the school activity account unless the request for withdrawal of funds carries two signatures, one of which shall always be the principal's. The RSD *School Fund Policy Manual* requires principals to submit a monthly financial report to the RSD business office by the 15th day of each month following the covered period. Reports must be in the required format and must include a copy of the current month's bank statement and bank reconciliation. Reports must be signed by both the principal and assistant principal. The principal is required to issue a pre-numbered multi-copy receipt for the exact amount of funds received.

Audit procedures performed on RSD's school activity fund accounts identified the following problems:

- Twelve of 45 (27%) monthly financial reports tested were not submitted to the RSD Business Office by the 15th day of the month following the covered period.

- Fourteen of 45 (31%) monthly financial reports tested did not contain the signature of both the principal and assistant principal.

- Two of three (67%) schools tested did not use pre-numbered receipts.

Although improvement has been made over school activity fund accounts, inadequate oversight makes them susceptible to fraud and misappropriation.

RSD management should ensure that school activity fund accounts are consistently maintained in accordance with state law and departmental policies. Management concurred with the finding and outlined a plan of corrective action (see Appendix A, pages 17-18).

Delinquent Payments to Vendors - Recovery School District

RSD failed to pay vendors within 90 days of the invoice due date as required by state law. R.S. 39:1695 requires a state agency to make any payment for goods or services within 90 days of the due date unless reasonable cause to withhold payment is established. If the state agency fails to make a timely payment, interest may apply on the amount due at the rate established pursuant to Civil Code Article 2924(B)(3) from the 91st day after the due date.

In a test of 30 transactions, 12 (40%) invoices were paid more than 90 days after the due date. Delinquent payments ranged from nine to 235 days late. Management explained that payments were late as a result of cash flow problems. Failure to ensure timely payments to vendors results in noncompliance with state law and could result in the loss of vendors to provide needed products and services, as well as interest due to the vendors for the delinquent amounts.

RSD management should ensure that payments are made to vendors within 90 days of the invoice due date as required by state law. Management concurred with the finding and outlined a plan of corrective action (see Appendix A, page 19).

The recommendations in this letter represent, in our judgment, those most likely to bring about beneficial improvements to the operations of the department. The varying nature of the recommendations, their implementation costs, and their potential impact on the operations of the department should be considered in reaching decisions on courses of action. Findings relating to the department's compliance with applicable laws and regulations should be addressed immediately by management.

This letter is intended for the information and use of the department and its management, others within the entity, the Board of Elementary and Secondary Education, and the Louisiana Legislature and is not intended to be, and should not be, used by anyone other than these specified parties. Under Louisiana Revised Statute 24:513, this letter is a public document, and it has been distributed to appropriate public officials.

Respectfully submitted,

Steve J. Theriot, CPA
Legislative Auditor

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Management's Corrective Action Plans and Responses to the Findings and Recommendations

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March 11, 2009

Mr. Steve J. Theriot, CPA
Legislative Auditor
1600 North Third Street
P.O. Box 94397
Baton Rouge, La 708-9397

Dear Mr. Theriot:

The Louisiana Department of Education's Recovery School District (RSD) sincerely appreciates the opportunity to respond to the audit findings related to "Inadequate Controls over Payroll – Recovery School District" and appreciates the assistance that the legislative auditors have provided in improving RSD processes. The RSD has reviewed the finding and concurs with the finding. During the time period reviewed, there were issues with payroll controls; however, the majority of those issues have since been addressed and corrected.

During the 2008 fiscal year, the RSD opened thirteen (13) new schools, doubled the total number of staff and significantly restructured operations. Because of ongoing fluctuations with school configurations and staffing, the organizational management structure in Integrated Statewide Information System for Human Resources (ISIS-HR) was not adequately maintained. Ongoing challenges relating to those initiatives hindered the RSD in implementing necessary policies, procedures and system controls. The RSD struggled in establishing adequate controls over payroll during the period of start-up that continued through a significant portion of the 2007-08 school year. Since then, the RSD has made significant strides to tighten the controls over payroll, including: restructuring payroll functions, converting to a positive time entry system, and implementing policies to increase control. The RSD intends to continue to emphasize compliance with previously established internal control policies and procedures related to processing personnel transactions and documentation of payroll charges.

