

RECOVERY SCHOOL DISTRICT
DEPARTMENT OF EDUCATION
STATE OF LOUISIANA



MANAGEMENT LETTER
ISSUED JANUARY 20, 2010

**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 and New Orleans offices of the Legislative Auditor.

This document is produced by the Legislative Auditor, State of Louisiana, Post Office Box 94397, Baton Rouge, Louisiana 70804-9397 in accordance with Louisiana Revised Statute 24:513. Six copies of this public document were produced at an approximate cost of \$21.84. This material was produced in accordance with the standards for state agencies established pursuant to R.S. 43:31. This report is available on the Legislative Auditor's Web site at www.la.la.gov. When contacting the office, you may refer to Agency ID No. 10202 or Report ID No. 80090100 for additional information.

In compliance with the Americans With Disabilities Act, if you need special assistance relative to this document, or any documents of the Legislative Auditor, please contact Wayne "Skip" Irwin, Administration Manager, at 225-339-3800.

	Page
Management Letter	3
Budgetary Comparison Schedule (Unaudited)	17

Appendix

Management’s Corrective Action Plans and Responses to the Findings and Recommendations.....	A
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LOUISIANA LEGISLATIVE AUDITOR
DARYL G. PURPERA, CPA

January 15, 2010

**RECOVERY SCHOOL DISTRICT
DEPARTMENT OF EDUCATION
STATE OF LOUISIANA**
New Orleans, Louisiana

As part of our audit of the State of Louisiana's financial statements for the year ended June 30, 2009, we considered the Recovery School District'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 district'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 Recovery School District (RSD) is not audited or reviewed by us, and, accordingly, we do not express an opinion on that report. The district's accounts are an integral part of the State of Louisiana's financial statements, upon which the Louisiana Legislative Auditor expresses opinions.

In the prior management letter on the Department of Education for the year ended June 30, 2008, we reported RSD findings relating to inadequate controls over payroll, inadequate internal control over relocation and retention incentive payments, noncompliance with federal and state equipment management regulations, noncompliance with A-87 payroll certification regulations, inadequate control over coding of federal expenditures, theft of computers, inadequate oversight of school activity funds, and delinquent payments to vendors. The finding relating to inadequate oversight of school activity funds has been substantially resolved by management. The remaining findings have not been resolved and are addressed again in this letter.

Based on the application of procedures referred to previously, all significant findings are included in this letter for management's consideration. All findings included in this management letter that are required to be reported by *Government Auditing Standards* will also be included in the State of Louisiana's Single Audit Report for the year ended June 30, 2009.

Inadequate Controls Over Payroll

For the third consecutive year, RSD did not ensure that employee separation dates were accurate, employees were paid correctly, and payroll charges were supported by adequate documentation. Office of Management and Budget (OMB) Circular A-87, Attachment A, Section C (1)(j) states that to be allowable under federal awards, costs must be adequately documented. RSD Policy No. 2.10 requires employees to sign in and out daily and initial the biweekly time and attendance records at the end of each pay period. Good internal controls require that (1) employees be paid only for days worked within their employment period; (2) employee terminations be entered accurately in the payroll system before the close of the employee's last pay period; (3) overpayments to employees be properly identified, tracked, and recouped; and (4) employees who process payroll and personnel records be knowledgeable about the payroll system.

In our test of the accuracy of employee separation dates entered into the ISIS/HR payroll system, the following exceptions were noted:

- For 14 of 24 (58%) employees tested, RSD did not have supporting documentation available to confirm the employees' separation date.
- Four of the 24 (17%) employees' separation dates were not entered into ISIS/HR before the close of the employees' last pay period.

This test of 24 separation dates also revealed two overpayments totaling \$1,772.

In a separate test of 14 other employee separations, eight (57%) separations were not entered into the ISIS/HR payroll system before the close of the employees' last pay period. Days late ranged from 20 to 323 days and revealed overpayments to three (21%) employees totaling \$11,478. Certain items in this test and the test of separation dates did not agree to the overpayment/recoupment listing provided by RSD.

In a review of 15 overpayments identified during fiscal year 2007 and fiscal year 2008, RSD could not provide documentation for any recoupment activity by RSD.

In a review of five overpayments for fiscal year 2009, totaling \$91,156, RSD could not provide adequate documentation explaining why these overpayments were identified as such by the system. Also, we could not determine any recoupment activity by RSD on these identified overpayments.

On November 23, 2009, RSD provided an overpayment/recoupment listing that included activity from fiscal year 2007 through November 2009. The listing had a gross amount due of \$654,133 with a net amount due of \$575,342 and the difference of \$78,791 as recouped. A test of 20 employees from this listing disclosed the following problems:

- The 20 employees sampled represent overpayment claims totaling \$96,262 and a related recouped amount totaling \$42,403. However, RSD could only provide documentation to support \$27,707 (29%) of the

overpayments and \$18,434 (43%) of the recoupments. For 14 of 20 (70%) employees tested, RSD could not provide documentation to support the gross amount due included on the listing.

- For 14 of the 20 (70%) employees, RSD could not provide documentation to support that the employees received notification of the overpayment amount.
- For three employees' overpayment claims totaling \$25,313, RSD subsequently provided documentation to support that no overpayment existed, which demonstrates problems with the overpayment/recoupment listing. Two employees were changed to positive time entry with no data to support positive time, causing an overpayment claim to be generated; however, the errors were subsequently corrected and changed back to negative time, eliminating the claims. The other employee had negative time entry deleted in error, but this error was corrected the next day.

In a test of employee time sheets, the following exceptions were noted:

- One of 24 (4%) employees did not have a time sheet for the requested pay period.
- Four of 24 (17%) employees did not properly complete time sheets by initialing the time sheet at the end of the pay period.
- Two of 24 (8%) employees did not have approved time sheets on file.
- Four of six (67%) employees with leave did not have approved leave slips on file.
- Three of six (50%) employees who took leave did not have their leave recorded accurately in the ISIS/HR payroll system. For two employees, a total of 65.5 hours were taken, but only 19 hours were paid to the employees. Prior period adjustments corrected these errors. For the other employee, 16 hours were taken, but the employee was not paid for that time. No correcting adjustment was identified.
- For 19 of 24 (79%) employees, RSD could not provide supporting documentation to confirm the employees' approved rates of pay.

