

CITY OF BOGALUSA SCHOOL BOARD



ADVISORY SERVICES REPORT
ISSUED NOVEMBER 13, 2006

**LEGISLATIVE AUDITOR
1600 NORTH THIRD STREET
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November 13, 2006

**MR. JERRY O. PAYNE, SUPERINTENDENT,
AND MEMBERS OF THE CITY OF BOGALUSA
SCHOOL BOARD**

Bogalusa, Louisiana

At the request of the City of Bogalusa School Board (school board), we visited the school board's office to assess the actions taken to resolve the findings reported in my office's December 15, 2004, *Specified Procedures Examination*. During our visits, we also assessed the status of the findings reported in the school board's audit as of and for the year ended June 30, 2005.

The results of our advisory services are included in Attachment I (Status of December 15, 2004, *Specified Procedures Examination* Findings) and Attachment II (Status of June 30, 2005, Audit Findings). The response from management of the school board is presented in Appendix A.

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

This report, originally issued on November 8, 2006, has been reissued on November 13, 2006. At the request of Superintendent Jerry Payne, we have (1) removed the word "Confidential" from each page (total of 3 pages) of management's response that is presented in Appendix A and (2) inserted the date "October 31, 2006" on page 1 of management's response.

Respectfully submitted,

Steve J. Theriot, CPA
Legislative Auditor

RLT:ESS:JSI:ss

[BOGSB06]

Status of December 15, 2004,
Specified Procedures Examination Findings

STATUS OF DECEMBER 15, 2004, FINDINGS

We commend the superintendent and school board for eliminating the general fund deficit spending and the fiscal year 2004 deficit. Through management’s leadership, the City of Bogalusa School Board has improved its financial operations significantly in a short period of time.

The general fund’s unaudited financial statements for fiscal year ending June 30, 2006, reflect a \$3.9 million fund balance surplus (representing approximately 17% of revenues). The superintendent and school board have preserved these surplus monies through the implementation of their “zero-based” (amount of estimated revenues is exactly equal to amount of estimated expenditures) budget for the current year.

We recognize that the \$3.9 million estimated surplus includes approximately \$1.2 million in insurance recoveries and approximately \$400,000 from Federal Emergency Management Agency (FEMA) programs, all of which relate to the Hurricane Katrina event. However, to achieve this surplus, management had to make many tough decisions in 2005 and 2006 (before and after Hurricane Katrina) that contributed to this turnaround in financial operations. We also understand that the FEMA and insurance monies will be budgeted and expended in future periods as reconstruction takes place. Therefore, we will continue to monitor management’s progress in keeping the school district on a sound financial footing.

The following represents a summary of the findings reported in the Legislative Auditor’s December 15, 2004, *Specified Procedures Examination* of the school board and the status of those findings based on our inquiries and general observations as of September 22, 2006 (last day of our fieldwork). Management’s response is included in Appendix A.

December 15, 2004, Findings	Status as of September 22, 2006
<p>BUDGETING PROCESS:</p> <ul style="list-style-type: none"> • No Budget Policy or Written Procedures for Preparing, Adopting, Monitoring, and Amending Budget - No clear understanding of what should be done, how, who, and when it should be done, and that procedures followed meet management’s expectations. • Need to Incorporate Prior Year Deficit Into Current Year Budget - Fiscal year 2005 budget does not provide for eliminating the estimated \$700,000 deficit carried over from the 2004 fiscal year. 	<p><u>Partially Resolved.</u> The school board contracted with a company to develop its written policies and a budget policy has been developed; however, there are no detailed written procedures for preparing, adopting, monitoring, and amending the budget.</p> <p><u>Resolved.</u> The 2004 deficit in the General Fund has been eliminated. The school board adopted a “zero-based” (amount of estimated revenues is exactly equal to amount of estimated expenditures) budget for the 2007 fiscal year resulting in no change to the estimated fund balance surplus of \$3.9 million carried forward from the 2006 fiscal year.</p>