Procedures have already been implemented to improve timeliness and accuracy of separation of employees and will be reinforced with all RSD staff. Prior to September 25, 2008, the RSD was not permitted to separate probationary employees without the written consent of the Department of Education (DOE). The RSD has since received delegated authority to separate employees, allowing the RSD to continue to implement improved controls. All employees will be separated within 24 hours of receipt of the separation notification. If an employee does not report to work or provide notification of absence for five consecutive business days, the RSD will separate the employee immediately. This will increase the timeliness of termination entries in ISIS-HR and decrease the occurrence of overpayments and retroactive separations.

Several professional development activities will occur to address the issues identified in the audit. All ISIS-HR users at the RSD will receive staff development and written notification regarding policies and procedures for documenting hiring, payroll actions and separations. The RSD will send all supervisors a memorandum reflective of the procedures to follow regarding securing adequate documentation for payroll. This memo will include information concerning the proper completion of RSD timesheets. Additionally, supervisors will be trained regarding proper timekeeping procedures and held accountable for monitoring payroll activity within their department. The RSD will provide Professional Development and training for all RSD employees who enter data into the ISIS-HR payroll system. This training will be provided for timekeepers as well as central office staff who access ISIS-HR. By March 23, 2009, these trainings will occur and all employees will be notified that any violation of the Department of Education's mandates will result in a written reprimand and possible termination.

Payroll staff will conduct ongoing audits of school and central office departments to ensure that adequate documentation regarding the payroll of all employees is maintained according to the Office of Management and Budget circular A-87. Payroll records will be reviewed by payroll staff on a biweekly basis to verify the accuracy of payroll records.

Human Resources (HR) will continuously run Office of State Uniform Payroll (OSUP) reports to determine the hire status of active versus terminated employees to ensure and prevent future and ongoing overpayments. When an employee is identified as being active, but HR determines that the employee isn't working, communication will be made with the school/department to determine the employee's status and last day of work and then to move aggressively to request immediate termination from the appointing authority.

When errors resulting in overpayments occur, HR will investigate to determine the cause of the overpayment (i.e., paid in error as a result of late/retroactive termination, payroll spread in error, etc.) and follow OSUP's recoupment policy #2007-3 which includes direct deposit reversal requests. Once a response is received from OSUP stating that the funds are not available to offset the overpayment(s), HR will issue a letter to the employee, detailing the cause of the overpayment instructing him/her of payment options with a deadline to pay the district directly. If the employee does not honor HR's request, HR will work with the RSD's general counsel to pursue external collection actions, which includes but is not limited to submitting request for assistance from the state Attorney General.

Notification of the RSD's right to recoup overpayments has been disseminated to all current employees with a signature letter, and potential new employees will receive this notification in the RSD new hire packet. The signed document will be maintained in the employee's personnel file.

The contact persons for this finding are Cedric Lewis (504) 373-6200 and Elizabeth Shaw (504) 218-7338.

Sincerely,

Paul G. Pastorek
State Superintendent

PGP:cl

c: Ollie S. Tyler, State Deputy Superintendent of Education
Paul Vallas
Beth Scioneaux
Patrick Weaver
Susie Buchmann
Cedric Lewis
Elizabeth Shaw
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March 18, 2009

Mr. Steve J. Theriot, CPA
Legislative Auditor
1600 North Third Street
P.O. Box 94397
Baton Rouge, La 70804-9397

Dear Mr. Theriot:

RE: Inadequate Control Over Relocation and Retention Incentive Payments – Recovery School District

The Louisiana Department of Education's (DOE) Recovery School District (RSD) sincerely appreciates the opportunity to respond to the audit findings related to "Inadequate Control Over Relocation and Retention Incentive Payments" and appreciates the assistance that the legislative auditors have provided in improving the RSD processes. The RSD has reviewed the finding and concurs with certain aspects of the finding.

The RSD concurs with the finding that signed commitments were not obtained for every teacher who received incentives paid with the Hurricane Educators Assistance Program (HEAP) funds. There are educators paid with HEAP funds who are currently working in the RSD despite not yet having signed three-year commitments. The RSD is in the process of obtaining signed commitments from these educators. Significantly, these educators remain employed by the RSD and are clearly dedicated to providing services for a period of at least three years despite either not having signed a commitment or not having signed a commitment at the outset of employment.

