

STATE OF LOUISIANA LEGISLATIVE AUDITOR

Claiborne Parish School Board
Homer, Louisiana

June 25, 2003



Legislative Auditor

FIRST ASSISTANT LEGISLATIVE AUDITOR

Grover C. Austin, CPA

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CLAIBORNE PARISH SCHOOL BOARD

Homer, Louisiana

June 11, 2003

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 and at the office of the parish clerk of court.

June 25, 2003



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June 11, 2003

**MR. GARY L. JONES, SUPERINTENDENT,
AND MEMBERS OF THE CLAIBORNE
PARISH SCHOOL BOARD**
Homer, Louisiana

As requested by the Claiborne Parish School Board (school board), we applied our *Checklist of Best Practices in Government* in reviewing the procedures and practices of the school boards' finance department. Attachment I provides our findings and recommendations resulting from the limited review for the school board's consideration. The response from management of the school board is presented in Appendix A.

A limited review is substantially less in scope than an audit conducted in accordance with generally accepted auditing standards, the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, we do not express such an opinion.

Sincerely,

Grover C. Austin, CPA
First Assistant Legislative Auditor

ESS:GLM:GCA:ss

[CLASB03]

Attachment I

Findings and Recommendations

CLAIBORNE PARISH SCHOOL BOARD
Homer, Louisiana

FINDINGS AND RECOMMENDATIONS

The following are findings and recommendations relating to our limited review dated June 11, 2003. Management's response is included in Appendix A.

Budgeting and Financial Management

Budget Procedures

The school board's written budget procedures for preparing, adopting, monitoring, and amending the budget are very general.

We suggest that the school board prepare written procedures to include all steps required for each phase of the budget process, including monitoring and amending the budget during the fiscal year. In addition, a time schedule for preparing the budget and the person responsible for each phase of the budget should be incorporated in the detailed steps. Also, we suggest that the school board consider using the Association of School Business Officials International *Meritorious Budget Awards Program* checklist and the Government Finance Officers Association *Distinguished Budget Presentation Awards Program* checklist in preparing future budgets and developing budget procedures.

Performance Measures

Performance measures are not incorporated into the budgeting process. Meaningful performance measurements assist management of the school board by (a) identifying financial and program results; (b) evaluating past resource decisions; (c) facilitating qualitative improvements in future decisions regarding resource allocation; and (d) communicating service and program results to the taxpaying public. The school board should consider incorporating performance measures into the budgeting process. Performance measures should be used to report on the outputs of each program and should be related to the objectives of each department.

Budget Message

The 2002/2003 budget did not include a budget message as required by state law. Louisiana Revised Statute (R.S.) 39:1305(C)(1) requires a budget message signed by the budget preparer, which shall include a summary description of the proposed financial plan, policies, objectives, assumptions, budgetary basis, and a discussion of the most important features. In addition, we suggest that an overall financial status of the school board be included in the budget message that includes the current financial status, the short-term outlook, and the long-term trends. The emphasis on this analysis should be understandability of the financial status and issues, not necessarily on exact numbers and detail. We suggest that this analysis be provided in written form, early in the budget process, so a broad financial framework is available to management of the school board.

Financial Reporting to Board

The school board is not provided financial statements and budget comparisons each month. We suggest that the school board be provided with the financial statements and budget comparisons for all funds each month. In addition, a concise summary and guide to the key issues and aspects of the operating and capital components of the financial statements and budget comparisons should be provided to the school board. Also, a written policy should be adopted that provides the nature, extent, and frequency of financial reporting information that should be provided to the school board.

CLAIBORNE PARISH SCHOOL BOARD

Homer, Louisiana

Findings and Recommendations (Continued)

Investments

The school board had approximately \$11 million invested in LAMP (acronym for Louisiana Asset Management Pool, Inc., an investment pool available to local governments) at March 31, 2003. LAMP is a short-term investment that is designed to be highly liquid to give its participants immediate access to their account balances. Consequently, the rate of return for these monies in the LAMP account is generally less than what can be earned by long-term investing. The school board should consider developing a formal plan containing reasonable expectations of what should be available for the payment of short-term and long-term obligations and how those obligations affect investing decisions. Also, we suggest that the school board's investment policy be expanded to provide direction in investing funds to maximize interest earnings. In addition, the business manager should evaluate investments monthly and present the school board a summary of current investments along with the estimate of cash requirements to be paid to obtain guidance as to invest funds in short-term or long-term securities.