December 15, 2004, Findings	Status as of September 22, 2006
<p>BUDGETING PROCESS: (CONT.)</p> <ul style="list-style-type: none"> • Need to Improve Budget Message - Fiscal year 2005 budget message is contrary to state law as it did not include a summary description of the proposed financial plan, policies and objectives, assumptions, and a discussion of the most important features. <p>FINANCIAL MANAGEMENT:</p> <ul style="list-style-type: none"> • Monthly Financial Statements Including Budget-to-Actual Comparisons Are Not Prepared and Presented to the School Board - School board members cannot effectively exercise their fiduciary responsibility of managing the school district's fiscal operations without timely financial information. • The School Board Is in a Severe Negative Cash Flow Position Resulting in Vendors Not Being Paid - Unpaid and past due retirement and health insurance contributions totaled approximately \$1.4 million. <p>CONTROLS OVER DISBURSEMENTS NEED IMPROVEMENT:</p> <ul style="list-style-type: none"> • There is inadequate segregation of duties relating to accounts payable disbursements. 	<p><u>Unresolved.</u> The fiscal year 2007 budget message does not include these required elements.</p> <p><u>Resolved.</u> Monthly financial statements with budget-to-actual comparisons are prepared and presented to the school board. The most recent financial statement presented to the school board was as of and for the year ending June 30, 2006.</p> <p><u>Resolved.</u> The General Fund's unaudited June 30, 2006, financial statements reflect unrestricted cash in banks totaling approximately \$3.3 million and accounts payable totaling \$82,224. Also, the school district's retirement and health insurance contributions are current and have been paid up to date.</p> <p><u>Resolved.</u> Although there is still one employee responsible for performing the variety of accounts payable duties, the school board has implemented certain mitigating controls. Two employees are required to be present for the use of the check signing machine; the supply of blank checks are maintained under lock for which the accounts payable clerk does not have access; and the business manager is reviewing the printed checks with supporting documentation prior to being signed and mailed/distributed.</p>

STATUS OF DECEMBER 15, 2004, FINDINGS

December 15, 2004, Findings	Status as of September 22, 2006
<p>CONTROLS OVER DISBURSEMENTS NEED IMPROVEMENT: (CONT.)</p> <ul style="list-style-type: none"> • There are inadequate controls over check-signing machine. • <i>Request for Funds</i> forms were submitted to the state Department of Education seeking reimbursement of federal grant expenditures prior to making the expenditures. • A manual purchase order system is used that does not prevent purchase orders from being issued when funds are not available. • The superintendent does not review the actual checks and supporting invoices and related documentation. • The school board does not solicit quotes/bids on the cost of its various insurance coverage. • Vendor invoices are not organized and filed alphabetically by vendor name. • There is no written policy for approving travel of all employees, including the superintendent and board members. <p>CONTROLS OVER PAYROLL AND ATTENDANCE RECORDS NEED IMPROVEMENT:</p> <ul style="list-style-type: none"> • There is inadequate segregation of duties relating to payroll disbursements. 	<p><u>Partially Resolved.</u> Although the key to the machine has been placed under lock, it remains under the control of only one employee. Also, although two employees are now required to be present when checks are signed, a formal/written record of the number of checks signed (using meter readings) is not prepared for agreement to the number of checks listed on the disbursement/check register.</p> <p><u>Resolved.</u> Reimbursements are requested for actual expenditures.</p> <p><u>Resolved.</u> The school board has implemented an automated purchase order system that prevents purchase orders from being issued when funds are not available.</p> <p><u>Resolved.</u> The business manager submits the check registers and/or the actual checks with supporting documentation to the superintendent for his review.</p> <p><u>Resolved.</u> Bids were solicited on the insurance coverage for liability, property, and workers' compensation.</p> <p><u>Resolved.</u> Vendor invoices are organized and maintained alphabetically.</p> <p><u>Partially Resolved.</u> Although specific procedures have been implemented for approving travel of all employees, including the superintendent and board members, there is no formal written policy.</p> <p><u>Resolved.</u> An employee has been cross-trained to work in the payroll department to provide checks and balances among the various duties of the payroll clerk.</p>