The HEAP program requires a three-year commitment from educators who receive funds; however, the HEAP program is silent on how the commitment should be obtained and if the funds should be recouped in the event that the three-year commitment is not fulfilled. The RSD has the option of either attempting to recoup the funds or to place the employee on a "do not rehire" list. The RSD has opted to go with the latter option and has created a "do not rehire" list inclusive of any employees who received HEAP funds and resigned or were dismissed prior to fulfilling their three-year commitment.

The RSD concurs with the finding that there was no evidence on file that 14 of 18 employees received satisfactory performance evaluations for work provided during the 2006-2007 school session, nor evidence that one of ten employees tested had proper certification on file. The RSD also concurs with the finding that those employees tested who received out-of-state signing and retention incentives had no evidence on file that the employees were non-residents of Louisiana for the 2007-2008 school year.

The RSD does not concur with the finding that employees who received the retention incentive were not employed through the first grading period of the 2007-2008 school year. Employees who received the retention incentive for 2006-2007 were paid in December of 2007. Only current employees as of December of 2007 received the incentive. This ensured that all employees who received the retention incentive were employed through the first grading period of the 2007-2008.

The RSD recognizes that errors were made in the handling of the retention and relocation incentives, but has worked diligently with the DOE staff to implement processes to eliminate any instances of administrative or programmatic errors. The RSD, in collaboration with the DOE, has developed and implemented a Corrective Action Plan. This Corrective Action Plan will provide internal controls over the payment of relocation and retention incentives. To ensure compliance with the Corrective Action Plan, the DOE is conducting quarterly site visits to the RSD.

The contact person for this finding at the Recovery School District is Elizabeth Shaw (225)-218-7338.

Sincerely,

Paul G. Pastorek
Superintendent of Education

PGP:bs

c: Ollie S. Tyler, Deputy Superintendent of Education
Beth Scioneaux
Paul Vallas
Patrick Weaver
Susie Buchmann
Andrew Vaughan
Karen Burke
Cedric Lewis
Elizabeth Shaw
Karen Burke
Tammy Age
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March 2, 2009

Mr. Steve Theriot, CPA
Office of Legislative Auditor
1600 North Third Street
P. O. Box 94397
Baton Rouge, LA 70804-9397

Dear Mr. Theriot:

Re: Inadequate Fiscal Monitoring

The Department of Education concurs with the audit finding entitled Inadequate Fiscal Monitoring.

The Department takes very seriously its responsibility for fiscal monitoring and has taken the following corrective actions regarding this finding:

- Beginning in August of 2007, the USDOE Office of Inspector General began an audit of the HERA Restart Program in the State of Louisiana. Audits were conducted by USDOE for both district and non-public schools in Louisiana of subrecipients with the highest dollar amounts of expenditures (highest risk factors). This process resulted in no findings for our state. Because of the lack of findings in the subrecipients monitored by USDOE, the Department made the decision to focus its resources on other entities with lower expenditures of HERA Program funds (lower risk factors). A contract with a CPA firm has been established to begin monitoring the HERA Restart Program in these other entities. These monitorings are scheduled to be completed by September 30, 2009.

- The Department has contracted with a CPA firm to conduct fiscal monitoring of Consolidated Admin, IDEA Part B, IDEA Preschool, Carl Perkins, Adult Education, TANF, and 21st Century grants, for selected school districts. These monitorings are scheduled to be completed by September 30, 2009. This work will supplement the work of the Federal audit staff who will conduct fiscal monitorings of additional school districts and other subrecipients.

Of the subrecipients identified as not monitored in 4 years, note the following:

School Districts

- 14 are scheduled for monitoring in 2008-2009.
- 9 are in the 2009-2010 plans for fiscal monitoring.
- Orleans is still considered high risk and claims are reviewed by the Department prior to being paid. This situation is being evaluated on an ongoing basis.

Other Subrecipients

- 3 entities are included in the 2008-2009 monitoring.
- 4 are duplicate entities: the names are different but the entity is the same. (Ex. Milestone Academy is also Innovators of Milestone).
- Livingston Parish School District was duplicated on both the District list and the Other Entities list on the Summary Audit Plan.
- 6 entities with total expenditures under $50,000 per year.
- 17 entities have no expenditures in the last 4 years and 6 entities have no expenditures in the last 3 years.
  - Unlike school districts, other subrecipients may not expend federal funds on a yearly basis; they are kept on the risk assessment until there are no expenditures for 4 consecutive years.