DisbursementsControls Over Disbursements

1. The same employee performs a variety of duties relating to cash disbursements that are incompatible for a proper system of checks and balances. The accounts payable clerk records the disbursements in the accounting system, prepares and prints the checks, uses the check-signing machine to sign the checks and mails/distributes the checks. We suggest that these duties be separated.
2. Controls over the check-signing machine (machine) are inadequate. The person responsible for preparing and printing checks (accounts payable clerk) is also responsible for using the machine to sign the checks. The machine operates with one key that is kept under lock in another employee's desk drawer; however, the keys to the desk drawer are not adequately secured. In addition, the employee that maintains the machine key also uses the machine and has access to the supply of blank checks. The key to the machine should be removed from the employee's desk drawer and placed under the control of two employees (dual control) that have no disbursement responsibilities/functions. Also, two people should be present when checks are signed to ensure that the number of checks signed (meter reading) is reconciled to the number of checks listed on the *Accounts Payable Distribution Journal*. The reconciliation should be signed and dated by both individuals.
3. Purchase orders are not attached to the related paid vendor invoices/statements. Purchase orders are filed in numerical order in a filing cabinet in the accounts payable clerk's office. The accounts payable clerk should ensure that all documentation supporting a purchase, including a copy of the approved purchase order, is attached to the vendor invoices/statements before payment.
4. The signed checks and vendor statements are mailed without the business manager's review. We were informed that the board's finance committee chairman reviews and approves the disbursements after the checks have been mailed. However, the signed checks, approved invoices, purchase orders, and receiving reports, along with the *Accounts Payable Distribution Journal* and signature machine reconciliation, should be given to the business manager for review before mailing. The business manager should ensure that all payments are appropriate, supporting documentation is available, invoices are approved, and number of checks written agree to those signed by the check-signing machine. The business manager should then give the signed checks to a secretary for mailing.

CLAIBORNE PARISH SCHOOL BOARD

Homer, Louisiana

Findings and Recommendations (Continued)

Travel

The school board appropriated approximately \$76,000 for travel for the 2002/2003 fiscal year, of which approximately \$70,000 (92%) was spent as of March 31, 2003. The school board reimburses employees for travel costs and has two VISA credit cards that are primarily used for travel costs. Superintendent Jones maintains one VISA card for his use and his secretary maintains the other VISA card primarily for making travel arrangements for employees.

We reviewed four VISA billing statements (December 2002, January 2003, February 2003, and March 2003) and various other travel reimbursements/expenditures made during the nine-month period from July 1, 2002, through March 31, 2003. Our review of these travel expenditures, including our general observations and inquiries, revealed the following:

1. There was no written policy or procedures for the use of the school board's VISA cards.
2. Although we were able to obtain verbal explanations of the business nature of the VISA charges, this was not always documented.
3. There was no documentation of the business purpose for the school board paying VISA charges totaling \$515 (for lodging, meals, gasoline, parking, and telephone charges) relating to a three-day trip to New Orleans by the superintendent to attend the 2002 Louisiana High School Athletic Association (LHSAA) High School Football Championships. The superintendent informed us that the school board was aware that he was going on the trip and that he attended the event to discuss high school athletic program issues with other school superintendents.
4. There was no documentation available to substantiate the cost/benefit to the school board for the superintendent and three teachers to travel two days early to the Association of Direct Instruction Conference held in Orlando, Florida on Tuesday, June 18, 2002, through Friday, June 21, 2002. The superintendent's secretary informed us that the airfare was about two-thirds less by traveling on Saturday instead of Monday, which resulted in a substantial savings in travel costs to the school board.
5. Specific lodging reimbursement rates/limits have not been established by the school board.
6. The superintendent's travel expense reports did not evidence review and approval by a school board member. Also, travel expense reports filed by supervisors and employees did not always evidence review and approval.
7. In accordance with the superintendent's employment contract, the school board pays the superintendent a \$700 per month automobile allowance plus fuel expenses. However, the school board did not report these payments as taxable income/wages on his 2002 Internal Revenue Service (IRS) Form W-2 (Wage and Tax Statement) and withhold the required employment taxes and remit these to the IRS. Also, the employment contract does not specify any restrictions or limits on the payment of the superintendent's fuel expenses. The superintendent informed us that he does not maintain a mileage log and that he charges one tank of gas per week on the school board's VISA card, except when he travels outside the parish on business.

