

DEPARTMENT OF EDUCATION
STATE OF LOUISIANA



MANAGEMENT LETTER
ISSUED JUNE 4, 2008

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

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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 4, 2008

**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, 2007, 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 the U.S. Office of Management and Budget Circular A-133.

The Annual Fiscal Report of the Department of Education is not audited or reviewed by us, and, accordingly, we do not express an opinion on that report. The department's accounts are an integral part of the State of Louisiana 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, 2006, we reported findings relating to untimely completion of A-87 payroll certifications, inadequate subrecipient monitoring over single audit reports, and inadequate fiscal monitoring. Those findings have not been resolved by management and are addressed again in this letter.

Based on the application of the 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* will also be included in the State of Louisiana's Single Audit Report for the year ended June 30, 2007.

Inaccurate and Incomplete Annual Fiscal Reports

The Department of Education (DOE) did not submit accurate and complete Annual Fiscal Reports (AFRs) to the Division of Administration for the fiscal year ended June 30, 2007. As authorized by Louisiana Revised Statute (R.S.) 39:79, the commissioner of administration through the Division of Administration's Office of Statewide Reporting and Accounting Policy (OSRAP) prescribes the content and format for preparing each

agency AFR, which is then used in compiling the state's Comprehensive Annual Financial Report (CAFR). Good internal control includes establishing a process to ensure that these financial statements are accurately prepared and reviewed. DOE originally submitted AFRs for the six agencies under its oversight to OSRAP by the date due, but later restated portions of each AFR after the following errors, omissions, and inconsistencies were detected by the auditors:

- Agency 681 Schedule 1, "Schedule of Revenue and Expenditures," accounts payable and federal receivable accruals were materially understated by \$35,645,480 and \$35,348,404, respectively.
- Agency 678 Schedule 1 federal receivable accrual was understated by \$27,055.
- Agency 682 Schedule 8, "Schedule of Expenditures of Federal Awards," was overstated by \$7,463,006.
- Agency 681 Schedule 8-4, "Schedule of Non-State Subrecipients of Major Federal Programs," was understated by \$23,893.
- On Agency 682 Schedule 13, "Schedule of Interagency Receipts," receipts of \$308,580 were misclassified and one line item did not crossfoot.
- Agencies 695 and 697 note R, "Payroll and Related Benefits Accrual," did not include expenditure and payroll accrual amounts of \$2,769,559,609 and \$29,590,215, respectively.
- Agency 699 note R was included twice in the AFR with different amounts reported on each version.
- Agency 681 Schedule 8-5, "Schedule of State Agency Subrecipients of Federal Programs," reported the wrong names or amounts for five of seven subrecipients of the Child Nutrition Cluster: Summer Food Service Program for Children (CFDA 10.559).

DOE management did not ensure that its AFRs were properly prepared and reviewed for errors and misclassifications. Failure to submit accurate AFRs can delay the compilation and issuance of the state's CAFR. Furthermore, misstatements from errors or fraud may occur and remain undetected in the CAFR.

DOE management should ensure that its AFRs are properly prepared and should review the financial information and note disclosures in its AFRs to identify and correct errors before submitting them to OSRAP. Management concurred with the finding and outlined corrective action (see Appendix A, page 1).

Inadequate Subrecipient Monitoring Over Single Audits

For the third consecutive year, DOE did not adequately follow up on single audits of its subrecipients. Office of Management and Budget (OMB) Circular A-133 requires pass-through entities for federal awards to (1) ensure that subrecipients expending \$500,000 or more in federal awards during a fiscal year have a single audit; (2) issue a management decision on audit findings within six months after receipt of the subrecipient's audit report; and (3) ensure that the subrecipient takes appropriate and timely corrective action. OMB Circular A-133 further states that a management decision means the evaluation by the pass-through entity of audit findings and the issuance of a written decision as to what corrective action is necessary.

A test of three single audit reports with findings showed the following:

- For all three reports, the department failed to issue management decisions within six months of receiving the audit reports. No management decisions have been issued even though the reports were received by DOE approximately eight months ago.
- For one of the three reports, no corrective action plan had been finalized.
- For two of the three reports, the department did not ensure the timely resolution of \$20,625 in questioned costs.

Management failed to adequately stress the importance of a timely followup on single audits of its subrecipients. Inadequate resolution of findings from the single audits of subrecipients results in noncompliance with federal regulations and could result in repeat findings in subsequent single audits of subrecipients, including possible continued misuse of federal funds by subrecipients and disallowed costs.

DOE should issue management decisions on findings in single audits of its subrecipients within six months after receiving the subrecipient's audit report, ensure that the subrecipient takes appropriate and timely corrective action, and resolve all questioned costs. Management concurred with the finding and outlined corrective action (see Appendix A, page 2).

Untimely Completion of A-87 Payroll Certifications

For the second year, DOE did not ensure that certifications for payroll expenditures charged to federal programs were completed on at least a monthly basis and that quarterly comparisons of actual costs to budgeted distributions were made. OMB Circular A-87, "Cost Principles for State and Local Governments," states that where 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. Budget estimates or other distribution percentages determined before the services are performed do not qualify as support for charges to federal awards but may be used for interim accounting purposes provided that at least quarterly comparisons of actual costs to budgeted distributions based on the monthly activity reports are made.

In a test of 32 biweekly payroll certifications, we noted that 11 (34%) of the required certifications were not on file. Furthermore, we noted that no quarterly comparisons of actual costs to budgeted distributions were completed during the year. DOE's failure to prepare and maintain required payroll certifications increases the risk that expenditures are not fairly and accurately allocated to federal programs.

Management should establish and enforce policies and procedures for completing timely payroll certifications and for performing quarterly comparisons of actual costs to budgeted distributions in compliance with federal regulations. Management concurred with the finding and outlined corrective action (see Appendix A, page 3).

Inadequate Fiscal Monitoring

For the second 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.

- As of June 30, 2007, the department had not performed any monitoring for the Hurricane Education Recovery - Immediate Aid to Restart School Operations (CFDA 84.938A) program since its inception in fiscal year 2006.
- During the current fiscal year, no fiscal monitoring was performed by the department to ensure that only allowable expenditures were charged to the following major federal programs: Title I Grants to Local Educational Agencies (CFDA 84.010), Improving Teacher Quality State Grants (CFDA 84.367), Special Education - Grants to States (CFDA 84.027), and Special Education - Preschool Grants (CFDA 84.173).