- Federal regulations do not require a minimum/maximum period of time for completing a cycle in which all subrecipients must be monitored. The Department has set goals to complete a review of LEAs/subrecipients within a four-year term. The federal regulations allow the Department to set these parameters.
  - Given our limited resources in recent years and the prospect of greater limitations on resources in coming years, we are re-evaluating our monitoring cycle.
  - The risked-based audit plan includes an assessment of risk factors, total federal funds expended, complexity and size of programs, program history, and the time of the LEAs' last monitoring.

Contact person for this issue is Charlotte Stevens, Director of the Division of Education Finance at 342-4989 or via email at charlotte.stevens@la.gov .

Sincerely,

Paul G. Pastorek
State Superintendent of Education

BS:CS:jh

c: Ollie S. Tyler, Deputy Superintendent of Education
Elizabeth C. Scioneaux, Deputy Superintendent for Management and Finance
Charlotte Stevens, Acting Division Director
Dudley J. Garidel, Jr., Director
Patrick D. Weaver, Deputy Undersecretary

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February 27, 2009

Mr. Steve Theriot, CPA
State Legislative Auditor
Office of the Legislative Auditor
Post Office Box 94397
Baton Rouge, LA 70804-9397

Dear Mr. Theriot:

RE: Noncompliance with Federal and State Equipment Management Regulations

The Department concurs with the finding regarding the "Noncompliance with Federal and State Equipment Management Regulations" and will implement corrective action as outlined below by April 1, 2009. Ms. Susie Buchmann, Director, Division of Appropriation Control, is responsible for corrective action.

The Department will require the non-public schools to strengthen their compliance with the required reporting of inventory locations. While inventory training was provided initially, the non-public schools will be required to attend additional training with a focus on equipment location and the proper tagging of all equipment.

For FY 2008, there were 5,490 items in 108 school sites entered by one employee of the Department to the Protégé system. Currently, non-public schools are required to submit copies of receiving documentation and invoices received to the Department's moveable property manager for entry to the Protégé system. There have been delays in getting these documents from the non-public schools which may cause an item to be entered into Protégé after the 60-day time period. In addition to further training, the Department will run a Protégé report quarterly to identify/target the non-public schools in noncompliance with the reporting requirement to assess further action by the Department.

Currently, when the Department's accounts payable section receives from the non-public schools the original invoices and receiving documentation, a copy of these documents is sent to the moveable property management once payment has been made. Effective immediately, the accounts payable staff will scan copies of the invoices and receiving documentation to the moveable property manager when received thereby reducing delays within the Department.

A workflow system, Metastorm, as been implemented where an item purchased for the Department can be tracked from its purchase through payment. The final stage of the system, the payment process, will be operational by the end of March 2009. This will enable the property manager to access invoices and receiving reports online to reduce time delays of entry into Protégé.

Due to the size of the Recovery School District (RSD), the acquisition and distribution of a large number of moveable property items occurs each year. While the RSD increased its staff for asset management, it must create two additional positions to adequately monitor its moveable property inventory. The RSD will have Principles and Managers certify fixed assets in their respective locations on or by June 30, which will increase accountability, and ongoing training modules will be conducted for the RSD and school principles.

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The contact person related to this finding for the Louisiana Department of Education is Susie Buchmann, at (225) 342-3830, and Cedric Lewis, Recovery School District, at (504) 913-7112.

The Department takes very seriously its obligation to properly account for all items procured with public funds and is continuing to work diligently to accomplish this objective. We appreciate the assistance your staff provides on a daily basis to assist us in the process of continual improvement of our operations.

Sincerely,

Paul G. Pastorek
State Superintendent of Education

PGP/sb

c:	Ollie S. Tyler, Deputy Superintendent of Education	Patrick Weaver
	Beth Scioneaux	Susie Buchmann, CIA
	Paul Vallas	Cedric Lewis
	Rayne Martin	Wesley D. Gooch, CPA
	Karen Burke	Carmen R. Victorian, CPA

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March 24, 2009

Mr. Steve Theriot, CPA
Office of Legislative Auditor
1600 North Third Street
P. O. Box 94397
Baton Rouge, LA 70804-9397

Dear Mr. Theriot:

Re: Failure to Maintain Public Control Over Restart Program Funds

The Louisiana Department of Education (DOE) does not concur with the audit finding entitled Failure to Maintain Public Control Over Restart Program Funds.

