DEPARTMENT OF EDUCATION
STATE OF LOUISIANA

LOUISIANA
LEGISLATIVE
AUDITOR

MANAGEMENT LETTER
ISSUED APRIL 26, 2006

LEGISLATIVE AUDITOR
1600 NORTH THIRD STREET
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BATON ROUGE, LOUISIANA 70804-9397

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STEVE J. THERIOT, CPA
LEGISLATIVE AUDITOR

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March 27, 2006

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 ending June 30, 2005, we considered the state Department of Education's internal control over financial reporting and over compliance with requirements that could have a direct and material effect on a major federal program; we examined evidence supporting certain accounts and balances material to the State of Louisiana's financial statements; and we tested the department's compliance with laws and regulations that could have a direct and material effect on the State of Louisiana's financial statements and major federal programs as required by *Government Auditing Standards* and U.S. Office of Management and Budget Circular A-133.

The Annual Fiscal 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's financial statements, upon which the Louisiana Legislative Auditor expresses opinions.

Based on the application of the procedures referred to previously, all significant findings are included in this letter for management's consideration. The 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, 2005.

Failure to Develop a Disaster Recovery Plan

The Department of Education (DOE) has not adopted and implemented a disaster recovery plan. Formal disaster recovery plans should exist for the timely restoration and continuity of critical entity operations in the event that normal data processing facilities are unavailable for an extended period of time. In addition, the Division of Administration's Office of Information Technology Policy Number 11 requires state agencies to develop, test, and maintain disaster recovery/business continuity plans designed to ensure the availability of mission-critical services and functions in the event of a disaster or unscheduled event that would impact the agency's information technology (IT) and telecommunications systems. Louisiana Revised Statute (R.S.) 44:36 also requires that public records shall be preserved and maintained for a period of at least three years from the date on which the public record was made.

An adequate disaster recovery plan should, at a minimum, include the following:

- Maintaining a written functional plan that would allow for continued operation of critical IT services in the event of an unexpected interruption

- Routinely backing up data files, computer programs, and critical documents and storing this information offsite at a remote facility

- Establishing a remote facility so that data can be processed and operations can continue with minimal disruption of services

- Adequately training staff and other users of the system so that they understand their responsibilities in case of emergencies

- Testing the plan periodically to ensure that the plan works as intended

DOE provides major state and federal funding to Louisiana school districts and other subrecipients. During fiscal year 2005, the department passed through over $3.6 billion to school districts and other subrecipients who depend on this funding. Failure to implement formal disaster recovery/contingency plans increases the risk that, in the event of a disaster, there may be an untimely or excessive delay in processing records and making payments. Also, critical public records may be lost.

DOE should develop, adopt, and implement a disaster recovery plan that allows for critical operations to be reestablished and data to be restored from a remote location within an acceptable time frame should a disaster occur. These plans should also be periodically tested and updated as necessary to ensure that the plans work as intended in emergency situations. Management concurred with the finding and outlined a corrective action plan (see Appendix A, pages 1-2).

Inadequate Controls Over the Migrant Education State Grant Program

In a report issued December 9, 2004, the Bureau of Internal Audit of DOE reported that the department did not implement policies and procedures to ensure compliance with federal regulations for the Migrant Education State Grant Program (CFDA 84.011). DOE administers this program through local operating agencies (LOAs) that contract with advocates who are to identify and address the special educational needs of migratory children in accordance with a comprehensive state plan.

DOE's Internal Audit found the following internal control weaknesses:

- DOE management did not ensure that all LOAs had a nonprofit status, as required by Title I, Part C, Section 1309.

- The DOE State Migrant Office allowed an LOA to issue contracts with advocates in the name of the department without the required approvals of the Superintendent and the Board of Elementary and Secondary Education.