Management has not developed an adequate process to track overpayments and recoupments. In addition, management did not emphasize compliance with established internal control policies and procedures relating to processing personnel transactions and documentation of payroll charges. Failure to support payroll charges with adequate documentation increases the risk that employees will be paid improperly. The state's Minimum Foundation Program was charged for \$10,383 of the overpayments. The federal Immediate Aid to Restart School Operations Program (CFDA 84.938A) was

charged for \$2,467. The Hurricane Educator Assistance Program (CFDA 84.938K) was charged for the remaining amount of \$400. Federal questioned cost totaled \$2,867.

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

Inadequate Internal Control Over Relocation and Retention Incentive Payments

For the second consecutive year, RSD did not maintain adequate internal control over the payment of relocation and retention incentives. Public Law 110-28 allocated funds for use in recruiting, retaining, and compensating new and current teachers and school staff who commit to work for at least three years in school-based positions in public elementary and secondary schools located in an area impacted by Hurricane Katrina or Hurricane Rita. RSD Policy No. EP 3.16.2 states that all non-Louisiana candidates who are certifiable in Louisiana, who make a three-year commitment to work, and who are hired for the 2007-2008 school year for teacher and certified/licensed school staff positions with the RSD are eligible to receive the benefits of the Out-of-State Relocation/Signing and Retention Incentive Package. This package includes a \$2,500 relocation stipend/signing incentive, a \$400 per month housing subsidy for one year, and a \$5,000 (per year) end-of-year lump sum signing and retention payment for a maximum of two years. These employees also must have a satisfactory performance evaluation for work provided during the 2008-2009 school session. These incentive payments were funded by the Hurricane Education Recovery Act, Hurricane Educator Assistance Program (CFDA 84.938K).

In a test of 30 employees who received out-of-state relocation/signing and retention incentives, the following were noted:

- Seven (23%) employees received relocation and retention incentives totaling \$25,000 and housing subsidies totaling \$22,800 that did not remain employed by RSD for the required three-year commitment period. Additional payments made to or on-behalf of these individuals included a tuition reimbursement payment in the amount of \$2,650 and benefit payments totaling \$8,686. The total cost associated with these incentive payments was \$59,136. RSD provided no evidence of efforts to recover the incentive payments to those employees.
- For four (13%) employees tested, no three-year commitment letter was on file.

- For 13 (43%) employees tested, no evidence was provided that the employee was a non-resident of Louisiana.
- For four (13%) employees tested, RSD failed to provide a satisfactory performance evaluation for work provided at an RSD school during the 2008-2009 school session.

In response to findings noted during a November 2008 United States Department of Education (USDOE) on-site review of the Hurricane Educator Assistance Program (HEAP), the RSD entered into a Cooperative Audit Resolution and Oversight Initiative (CAROI) with the state Department of Education. In the CAROI agreement, RSD agreed to repay the HEAP grant from state monies in the amount of \$1,255,462. This amount represents funds that were paid to individuals who were ineligible, failed to remain employed by the RSD, have refused to sign a commitment letter, and/or failed to sign the commitment letter by May 8, 2009. However, as of December 28, 2009, RSD has not provided documentary evidence to the auditor to support the repayment of the HEAP grant from state funds.

RSD management did not emphasize compliance with established internal control policies and procedures relating to incentive payments. Failure to support incentive payments with adequate documentation increases the risk that employees will be overpaid and may result in disallowed federally funded expenditures. Incentive payments to the 11 employees noted above represent questioned costs totaling \$74,536. HEAP payments made to employees during fiscal year 2009 totaled \$1,224,287.

RSD management should follow established policies and procedures relating to incentive payments and should attempt to recover any overpayments. RSD should reimburse the HEAP grant in accordance with the CAROI agreement and should work with the grantor to resolve any questioned costs. Management concurred in part with the finding and noted that certain supporting documentation was located after the auditors initially looked for that documentation (see Appendix A, pages 3-4).

Additional Comments: The three performance evaluations noted as on file in management's response were all signed during May 2008, which is not within the 2008-2009 school session. The supporting documentation relating to the three-year commitment letter and evidence that the employees were non-residents of Louisiana were not located in the files obtained by the auditors or provided by RSD personnel when this documentation was initially requested in September and October 2009. Although providing the information in January 2010 reduces the questioned costs, the inability to obtain supporting documentation for federal expenditures in a timely manner demonstrates a control deficiency within RSD's financial processes. Failure to maintain information in an organized manner reduces the ability to provide timely and accurate information to management and other parties like federal and state auditors. In addition, the risk increases that errors could occur and remain undetected.

Noncompliance With Federal and State Equipment Management Regulations

For the third consecutive year, RSD did not comply with federal and state equipment management regulations. RSD did not tag and report equipment as required and did not maintain accurate information in the state's movable property system, Protégé.

Federal equipment means tangible nonexpendable property purchased with a federal award, having a useful life of more than one year, and an acquisition cost of \$5,000 or more per unit. OMB Circular A-87 requires a state to use, manage, and dispose of equipment acquired under a federal grant in accordance with state laws and procedures. The Louisiana Administrative Code 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 receipt of these items.

Tests performed on RSD's movable property noted the following exceptions:

- Fourteen of 20 (70%) items selected that were purchased during the year were not entered into Protégé within 60 days. The delays in entering the equipment ranged from 35 to 180 days.
- Six of 34 (18%) items selected from movable property records were not located.

A review of the Protégé late additions report as of June 30, 2009, disclosed 1,241 items totaling \$1,948,567 were not entered into Protégé within 60 days. The delays in entering the equipment ranged from 69 to 701 days late.

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

- Twenty of 30 (67%) items were not located.
- Twenty-nine of 30 (97%) items were not entered into Protégé within 60 days. The delays in entering the equipment ranged from 20 to 69 days.
- During the test of 30 items, auditors identified three Dell invoices that together comprised 45 laptop computers with a total value of \$83,391, which had not been entered into the Protégé system and were not located. The invoices were paid with Public Assistance (CFDA 97.036) funds.

RSD also reported 32 items of movable property with an approximate value of \$53,755 as missing/stolen to the Legislative Auditor and the Orleans Parish District Attorney's Office in the current fiscal year.

RSD failed to comply with federal and state regulations because the district has not implemented and enforced adequate internal controls over movable property. Failure to comply with federal and state equipment management regulations increases the risk that assets may be misreported, lost, or stolen.

Management should ensure that equipment is tagged and reported accurately and timely in accordance with federal and state regulations. Management should continue to search for unlocated property. Management concurred in part with the finding and outlined a plan of corrective action. Management expressed concern about the discrepancy between federal and state property thresholds for movable property (see Appendix A, pages 5-7).