Item number 9 in the guidance of April 24, 2006, regarding the Allowable Uses of Restart Funds for Private Schools states, "The SEA, LEA, or other public agency is considered to have maintained sufficient control over the Restart funds if it determines that the private school's expenditures represent allowable Restart expenses, that the private school has sufficient documentation supporting such expenditures, and that the school actually received the services or assistance related to those expenditures." The DOE asserts that it has met this requirement. Specifically, the Department established a process that allowed for an audit on the front-end of the Restart expenditures of the private schools.

Regarding the first bullet – "DOE did not compile an inventory of items purchased for non-public entities. Materials, equipment, and property purchased by DOE under $1,000 were not identified or tracked separately."

- The United States Department of Education (USDE) asked the DOE to serve as fiscal agent for the non-public entities. When the DOE agreed to act as the fiscal agent for the non-public funds, the USDE only expected DOE to integrate the non-public processes into our established processes and did not intend to place more cumbersome requirements on the DOE regarding the nonpublic funding.
- The primary fiscal control is the fact that we are the fiscal agent and follow the processes instituted within the agency per state regulations regarding procurement, payment and inventory operations.

- The federal government defines equipment as tangible personal property having a useful life of more than one year and an acquisition cost of $5,000 or more per unit. However, lower limits may be established consistent with recipient policy. The state of Louisiana has the lower limit of $1,000. Supplies are defined as all tangible property other than equipment. Supplies are assets that are expensed to the project at the time acquired, and when used, are not covered by further federal requirements. Since the state of Louisiana has the lower threshold of $1,000, we are tagging and inventorying all items with a cost of $1,000 or more.

Regarding the second bullet – "When nonpublic entities were reimbursed directly for previously incurred costs, DOE did not obtain adequate documentation to determine that costs were allowable and that the public agency was not required to contract the service."

- Non-public schools were trained regarding what constituted previously incurred costs.
- Non-public schools were instructed to maintain sufficient documentation to substantiate these costs.
- Reimbursement for previously incurred costs (for items such as utilities) were made only where payment had already taken place and the non-public schools submitted requests for these allowable costs as evidenced with the name of the vendor (example – Entergy) and a check and/or invoice number.
- These expenses will be reviewed in the scheduled fiscal monitoring.

Also noted in the second bullet – "In addition, DOE did not perform follow-up monitoring to verify the validity of data submitted by non-public entities, even though the Restart program is in its third year."

The DOE instituted front-end controls for the Restart Program rather than wait to monitor the program once it had begun. This process was instituted to allow for an audit process on the front-end for this program. This level of pre-audit does not exist for any other program administered by the Department. This pre-audit process is described below.

- Non-public schools provided DOE with budgets that LDE fiscal staff reviewed for program allowability.
- Non-public schools prepare purchase requisitions for materials, supplies, equipment, and property and forward to DOE fiscal staff
- Purchase requisitions are audited by DOE fiscal staff for program allowability and for available funding prior to forwarding these requests to the purchasing staff.
- The DOE purchasing staff then places these orders per state purchasing laws and requests revisions or deletions from the non-public school to the requisitions where they are not compatible with program requirements or state law.
- For purchased items, the nonpublic school must supply the packing slip and indicate receipt of all items with the claim for payment to ensure they have taken possession and control of the property on behalf of the state.

- For items purchased by the DOE via purchase order, the nonpublic school must confirm that they have taken possession and control of the property on behalf of the state prior to the payment of an invoice. All receiving reports and packing slips are submitted to DOE as documentation of receipt.
- Finally, appropriation control staff reviews claims for allowability and budget compliance.
- The non-public school must maintain documentation to support the payment.
- The DOE, through the purchasing system and the ISIS system, has a complete record of all items purchased on behalf of the non-public schools.

Beginning in August of 2007, the USDOE Office of Inspector General began an audit of the Hurricane Education Recovery Act (HERA) Restart Program in the State of Louisiana. Audits were conducted by USDE for both district and non-public schools in Louisiana of subrecipients with the highest dollar amounts of expenditures (highest risk factors). This process resulted in no findings for our state. Due to the pre-audit process combined with the lack of findings in the subrecipients monitored by USDE, the Department made the decision to focus its resources on other entities with lower expenditures of HERA Program funds (lower risk factors). A contract with a CPA firm has been established to begin monitoring the HERA Restart Program in these other entities. The monitoring will be inclusive of expenditures since the start of the program.