Management failed to adequately emphasize the importance of fiscal monitoring to its program managers. Failure to monitor subrecipients could result in possible misuse of federal funds by subrecipients.

Management should perform adequate fiscal monitoring on all its federal awards, as required by federal regulations. Management concurred with the finding and outlined corrective action (see Appendix A, pages 4-5).

Noncompliance With Federal Equipment Management Regulations

DOE did not comply with federal equipment management regulations. 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, "Cost Principles for State, Local, and Indian Tribal Governments," requires a state to use, manage, and dispose of equipment acquired under a federal grant in accordance with state laws and procedures. Title 34, Part VII, Section 307 of the Louisiana Administrative Code 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 within 60 calendar days after receiving these items.

DOE did not tag and report equipment as required and did not maintain accurate information in the state's movable property system, Protégé. In a test of 15 items of equipment purchased with federal grants, the following were noted:

- Four of 15 (27%) items of equipment were not in the location reported.
- Three of 15 (20%) items were not tagged, even though the equipment was received 157 days before testing.
- Eleven of 15 (73%) items were not entered into Protégé within 60 days. The delays in entering the equipment ranged from 62 to 109 days.
- For three of 15 (20%) items, the serial numbers were not reported in Protégé.

DOE failed to comply with federal regulations because off-site property liaisons were not adequately instructed and monitored. Failure to comply with federal 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 corrective action (see Appendix A, page 6).

Inadequate Control Over Coding of Federal Expenditures

DOE failed to maintain adequate control over coding 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 (CFDA 84.938) Immediate Aid to Restart School Operations 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 the department 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.

During the year, the department performed many correcting journal vouchers to reclassify federal expenditures. As a result, at fiscal year-end the department was unable to correctly identify the final ISIS coding for four of 44 (9%) expenditure transactions tested.

In addition, 36 of 44 (82%) Public Assistance (PA) reimbursements tested were miscoded as follows:

- Ten invoices were coded in total to PA even though portions of these invoices were not approved or reimbursed by PA and are currently ineligible for reimbursement.
- Ten invoices were coded in ISIS to the Restart program even though reimbursement was received from the PA program.
- Ten invoices were coded in ISIS to the FEMA Reimbursement Fund (a state statutory dedicated fund) even though reimbursement was received from the PA program.
- Three invoices were not recorded in ISIS. The invoices were paid by the Orleans Parish School Board (OPSB), but the DOE Recovery School District received reimbursement from the PA program. Six months after fiscal year-end, the department had not reimbursed OPSB and recorded the matching expenditure.
- Three invoices were misclassified in ISIS. The invoices related to contents removal but were coded as contents in ISIS.

Management 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. The department did not concur with the finding or recommendation. The department states in its response that due to multiple funding sources, complexity, timing, and further negotiations with all parties involved, coding expenditures to the individual federal programs cannot be viewed on a single fiscal year interval, but can only be accomplished once the projects are completed (see Appendix A, pages 7-9).

Additional Comments: The department provided no additional evidence to dispute the facts of the finding. While we acknowledge the challenges presented by these ongoing recovery projects, the department and the state must accurately report financial information by fiscal year. The department 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.

**Inadequate Controls Over Movable Property -
Recovery School District**

The Recovery School District (RSD) of DOE did not maintain adequate internal control over movable property and did not comply with state and federal laws and regulations. OMB Circular A-87, "Cost Principles for State, Local, and Indian Tribal Governments," requires that governmental units manage equipment purchased with federal funds in accordance with state laws and procedures. Title 34, Part VII, Section 307 of the Louisiana Administrative Code 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 receiving these items. Gifts of movable property must be given a fair market value as agreed upon between the donor and head of the receiving agency and be recorded in inventory if the fair market value is \$1,000 or more. DOE movable property control procedures require that employees report property deliveries to the appropriate property liaison and also sign and date any paperwork received with the property and forward the paperwork to the property liaison immediately. R.S. 39:325 requires that upon completion of the initial inventory, an inventory report be submitted by each property manager to LPAA.

RSD management did not conduct an annual inventory of movable property and submit a report as required. RSD did not tag and report movable property items as required, did not maintain accurate information in Protégé, and did not follow proper receiving and reporting procedures. RSD also did not properly value donated property to determine if tagging and reporting was required.

In our test of movable property transactions, the following were noted:

- RSD failed to conduct an initial inventory and submit the inventory report by the due date of April 30, 2007.
- One of 24 property items tested (4%) could not be located.
- Four of 20 items tested (20%) were not tagged and five of 21 items tested (24%) were not entered into Protégé.
- Four of seven items tested (57%) were not entered into Protégé within 60 days of receipt.
- Two of 15 items reported (13%) in Protégé were not in the location indicated and four (27%) did not include the correct state property tag numbers and/or serial numbers.

- Of 13 purchases of movable property tested, seven (54%) lacked a receiver's signature and 10 (77%) lacked evidence of the receiving date or had conflicting dates of receipt.
- A donated conference room projector lacked the required fair market value agreement with the donor, and the department had not considered if it should be tagged and entered into the inventory system.

Failure to maintain adequate internal control over movable property increases the risk that assets may be misreported, lost, or stolen.

Management should ensure that RSD conducts an annual inventory and submits reports as required, tags and reports property as required, documents when property is received, correctly enters property information in inventory records, and tracks the physical location of property when moved. Management concurred with the finding and outlined a corrective action plan (see Appendix A, pages 10-11).

Failure to Insure Warehouse Contents - Recovery School District

RSD failed to properly insure warehouse contents. Responsibility for insuring state of Louisiana assets is given to the Office of Risk Management (ORM) by R.S. 39:1527 et seq. R.S. 39:1544 requires each state department and agency to submit to ORM all information relating to insurance needs. RSD did not provide a timely valuation of warehouse contents to ORM so that these assets could be insured.

RSD began moving school equipment and supplies into a leased warehouse on February 6, 2007. On August 6, 2007, RSD notified ORM that as of June 30, 2007, the contents were valued at approximately \$5 million. ORM could not provide insurance on this equipment and supplies for six months because RSD failed to provide a valuation of the warehouse contents. The delay occurred because RSD did not implement a warehouse inventory system that would identify the value of each item in the warehouse. Failure to insure warehouse contents could result in an uninsured loss of state property and possible business interruption.