Noncompliance With A-87 Payroll Certification Regulations

For the second consecutive year, RSD did not ensure that certifications for payroll expenditures charged to federal programs were completed as required by federal regulations. OMB Circular A-87, "Cost Principles for State and Local Governments," requires that when 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, signed by the employee, and based on the work performed and not on budget. If employees work solely on a single federal award or cost objective, the certifications must be prepared at least semiannually.

Audit procedures were performed on five biweekly certifications and 25 semiannual certifications. For the 30 certifications tested, the following exceptions were identified:

- For six certifications (20%), no certification was provided for the employee.
- For eight certifications (27%), the certification was not completed at least monthly as required.
- For two certifications (7%), no date was written on the certification, so compliance with submission requirements could not be determined.
- For 13 certifications (43%), the cost distribution report did not agree to the program and percentage charged per the certification, and no adjustment was completed to reflect the actual effort of the employee.

Management's response to the prior year audit finding stated in part that "The Recovery School District (RSD) will eliminate the separate completion of a paper form for the A-87 Payroll Certifications by utilizing the State's SAP payroll System by May 1, 2009. RSD will move to the daily reporting mechanism so that financial adjustments are done automatically at the time of payroll entry . . ."

In a test of 15 certifications, during a pay period ending subsequent to May 1, 2009, the following exceptions were noted:

- For two certifications (13%), no certification was provided for the employee.
- For nine certifications (60%), the cost distribution report did not agree to the program and percentage charged per the certification, and no adjustment was completed to reflect the actual effort of the employee.

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

Management should establish and enforce policies and procedures for completing A-87 payroll certifications that comply with federal regulations. Management concurred with the finding and outlined a plan of corrective action (see Appendix A, pages 8-9).

Inaccurate Annual Fiscal Report

RSD did not submit an accurate and complete Annual Fiscal Report (AFR) to the Division of Administration for the fiscal year ended June 30, 2009. As authorized by Louisiana Revised Statute 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 the preparation of each agency AFR, which is then used in the compilation of the state's Comprehensive Annual Financial Report (CAFR) in accordance with accounting principles generally accepted in the United States of America. Good internal control includes establishing a process to ensure that these financial statements are accurately prepared and reviewed. However, RSD's AFR submitted to OSRAP and the Louisiana Legislative Auditor on August 31, 2009, included the following omissions and errors:

Full Accrual Receivables and Payables

- RSD did not record receivables totaling \$32,976,284. The receivables represent fiscal years 2007 and 2008 amounts that were determined by the state's Department of Education (DOE) according to House Concurrent Resolution (HCR) 290 of 2006 and HCR 208 of 2007. This amount is owed to RSD by the Orleans Parish School Board (OPSB). An audit adjustment was proposed for this amount as a result of the documentation provided to the auditors.
- RSD did not record a payable totaling \$12,994,192 to OPSB. The payable represents the fiscal year 2009 amount that was determined by the state's DOE according to HCR 207 of 2008. This amount was calculated near the end of calendar year 2009 and has not yet been proposed as an adjustment by the department.

- RSD did not record a payable to OPSB for \$17,443,363 for services including, but not limited to, utilities, insurance, and staff support provided following Hurricane Katrina. The superintendent of education asserts that while an obligation does exist for approximately this amount, other unresolved financial issues between RSD and OPSB will affect the ultimate repayment of this amount. No adjustment was made by the department for this amount.

Schedule of Interagency Receipts

- RSD misclassified monies totaling \$20,112,138 received before June 30, 2009, as receivables.

Management did not adequately review its AFR resulting in excluded transactions and misclassified transactions in its preparation of the AFR. Failure to submit an accurate AFR can delay the compilation, issuance, and accuracy of the state's CAFR. Also, without adequate review, misstatements from errors or omissions may occur and remain undetected.

RSD management should ensure that its AFR is properly prepared and should review the financial information and note disclosures in its AFR to identify and correct errors before submitting it to OSRAP and the legislative auditor. Management concurred in part with the finding. Management noted that there is uncertainty with the full accrual receivables and payables and did not concur that the amounts should be reported in RSD's AFR (see Appendix A, pages 10-12).

Additional Comments: Under the accrual basis of accounting, revenues are recognized when earned, and expenses are recorded when an obligation has been incurred. The receivable amounts totaling \$32,976,284 and the payable amount of \$12,994,192 were determined by the state's DOE according to the House Concurrent Resolutions. Based upon reconciliations of local revenues, the HCRs require the DOE to determine the amount owed to RSD from the district of prior jurisdiction or the amount RSD owes to that district. Since the reconciliations result in amounts earned by RSD or obligations incurred by RSD, the amounts should be recorded in RSD's AFR.

In a letter dated November 20, 2009, to the state Legislative Auditor, DOE acknowledged that RSD has a current obligation to OPSB estimated to be \$17,443,363 for services including, but not limited to, utilities, insurance, and staff support provided following Hurricane Katrina. Since this amount is reasonably estimated and represents a valid obligation that has been incurred, the amount should be recorded in RSD's AFR.

Implicit approval was not provided by the Legislative Auditor as noted in management's response. Footnote 1 in management's response quotes a comment extracted from an e-mail from the audit manager who supervises the state DOE audit. The comment was taken out of context from an e-mail sent during discussion of a separate finding in the state DOE audit, "Failure to Perform Local Tax Reconciliations for the Recovery School District." The correspondence did not relate to this RSD finding. The comment was

made in answer to a direct question from a DOE contractor. The e-mail further explained that the DOE audit team would consider additional support provided and would then contact the department to continue the discussion. The quoted comment, "I see no action required of the department at this time," only referred to the time while consideration of the new information was completed and additional correspondence with the department on the issue was resumed.

Management's response indicated that two amounts in the finding were errors. The first amount relates to the \$32,976,284 receivable. The amount in the finding was based upon DOE's initial determination for fiscal year 2007 that OPSB owed RSD \$41,056,187. After OPSB paid RSD \$23,612,824 in fiscal year 2008, it was determined that OPSB owed RSD an additional \$9,757,212 based upon final fiscal year 2007 revenue numbers. The total local revenue obligation for 2007 is \$27,200,575. This amount, along with the fiscal year 2008 amount of \$5,775,709, results in the receivable amount disclosed in the finding. The second amount relates to OPSB services provided to RSD. Management's response footnotes an amount from an October 28, 2009, letter from Superintendent Pastorek. The amount in the finding of \$17,443,363 was obtained from a letter dated November 20, 2009, regarding the valid obligation of the RSD signed by Superintendent Pastorek.