Contact person for this issue is Charlotte Stevens, Director of the Division of Education Finance, at 225-342-4989 or via email at charlotte.stevens@la.gov.

Sincerely,

Paul G. Pastorek
State Superintendent of Education

BS:CS:jh

c: Ollie S. Tyler, Deputy Superintendent of Education
Elizabeth C. Scioneaux, Deputy Superintendent for Management and Finance
Charlotte Stevens, Acting Division Director
Dudley J. Garidel, Jr., Director
Patrick Weaver, Deputy Undersecretary
Wesley Gooch, CPA
Carmen Victoria, CPA

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February 20, 2009

Mr. Steve Theriot, CPA
State Legislative Auditor
Office of the Legislative Auditor
Post Office Box 94397
Baton Rouge, LA 70804-9397

Dear Mr. Theriot:

RE: Noncompliance with A-87 Payroll Certification Regulations

The Department concurs with the finding regarding the "Noncompliance with A-87 Payroll Certification Regulations" and has already implemented corrective action as outlined below. Ms. Susie Buchmann, Director, Division of Appropriation Control, is responsible for corrective action.

The Department implemented the conversion of divisional units to utilize the State's SAP payroll system for recording A-87 Payroll Certification the beginning of FY 2009. However, the two items tested at the Department that were noncompliant occurred for the period January 2008 through June 2008. The reporting change moved the A-87 reporting from a bi-weekly and semi-annual basis to a daily reporting mechanism and eliminated the separate completion of a paper form. This A-87 model was demonstrated to the appropriate federal agencies and received their praise and recommendation for use. With the SAP payroll model, financial adjustments are done automatically at the time of payroll entry, and the quarterly adjustments are no longer required.

The Recovery School District (RSD) will eliminate the separate completion of a paper form for the A-87 Payroll Certifications by utilizing the State's SAP payroll system by May 1, 2009. RSD will move to the daily reporting mechanism so that financial adjustments are done automatically at the time of payroll entry, and the quarterly adjustments will no longer be required. RSD will train all employees on completing the daily recording of their time for A-87 Payroll Certification Regulations compliance, and RSD will train its timekeepers on entry to the State's SAP payroll system.

The Department takes very seriously its obligation to properly charge all federal programs and is continuing to work diligently to accomplish this objective. We appreciate the assistance your staff provides on a daily basis to assist us in the process of continual improvement of our operations.

Sincerely,

Paul G. Pastorek
State Superintendent of Education

PGP/sb

c: Ollie S. Tyler, Deputy Superintendent of Education
Beth Scioneaux
Paul Vallas
Rayne Martin
Karen Burke
Patrick Weaver
Susie Buchmann, CIA
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March 11, 2009

Mr. Steve Theriot, CPA
State Legislative Auditor
Office of the Legislative Auditor
Post Office Box 94397
Baton Rouge, LA 70804-9397

Dear Mr. Theriot:

RE: Inadequate Control Over Coding for Federal Expenditures

The Department does not concur with the finding regarding the inadequate control over coding of federal expenditures. It should be noted that according to the finding, the Department appears to have valid expenditures to support the revenue received through the Disaster Grants – Public Assistance (FEMA) and the Hurricane Education Recovery Act – Immediate Aid to Restart School Operations (RESTART).

There continues to be a challenge to reclassifying the multiple funding streams such as Community Development Block Grants, Immediate Aid to Restart Schools Operations funding and other sources of funds given to help build our schools in the affected areas. The Department contends that the avenue of not moving any of the initial posting of expenditures is the correct way to proceed for the simple fact that trying to maximize reimbursement from one particular funding source and utilizing additional sources takes a considerable amount of time due to all the channels and federal regulations that need to be followed. This has not allowed the Department to fully complete a particular project in the amount of time that has elapsed since the storms devastated the affected areas. The magnitude of the reconstructive effort requires the maximization of all of the fund sources that will eventually support the total rebuilding costs. The projected time of completion is anywhere from ten to fifteen years by some industry estimates, and closing out a project of this size will be a challenge in itself. Only after exhausting every possible avenue can we get the final and full picture as to which funds will be covering the enormous cost of rebuilding the public school system.