- This LOA contracted with two advocates who also held full-time jobs as a teacher and a guidance counselor, respectively. These contractors claimed expenses for visiting certain schools as advocates on school days in which they were present on their full-time jobs at other schools. One of the advocates claimed school visits on weekends when schools were closed. Some assessment forms did not have school visit dates. Some assessments submitted were the same forms that had been submitted in previous years, with only a change of date, for needs that may have been previously identified and addressed. As a result, the contracts of both advocates were questioned for $27,000. In addition, $7,357 in related travel costs claimed by the advocates was questioned.

- DOE management did not adequately review the assessments submitted by the advocates. When the LOA was understaffed, the DOE employee responsible for monitoring the LOA assumed certain responsibilities of the LOA, resulting in an inadequate segregation of duties and inadequate monitoring.

DOE management in the Division of Family, Career, and Technical Education concurred with the internal audit report findings. Internal Audit's recommendations for improvement and management's full responses to these findings may be found in DOE's internal audit report. To obtain a copy of the audit report, contact the Louisiana Department of Education, 1201 North Third Street, Baton Rouge, Louisiana 70802.

DOE should continue to follow up on this internal audit and determine if the $34,357 of questioned costs should be disallowed and recovered from the LOA.

Inadequate Subrecipient Monitoring Over Single Audit Reports

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 single audits that DOE received from its subrecipients showed the following:

- In a test of five single audit reports containing findings, DOE failed to issue timely management decisions for certain findings in three reports (60%). One of these decisions was issued two months late; one was issued 11 months late; and one has not yet been issued even though the due date was over one year ago.

- The Bureau of Internal Audit performs desk reviews of school board single audits before forwarding the reports to employees responsible for issuing management decisions. For four of 16 reports (25%), the desk reviews were not performed until four to seven months after receipt; however, the management decision was due within six months.

Management has failed to adequately stress the importance of a timely follow up on single audits of its subrecipients. Inadequate resolution of findings from the single audits of subrecipients may result in the federal grantor penalizing DOE.

DOE should issue management decisions on findings in single audits of its subrecipients within six months after receipt of the subrecipient's audit report and ensure that the subrecipient takes appropriate and timely corrective action. Management concurred with the finding and outlined a corrective action plan (see Appendix A, pages 3-4).

Untimely Fiscal Monitoring and Reporting

DOE failed to perform and report timely fiscal monitoring of federal funds granted to a school district. OMB Circular A-133 requires pass-through entities 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. In addition, 20USC1234a states that recipients who expend federal funds in a manner not authorized by law are not liable to return funds authorized by law and expended more than five years before receiving written notice.

On April 8, 2005, DOE issued a Division of Education Finance (EF) audit report on a school district questioning costs of $821,702.63, for which there was inadequate supporting documentation to show that costs were allowable. The EF auditors conducted an audit of the school district over a three-year period from January 3, 2001, through January 16, 2004. The EF audit included awards to the school district from grant years 1995-1996 through 1999-2000 from the following seven federal programs:

- Title I Grants to Local Educational Agencies (84.010)

- Eisenhower Professional Development State Grants (84.281)

- Safe and Drug-free Schools and Communities State Grants (84.186)

- State Grants for Innovative Programs (84.298)

- Class Size Reduction (84.340)
- Special Education - Grants to States (84.027)
- Special Education - Preschool Grants (84.173)

The draft of the EF audit report was not issued to the school district until November 18, 2004, over four years after beginning the audit. The final audit report was issued almost five months later. As of January 17, 2006, DOE has not finalized an agreement with the school district for the repayment of disallowed costs.

DOE's failure to perform timely monitoring increases the risk of the school district's noncompliance with federal regulations over an extended time and limits the amount of disallowed costs that can be recovered.

DOE management should ensure fiscal monitoring procedures are in place to ensure timely detection of noncompliance with federal regulations. Once identified, noncompliance should be communicated to the subrecipient in a timely manner and disallowed costs should be recovered. Management concurred with the finding and outlined a corrective action plan (see Appendix A, pages 5-6).

Theft of Computers

DOE notified the Legislative Auditor that during the period June 1, 2005, through November 11, 2005, a total of 23 laptop computers were stolen from DOE.