Inadequate Control Over Coding of Federal Expenditures

For the third consecutive year, RSD failed to maintain adequate control over the coding of federal program expenditures in the state's accounting system, ISIS, for federal programs. Expenditures for the Disaster Grants - Public Assistance (Presidentially Declared Disasters) (CFDA 97.036), the Hurricane Education Recovery Act (CFDA 84.938) Immediate Aid to Restart School Operations (Restart), Title I Grants to Local Education Agencies (CFDA 84.010), Temporary Assistance to Needy Families (TANF) (CFDA 93.558), and Career and Technical Education Basic Grants to States (CFDA 84.048) 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.

In a test of 30 expenditure transactions tested relating to the Public Assistance (PA) program, the following problems were noted:

- Four (13%) invoices were coded in ISIS to the Restart program even though reimbursement was received from the PA program.
- One reimbursement request included numerous transactions that were coded in ISIS to various programs including the Restart program, Title I Grants to Local Education Agencies, TANF, and the Minimum Foundation Program (a state-funded program) even though reimbursement was received from the PA program.

- Five of 30 (17%) invoices tested included ineligible program costs totaling \$187,868 that were coded to the PA program. This amount represents questioned cost.

RSD 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. Management should resolve the questioned costs with the grantor. Management did not concur with the finding and noted that to maximize funds from multiple sources, final coding of expenditures can only be determined when recovery projects are completed (see Appendix A, pages 13-14).

Additional Comments: While the ongoing recovery projects do present a challenge, RSD and the state are required to accurately report financial and program information by fiscal year. RSD and the state cannot accomplish accurate financial reporting without controls to ensure that federal revenue and expenditures are coded and matched accurately in ISIS.

Delinquent Payments to Vendors

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

In a test of 35 transactions, eight (23%) invoices were paid more than 90 days after the due date. Delinquent payments ranged from three to 127 days late. In addition, supporting documentation for one transaction could not be found. Delinquent payments occurred because RSD management did not establish sufficient controls to ensure timely payments to vendors. Management also explained that payments were late as a result of cash flow problems. Failure to ensure timely payments to vendors results in noncompliance with state law and could result in the loss of vendors to provide needed products and services, as well as interest due to the vendors for the delinquent amounts.

RSD management should establish controls to ensure that payments are made to vendors within 90 days of the invoice due date as required by state law. Management concurred with the finding, but expressed concerns about factors outside of its control that make it difficult for RSD to pay vendors within 90 days (see Appendix A, pages 15-16).

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

In addition, we have included a Budgetary Comparison Schedule, which was prepared from the AFR of RSD for fiscal year 2009, and from additional data in ISIS, the state's accounting system. This schedule is presented as additional information, but has not been subjected to auditing procedures.

On November 18, 2009, the Compliance Audit Division of the Louisiana Legislative Auditor issued a report titled *Department of Education - Recovery School District*. The report disclosed findings relating to the failure of RSD to ensure that state requirements governing the assignment and use of state vehicles were followed for the state vehicle assigned to Superintendent Paul Vallas. This report, including recommendations for improvement and management's responses, can be found at the Louisiana Legislative Auditor's Web site at www.la.la.gov.

Postlethwaite and Netterville, CPAs, audited NOLA 180 d/b/a Langston Hughes Academy Charter School, an RSD Charter, for the years ended June 30, 2009 and 2008, and issued its report dated December 31, 2009. That report included a finding regarding a misappropriation by an employee of the school totaling an estimated \$673,672. This report is available on the Louisiana Legislative Auditor's Web site at www.la.la.gov.

This letter is intended for the information and use of RSD and its management, management of the Department of Education, the Board of Elementary and Secondary Education, 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,



Daryl G. Purpera, CPA
Temporary Legislative Auditor

JMJ:JR:EFS:PEP:dl

RSD09

BUDGETARY COMPARISON SCHEDULE

Page

Agency 682 - Recovery School District (Unaudited)..... 17

UNAUDITED

**DEPARTMENT OF EDUCATION
AGENCY 682 -- RECOVERY SCHOOL DISTRICT**

**Budgetary Comparison Schedule
For the Fiscal Year Ended June 30, 2009**

APPROPRIATED REVENUES:

	TOTAL BEFORE ADJUSTMENTS	AGENCY ADJUSTMENTS	ADJUSTED TOTAL	REVISED BUDGET	VARIANCE FAVORABLE (UNFAVORABLE)
State general revenue	\$20,659,660		\$20,659,660	\$21,921,916	(\$1,262,256)
Federal aid	484,890	\$227,400	712,290	548,777	163,513
General fund-SGR	6,115,772		6,115,772	5,665,124	450,648
General fund- IAT	429,846,235	43,983,521	473,829,756	461,748,591	12,081,165
Academic improvement fund	2,670,820		2,670,820	10,000,000	(7,329,180)
Total Appropriated Revenues	\$459,777,377	\$44,210,921	\$503,988,298	\$499,884,408	\$4,103,890

APPROPRIATED EXPENDITURES:

	RECOVERY SCHOOL DISTRICT INSTRUCTIONAL
Salaries	\$45,284
Other compensation	96,991,341
Related benefits	23,527,060
Travel & training	468,501
Operating services	42,299,551
Supplies	8,075,291
Professional services	43,559,364
Other charges	113,782,831
Capital outlay	3,069,360
Major repairs	95,034,882
IAT	12,764,458
Total appropriated expenditures before adjustments	439,617,923
System adjustments	(875,444)
Agency adjustments	62,490,983
Total Appropriated Expenditures	501,233,462
Revised Budget	499,884,408
Variance Favorable (Unfavorable)	(\$1,349,054)

NOTE: This schedule was prepared using information from the Integrated Statewide Information System (ISIS), the state's accounting system.

Additional detail is available on request.

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



STATE OF LOUISIANA
DEPARTMENT OF EDUCATION
RECOVERY SCHOOL DISTRICT
1641 POLAND AVE., NEW ORLEANS, LA 70117
1-877-343-4773 • www.rsdl.net



Mr. Daryl Purpera, CPA, CFE
First Assistant Legislative Auditor
1600 North Third Street
P.O. Box 94397
Baton Rouge, La 70802

January 13, 2010

Dear Mr. Purpera,

The Louisiana Recovery School District (RSD) sincerely appreciates the opportunity to respond to the audit findings relating to non-compliance in ensuring that employees' separation dates were accurate, employees were paid correctly, and payroll charges were supported by adequate documentation. We appreciate the assistance that the legislative auditor has provided the RSD in improving our processes in these areas.