RSD should make provisions for a timely and accurate inventory valuation system for all warehouse contents and should update ORM on the value of these contents when significant changes occur. Management concurred with the finding and outlined corrective action (see Appendix A, pages 12-13).

Theft of Computers - Recovery School District

RSD failed to maintain adequate control over movable property, resulting in the loss of 34 laptop computers. In addition, RSD management did not notify the district attorney and legislative auditor of the thefts as required by law. 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. In addition, R.S. 24:523

states that an agency head of an auditee who has actual knowledge of any misappropriation of public funds or assets of the agency shall immediately notify, in writing, the legislative auditor and the district attorney of the parish in which the agency is domiciled of such misappropriation.

A New Orleans Police Department report shows that on May 31, 2007, Wicker Elementary School, operated by the RSD, reported 34 laptop computers stolen from a storage container. A broken key was noted in the storage container lock. The employee reporting the theft said his keys had been stolen in a separate theft at this location. Police reported that no alarms came in from the school. As of October 4, 2007, RSD had not notified the district attorney or the legislative auditor in writing about this theft. These computers were purchased at a cost of \$56,128 with the federal Hurricane Education Recovery - Immediate Aid to Restart School Operations program.

RSD management should strengthen its internal controls over movable property and report all misappropriations of public funds and assets to the district attorney and legislative auditor. Management concurred with the finding and outlined a corrective action plan (see Appendix A, page 14).

Inadequate Oversight of School Activity Accounts - Recovery School District

RSD failed to provide adequate oversight of school activity 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 monies 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 fund account unless the request for withdrawal of funds carries two signatures, one of which shall always be the principal's. The RSD's *School Fund Policy Manual* requires principals to submit a monthly financial report to the RSD business office by the 15th day of each month. Reports must be in the required format and must include a copy of the current month's bank statement and bank reconciliation. Sound business practices require RSD to exercise oversight over the monthly financial reports submitted by principals and to develop a plan for reviewing detailed records on file at schools.

RSD did not adequately monitor the monthly financial reports submitted by principals. Files of the monthly reports were unorganized and inconsistent. There was no record of which principals had failed to submit the required monthly financial reports. There was no followup to verify that certain schools had accounts that were not interest-bearing. There was no evidence of a review of account withdrawals made without the required two signatures. In addition, no internal audit plan was developed for reviewing detailed documentation of school fund transactions on file at schools. At fiscal year-end, RSD management reported that it was still training new school accountants and had not started requiring schools to comply with certain policies. Failure to adequately monitor school activity accounts may result in fraud or misappropriation of these funds.

RSD management should develop and implement a plan for oversight of school activity accounts to ensure that state law and department policies are followed consistently. Management concurred with the finding and outlined a corrective action plan (see Appendix A, page 15).

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

RSD failed to correctly pay employees and failed to support payroll charges with adequate documentation. OMB Circular A-87, Attachment B, Section 8(h), states that payroll costs charged to federal programs are to be documented in accordance with the generally accepted practice of the governmental unit and approved by a responsible official of that governmental unit. In addition, where employees are expected to work solely on a single federal award or cost objective, charges for their salaries should be supported by periodic certifications that the employees worked solely on that program for the period covered by the certification. These certifications should be prepared at least semiannually and should be signed by the employee or supervisor having first hand knowledge of the work performed by that employee.

DOE policy number EP 3.2 requires employees to sign in and out daily, to initial the biweekly time and attendance records at the end of each pay period, and to gain written approval of supervisors for work performed and leave taken. Good internal controls require that employees be paid only for days worked and holidays within the employment period, employee terminations be entered into the payroll system before the close of the employee's last pay period, and employees who process payroll and personnel records be knowledgeable about the payroll system.

Management did not identify improper payments 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. During testing of RSD payroll and personnel records, we noted the following:

- In a test of 21 former employees, termination dates for 15 (71%) were not entered in the payroll system timely, with dates ranging from 11 to 148 days after the last day of employment. As a result, five (24%) employees were overpaid a total of \$16,102 and one (5%) was underpaid \$793.
- One employee was paid for a holiday the day before her employment contract began. In addition, a salary adjustment for that employee was miscalculated, resulting in an overpayment of \$8,446.
- In a test of 13 employees paid with federal funds, five (38%) of the required A-87 certifications were not on file and six (46%) of the certifications were not signed timely, with dates ranging from 145 to 162 days after the certification period ended.

- In a test of 23 employees, 10 (43%) time sheets were not on file and 10 others (43%) were not fully completed.
- In a test of five instances where employees took leave, four (80%) leave slips were not on file; one (20%) leave slip was not signed by a supervisor; and leave taken was not entered into the payroll system for one (20%) of the employees.

In addition, Report ZF65 from the ISIS/HR payroll system showed the system calculated that former employees had been overpaid a total of \$427,695 as of September 30, 2007. RSD employees who process payroll and personnel records reported that they were unfamiliar with this report and therefore had not fully investigated these amounts. Failure to support payroll charges with adequate documentation, including the difficulty in identifying federally funded employees, increases the risk that employees will be paid for time not worked or with inappropriate funding. Overpayments to former employees result in \$427,695 in questioned costs.

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. Management concurred in part with the finding and outlined corrective action (see Appendix A, pages 16-18).

Inappropriate Charges for Free and Reduced Price Student Meals - Recovery School District

RSD charged the School Breakfast Program (CFDA 10.553) and the National School Lunch Program (CFDA 10.555) for certain ineligible student meals. Code of Federal Regulations 7CFR 245.6a requires a school district to verify a sample of the approved free and reduced price meal applications and to reduce or terminate benefits when eligibility cannot be confirmed.

In the verification process, RSD could not confirm eligibility for 51 approved applications for free or reduced price meals for 70 students but did not reduce or terminate program benefits for these students. The employee who performed the verifications reported that he was not adequately trained to evaluate the compliance requirements. RSD's failure to adjust student eligibility status resulted in unallowable charges to the School Breakfast Program and the National School Lunch Program.

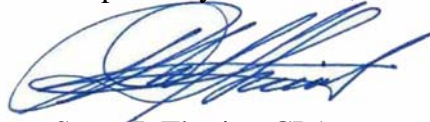
Management should ensure that employees are adequately trained and RSD complies with free and reduced price meal guidelines. Management concurred with the finding and outlined corrective action (see Appendix A, pages 19-20).