- Two of the laptops were purchased with federal funds: one with Temporary Assistance for Needy Families (TANF - CFDA 93.558) grant funds at an acquisition cost of $2,224 and one with State Administrative Expenses for Child Nutrition (CFDA 10.560) funds at an acquisition cost of $4,137.
- Nineteen computers were purchased with state funds for a total acquisition cost of $44,640.
- Two laptops were on loan from vendors. The value of these laptops totaled $3,919.

All computers had been stored in a work area that was card-access restricted to specific department personnel only. Access to the room was restricted to employees with a business need. After the theft of the first computer, management began working with State Police to identify the person responsible. Upon arrest by State Police, DOE terminated the employee. Five computers with an acquisition cost of $13,173 have been recovered and returned to the department. The computer funded by the TANF grant was recovered, but the computer funded by the Child Nutrition funds was not.

DOE management should continue to pursue the recovery of the stolen laptops. Management concurred with the finding and outlined a corrective action plan (see Appendix A, pages 7-8).

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 solely for the information and use of the department and its management 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:ss

[DOE05]

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

STATE OF LOUISIANA

DEPARTMENT OF EDUCATION

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February 3, 2006

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

Dear Mr. Theriot:

The January 23, 2006, letter from Wesley D. Gooch, CPA, was received in my office concerning a reportable audit finding for the Department of Education (DOE) regarding its "Failure to Develop a Disaster Recovery Plan." Department staff has reviewed the finding, and management concurs with the report as presented by your staff.

It is important to note that the DOE has drafted a Disaster Recovery Plan; however, at the time the audit was conducted, it had not been formally adopted and implemented. We are currently in the process of finalizing the plan and preparing for its implementation. In response to the findings as stated by your audit staff, the following corrective actions have been addressed, or shall be addressed, to ensure compliance to the findings.

<u>Corrective Action Plan</u>

- A draft Disaster Recovery Manual is complete. The manual includes sections outlining pre-disaster preparedness, notification, emergency contacts, command center, and recovery teams.

- The draft was initially presented to my Cabinet on January 23, 2006, by Dave Elder, Division Director for Planning, Analysis, and Information Resources. In this initial review of the Disaster Recovery Manual, discussions centered on disaster planning, recovery structure, recovery scenarios, and command center locations. Each Cabinet member was provided with a draft copy of the manual to review and has been asked to provide Mr. Elder with feedback and recommendations.

- The current draft allows for (1) continued operation of critical DOE information technology and telecommunications in the event of an interruption of day-to-day operations; (2) the backing up of data files, computers, programs, and critical documents at a remote facility; and (3) the training of staff and others so that they understand emergency responsibilities.

- Once the draft plan has been finalized and adopted, it is anticipated that the first test of the plan will be conducted in late fiscal year 2006, with periodic tests conducted on an annual basis thereafter.

- A projected completion date of June 30, 2006, is targeted to carry out the actions as stated in this Corrective Action Plan.

- The contact person for the DOE Disaster Recovery corrective action plan is:

  Dave Elder, Director
  Division for Planning, Analysis, and Information Resources
  (225) 342-0091
  dave.elder@la.gov

If you have additional questions concerning this response, please contact Patrick Weaver, Deputy Undersecretary, at (225) 342-2098 or by e-mail at patrick.weaver@la.gov.

Sincerely,

Cecil J. Picard

Cecil J. Picard
State Superintendent of Education

CJP:pw

c: Carole Wallin
Marlyn Langley
Patrick Weaver
Dave Elder

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February 15, 2006

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

Dear Mr. Theriot:

The Louisiana Department of Education (DOE) appreciates the opportunity to respond to the reportable audit finding for the DOE related to "Inadequate Subrecipient Monitoring." DOE management has reviewed the finding and concurs with the finding as presented.