The RSD has reviewed the findings and concurs that employees' separation dates were consistently inaccurate, employees were not paid correctly, and payroll charges were not supported by adequate documentation.

Procedures have been developed to ensure future compliance with respect to the documentation of employee separation dates, salaries, and payroll charges. The following procedures will be reinforced with all ISIS/HR users to ensure optimum accuracy:

- Separations will continue to be entered by HR personnel upon written notification.
- HR staff will review separations daily to ensure compliance.
- Timesheets will continue to be audited to ensure accuracy of costing information and compensation.
- RSD will require all current time administrators to attend ISIS timekeeping training provided by the Office of State Uniform Payroll (OSUP).
- RSD will require all new time administrators to attend ISIS timekeeping training prior to being eligible to enter data into ISIS.
- All RSD employees will be notified of the signature requirement for completion of payroll.

RSD is currently reviewing all claim data from the November 23, 2009 overpayment/recoupment listing for accuracy and is working closely with both OSUP and the Louisiana Attorney General's office to implement the following corrective procedure:

- RSD will continue to utilize the internal tracking system for overpayments/recoupments implemented in FY09.
- All inaccuracies on the aforementioned listing will be corrected and updated in ISIS.

The anticipated completion date of this process is February 26, 2010.

The following persons will serve as RSD contacts for any issues regarding these audit findings:

- Elizabeth Shaw, elizabeth.shaw@rsdla.net, 225-218-7338
- Sametta Brown, sametta.brown@rsdla.net, 504-232-4016
- Bob Fulton, robert.fulton@rsdla.net, 504-941-1818

Thank you for your consideration of this response.

Sincerely,

A handwritten signature in black ink that reads "Robert Fulton". The signature is written in a cursive, flowing style.

Robert Fulton
Chief Financial Officer



STATE OF LOUISIANA
DEPARTMENT OF EDUCATION
RECOVERY SCHOOL DISTRICT
1641 POLAND AVE., NEW ORLEANS, LA 70117
(504) 373-6200 • www.rsdla.net



January 13, 2010

Daryl Purpera
First Assistant Legislative Auditor
1600 North Third Street
PO Box 97347
Baton Rouge, LA 70804-9397

The Louisiana Department of Education's (DOE) Recovery School District (RSD) sincerely appreciates the opportunity to respond to the audit findings related to payments made with HEAP funds and appreciates the assistance that the legislative auditors have provided in improving RSD processes. RSD has reviewed the finding and concurs with certain aspects of the finding. Although there are issues remaining with HEAP payments, the findings in this audit are a result of errors made in the past and dealt with in the previous audit findings and corrective action plan.

The RSD concurs with the finding that some documentation regarding the residency status of HEAP applicants is not on file. Your report provided us 13 names of individuals who did not have residency status documentation on file. However, since the auditors initially looked for the documentation we have been able to provide documentation of out of state residency for 11 of the 13 individuals

Due to an unexpected staff transition, some paperwork was misplaced, and we are unable to locate verification two of the individuals were out of state residents at the time they received the relocation incentive. However at this time both continue as RSD employees and we are attempting to obtain the necessary documentation from them. One has stated she will provide her documentation this week. This program no longer exists, so there is no corrective action that can be taken for the future.

Four employees are listed as having no commitment letter on file. We were able to locate a commitment letter for one bringing the number down to three. These three continued to receive the housing subsidy despite the fact that they did not sign the three year commitment. The housing subsidy was processed through the payroll department automatically each month. At the time of the initial audit with the US DOE, the RSD put in place a corrective action to avoid paying out any of the relocation retention incentive or Praxis/tuition reimbursements without a three year commitment on file, but neglected to discontinue the housing subsidy for those individuals listed. This is an error on our part, but as the program is no longer in existence, there is no corrective action that can be taken.

One employee listed received the relocation incentive without a satisfactory evaluation on file. This individual did not receive an evaluation for the 2008-2009 school year due to an administrative oversight within the school. In the absence of a current evaluation, the RSD reviewed her previous years' evaluations and the results were satisfactory. We believe that it is best to err on the side of the employee in the absence of a negative evaluation. The individual's performance has been evaluated as satisfactory in the past, and we have no indication that his performance level has declined. The RSD does have satisfactory evaluations on file for the three other individuals cited in your audit finding.

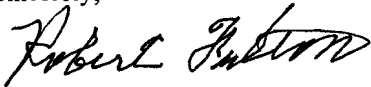
The four employees listed as not having an updated certification for the school year were all eligible for updated certification, but had not applied at the time. Lillian Darche and Sheena Sorensen were enrolled in the Practitioner Teacher Program through The New Teacher Project, and the RSD had no reason to believe that they were not eligible to renew their Practitioner's Licenses or apply for Level 1 certification. The Practitioner Teacher Program applies for renewals for their fellows, and this is often not done until September or October of the school year. One individual received her Level 1 certificate in September of 2008. She was only without a certificate from June 30, 2008 through September 26, 2008 while her

certification application was prepared and processed. Another was and is eligible for a Temporary Authority to Teach but had a difficult time obtaining his original ACT scores in order to apply for the TAT. He is enrolled in an alternative certification program and has applied for a TAT for this school year. This program no longer exists, so no corrective action is necessary.

Seven employees received relocation and retention incentives but did not remain employed for the required three years. HEAP requires that the RSD determine how those individuals will be handled and the RSD policy is that employees who separated before meeting their three year commitment are placed on a "Do Not Rehire" list as outlined in the RSD's corrective action plan with the US DOE. The RSD cannot force employees to abide by the three year commitment, and the RSD is not required to recoup the funds. The RSD has followed the process that was established for handling employees who leave the district before meeting their three year commitment.

We are in the process of reconciling the \$1,255,462 CAROI agreement executed between the RSD and the US Department of Education to determine the status of the repayments and amounts due under the agreement. We will separately report on our findings once this review is complete. However we do wish to thank your until for bringing this issue to our attention. While the entire HEAP issue is relatively large we wish to point out that the RSD incentive program was developed to attract over 500 teachers and other school personnel. The initial claims were an attempt to obtain funds to finance this large project, and in the maelstrom documents and errors were made but the RSD did obtain considerable funding to finance the incentive program through HEAP and without it we would not have had the teachers come to New Orleans. Through these efforts not only the RSD but all of the schools in New Orleans have benefited by these teachers and other personnel coming to New Orleans.

Sincerely,

A handwritten signature in black ink that reads "Robert Fulton". The signature is written in a cursive, flowing style.