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. The 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, 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

JDH:WG:PEP:sr

DOE07

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



STATE OF LOUISIANA
DEPARTMENT OF EDUCATION
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December 19, 2007

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: Inaccurate and Incomplete Annual Fiscal Reports

The Department concurs with the finding regarding the inaccurate and incomplete annual fiscal reports and will implement corrective action as outlined below by April 1, 2008. Mrs. Babs Myers, Assistant Director, Division of Appropriation Control, is responsible for corrective action.

The Department has undertaken and completed a review of all supporting detail spreadsheets utilized in the compilation of the annual fiscal reports. The two formulas which caused the error noted in the Schedule 1 and Schedule 13 have been corrected. Additionally, as a courtesy, the Department automatically provides copies of all working papers on transmission of the final annual fiscal report to your staff. Clerical error included an iterative, incomplete working copy of Note R along with the final copy. We have instituted an additional match review of the working paper copy to the final report to eliminate this occurrence in the future. Additionally, on detection of the errors noted, we immediately restated the fiscal reports and provided corrected copies to both the Office of Statewide Reporting and Accounting Policy and the Office of the Legislative Auditor.

We would like to take this opportunity to reassure you that, even within the extremely compact time frame for completion required by the fiscal year end close, fiscal reports are reviewed three times prior to submission. The final review is independently performed by the Bureau of Internal Audit. We have received recognition and praise many times for excellence in financial reporting and will re-evaluate how we may continue to strengthen our review process.

The Department takes very seriously its obligation to properly account for and accurately report expenditures of all public funds and continues to work diligently to accomplish this objective. We appreciate the assistance your staff provides on a daily basis to assist us in the financial reporting of Department operations. Thank you for your continued assistance.

Sincerely,


Paul G. Pastorek
State Superintendent of Education

PGP/kcl

c: Ollie S. Tyler, Deputy Superintendent of Education
Beth Scioneaux
Kitty Littlejohn
Janet Hoffpauir, CPA

"An Equal Opportunity Employer"



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November 8, 2007

Mr. Steve J. Theriot, CPA
Office of Legislative Auditor
State of Louisiana
P. O. Box 94397
Baton Rouge, LA 70804

Dear Mr. Theriot:

Re: Inadequate Subrecipient Monitoring Over Single Audits

The Department of Education concurs with the finding entitled *Inadequate Subrecipient Monitoring Over Single Audits*. Specifically, the Department concurs that:

- For all three reports reviewed, the department failed to issue management decisions within six months of receipt of the audit reports;
- For one of the three reports reviewed, no corrective action plan has been finalized;
- For two of the three reports, the department did not ensure the timely resolution of \$20,625 in questioned costs.

Management is aware of the importance of subrecipient monitoring on all its federal awards. The Department has taken the following steps to correct or address the areas noted as follows:

- A tracking system has been established in each division to better meet deadlines. Oversight on this process will be provided by the Division Director via a monthly review of the status report on follow-up of findings.
- Procedures have been implemented to ensure that management decision letters will clearly state:
 - Whether or not the finding is sustained
 - Reasons for the decision
 - Expected auditee action to repay disallowed costs, make financial adjustments, or take other action including finalization of a corrective action plan
- Contact persons for the Department are:
 - Charlotte Stevens, Acting Division Director, Division of Education Finance (charlotte.stevens@la.gov, 225-342-4989)
 - Susan Batson, Acting Division Director, Division of Educational Improvement and Assistance (susan.batson@la.gov, 225-342-3513)

Sincerely,


Paul G. Pastorek
State Superintendent of Education

PGP:BS:CS:pm

c: Ollie S. Tyler, Deputy Superintendent of Education
Elizabeth C. Scioneaux, Deputy Superintendent for Management and Finance
Susan W. Batson, Acting Division Director
Charlotte Stevens, Acting Division Director
Dudley J. Garidel, Jr., Director

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November 19, 2007

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: Untimely Completion of A-87 Payroll Certifications

The Department concurs with the finding regarding the untimely completion of eleven (11) A-87 Payroll Certifications and will implement corrective action as outlined below by April 1, 2008. Ms. Kitty Littlejohn, Director, Division of Appropriation Control, is responsible for corrective action at the Department level.

Corrective action has already begun with the training and conversion of divisional units to the State's SAP payroll system where failure to submit forms on a timely basis has occurred. This reporting change will move the A-87 reporting from a bi-weekly and semi-annual basis to a daily reporting mechanism and eliminate the separate completion of a paper form. A-87 certifications will be attested through the employee's time sheets. This A-87 model has been demonstrated to the appropriate federal agencies and has received their praise and recommendation for use. The Department expects to complete conversions of all divisions to this model by April 1, 2008.

Due to a database failure which automated the reconciliation process during this fiscal year period, the Department had to perform the adjustment process manually. The manual financial reconciliation was performed for the entire year in one adjustment. The database has been repaired and reintroduced into service and quarterly comparisons are now being performed. Upon completion of the conversion of all Department divisions to the SAP A-87 payroll model, financial adjustments will be done automatically at the time of payroll entry and the quarterly adjustments will no longer be required.

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.

Thank you for your continued assistance.

Sincerely,



Paul Pastorek
State Superintendent of Education

PP/kd

c: Ollie S. Tyler, Deputy Superintendent of Education
Beth Scioneaux
Patrick Weaver
Kitty Littlejohn
Janet Hoffpauir, CPA

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November 8, 2007

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:

- The Department has contracted with the CPA firm of Posthlewaihe and Netterville to conduct fiscal monitoring of Title I (CFDA #84.010); Improving Teacher Quality State Grants (CFDA # 84.367); Special Education – Grants to States (CFDA #84.027); and Special Education – Preschool Grants (CFDA #84.173), for selected school districts. This monitoring is well underway and should be completed by January 31, 2008. This work will supplement the work of the Federal audit staff.
- A federal audit supervisor and one staff auditor have been hired in the Division of Education Finance to replace experienced staff that left. These individuals have been trained and are currently conducting fiscal monitoring.