It should be noted, however, this finding was partially caused as a result of the total corruption of the database used by the Bureau of Internal Audit (BIA) to track single audit findings when the database was moved between servers. Due to time constraints related to other audit projects, the BIA failed to test the database in a timely manner after it was moved between servers. A back-up of the database, which normally would be available, was not available due to the time which lapsed between the time the database was moved and the time it was tested. The database was unavailable for almost six months while arrangements were made to rebuild and repopulate the database. As a result, the BIA was unable to record necessary entries related to single audits before distributing reports to the DOE programs. The BIA was forced to delay processing single audit reports until the database was again available.

<u>Corrective Action Plan</u>

1. The BIA database has been reconstructed and is now operating properly. The BIA resumed normal distribution of single audit reports in August 2005. The BIA has changed its procedures to ensure files are tested in a timely manner in the future to allow backup recovery in case a similar situation should occur.

2. The BIA conducted a workshop for DOE staff in October 2005, related to subrecipient monitoring and related responsibilities, including the importance of issuing management decisions for single audit findings. In addition, the BIA conducted several follow-up meetings with DOE staff related to these same issues after the workshop.

3. The BIA has already modified its distribution procedures to place more emphasis on distribution of single audits with federal program findings. School board

single audit reports with federal program findings are now being recorded and distributed within (14) days after receipt in the BIA.

4. The Bureau of Internal Audit has developed procedures to follow-up unresolved single audit findings before expiration of the 180 day time limit related to issuing management decisions.

5. The Assistant Superintendents for each of the affected offices in the DOE will meet with their staffs to stress the importance of issuing timely management decisions related to single audit findings. In addition, the offices will develop or strengthen existing procedures to ensure management decisions are issued in a timely manner in accordance with federal regulations.

The projected completion date for this corrective action plan is June 30, 2006.

The contact person related to this finding for the Bureau of Internal Audit is:

Dudley J. Garidel, Jr. Director
Bureau of Internal Audit
(225) 342-1518
dudley.garidel@la.gov

The contact persons related to this finding for the federal programs are the individual Assistant Superintendents for each of the affected offices.

If you have additional questions concerning this response, please contact Patrick Weaver, Deputy Undersecretary, at (225) 342-2098 or by e-mail at patrick.weaver@la.gov.

Sincerely,

Cecil J. Picard
State Superintendent of Education

CJP:DJGJr

c: Carole Wallin
Marlyn Langley
Patrick Weaver
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Donna Ganey
Robin Jarvis
Sheila Talamo

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February 22, 2006

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

Dear Mr. Theriot:

The Department of Education concurs with the finding entitled **Untimely Fiscal Monitoring and Reporting.**

The Department understands the importance and takes very seriously the responsibility of monitoring federal funds. The Department has been committed to improving monitoring procedures for federal programs over the last several years; monitoring procedures have been revised and fine-tuned to ensure adherence with federal monitoring guidelines. The procedures currently in effect were designed to prevent further occurrences described in this finding. The enhancements over the last several years have included:

- Development of a risk assessment document used to identify needed monitoring reviews. This risk assessment uses multiple data sources as risk factors for subrecipients. These risk factors are first ranked and then combined to provide a total risk assessment score. This process assists the Department with identifying subrecipients that are at the greatest risk for possible noncompliance with federal regulations over an extended period of time.

- Subrecipients are now monitored at least every three years or annually as needed. Timelier monitoring decreases the risk that a subrecipient will be in noncompliance with federal regulations over an extended period of time.

- Depending on the subrecipient, one year to a maximum of three grant years are examined during a review. This provides a more manageable situation with regard to the volume of field work included in a monitoring review. It also creates a more manageable amount of supervisory review work. Both of these factors ensure timely detection of noncompliance, completion of monitoring reviews, and notification of findings to subrecipients. The situation created by the monitoring review in question may never be repeated under this process.

- The types and amount of monitoring tests performed are designed to balance in-depth examination of financial records with timely detection of noncompliance with federal regulations, completion of field work, and timely reporting of findings to subrecipients. Under normal circumstances, an average monitoring review is

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completed and a report issued within 90 days of the start of field work. Again, under the current monitoring plan, the situation created by the monitoring review in question may never be repeated.