December 15, 2004, Findings	Status as of September 22, 2006
<p>CONTROLS OVER PAYROLL AND ATTENDANCE RECORDS NEED IMPROVEMENT: (CONT.)</p> <ul style="list-style-type: none"> • The supply of blank payroll checks is not secured under lock. • The computer-generated report that shows all changes made to payroll is not printed each pay period and reviewed for accuracy. • There is no written policy or procedures relating to employee attendance records. • Administrative staff and other 12-month employees are not required to complete time reports documenting hours worked. • Compensatory leave earned and used by employees is not recorded and accounted for in the computerized payroll system. 	<p><u>Resolved.</u> The supply of blank payroll checks is maintained under lock for which employees in the payroll department do not have access.</p> <p><u>Unresolved.</u> The payroll change report is not being generated each pay period and reviewed by someone independent of the business department.</p> <p><u>Unresolved.</u> Although there is a policy and procedures relating to employee attendance records, they were not formalized in writing on the date of our visit.</p> <p><u>Resolved.</u> Employees document their time/attendance on daily sign-in forms which are reviewed and approved by appropriate supervisors.</p> <p><u>Partially Resolved.</u> Compensatory leave is being recorded and monitored in the payroll department; however, leave transactions and balances are not reported (e.g., on pay stub) to employees each pay period.</p>
<p>CONTROLS OVER STUDENT ACTIVITY ACCOUNTS NEED IMPROVEMENT:</p> <ul style="list-style-type: none"> • Our inquiries and general observations at Bogalusa High School revealed instances of noncompliance with policy as follows: <ol style="list-style-type: none"> 1. Seven activity accounts had deficit balances. 2. Monies borrowed by activity accounts were not supported by written permission of the principal and the club/activity group that raised the monies that were borrowed. 	<p><u>Partially Resolved.</u> One of the activity accounts still has a deficit balance. Efforts are being made to eliminate the deficit that has carried over from prior years.</p> <p><u>Resolved.</u> School policy now prohibits activity groups/clubs from borrowing money.</p>

STATUS OF DECEMBER 15, 2004, FINDINGS

December 15, 2004, Findings	Status as of September 22, 2006
<p>CONTROLS OVER STUDENT ACTIVITY ACCOUNTS NEED IMPROVEMENT: (CONT.)</p>	
<p>3. The blank/unissued checks were not maintained under lock during working hours.</p>	<p><u>Resolved.</u> Blank checks are maintained in the school vault.</p>
<p>4. The principal signs checks without reviewing supporting documentation for the disbursement.</p>	<p><u>Resolved.</u> Supporting documentation (e.g., vendor invoice, purchase request form) is attached with the checks and submitted to the principal for review.</p>
<p>5. The use of a manual signature stamp on checks is not authorized by the policy.</p>	<p><u>Resolved.</u> The signature stamp is no longer being used.</p>
<p>6. Petty cash maintained on-hand is not reconciled.</p>	<p><u>Resolved.</u> The petty cash fund is being reconciled.</p>
<p>7. Teachers did not keep a log to record daily collections of money.</p>	<p><u>Resolved.</u> Teachers are completing a log of monies collected. The log and monies are submitted to the administrative assistant for review and deposit.</p>
<p>8. At the conclusion of an event, a receipt was not issued to each ticket seller that reflects the cash being remitted, total number of tickets issued, and total number of tickets returned unsold.</p>	<p><u>Resolved.</u> Ticket reconciliation forms are used which document the cash remitted and the total number of tickets issued and returned unsold.</p>
<p>9. Unsold tickets were not retained on-hand for audit purposes.</p>	<p><u>Unresolved.</u> Unsold tickets are reused for other events.</p>
<p>• Our inquiries and general observations at Bogalusa Junior High School revealed instances of noncompliance with policy as follows:</p>	
<p>1. The blank/unissued checks were not maintained under lock during working hours.</p>	<p><u>Resolved.</u> Blank checks are maintained in the school vault.</p>
<p>2. Although receipts are issued for collections, the receipts are not pre-numbered.</p>	<p><u>Resolved.</u> Pre-numbered receipts are used for collections.</p>
<p>3. Money maintained on-hand during working hours was not kept under lock.</p>	<p><u>Resolved.</u> Cash on-hand is kept in the school vault.</p>