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Mr. Steve Theriot, CPA

Page 2

November 8, 2007

- The Department has developed an audit plan and program for the monitoring of HERA - Immediate Aid to Restart School Operations (CFDA # 84.938.A). A contract with a CPA firm to complete this monitoring is being initiated.
- Contact person for this issue is Charlotte Stevens, Acting Director of the Division of Education Finance at 342-4989 or via email at charlotte.stevens@la.gov.

Sincerely,

A handwritten signature in black ink, appearing to read 'P. Pastorek', written over the word '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



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November 19, 2007

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 Equipment Management Regulations

The Department concurs with the finding regarding the noncompliance with federal equipment management regulations and will implement corrective action as outlined below by April 1, 2008. Ms. Kitty Littlejohn, Director, Division of Appropriation Control, is responsible for corrective action.

The Department will require the Archdiocese of New Orleans to strengthen their compliance with the required reporting of inventory locations and timely entry of the respective items into the Protégé system within 60 days. The Archdiocese will be provided access to the Protégé system for their direct input of items. The Department will perform on-line monitoring of their compliance with data entry requirements. Failure of the Archdiocese to comply with timely Protégé entry will be identified and brought to their attention at 45-day intervals and reported to the State Superintendent of Education and the Deputy Superintendent for Management and Finance. Additionally, while all equipment was located at the Archdiocese of New Orleans school sites, it was moved between sites and rooms without recording. While inventory training was provided initially at the purchase of inventoried items, the Department will re-train the Archdiocese staff and perform an unannounced monitoring site visit(s).

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.

Thank you for your continued assistance.

Sincerely,

Paul Pastorek
State Superintendent of Education

PP/kcl

c: Ollie S. Tyler, Deputy Superintendent of Education
Beth Scioneaux
Patrick Weaver
Kitty Littlejohn
Janet Hoffpauir, CPA

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March 14, 2008

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 of Federal Expenditures

The Department does not concur with the finding regarding the inadequate control over coding of federal expenditures.

First, it must be noted that in the results of the audit that generated this finding, the auditor did state that the Recovery School District (RSD) has valid expenditures to support revenue received for applicable programs and that ineligible costs were not detected. This result is further evidenced by the clean audit of expenditures for the Immediate Aid to Restart School Operations (Restart) grant by the U.S. Department of Education Office of the Inspector General. It also provides confirmation of our belief that internal controls do exist to maintain adequate control over the coding of federal program expenditures.

As a result of Hurricane Katrina, the Recovery School District was the applicant for and recipient of multiple federal fund sources designed to enable the rebuilding of the educational system within Orleans Parish. Funding the rebuilding of both the educational system and its facilities requires the utilization of multiple funding streams to provide for the significant costs that are to be incurred. At the current time, these fund sources include Public Assistance (FEMA), Community Development Block Grant funds (CDBG), and Immediate Aid to Restart School Operations (Restart) funding. As you are aware, both construction and content replacement costs are allowable under FEMA funding, construction costs are allowable under CDBG, and lease of temporary facilities, operational costs, and content replacement costs are allowable under Restart. The magnitude of the reconstructive effort requires the maximization of all of the fund sources that will eventually support the total rebuilding costs. It is widely held that the recovery rebuilding and its related financial activities will be a multi-year process lasting a decade or more before projects can be closed and total project costs permanently allocated between funding streams.

Furthering the complexity of these issues is the original obligation of Public Assistance funding by FEMA to the Orleans Parish School Board (OPSB) as an applicant for the schools which were later transferred to the RSD. FEMA has initiated, but not yet completed, the de-obligation of OPSB project worksheets to transfer and obligate funding for these schools to the RSD. Until that process is completed and validated by both the OPSB and the RSD, it has been agreed that funds received by either party for the other will be transferred at a later date to the final funding applicant. This process is included in the Memorandum of Understanding outlined below.

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As you are aware, the nature of the FEMA program provides for the obligation of an initial version with provision for FEMA staff to return and re-version the final obligation to the total eligible costs. As stated above, these total eligible costs are based upon the final contract values and will not be known for a significant period of time in the future. Consequently, it is the Department's position that project expenditures cannot be viewed on a single state fiscal year interval, but rather must encompass an inception to date analysis. Until that point in time, the nature of the PA program essentially forces all applicants into the position of coding expenditures to that program that at first may appear ineligible because they are not obligated on project worksheets, but are later deemed eligible through the obligation of subsequent project worksheet versions.

The Department initially attempted to move expenditures to match incoming revenue after receipt. However, due to the constant shifting of eligible costs between FEMA, CDBG, and other federal funding streams, it became quickly apparent that this cannot be accomplished until the project is completed. To do so prior to that point in time blurs the audit trail significantly and significantly increases the risk of error.

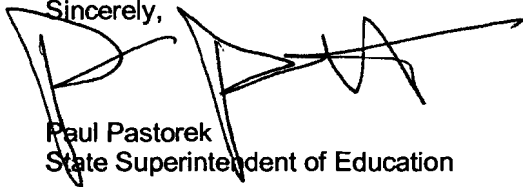
The auditor notes that ten invoices were coded in ISIS to the statutorily dedicated FEMA Reimbursement Fund even though reimbursement was received from the PA program. The FEMA Reimbursement Fund was established via Act 196 of the 2007 Regular Session (copy previously provided) to provide replacement of the FY 2006 Emergency Response Fund bridge loan of \$33.5 million. The bridge loan was the initial partial funding provided to initiate cash flow for construction of schools to be opened in FY 2007 and FY 2008. The statute was created to accomplish collection of federal or state funding received for the reconstruction projects originally financed by the Emergency Response Fund. This revenue collection and classification serves to designate the repayment of the \$33.5 million bridge funding. Additionally, due to the length of time it has taken to receive federal reimbursement funding from both FEMA and CDBG, this statute set the assignment of any federal revenues to the FEMA Reimbursement Fund to occur by the end of the FY 2009. The Department has sought and received approval from the Commissioner of Administration to utilize the public assistance funds received for continued construction cash flow purposes and will not expect classification of these funds to the FEMA Reimbursement Fund until EOY 2009.