Robert Fulton
Chief Financial Officer
Recovery School District



STATE OF LOUISIANA
DEPARTMENT OF EDUCATION
RECOVERY SCHOOL DISTRICT
1641 POLAND AVE., NEW ORLEANS, LA 70117
(504) 373-6200 • www.rsdlc.net



November 30, 2009

Daryl Purpera
First Assistant Legislative Auditor
1600 North Third Street
PO Box 97347
Baton Rouge, LA 70804-9397

Re: Noncompliance with Federal and State Equipment Management Regulations

Dear Mr. Purpera:

The Louisiana Department of Education's (LDOE) Recovery School District (RSD) sincerely appreciates the opportunity to respond to the audit findings related to the Noncompliance with Federal and State Equipment Management Regulations. The RSD has reviewed the finding and provides the following response

We appreciate you testing for equipment with acquisition cost of \$1,000 or greater to determine if we are in compliance with state regulations; however, we note that the state property regulations are far stricter than the federal regulations which require that property valued at \$5,000 be tracked. We suggest as part of the current budget stream-lining efforts that the state consider aligning its requirements to federal requirements.

Input into Protégé equipment management RSD assets and Federal Assets System:

Your finding indicates that the RSD has not input items into Protégé, the state's property management system, within the required 60 days after receipt as requirement of the state. In addition, your report indicated there were 45 laptop computers funded with FEMA funds and supplied to Langston Hughes Charter School that were not recorded in Protégé.

As a point of information, the RSD is responsible for not only the procurement of technology items (the vast majority of RSD's recordable acquisitions for our direct-run schools) but also, in many circumstances during the years following Katrina, for purchasing technology for most of our charter schools. With a very lean staff we outfitted almost 70 schools in a three-year period. In Louisiana, there has never been such a school rebuilding/reopening effort and there were no policies or procedures established for such an endeavor. As a result we have

had to depend upon existing procedures appropriate for established state agencies in established buildings (or an occasional new building), but extremely cumbersome and inappropriate for a school district opening 70 schools in such a short period of time. In addition, these procedures run contrary to the intent of the charter policy which make charters their own LEAs – in effect, their own individual school districts so as not to be burdened with the dictates and mandates of a centralized office. Almost 60 percent of our schools are charter schools, and within the next two years, three-fourths of our schools will be charters.

We have over 13,800 items in Protégé. We must go through a six-step process for the placement of every item. We first generate a requisition, which generates a purchase order, which is sent to the vendor. The vendor ships the item. We check the bills of lading and generate a receipt certificate that is matched to the invoice. A tag is generated and the number is recorded. All these pieces of paper are then organized and filed. The file contents are then recorded into Protégé. After items are in Protégé their location and status are to be monitored and changed in Protégé if necessary. We have two people work full time and one person working part time on collecting property data, tagging items, tracking items and inputting data into Protégé. We have established procedures for the recording of items and procedures to track their location. We have asked principals of our direct-run schools and our independent charter schools to provide us annual inventories so that we can check on the location of items and reconcile that to the records in Protégé. Our current emphasis is on getting schools to adhere to the procedures that we have put into place. Given the amount of work that is required to meet these state and federal mandates, the RSD has to assign two more individuals to the property control division. This will occur by the end of the calendar year.

- Missing Property – Federal Funds

During audit testing, the RSD was opening schools and therefore was in the process of receiving over 2,000 laptop computers for delivery to our high schools. Additionally, we were reimaging over 1,500 EPIC computers and redistributing them to the elementary schools for student use. Storage carts were taken from schools and delivered to the warehouse where laptop computers were loaded into them. The storage carts were then taken back to the schools. Your report shows that we did not properly record the new locations for the carts into Protégé. . No property relocation forms were filed with Property Control and we have had to initiate manual inspections of all property carts to relocate these misdirected carts. We have found to date 3 of the 15 redistributed storage carts indicated in your report.

Issues related to redistributed storage carts are related in part to the considerable assets purchased with FEMA funds that were shipped to charter

schools. We have asked the charters to provide us with the inventories of this equipment. It is important to note that some of the goods were ordered prior to May 2008, and the RSD took over responsibility for Protégé around May 2008. While this is not an excuse, it does mean that serious and laborious coordination efforts are necessary not only between the RSD and LDOE where inventory records are presently located, but also between the RSD and its independent charter schools.

The additional staff that the RSD intends to reassign to property control will assist with the burdensome corrective action associated with this finding. It is important to note that the federal government does not require such property accountability for school districts for property purchased with federal funds. The federal threshold is \$5,000, in contrast to the state's threshold of \$1,000.

This response is in no way intended to suggest that we are in any way not supportive of strong property accountability. Our point is that our position as both a state agency and a school district is unique and challenging. The mandate to use the state's accounting system and to comply with state regulations separate and above the normal school district requirements is an impossible situation for any school district to be in. At the same time we are rebuilding schools, opening schools and outfitting schools at a pace no school district has experienced.

We will continue to take the necessary steps to improve our internal controls and we would appreciate your support and guidance in consideration of our unique circumstances.

Sincerely,

A handwritten signature in black ink that reads "Paul Vallas". The signature is written in a cursive style with a large initial "P".

Paul Vallas
Superintendent Recovery School District



STATE OF LOUISIANA
DEPARTMENT OF EDUCATION
RECOVERY SCHOOL DISTRICT
1641 POLAND AVE., NEW ORLEANS, LA 70117
(504) 373-6200 • www.rsdl.net



November 30, 2009

Daryl Purpera
First Assistant Legislative Auditor
1600 North Third Street
PO Box 97347
Baton Rouge, LA 70804-9397

Re: Noncompliance with A-87 Payroll Certification Regulations

Dear Mr. Purpera:

The Louisiana Department of Education's (LDOE) Recovery School District (RSD) sincerely appreciates the opportunity to respond to the audit findings related to the Noncompliance with A-87 Payroll Certification Regulations. The RSD has reviewed the finding and provides the following response.

This finding reflects what can be expected when a school district is forced to operate within data and accounting systems that not designed for schools and is subject to state regulations that are equally inappropriate for school districts. For example, as a result of our status as a school district as well as a state agency that must use the state's systems, our payroll includes 1,054 distinct pay funding codes and of these 524 requires A-87s.