In an effort to continue the success created through implementation of enhancements to monitoring procedures, the Department has taken the following steps to ensure timely recovery of disallowed costs:

- The development of a repayment plan for the monitoring review in question proved to be complex. Both the age and amount of questioned costs resulting from this review contributed to this situation. The lack of experience with such situations required the Department seek guidance from expert legal counsel in order to ensure proper handling of this situation. The negotiation process for development of the repayment agreement had begun prior to Hurricane Katrina; however, it was disturbed by the effect of Hurricane Katrina on the Department as well as the subrecipient. Now that business has returned to some normalcy, the Department is making plans to ensure that this agreement is presented to the subrecipient in the next 30 days. A copy of the draft agreement as well as the date of the meeting will be provided to OLA representatives once arrangements are finalized.

- This unique experience proved valuable in expanding the knowledge base of staff responsible for recovery of questioned costs. The Department staff will continue to research and learn about complex recovery issues, seeking expert guidance as needed. To ensure proper handling and enhance the process associated with the recovery of questioned costs, additional staff will be designated and trained in this area.

The staff member responsible for the coordination of the corrective actions noted is Beth Scioneaux, Director of the Division of Education Finance. She may be reached via phone at (225) 342-4989 or e-mail at beth.scioneaux@la.gov. If you have any additional questions concerning this response, please contact Patrick Weaver, Deputy Undersecretary, by telephone at (225) 342-2098 or via e-mail at Patrick.weaver@la.gov.

Sincerely,

Cecil J. Picard
State Superintendent of Education

CJP/MJL/BS

c: Carole Wallin
Marlyn J. Langley
Patrick Weaver
Beth Scioneaux

STATE OF LOUISIANA

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February 22, 2006

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

Dear Mr. Theriot:

My office has received the February 8, 2006, letter from Wesley D. Gooch, CPA, concerning a reportable audit finding for the Department of Education (DOE) regarding the "Theft of Computers." Department staff has reviewed the finding, and management concurs with the report as presented by your staff.

Facts Relating to this Finding

- On June 1, 2005, the State Police were called to investigate the theft of a DELL loaner Laptop computer.

- To aid in the search of this stolen computer, the DELL Corporation added the stolen Laptop to their database.

- On November 14, 2005, State Police found (5) DOE Laptops at the residence of a DOE employee. That employee was arrested at the residence for the theft of the stolen Laptops.

- On November 28, 2005, the State Police returned (5) Laptops to the DOE.

- On January 5, 2006, the father of the employee returned the employee's state-issued identification badge and pager to the DOE.

- On February 3, 2006, a request for processing a Risk Management claim (based on the police reports and the DOE annual inventory) was submitted to Rex Thomas (DOE Property Control Manager).

- The State Police investigation is ongoing.

It is important to note that all appropriate action has been taken to prevent the theft of future computer Laptops from the HELPDESK area in the Division of Planning, Analysis, and Information Resources.

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Corrective Action Plan

- All spare laptops are locked in file cabinets inside the Helpdesk room.
- The Helpdesk room is accessed only through authorized card access users.
- The locks on the two doors that enter the Helpdesk room 5-133 were changed, and the only key to the doors resides with DOE operations in Rex Thomas's office.
- All Laptops in the Helpdesk area are inventoried daily.
- All Laptops being serviced in the Helpdesk area are stored in a locked cabinet each night.
- The DOE maintains contact with the State Police for the return of any additional Laptops.
- The contact person for this specific DOE corrective action plan is:

  Dave Elder, Director
  Division for Planning, Analysis, and Information Resources
  (225) 342-0091
  dave.elder@la.gov

If you have additional questions concerning this response, please contact Patrick Weaver, Deputy Undersecretary, at (225) 342-2098 or by e-mail at patrick.weaver@la.gov.

Sincerely,

Cecil J. Picard
State Superintendent of Education

CJP:pw

c: Carole Wallin
Marlyn Langley
Patrick Weaver
Dave Elder