December 15, 2004, Findings	Status as of September 22, 2006
<p>CONTROLS OVER STUDENT ACTIVITY ACCOUNTS NEED IMPROVEMENT: (CONT.)</p> <ol style="list-style-type: none"> 4. Teachers did not keep a log to record daily collections of money. 5. At the conclusion of an event, a receipt is not issued to each ticket seller that reflects the cash being remitted, total number of tickets issued, and total number of tickets returned unsold. 6. A summary ticket reconciliation form was prepared for events; however, separate ticket reconciliations were not prepared for each ticket seller. 7. Unsold tickets were not retained on-hand for audit purposes. <p>OTHER:</p> <p>There is no written contingency and recovery plan in the event of a disaster. Also, there are no written procedures for backing up files daily and storing these files offsite.</p> <ul style="list-style-type: none"> • There are no written policies for the following areas: <ol style="list-style-type: none"> 1. Code of Ethics 2. Retention of public records 3. Monitoring security pledged to ensure that deposits are fully secured 4. Reviewing and approving payroll, including stipends and extra pay 5. Processing, reviewing, and approving disbursements 6. Using credit cards and filing expense reports supporting credit card charges 	<p><u>Resolved.</u> Teachers are completing a log of monies collected.</p> <p><u>Resolved.</u> Ticket reconciliation forms are used which document the cash remitted and the total number of tickets issued and returned.</p> <p><u>Resolved.</u> Separate ticket reconciliation forms were not prepared; however, the two ticket sellers shared the same roll of tickets and signed the ticket reconciliation form.</p> <p><u>Unresolved.</u> Unsold tickets are not retained.</p> <p><u>Unresolved.</u> There is no written contingency and recovery plan in the event of a disaster. Also, although the business department is backing up files daily and storing these files offsite, there are no written procedures for this process.</p> <p><u>Resolved.</u></p> <p><u>Resolved.</u></p> <p><u>Resolved.</u></p> <p><u>Resolved.</u></p> <p><u>Resolved.</u></p> <p><u>Resolved.</u> Credit cards have been canceled.</p>

STATUS OF DECEMBER 15, 2004, FINDINGS

December 15, 2004, Findings	Status as of September 22, 2006
OTHER: (CONT.) 7. Accounting for the business and personal use of cellular telephones 8. Information systems, including who can update internal files on a server and what are critical data and non-critical data	 <u>Resolved.</u> <u>Unresolved.</u>

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Status of June 30, 2005,
Audit Findings

STATUS OF JUNE 30, 2005, AUDIT FINDINGS

The following represents a summary of the audit findings reported in the June 30, 2005, audited financial statements (reported by the school board's independent auditor) and the disposition of those findings based on our inquiries and general observations as of September 22, 2006 (last day of our fieldwork). Management's response is included in Appendix A.