The auditor notes that some invoices have been paid by Orleans Parish School Board, but the Recovery School District received reimbursement from the PA program and has not yet reimbursed the Orleans Parish School Board. Department, RSD, and Orleans Parish School Board legal staff, as well as their respective Superintendents, have been working diligently over the past year 15 months to develop and adopt a memorandum of understanding which governs costs paid and revenues received on behalf of the other. This memorandum will include agreements reached in these areas inclusive of insurance proceeds on hand, as well as those yet to be decided in joined litigation. Both BESE and the Orleans Parish School Board will receive this document for approval. As we have previously shared, until this agreement is in place, final amounts cannot be determined, and we are unable to charge ISIS for costs that have not yet been incurred. The Legislative Auditor has been an integral and important part of the drive for a memorandum of understanding agreement, and we appreciate his assistance on the behalf of both entities in this regard.

Mr. Steve Theriot, CPA
State Legislative Auditor
March 14, 2008
Page 3

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,

A handwritten signature in black ink, appearing to be 'Paul Pastorek', written over a large, stylized, and somewhat abstract graphic element that resembles a signature or a large letter 'P'.

Paul Pastorek
State Superintendent of Education

PP/BS:kd

- c: Mrs. Ollie Tyler, Deputy Superintendent of Education
- Mrs. Beth Scioneaux, Deputy Superintendent for Management and Finance
- Mr. Patrick Weaver, DOE Audit Coordinator
- Mrs. Janet Hoffpauir, Auditor in Charge
- Mr. Cedric Lewis, Chief Financial Officer, Recovery School District
- Mrs. Kitty Littlejohn, Director, Division of Appropriation Control



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September 19, 2007

Mr. Steve J. 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 (DOE), Recovery School District (RSD), appreciates the opportunity to respond to the reportable audit finding for the RSD related to "Inadequate Controls over Moveable Property." RSD management has reviewed the finding and concurs with the finding as presented.

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. Even after leadership was in place at the Recovery School District in mid-September 2006, there was still a great challenge in recruiting competent, experienced, professional staff. It was the end of the fiscal year before personnel were in place to fully implement the district property control plan.

Corrective Action Plan

1. The Recovery School District has staffed both district-level and site-level employees with property control responsibilities to maintain adequate internal control over moveable property and compliance with district policy and state and federal laws and regulations. Effective August 29, 2007, the *Designation of Property Manager* was completed for RSD and submitted to the Louisiana Property Assistance Agency (LPAA), along with the filing of the *Certification of Annual Property Inventory*.
2. Two additional district staff members have already received hands-on training from the RSD Property Control Manager as well as the former DOE Property Control Officer, and are busily engaged in documenting property as it is received, tagging and overseeing the distribution of property to various district sites and employees. These employees are scheduled to attend LPAA training in late September 2007, to gain the formal knowledge and access needed to begin entering and maintaining records in the state Protégé system.
3. An initial training workshop for employees who serve as site property control liaisons was conducted in May 2007. These accounting personnel have been actively involved in monitoring incoming property at their worksites and tracking the physical location of property when moved. They also have supported the district employees in documenting property as it is received, tagging and overseeing the distribution of property. Additional workshops will be held in October 2007, to provide supplemental training for returning school based accounting personnel. New school-based accounting personnel training workshops will be held before the end of September 2007.

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4. Planning is underway for conducting the annual inventory of RSD moveable property for the current fiscal year, and meet the projected April 30, 2008, due date as required by LPAA and the *Louisiana Administrative Code*.
5. The development of a formal RSD donation policy is underway, and will include defining procedures for receiving gifts of moveable property and other materials, valuing donations and reporting them to the district finance office. The policy and procedures will address capturing and reporting information on donated services and general volunteer activities. A member of the finance staff has been identified to coordinate the district-wide gathering of this information and provide timely notification to the RSD property control manager of any gifts of moveable property with a fair market value of \$1,000 or more. The projected completion date for this policy is November 30, 2007.
6. The Finance Staff will meet with Deputy Superintendents for each of the offices in the RSD and Principals at each school to inform them of their roles and responsibilities relating to moveable property. The projected completion date for this is November 30, 2007.

The contact person related to this finding for the Recovery School District is as follows:

Marsha H. Pemble, Finance Director
Recovery School District
(504) 250-2863
marsha.pemble@la.gov

The contact persons related to this finding for the federal programs are the individual RSD Directors for each of the affected programs.

If you have additional questions concerning this response, please contact Kyle Wedberg, RSD Deputy Superintendent of Administration and Finance, at (504) 913-1041 or by e-mail at kyle.wedberg@rsdla.net.

Sincerely,



Paul G. Pastorek
State Superintendent of Education

PGP:MHP:pw

c: Ollie S. Tyler
Paul Vallas
Beth Scioneaux
Patrick Weaver
Kitty Littlejohn
Kyle Wedberg
Marsha Pemble
Brent Washington
Janet Hoffpauir
Virginia Beridon



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October 16, 2007

Mr. Steve J. 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 (DOE), Recovery School District (RSD), appreciates the opportunity to respond to the reportable audit finding for the RSD related to "Failure to Insure Warehouse Contents." RSD management has reviewed the finding and concurs with the finding as presented.

In February of 2007, the Recovery School District entered into a contract for a vendor to furnish warehouse, equipment, labor and materials to operate a central warehouse for the district. The bid's scope of services stated that "the Vendor shall have complete control over the inventory warehouse and shall assume all responsibility for its operations," and included the implementation of a warehouse inventory system. The contract was inundated with problems, starting with a bid protest entered the week of February 6, 2007, and the operation never functioned as outlined in the contract.

Because of the circumstances that surrounded the warehouse operation and the RSD challenge of employing staff, it was the end of the fiscal year before district personnel were in place to work with the vendor, conduct a physical count of contents, and produce an inventory valuation. At the completion of the valuation process, on August 6, 2007, RSD notified the Office of Risk Management (ORM) of the contents valuation so that these assets could be insured. The RSD has provided a subsequent update to ORM and will continue to provide updates to them.

RSD's contracted warehouse management company has completed an inventory of all of the equipment, materials and supplies. RSD will be provided with monthly reports, including FIFO inventory costing, inventory contents, quantities and valuation, stock numbers and descriptions and quantities.

The RSD Property Control personnel will conduct single day bi-annual internal audits. These audits will include a review of the procedures associated with shipping and receiving. Property Control will also spot audit Operations' ongoing cycle counts.