Recommendations:

- Require that detailed/itemized receipts supporting the business nature of the expenditures be received before reimbursement is made. Also, require that the business purpose be documented.
- Require that documentation be maintained to substantiate the cost benefit to the school board and the necessity for any early travel to seminars/workshops. The documentation should be reviewed and approved by an appropriate school board official before making the travel arrangements.
- Establish specific lodging reimbursement rates/limits using the State of Louisiana travel regulations as a guide.

CLAIBORNE PARISH SCHOOL BOARD

Homer, Louisiana

Findings and Recommendations (Continued)

- Require that a designated school board member review and approve the superintendent's travel expense report. Also, require that the superintendent or his designee review and approve supervisors' travel expense reports. In addition, require that the supervisors review and approve employees' travel expense reports.
- Amend the applicable 2002 federal and state payroll reporting forms to include the superintendent's automobile allowance and fuel expenses paid (fringe benefits) as taxable wages on his Internal Revenue Service (IRS) Form W-2 (Wage and Tax Statement).
- Clarify the "fuel expenses" provision in the superintendent's contract. The school board should consider having the superintendent file an expense report for reimbursement of his business miles driven in lieu of using the credit card.

Payroll and Attendance RecordsControls Over Disbursements

1. Controls over the check-signing machine (machine) are inadequate. One of the employees responsible for preparing and printing payroll checks also maintains the key to the machine. The key to the machine should be placed under the control of two employees (dual control) that have no disbursement responsibilities/functions. Also, two people should be present when payroll checks are signed to ensure that the number of checks signed (meter reading) is reconciled to the number of checks listed on the payroll check register. The reconciliation should be signed and dated by both individuals and reviewed and approved by a supervisor.
2. No computer-generated report is available that shows all changes made to payroll for a specific period of time. Someone independent of the payroll and human resources departments should be reviewing all changes made to payroll at least on a monthly basis.

Attendance Records

The school board did not have written policies or procedures relating to employee attendance records. We reviewed selected sign-in sheets (attendance records) at two schools (Homer High School and Homer Elementary School). Our review of selected sign-in sheets and absentee forms revealed the following:

- There was no documentation that the school principals reviewed the daily sign-in sheets to determine whether all teachers/staff were properly accounted for as present, absent, or other (e.g., in-service training, workshops, et cetera). There were several instances where teachers did not sign-in and there was no explanation noted on the sign-in sheet for the teacher's absence. For many of those specific instances, the payroll department (central office) absentee records did not report the employee as absent.
- The Homer Elementary School principal submits an absentee form (*Employee Absence Form*) to the human resources/payroll department on each teacher that was absent during the month, with the exception of two itinerant teachers. The principal informed us that she was not monitoring and accounting for the attendance/absences of the itinerant teachers because she understood that it was being done at the central office. However, we were told that the central office was not monitoring their daily attendance/absences.
- There were no written guidelines or consistency in recording annual or sick leave for absences that are less than a full workday (e.g., leaving early or arriving late to school).
- The school sign-in sheets are not submitted to the human resources department to compare to the absentee forms.

CLAIBORNE PARISH SCHOOL BOARD

Homer, Louisiana

Findings and Recommendations (Continued)

Also, we requested the Haynesville Elementary School sign-in sheets for the 2001-2002 school year; however, the principal could not locate them and stated, "They must have been thrown away." R.S. 44:36 requires that, in all instances in which a formal record retention schedule has not been executed, public records should be preserved and maintained for a period of at least three years from the date on which the public record was made. The school board has not developed and executed formal records retention schedules.