The RSD has been working on recoding our payroll since September 24, 2009 when our first grants were approved. This activity is not complete as a large number of state grants remain unapproved and personnel cannot be coded to a specific grant until the budget is approved and loaded into ISIS. For most state agencies this is not a major exercise; however, for a school district with multiple funding sources with varying reporting requirements this is a challenge. A key example is the Alternative Education Grant awarded by the LDOE. This grant has not been approved and there are 60 employees that the RSD intends to code to this grant. Until the grant budget is approved, any anticipatory coding will create more issues and potentially more findings. The same situation exists for any other grants for which approval is pending, resulting in a situation where the RSD cannot code 100% of our employees until all of our grants have been approved.

Once the exercise of coding is completed and thoroughly inputted into ISIS the RSD will be able to inform employees of their funding status and subsequent A-87 requirements. This year, we will separately prepare, distribute and train those who need to execute and properly code their A-87s, particularly the 26 employees (count may increase) who are only partially funded by a grant.

Our Chief Financial Officer, Bob Fulton hopes to have this accomplished by the end of December 2009.

In addition the RSD will institute the following procedures to ensure compliance with this critical area.

- RSD will communicate the procedure for securing adequate documentation and completion of A-87 forms to all supervisors.
- Identified employees will receive written instructions for completion of forms.
- Employees will receive written notification to complete forms prior to bi-weekly payroll processing.
- Supervisors or designee will track completion of forms by reviewing payroll timesheets before submitting them for approval. These persons will be held accountable for monitoring this activity within their department.
- Human Resources staff will conduct ongoing audits of school and central office departments to ensure that adequate documentation regarding the payroll of all employees is maintained, according to the Office of Management and Budget circular A-87.
- Payroll records will be reviewed by Human Resources staff on a biweekly basis to verify their accuracy.
- Incomplete or missing A-87 forms will be executed and properly coded to reflect the appropriate funding source.

Sincerely,



Paul Vallas
Superintendent Recovery School District



STATE OF LOUISIANA
DEPARTMENT OF EDUCATION
RECOVERY SCHOOL DISTRICT
1641 POLAND AVE., NEW ORLEANS, LA 70117
(504) 373-6200 • www.rsdla.net



January 8, 2009

Mr. Daryl Purpera, CPA
Interim Legislative Auditor
Office of the Legislative Auditor
Post Office Box 94397
Baton Rouge, Louisiana 70804-9397

Re: Proposed Comments "Inaccurate Annual Fiscal Report" (RSD)

Dear Mr. Purpera:

The Louisiana Department of Education does not concur with findings that it submitted an inaccurate and incomplete Annual Fiscal Report (AFR) to the Division of Administration for the fiscal year ended June 30, 2009. This matter relates to the finding captioned "Failure to Perform Local Tax Reconciliations for the Recovery School District" and the uncertainties explained within our response to that finding.

Only recently, the Legislative Auditor has claimed the failure to report this matter as an error in reporting. The Department has consistently opined, to which the Office of Statewide Reporting and Accounting Policy (OSRAP) has agreed, this to be a matter subject to such a degree of uncertainty that it should not be included within the Department's AFR until the uncertainties can be defined with a high degree of probability. The Department is required to report in accordance with guidance from OSRAP, so any criticism of the Department's compliance with OSRAP guidance should be directed to that entity.

These uncertainties are related to the impact of Hurricane Katrina on the accuracy of tax information – or lack thereof – coming from the City of New Orleans, which collects and distributes taxes to the Orleans Parish School Board (OSPB) and the RSD. Secondly, the claim submitted by the OPSB in settlement of its obligations to the RSD continues to have embedded within it uncertainties as to the actual amount of the settled claim. Thirdly, the amounts computed do not include the degree (if any) to which the RSD's charters may participate in the settlement. Finally, and as noted in Superintendent Pastorek's letter of October 28, 2009, the Louisiana Department of Education has deferred settlement of \$2,796,291 until existing uncertainties are resolved.

The Department has consistently considered these matters to be uncertain and inappropriate to be reflected in the Recovery School District's AFR until the uncertainties were resolved. It has also felt that it had the implicit approval of the Legislative Auditor. This matter has not been raised in the prior two financial audits of the RSD¹. In addition and as stated above, the Department has had the explicit support of OSRAP for its position.

¹ Please reference your November 12, 2009 email from Wes Gooch, Audit Manager, which was forwarded to the Department in which Mr. Gooch states, "I see no action required of the department at this time."

With respect to the details of the finding, and recommended audit adjustment, we point out the following errors:

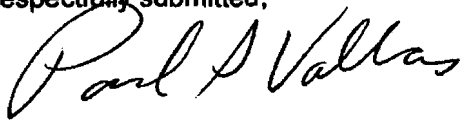
- The report states "RSD did not record receivables totaling \$32,976,284.... 2007 and 2008 amounts that were determined by the state's Department of Education." We are unable to determine how the auditors arrived at \$32,976,284, but Superintendent Pastorek's October 28, 2009 letter states a payable from the OPSB to the RSD of \$10,014,774² for fiscal 2007 and \$5,775,709 for fiscal 2008.
- The report states "The RSD did not record a payable to the Orleans Parish School for \$17,443,363 for services, including but not limited to, utilities, insurance, and staff support provided following Hurricane Katrina." The current obligation is estimated to be \$17,186,299³.

Post-Katrina, the financial statements of many governmental entities have been the subject of great uncertainty, pushing the envelope on accounting estimates and the ability to use footnotes so as to present the financial statements fairly. The reliability of damage estimates by FEMA, the constant re-versioning and appeals process, and the ability to project the impact of our diminished tax base have pushed all who produce governmental financial statements to rely on adequate disclosure. For that very reason, the RSD has reported these financial uncertainties to the Board of Elementary and Secondary Education since late 2007, early 2008.

Looking ahead, in January 2010 my staff will finalize the computation of the local revenue adjustment for the 3-year period ending June 30, 2009. At that time, the uncertainties related to the matter will be decided and allow the Recovery School District to determine and enter the appropriate accounting entries into its accounting system. Furthermore, the LDOE and RSD staffs are implementing procedures to ensure that the 2010 local revenue adjustment will be made on a current basis to allow the RSD, and the OPSB, to book an accounting estimate for its liability/receivable resulting from the reconciliation of estimated local taxes to actual local taxes for the 2010 year. Beth Scioneaux, the Department contact on this issues, can be reached at (225) 342-3617 or Beth.Scioneaux@LA.Gov. Bob Fulton, the RSD contact on the issue, is available at (504) 941-1818 or Robert.Fulton@rsdla.net.

I appreciate the support and efforts of you and your staff.

Respectfully submitted,



Paul Vallas
Superintendent Recovery School District

² Subject to the uncertainties mentioned in the letter.