The contact person related to this finding for the Recovery School District is as follows:

Karen Burke, Deputy Superintendent of Operations
Recovery School District
(504) 250-2863
Karen.Burke@RSDLA.NET

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Mr. Steven J. Theriot, CPA
October 16, 2007
Page 2

If you have additional questions concerning this response, please contact Kyle Wedberg, RSD Deputy Superintendent of Administration and Finance, at (504) 913-1041 or by e-mail at kyle.wedberg@rsdla.net.

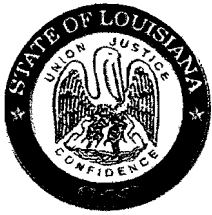
Sincerely,

A handwritten signature in black ink, appearing to read 'P. Pastorek', with a long horizontal line extending to the right.

Paul G. Pastorek
State Superintendent of Education

PGP:MHP:pw

c: Ollie S. Tyler, Deputy Superintendent of Education
Paul Vallas
Beth Scioneaux
Patrick Weaver
Kitty Littlejohn
Kyle Wedberg
Karen Burke
Marsha Pemble
Brent Washington
Rayne Martin
Janet Hoffpauir



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October 29, 2007

Mr. Steve J. 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 (DOE), Recovery School District (RSD), appreciates the opportunity to respond to the reportable audit finding for the RSD related to "Theft of Computers." RSD management has reviewed the finding and concurs with the finding as presented.

On May 31, 2007, 34 laptop computers were stolen from Wicker Elementary School. While a police report was promptly and properly filed, the district property control procedures manual did not incorporate steps to meet the notification requirements of R.S. 24:523. This omission resulted in an incomplete understanding of district responsibilities.

On October 18, 2007, letters of notification were prepared for both the Office of the Legislative Auditor and the Office of the Orleans Parish District Attorney. Revisions are being made to the RSD property control procedures manual to clearly define district notification responsibilities and processes. The finance staff will provide a new copy of the procedures manual and meet with all Deputy Superintendents and Principals to inform them of their roles and responsibilities relating to misappropriation of district assets. The projected completion date for this is November 30, 2007.

The contact person related to this finding for the Recovery School District is as follows:

Marsha Pemble, Finance Director
Recovery School District
(504) 250-2863
marsha.pemble@la.gov

If you have additional questions concerning this response, please contact Kyle Wedberg, RSD Deputy Superintendent of Administration and Finance, at (504) 913-1041 or by e-mail at kyle.wedberg@rsdla.net.

Sincerely,


Paul G. Pastorek
State Superintendent of Education

PGP:MHP:pw

c: Ollie S. Tyler, Deputy Superintendent of Education
Paul Vallas
Beth Scioneaux
Patrick Weaver
Kitty Littlejohn
Kyle Wedberg

Karen Burke
Marsha Pemble
Brent Washington
Rayne Martin
Janet Hoffpaur

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October 29, 2007

Mr. Steve J. 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 (DOE), Recovery School District (RSD), appreciates the opportunity to respond to the reportable audit finding for the RSD related to "Inadequate Oversight of School Activity Accounts." RSD management has reviewed the finding and concurs with the finding as presented.

Because of extenuating circumstances post-Katrina, the RSD has faced a tremendous challenge in recruiting sufficient professional and support staff to adequately oversee and handle the many responsibilities of the district's finance office, including oversight of school activity funds. On October 8, 2007, a vacant accounting clerk position was filled, providing the RSD School Accounting Manager with an employee to provide support and assistance. With this new staff member to organize files, review reports and assist in the general operation of the School Accounting and Property Control Unit, the RSD is now appropriately staffed to complete the work necessary to ensure that state law and district policies are followed consistently.

The contact person related to this finding for the Recovery School District is as follows:

Marsha H. Pemble, Finance Director
Recovery School District
(504) 250-2863
marsha.pemble@la.gov

If you have additional questions concerning this response, please contact Kyle Wedberg, RSD Deputy Superintendent of Administration and Finance, at (504) 913-1041 or by e-mail at kyle.wedberg@rsdla.net.

Sincerely,


Paul G. Pastorek
State Superintendent of Education

PGP:MHP:pw

c: Ollie S. Tyler, Deputy Superintendent of Education
Paul Vallas
Beth Scioneaux
Patrick Weaver
Kitty Littlejohn
Kyle Wedberg

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November 21, 2007

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

Dear Mr. Theriot:

The Louisiana Department of Education's (DOE) Recovery School District (RSD) sincerely appreciates the opportunity to respond to the reportable audit findings for the RSD related to "Inadequate Controls over Payroll." RSD management has reviewed the finding and concurs in part with the finding as presented.

Extenuating circumstances post-Katrina as well as the urgency of the Recovery School District to recruit, hire, place and process payroll during the 2006-07 school year for more than 700 school-based and 100 central office employees (as a result of the devastated educational system in New Orleans) resulted in insufficient leadership and support staff necessary to manage and maintain adequate controls over the entire Human Resources function. Though DOE provided interim leadership, the Human Resource & Payroll processing function was significantly understaffed. Additionally, RSD faced a further challenge in recruiting and retaining competent, experienced, professional staff. Consequently, it was not until the end of the 2006-07 fiscal year that personnel were in place to fully implement required policies, procedures and system controls.

The portion of the audit in which we concur in part is relative to the statement that "*Report ZF65 from the ISIS/HR payroll system showed the system calculated that former employees had been overpaid a total of \$427,695 as of September 30, 2007.*"

A thorough review of the audit finding of \$427,695 in overpayments on Report ZF65 was conducted in an effort to identify the potential recouping of any of these overpayments. Our findings are listed below.

As of November 9, 2007, 72 percent of the wages overpaid (\$308,708) were recouped. Of the employees tested as part of the audit, 66 are still actively employed, and 81 have since been terminated from RSD. The strategy to recoup the remaining 28% of wages overpaid is detailed in the correction actions as follows:

Corrective Action

1. The Human Resources Department is currently in the process of converting all RSD employees from a *negative* time entry status (which automatically compensates employees unless action is taken) to a *positive* time entry status, which would only compensate an employee if time is manually entered into SAP-ISIS. This action will eliminate future overpayments because payroll will *only* be processed for employees who have active, approved and verified time sheets which have been manually input into the payroll system (SAP-ISIS). Conversion will be done in a 2-phase approach.