In addition, we reviewed absentee forms (*Annual and Sick Leave Report*) filed in March 2003, by 12-month and central office employees and found the following:

- School principals and supervisors approve their own annual and sick leave.
- Five of the nine employee absentee forms did not reflect supervisory approval.
- Employees do not complete simple time reports documenting hours worked and leave taken each pay period.

The school board should:

1. Develop written procedures for attendance records for individual schools and the school board office to follow. At a minimum, the procedures should include (1) using a standardized daily attendance log; (2) requiring all employees to sign-in for their attendance; (3) requiring the principal to account for all employees daily and document this process on the daily log; and (4) requiring the human resources department to compare the daily attendance logs to the absentee reports.
2. Develop written guidelines for recording annual or sick leave for absences that are less than a full workday.
3. Require principals/supervisors to submit approved absentee forms on all of their employees, without exception. The absentee forms should be attached to the logs/time reports that are processed by the payroll department.
4. The school board should develop formal records retention schedules in accordance with state law. Also, procedures should be implemented to ensure that all public records are preserved in strict accordance with the executed retention schedules.
5. The school board should require all administrative staff and other 12-month employees to complete simple time reports to document hours worked and leave taken. The appropriate supervisors should document their approval on the time reports.

School Food ServicesControls Over Disbursements

1. The same employee performs a variety of duties relating to cash disbursements that are incompatible for a proper system of checks and balances. The food services bookkeeper records the disbursements in the accounting system, prepares and prints the checks, uses a manual check-signing stamp to sign the checks, mails the checks, and reconciles the bank statement. We suggest that these duties be separated.
2. There is little control over the manual check-signing stamp used to sign food service department checks. Although the manual stamp is kept locked in an employee's desk drawer, the keys to open the desk drawer are not adequately secured. The school board should discontinue the use of the manual stamp, as the stamp does not have a meter reading that can be monitored and reconciled. We suggest that the check-signing machine be used to sign the food service department checks. The food services director should ensure that all payments are appropriate, supporting documentation is available, invoices are approved, and number of checks written agree to those signed by the check-signing machine.

CLAIBORNE PARISH SCHOOL BOARD

Homer, Louisiana

Findings and Recommendations (Continued)

3. The paid invoices and related documents (purchase orders and receiving reports) are filed in unlocked filing cabinets in a hallway that all employees have access to. These documents should be stored in a more secure environment with access limited to only designated employees.

Accounting System

For efficiency and control purposes, we suggest that the accounting for the school food services department be centralized and processed in the financial/business department of the school board.

School Activity Accounts

In the accounting for school activity funds, there should be a system of checks and balances that provides a reasonable assurance that errors will not occur and, if they do occur, that they will be detected in a timely manner. We suggest that the school board establish guidelines and standardized forms that will aid individual schools in the development of such a system. The guidance from the school board should include, at a minimum, detailed procedures for (1) collecting and safekeeping funds; (2) expending funds; (3) reconciling funds collected and expended with supporting records/documentation; (4) maintenance, security, and retention of records; (5) banking activities; and (6) monthly financial reporting.

Also, we suggest that the financial/business department monitor the school activity accounts on a routine basis to determine that the policies and procedures are being followed. Written procedures for monitoring the school activity accounts should be developed (see *Internal Audit*).

Computer Controls

Written Policies and Procedures

Management should establish written policies and procedures governing information systems, including monitoring procedures to ensure that the policies and procedures are being followed. Examples of policies are as follows:

- Who can update internal files on a server
- What is critical data and non-critical data (e.g., critical data include access to payroll files to add employees or change pay rates; access to electronic fund transfer numbers; adding vendor files)

Contingency and Recovery Plan

There is no written contingency and recovery plan in the event of a disaster. Without a tested plan, there is a high risk that the school board may not be able to continue operations in the event of a disaster.