³ Subject to the uncertainties mentioned in Pastorek's October 28, 2009 letter.



STATE OF LOUISIANA
DEPARTMENT OF EDUCATION
RECOVERY SCHOOL DISTRICT
1641 POLAND AVE., NEW ORLEANS, LA 70117
(504) 373-6200 • www.rsdlia.net



January 8, 2009

Daryl Purpera
First Assistant Legislative Auditor
1600 North Third Street
PO Box 97347
Baton Rouge, LA 70804-9397

Re: Audit Finding Related to Inaccurate Annual Financial Report – Schedule of Interagency Receipts

Dear Mr. Purpera:

The Louisiana Department of Education's (LDOE) Recovery School District (RSD) sincerely appreciates the opportunity to respond to the audit findings related to the Inaccurate Annual Financial Report – Schedule of Interagency Receipts.

The RSD has reviewed the findings and concurs with the findings. The district also concurred with and made adjustments to the Annual Financial Report when the audit adjustment was recommended earlier this year.

We will be more careful in the future regarding these items.

Sincerely,

Paul Vallas
Superintendent Recovery School District



STATE OF LOUISIANA
DEPARTMENT OF EDUCATION
RECOVERY SCHOOL DISTRICT
1641 POLAND AVE., NEW ORLEANS, LA 70117
(504) 373-6200 • www.rsdlc.net



January 13, 2010

Mr. Daryl Purpera, CPA
First Assistant Legislative Auditor
1600 North Third Street
PO Box 97347
Baton Rouge, LA 70804-9397

Re: Inadequate Control over Coding of Federal Expenditures

Dear Mr. Purpera:

The Louisiana Department of Education, Recovery School District (RSD), sincerely appreciates the opportunity to respond to the audit findings related to the Inadequate Control over Coding of Federal Expenditures. The RSD does not concur with the finding.

As stated in past responses, the RSD contends that the avenue of not moving any of the initial posting of expenditures is the correct way to proceed in order to maximize reimbursement from one particular funding source. Utilizing additional sources takes a considerable amount of time due to all the channels and federal regulations that need to be followed. This has not allowed the RSD to fully complete a particular project in the amount of time that has elapsed since the storms devastated the affected areas.

The magnitude of the reconstructive effort requires the maximization of all of the fund sources that will eventually support the total rebuilding costs. The projected time of completion is anywhere from ten to fifteen years by some industry estimates, and closing out a project of this size will be a challenge in itself. Only after exhausting every possible avenue can we get the final and full picture as to which funds will be covering the enormous cost of rebuilding the public school system. It has to be recognized that the Public Assistance program is a reimbursement program, and to fund the massive program has forced the RSD to use all funding programs and loans from the Division of Administration. As you know, a FEMA reimbursement does not mean that FEMA will not later revise the covered cost. Should this occur the recoding will be reverse. We contend that until the project is closed by FEMA, the coding has to remain.

Mr. Daryl Purpera, CPA

Page 2

January 13, 2010

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

The contact person related to this finding is Robert Fulton, and he can be reached at (504) 373-6200.

Sincerely,

 (RF)

Paul Vallas

Superintendent Recovery School District

PV:RF



STATE OF LOUISIANA
DEPARTMENT OF EDUCATION
RECOVERY SCHOOL DISTRICT
1641 POLAND AVE., NEW ORLEANS, LA 70117
(504) 373-6200 • www.rsdla.net



November 30, 2009

Daryl Purpera
First Assistant Legislative Auditor
1600 North Third Street
PO Box 97347
Baton Rouge, LA 70804-9397

Re: Audit Finding Related to **Delinquent Payments to Vendors**

Dear Mr. Purpera:

The Louisiana Department of Education's (LDOE) Recovery School District (RSD) sincerely appreciates the opportunity to respond to the audit findings related to Delinquent Payment to Vendors. The RSD has reviewed the finding and provides the following response.

In July, at the beginning of the fiscal year, MFP funds covered 100% of RSD's payroll costs. This will continue to be the case until the grants that the RSD is entitled to receive are approved by the LDOE and the budgets are loaded into ISIS so that the RSD can draw down the funds. This process enables the RSD to recode our payroll so that employees who are grant eligible are moved from MFP to the appropriate grant funds.

The RSD's major Title grants, representing approximately \$30 million, were approved in mid-October. With over 1500 employees, the RSD anticipates recoding the appropriate staff from MFP to Title funds by December 4, 2009. Shifting the appropriate staff from MFP funds to Title funds will assist the RSD in paying operating costs in a timelier manner.

Unfortunately, there exists a number of major grants, including the Alternative Education Grant and the LA 4 Grants that have not yet been approved by the LDOE. These grants represent more than \$10 million. The RSD submitted budgets for many of these grants in August 2009. Again, once these grants are approved the RSD will shift appropriate costs to the grant cost centers, thus freeing up additional MFP dollars to pay operating costs.

Contributing to the RSD's inability to pay vendors within 90 days is the fact that a large amount of construction dollars flow through our budget; however, the RSD was never given enough budget authority to expend these funds. We realized in August that, based on our current budget authority limit, the RSD would expend

its authority (specifically in professional contracts and major repairs) by December 2009. The RSD initiated a BA-7 on September 4 2009 to increase its budget authority; however it has still not been approved. It is expected that the legislature will approve the additional budget authority on December 4, 2009.

These combined reasons make it extremely difficult for the RSD to pay all of its vendors within 90 days.

Finally, the LDOE'S accounting system, ISIS, is not an ideal data system for tracking school district payables. The system is designed for input to pay; however, it does not record any pre-payment information. As a result, RSD staff inputs payables only after they have been paid, forcing the RSD to maintain paper files for vendor invoices, requisitions etc. This paper system results in errors which can also contribute to delayed payments.

In conclusion, the RSD has done a remarkable job managing payroll with no disruptions and managing contractual obligations considering the systems under which we operate. Until the RSD receives more timely approval of the Title and other grant funds that we are entitled to, until the state provides us with a cash reserve or the ability to do start term beginning or tax anticipation notes like normal school districts and until the to the RSD is given the opportunity to migrate to a more suitable accounting system than ISIS, which was not designed with school districts in mind, we will continue to pay some bills past the 90 day limit. Vendors who contract with the RSD will have to weigh that possibility when they begin work, as we prefer to receive a finding related to untimely payments than a potential findings associated with making payments with insufficient funds or insufficient budget authority.

Sincerely,



Paul Vallas
Superintendent Recovery School District