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Phase 1 is the conversion of the planned working time field in SAP-ISIS for all employee records. Phase 2 is a transition period wherein Payroll Processing Specialists train and monitor Time Keepers' entry of employee hours worked in SAP-ISIS. This will be a flexible period of oversight to ensure that Time Keepers have demonstrated mastery of time sheet review and data input.

The projected completion date for this action is January 31, 2008.

2. RSD's conversion to positive time entry will ensure that employees are only compensated as a result of accurately documented daily hours worked in SAP-ISIS. Payroll Processing Specialists have been assigned specific schools or Central Administration departments they are to review. Human Resource and Payroll Processing management will train all RSD managers and school administrators in leave request procedures to ensure they understand their responsibility in verifying and authorizing the employment and leave balance status of their employees.

The projected completion date for this action is February 28, 2008.

3. Rollout of a new Payroll/Benefits Department that will function independently and parallel to the existing Human Resources Department that has taken place. This new unit will allow for more focus, control, and follow-through of daily management of the timekeeping and payroll process for both school-based and central office staff.

The projected completion date for this action is October 31, 2007.

4. The Payroll/Benefits Department will work with the State's Department of Administration to collect wages overpaid to former employees by placing former employees on notice of the debt; giving them reasonable opportunity to satisfy the debt; and in the event of failure to satisfy the debt, pursuing legal action to collect funds. These procedures are calculated to help RSD recoup the remaining 28% of wages overpaid.

The projected completion date for this action is January 31, 2007.

5. Late Terminations in SAP-ISIS were the result of two factors. The first was the planned working time indicator that was set to *always* compensate employees unless an administrative action was taken to stop payment. The second was a lack of controls regarding the collection and dissemination of information regarding employees who resigned, were terminated, or abandoned their positions. The first factor has been mitigated by RSD's conversion from negative to positive time entry. The second factor will be addressed with the RSD's enforcement of a Managers/Principals' Check List for handling employees who resign, are terminated/separated and/or abandon their jobs. The check list ensures separation of duties and clearly identifies controls for accurate update of employment status of personnel in SAP-ISIS. The checklist is also being integrated into RSD's update of the *Employee Manual*, which will ensure it is an ongoing procedure for future personnel.

Additionally, the State Superintendent is working to formally delegate authority to the RSD Superintendent to separate employees from the District. Such delegated authority will increase the timeliness of termination entries in SAP-ISIS.

The projected completion date for this action is November 30, 2007.

6. Controls regarding the entry of payroll data for new hires will be tightened through two separate actions to ensure RSD does not pay employees prior to the beginning of their employment. (1) Organizing the Human Resources staff to ensure that Employment Action Requests are entered into SAP-ISIS by one individual, not a team of people which made follow-up more difficult to assess. (2) Bi-weekly salary adjustments will be automated instead of manually calculated, as is currently done. Automation will help reduce human error, thereby increasing consistent application of data entry updates.

The projected completion date for this action is January 31, 2008.

7. RSD will coordinate the dissemination and collection of A-87 documents through the following means:
 - a. Budget will notify Human Resources of new/updated Federal/State/Local grants received by RSD and the employees affected by those grants.
 - b. Human Resources will update SAP-ISIS cost center information as part of their position control management.
 - c. Payroll Processing will semi-annually generate reports identifying the personnel needing to complete the A-87 documentation. Payroll Processing will also be responsible for the distribution and collection of the A-87 Forms.

The projected completion date for this action is January and June 2008.

If you have additional questions concerning this response, please contact Kyle Wedberg, Chief Administrative Officer, at (504) 373-6200 or by e-mail at kyle.wedberg@rsdla.net.

Sincerely,



Paul G. Pastorek
State Superintendent of Education

PGP:KW:kw

- c: Ollie S. Tyler, Deputy Superintendent of Education
Paul Vallas
Kelvin Adams
Kyle Wedberg
Betty Jean Wolfe
Tammy Age
Marsha Pemble
Beth Scioneaux
Patrick Weaver
Janet Hoffpauir, CPA



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February 20, 2008

Mr. Steve J. 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 (DOE), Recovery School District (RSD), appreciates the opportunity to respond to the reportable audit finding for the RSD related to "Inappropriate Charges for Free and Reduced Price Student Meals." RSD management has reviewed the finding and concurs with the finding as presented.

Because of extenuating circumstances post-Katrina and the urgency of the RSD's mission for recovery of the devastated educational system in New Orleans, the operation of a Child Nutrition Program (CNP) was undertaken before knowledgeable leadership and supporting staff were hired to manage and oversee the program. Also, during fiscal year 2006-2007, RSD operated without a workable student information system and without a point of service system in the school cafeterias. These two components are vitally important in the management of student eligibility and participation data in the district's CNP. Until leadership was in place in the spring of 2007, an RSD accounting employee, without the benefit of any prior experience with CNP, manually handled the records management and reporting aspect of the program, including the verification process. Because of the immense task, hampered by so many missing pieces, the step of adjusting student eligibility status was overlooked after completing the verification process.

Corrective Action Plan

1. The Recovery School District now employs CNP leadership with the needed background and knowledge to manage the program.
2. The district has implemented and is using JPAMS, a highly regarded student information system that aids in the management of student data. Additionally, the district has begun to pilot a point of service system that will be placed in all schools, automating the student participation data and report preparation.

The contact person related to this finding for the Recovery School District is as follows:

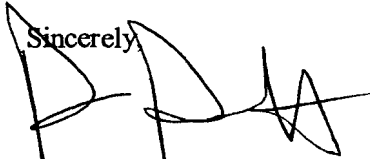
Sandra Booker, Acting CNP Director
Recovery School District
(504) 373-6200 extension 20159
sandra.booker@rsdla.net

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Mr. Steve J. Theriot
Page Two
February 20, 2008

If you have additional questions concerning this response, please contact Karen Burke, RSD Deputy Superintendent of Operations, at (504) 373-6200, extension 20043, or by e-mail at karen.burke@rsdla.net.

Sincerely



Paul G. Pastorek
State Superintendent of Education

PGP:KW:kw

c: Ollie S. Tyler, Deputy Superintendent of Education
Paul Vallas, Superintendent, RSD
Beth Scioneaux, Deputy Superintendent for Management and Finance
Patrick Weaver
Kitty Littlejohn
Cedric Lewis
Marsha Pemble
Sandra Booker
Brent Washington
Janet Hoffpaur