June 30, 2005, Audit Findings	Disposition as of September 22, 2006
<p>1. Transfers of monies between bank accounts were not reconciled timely - Checks for such transfers were listed as outstanding checks on the bank reconciliation for the transferring fund but not listed as a deposit in transit on the receiving fund.</p>	<p><u>Resolved.</u> Interfund transactions remain in interfund receivables and payables (general ledger accounts) until funds are actually transferred.</p>
<p>2. Monthly financial statements, including budget-to-actual comparisons, are not regularly prepared and presented to the school board. In addition, prior year audit adjustments were not recorded causing the financial statements to be inaccurate - School board members cannot effectively exercise their fiduciary responsibility of managing the school district's fiscal operations without timely and accurate financial information.</p>	<p><u>Resolved.</u> Prior year (2005) audit adjustments are recorded in the June 30, 2006, financial statements. Monthly financial statements, including budget-to-actual comparisons, are prepared and presented to the school board. The most recent financial statement presented to the school board was as of and for the year ending June 30, 2006.</p>
<p>3. Fixed asset subsidiary ledger is not reconciled to the general ledger on a monthly basis - There is inadequate accounting and maintenance of the fixed asset inventory listing.</p>	<p><u>Unresolved.</u> Although an employee has been assigned to document and account for all fixed asset additions, the costs of the additions are not reconciled to the costs recorded in the general ledger on a monthly basis.</p>
<p>4. Payroll accounts are not reconciled timely - Payroll withholdings were overstated by approximately \$200,000.</p>	<p><u>Resolved.</u> Payroll withholdings are reconciled at June 30, 2006.</p>
<p>5. Interfund receivables and payables are not reconciled on a monthly basis - An audit adjustment for approximately \$1.2 million was recorded.</p>	<p><u>Partially Resolved.</u> Interfund receivables and payables as of June 30, 2006, were either reconciled or in the process of being reconciled on the date of our visit.</p>
<p>6. The General Fund budget was not amended when actual expenditures exceeded budgeted expenditures by more than 5%, as required by law - Revenues and expenditures associated with debt incurred during the year were not budgeted.</p>	<p><u>Resolved.</u> The fiscal year 2006 budget was amended in May 2006 to account for budget variances in revenues and expenditures.</p>

June 30, 2005, Audit Findings	Disposition as of September 22, 2006
<p>7. Semiannual certificates and time and effort distribution records were not maintained on employees whose salaries are funded through federal programs - Certain federal programs were not in compliance with OMB Circular A-87 (<i>Cost Principles for State, Local, and Indian Tribal Governments</i>) which provides the principles and standards for determining costs for federal awards carried out through grants, cost reimbursement contracts, and other agreements.</p>	<p><u>Resolved.</u> The documentation is being maintained and submitted to the business manager for review.</p>

Management's Response

Bogalusa City Schools

Jerry O. Payne, Superintendent

Board Members

Mr. Howard Stewart, President
Rev. Raymond Mims
Mrs. Doneen McCullough

Mr. Paul Kates

Board Members

Mrs. Eleanor Duke, Vice President
Mr. Darren Reeves
Mr. Michael Applewhite

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October 31, 2006

Steve Theriot, CPA
Legislative Auditor
1600 North Third Street
Baton Rouge, LA 70804-9397


Dear Mr. Theriot:

I am in receipt of your Legislative Audit letter received on October 24, 2006. As superintendent of Bogalusa City Schools I have received the findings with Board President Howard Stewart and Director of Finance Delores Walker. Furthermore, we have discussed your findings regarding the Legislative Auditor visit as part of Senator Nevers Resolutions; in addition the Legislative Auditors visit to assess the actions taken by Bogalusa City Schools to resolve findings reported in December 15, 2004, and the findings of the school boards audit year end June 30, 2005.

On behalf of our school district we deeply appreciate your time, energy and honest evaluation of our districts financials. We desire to implement "best practices" in our overall financial operations.

Enclosed you will find our Managements Response to your September 22, 2006 general observations.