Also, although the school board is backing-up the computer files on a daily basis, the backup tape is not stored off-site. We suggest that the daily backup tape be stored (and secured) off-site to properly safeguard the school board's financial records.

Critical Data

Changes made to critical data are not being logged to document the person making the change, when the change was done, and what was changed. We suggest that a log be maintained for such changes and that supervisory review of the propriety of the changes be done.

CLAIBORNE PARISH SCHOOL BOARD

Homer, Louisiana

Findings and Recommendations (Continued)

Internal AuditInternal Auditor Needed

We suggest that the school board consider creating an internal auditor position to review all operations of the school board where there is a risk of financial exposure, potential for loss, and when there are major changes in operations, programs, systems, and controls. For example, collection of sales taxes from businesses, school activity accounts, food service, warehousing, purchasing, transportation, payroll, capital assets, and Web site security and privacy are school board operations where there may be a risk of financial exposure or potential for loss.

Written ProceduresPurchasing Policies and Procedures

The school board's three-page purchasing policy is very general. We recommend that management of the school board develop comprehensive policies and procedures for the purchasing process to ensure that a competitive procurement system is in place and working as intended. The policies and procedures should, at a minimum, include the following:

- How purchases are initiated
- Use of purchase requisitions
- Types of requisitions (capital assets, supplies, travel, et cetera)
- Approval process for requisitions
- Preparation and approval process of purchase orders
- Checks and balances to ensure compliance with the bid law
- Dollar thresholds that are lower than the bid law where competitive quotes should be obtained to ensure the most favorable prices
- Request for proposals
- Documentation to be maintained regarding all bids
 - Bid notification letters that include the contract, plans, and specifications
 - Documentation that the bids were properly advertised
 - Bid opening documentation that include the submitted bids, bid tabulation sheet, and indication of which bid was accepted

Other

In addition to those areas previously mentioned, there are no written policies and/or procedures for the following:

- Code of Ethics, including annual certification letters from board members and employees attesting to their compliance
- Monitoring security pledged to ensure that school board deposits are fully secured
- Processing, reviewing, and approving payroll
- Processing, reviewing, and approving disbursements, including travel expense reports
- Accounting and processing of receipts and disbursements for the school food services department

CLAIBORNE PARISH SCHOOL BOARD

Homer, Louisiana

Findings and Recommendations (Concluded)

- Inventory control and food production for the school food services department
- Recording, tagging, and safeguarding of capital assets, including dollar thresholds of assets that will be inventoried
- Accounting for the business and personal use of cellular telephones

Written procedures are necessary as a clear understanding of what should be done, how, who, and when it should be done, and that the procedures followed meet management's expectations. Written procedures aid in continuity of operation and for cross-training of staff.

Appendix A

Management's Response

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Claiborne Parish Schools

June 20, 2003

Grover C. Austin, CPA
1st Assistant Legislative Auditor
Legislative Auditor
State Of Louisiana
Baton Rouge, LA 70804-9397

Subject: Response to Review of Claiborne Parish School Board Finance Department

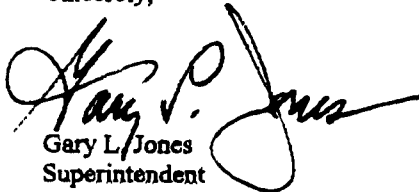
Dear Mr. Austin:

The following is our response to the recently completed review of our financial operations. Mr. Eric Sloan's review was fair and thorough. We found his comments to be insightful and very helpful in our efforts to improve our operations. Thank you for your assistance. We have very few comments to make in response, other than essentially "we understand the recommendations and will make the appropriate changes in a timely manner."

We have begun the review process and have already implemented many of the recommendations. Other items will be studied in depth by the staff and policies presented to the Board for their review and adoption. Items that are essentially staff actions will be reviewed by the appropriate supervisors and corrective actions will be taken. The Boards' Finance Committee will review and direct the superintendent and staff in the development of investment policies. The recommendations in the area of budgeting and financial management will be incorporated into the development of our 2003-2004 budget.

Again, thank you for your assistance.

Sincerely,


Gary L. Jones
Superintendent