Furthermore, FEMA's initial estimates of the damages were greatly underestimated in the initial phase of the program. Efforts to get FEMA to a reversion of the final obligation to the total eligible costs have been a slow and methodical task. This plays a part in our efforts not to move expenditures, including questioned out-of-scope costs, until FEMA has a chance to review projects and make a final determination as to each project worksheet's obligated value. It has been determined that the value of some project worksheets can be four-fold of its initial estimate. Consequently, in order to have a clear audit trail, expenditures cannot be moved until FEMA has made it final determinations.

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Mr. Steve Theriot, CPA
State Legislative Auditor
Page 2
March 11, 2009

The Department takes very seriously its obligations to properly charge all federal programs and is continuing to work diligently to accomplish this objective. We appreciate the assistance your staff provides on a daily basis in the process of continually improving our operations.

The contact person related to this finding is Susie Buchmann, and she can be reached at (225) 342-3830.

Sincerely,

Paul G. Pastorek
State Superintendent of Education

PGP:sb

c: Ollie S. Tyler, Deputy Superintendent of Education
Beth Scioneaux, Deputy Superintendent for Management and Finance
Patrick Weaver
Susie Buchmann
Cedric Lewis
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February 12, 2009

Mr. Steve Theriot, CPA
State Legislative Auditor
Office of the Legislative Auditor
Post Office Box 94397
Baton Rouge, LA 70804-9397

Dear Mr. Theriot:

RE: Theft of Computers – Recovery School District

The Louisiana Department of Education, Recovery School District (RSD), appreciates the opportunity to respond to the reportable audit finding for the RSD related to "Theft of Computers- Recovery School District." RSD management concurs with this finding. Mr. Cedric Lewis, Chief Financial Officer (RSD), is responsible for corrective action at the RSD level.

Because of extenuating circumstances post-Katrina and the urgency of the RSD mission for recovery of the devastated educational system in New Orleans, the acquisition and distribution of thousands of pieces of property occurred before leadership or support staff were hired to manage the property control function. This repeat finding correlates to those assets that were purchased prior to documenting the distribution process of fixed assets.

Corrective Action Plan

1. While the RSD did increase staff for asset management, it was not enough. The RSD will create two additional positions to support full implementation.
2. The RSD will also have Principals and Managers certify fixed assets in their respective locations on or by June 30, which will increase accountability.
3. Ongoing training modules will be conducted by the Fixed Asset Personnel for the RSD and school Principals.

The contact person related to this finding for the Recovery School District is Cedric Lewis at (504) 913-7112.

Thank you for your continued assistance.

Sincerely,

Paul G. Pastorek
State Superintendent of Education

PGP/sb

c: Ollie S. Tyler, Deputy Superintendent of Education
Beth Scioneaux
Paul Vallas
Rayne Martin
Karen Burke
Patrick Weaver
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January 9, 2009

Mr. Steve Theriot, CPA
State Legislative Auditor
Office of the Legislative Auditor
Post Office Box 94397
Baton Rouge, LA 70804-9397

Dear Mr. Theriot:

RE: Noncompliance with the Cash Management Improvement Act

The Department concurs with the finding that DOE management did not ensure that refunds of $50,000 or more were properly reported to the Office of Statewide Reporting and Accounting Policy (OSRAP) for calculation of interest liabilities under the Cash Management Improvement Act of 1990 (CMIA). Ms. Susie Buchmann, Division Director, Division of Appropriation Control, is responsible for corrective action at the Department level.

Corrective action has already begun to strengthen internal controls to ensure that refunds of $50,000 or greater are reported to OSRAP in a timely manner. The revenue procedures of the Division have been revised related to the refunds of federal funds, and the appropriate revenue staff will receive training regarding the reporting of federal refunds by January 15, 2009.

In the review of checks received, the revenue manager will flag refund checks over $50,000 or greater pertaining to federal grants that will be reported on the CMIA Report. After completion, the CMIA Report will be reviewed by the revenue manager for accuracy and the proper reporting of any flagged refunds along with the documentation on the use and timing of the offset of those refunds.

The Department takes very seriously its obligation to properly report federal funds and is continuing to work diligently to accomplish this objective. We appreciate the assistance your staff provides on a daily basis to assist us in the process of continual improvement of our operations.