Sincerely,



Jerry O. Payne
Superintendent

Cc: Delores Walker
Howard Stewart

BUDGETING PROCESS:

Page 1

- **No Budget Policy or Written Procedures for Preparing, Adopting, Monitoring, and Amending Budget** – No clear understanding of what should be done, how, who, and when it should be done, and that procedures followed meet management's expectations

- **Need to Improve Budget Message** – fiscal year 2005 budget message is contrary to state law as it did not include a summary description of the proposed financial plan, policies and objectives, assumptions, and a discussion of the most important features.

CONTROLS OVER DISBURSEMENTS NEED IMPROVEMENT:

Page 2

- Inadequate controls over check-signing machine.

- There is no written policy for approving travel of all employees, including the superintendent and board members.

CONTROLS OVER PAYROLL AND ATTENDANCE RECORDS NEED IMPROVEMENT:

Page 4

- The computer generated report that shows all changes made to payroll is not printed each pay period and reviewed for accuracy.

- There is no written policy or procedures relating to employee attendance records.

- Compensatory leave earned and used by employees is not recorded and accounted for in the computerized payroll system.

1.1 The Bogalusa City School District Board follows RS 17:88 in completing and submitting a balanced budget. The district has implemented an annual operating budget policy and procedure, along with budget planning and preparation. The district has developed procedure to adopt, monitor, and amend the budget. Procedure has been put into place and we feel that this finding has been resolved.

1.3 The 2006 budget message will include the required elements to be in compliance with RS 17:88; The message will include the district's short and long term plan of the district. The budget message will include the district Financial and Educational Goals, General Fund, Debt Service Funds, Minimum Foundation Program (MFP), Capital Projects and Tax Base Trends.

2.4 The district has put in place a log sheet to verify the number of checks printed on each register to be initialed by two employees in the business office. These log sheets are initialed by the two employees in the business office. Management believes this is resolved.

3.6 The travel approval process for all employees will be approved at the November 13, 2006 school board meeting to include all levels. At the present time all employees including the superintendent and school board have a board approved procedure in place.

4.1 The payroll change audit report is being generated and reviewed by the Finance Director and Human Resource Director.

4.2 The procedure for attendance has been formalized in writing and will be approved at the November 13, 2006 school board meeting.

4.4 The compensatory leave is given to each employee attached to their pay-check at the end of each pay period.

**CONTROLS OVER STUDENT ACTIVITY
ACCOUNTS NEED IMPROVEMENT:**

Page 4

· Our inquiries and general observations at Bogalusa High School revealed instances of noncompliance with policy as follows:

1. Seven activity accounts had deficit balances

9. Unsold tickets were not retained on-hand for audit purposes.

· Our inquiries and general observations at Bogalusa Junior High School revealed instances of noncompliance with policy as follows:

7. Unsold tickets were not retained on-hand for audit purposes.

OTHER:

Page 6

· There is no written contingency and recovery plan in the event of a disaster. Also there are no written procedures for backing up files daily and storing these files offsite.

8. Information systems, including who can update internal files on a server and what are critical data and non-critical data.

STATUS OF JUNE 30, 2005 AUDIT FINDINGS

Final Page

· Fixed asset subsidiary ledger is not reconciled to the general ledger on a monthly basis.

· Interfund receivables and payables are not reconciled on a monthly basis - an audit adjustment for approximately \$1.2 million was recorded.

5.1 The school activity account with the deficit balance will be eliminated.

5.9 All unsold tickets will be kept on file for 3-5 years.

5.7 All unsold tickets will be kept on file for 3-5 years.

Management Response:

The district has in place a procedure for backing up files daily and storing of files offsite. In addition we have written procedures for this process. The Bogalusa City Schools district, Parish Homeland Security, and City of Bogalusa have a crisis management team that meets monthly. We have purchased satellite cell phones and purchased a 1-800 calling center number for staff to call into in case of an emergency.

The district has one designated employee in our Business Department who can update internal files on our server. In addition, we have offsite daily back up through our software provider through software services.

3. The fixed asset subsidiary ledger is being reconciled monthly to general ledger.

5. The interfund receivables are currently being reconciled on a monthly basis.