Thank you for your continued assistance.

Sincerely,

Paul Pastorek
State Superintendent of Education

PP/sb

c: Ollie S. Tyler, Deputy Superintendent of Education
Beth Scioneaux
Patrick Weaver
Susie Buchmann, CIA
Wesley D. Gooch, CPA
Carmen R. Victorian, CPA

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March 25, 2009

Mr. Steve J. Theriot, CPA
Legislative Auditor
1600 North Third Street
P.O. Box 94397
Baton Rouge, La 708-9397

Dear Mr. Theriot:

RE: Inadequate Oversight of School Activity Funds - Recovery School District

The Louisiana Department of Education, Recovery School District (RSD), appreciates the opportunity to respond to the reportable audit finding for the RSD related to "Inadequate Oversight of School Activity Funds - Recovery School District." The RSD management concurs with this finding. Mr. Cedric Lewis, Chief Financial Officer (RSD), is responsible for corrective action at the RSD level.

The RSD made significant advancements in FY 2008 towards eliminating this repeat finding. Because of turnover in some of the principalships, as well as the school accountants, some new employees were not completely conversant with the responsibilities associated with oversight of the accounts. The RSD will eliminate this finding by adopting and implementing the following action plan:

Corrective Action Plan

1. The RSD will immediately notify Human Resources and the Chief Academic Officer in writing when a school does not remit the monthly student activity summary report to the care of Student Activity Fund Coordinator by the 15th of the month.
2. The RSD will modify the Principal and School Accountant evaluation instrument to reflect adherence to the reporting deadline.
3. The RSD will print (centrally) receipt books which shall be issued to each school during the summer months. This will create uniformity in school activity fund receipt accounting and build an additional control mechanism into deposit oversight for schools.

The contact person related to this finding for the Recovery School District is Brent Washington, Coordinator of Fixed Assets/Student Activity Funds - Recovery School District, at (504) 655-8186.

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If you have additional questions concerning this response, please contact Cedric Lewis, RSD Chief Financial Officer at (504) 312-0709 or by email at cedric.lewis@rsdla.net.

Sincerely,

Paul G. Pastorek
State Superintendent

PGP:cl

c: Ollie S. Tyler, Deputy Superintendent of Education
Beth Scioneaux
Paul Vallas
Patrick Weaver
Susie Buchmann
Cedric Lewis
Karen Burke
Brent Washington
Wesley D. Gooch, CPA
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January 15, 2009

Mr. Steve Theriot, CPA
Office of the Legislative Auditor
1600 North Third Street
Post Office Box 94397
Baton Rouge, LA 70804-9397

Dear Mr. Theriot:

The Louisiana Department of Education, Recovery School District (RSD), appreciates the opportunity to respond to the reportable audit finding for the RSD related to "Delinquent Payments to Vendors- Recovery School District." RSD management concurs with this finding. Mr. Cedric Lewis, Chief Financial Officer (RSD), is responsible for corrective action at the RSD level.

Corrective action has already begun with the hiring of a seasoned payables manager. Cash flow analysis is now an integral part of the RSD's financial management. A documented overhaul of the payables process has been developed and implemented. With the approval of the Governor's Office of Homeland Security and Emergency Preparedness, a revolving capital fund was created to provide a second tier of support to ensure cash is readily available to satisfy capital obligations. Additionally, the RSD has improved relations with vendors, and regularly communicates timelines as due dates for payments approach.

In FY 2008, the Recovery School District (RSD) had to open over 15 schools simultaneously to serve the returning student population; ten of which (modular campuses) had to be designed and constructed in fewer than five months. The funding source for these schools was the Federal Emergency Management Agency (FEMA) and Community Development Block Grant (CDGB) funds. Due to the nature of these funding sources, payments were late as a result of cash flow problems. If you have questions concerning this response, please contact Mr. Lewis at (504) 373-6200 or by email at cedric.lewis@rsdla.net.

Sincerely,

Paul G. Pastorek
State Superintendent of Education

PDP:CL:pw

c: Ollie S. Tyler, State Deputy Superintendent of Education
Paul Vallas
Rayne Martin
Beth Scioneaux
Karen Burke
Cedric Lewis
Patrick Weaver
Wesley Gooch, CPA
Carmen Victorian, CPA
Susie Buchmann, CIA

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