

LOUISIANA SCHOOL FOR THE DEAF  
BOARD OF ELEMENTARY AND  
SECONDARY EDUCATION  
DEPARTMENT OF EDUCATION  
STATE OF LOUISIANA



PROCEDURAL REPORT  
ISSUED AUGUST 12, 2009

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

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LOUISIANA LEGISLATIVE AUDITOR  
STEVE J. THERIOT, CPA

July 21, 2009

**LOUISIANA SCHOOL FOR THE DEAF  
BOARD OF ELEMENTARY AND  
SECONDARY EDUCATION  
DEPARTMENT OF EDUCATION  
STATE OF LOUISIANA  
Baton Rouge, Louisiana**

As required by Louisiana Revised Statute 24:513, we conducted certain procedures at the Louisiana School for the Deaf for the period from July 1, 2007, through June 30, 2009. Our procedures included (1) a review of the school's internal controls; (2) tests of financial transactions; (3) tests of adherence to applicable laws, regulations, policies, and procedures governing financial activities; and (4) a review of compliance with the prior report recommendations. Our procedures were more limited than would be necessary to give an opinion on internal control and on compliance with laws, regulations, policies, and procedures governing financial activities.

Specifically, we interviewed management personnel and other selected school personnel and evaluated selected documents, files, reports, systems, procedures, and policies, as we considered necessary. After analyzing the data, we developed recommendations for improvement. We then discussed our findings and recommendations with appropriate management personnel before submitting this written report.

The Annual Fiscal Reports of the Louisiana School for the Deaf were not audited or reviewed by us, and, accordingly, we do not express an opinion on these reports. The school's accounts are an integral part of the State of Louisiana's financial statements, upon which the Louisiana Legislative Auditor expresses opinions.

While we did not perform an audit in accordance with *Government Auditing Standards*, issued by the Comptroller General of the United States, we did perform certain procedures related to compliance with federal laws and regulations in accordance with those standards. Our finding related to federal compliance testing is included in this procedural report and will be included in the Single Audit Report for the State of Louisiana.

In our prior report on the Louisiana School for the Deaf dated November 28, 2007, we reported findings relating to inadequate internal control over certain assets and financial transactions and ineffective internal control over student activity funds. These findings have been resolved.

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

### **Energy Efficiency Contract Contrary to Law**

The Louisiana School for the Deaf (LSD) entered into a performance-based energy efficiency contract with Johnson Control, Inc. (JCI) in May 2004 that included stipulated savings and, therefore, does not comply with state law. Louisiana Revised Statute (R.S.) 39:1496.1(A) provides that a state agency may enter into a performance-based energy efficiency contract for services and equipment. R.S. 39:1484(A)(14) requires the payment obligation to be either a percentage of annual energy cost savings attributable to the services or equipment under the contract or guaranteed by the company under contract to be less than the annual energy cost savings attributable to the services or equipment under the contract. R.S. 39:1496.1(D) requires the contract to contain a guarantee of energy savings to the entity. The statute further provides that the annual calculation of the energy savings must include maintenance savings that result from operational expenses eliminated and future capital replacement expenditures avoided as a result of equipment installed or services performed by the contractor.

Attorney General Opinion 07-0002 provides, “. . . for the stipulated savings to be included in the total guaranteed savings, those savings must actually be guaranteed. In order for the operational savings to be guaranteed, the Contract would have to provide for some type of measurement and/or verification of the operational savings. . . .” Although the Attorney General opinion was directed to local government, the same guarantee is required in state law.

A review of the energy efficiency contract, which is for 15 years and approximately \$4.35 million, between LSD and JCI, disclosed that JCI guaranteed a total of \$4,421,960 in savings during the term of the contract, consisting of measurable savings of \$2,593,836 and stipulated savings of \$1,828,124. Stipulated savings are identified as future capital or operational costs avoided as a result of the agreement. According to the contract, “Operational Savings are mutually agreed upon by the Customer and JCI . . . and shall not be additionally measured or monitored during the Term.” The operational savings are not actually guaranteed because the contract does not provide measurement and/or verification of the operational savings. Therefore, excluding the operational savings, the guaranteed savings over the life of the contract are only the measurable savings of \$2,593,836. The total payments due to JCI over the life of the contract are approximately \$4.35 million. Therefore, the payment obligation exceeds the adjusted guaranteed annual energy cost savings.

At the signing date, management felt that the contract complied with state law. However, because the operational savings are stipulated and are not measurable and verifiable, the contract is not in compliance with state law. In addition, there is a risk of making payments specified in the contract that are greater than the energy cost savings attributable to the services or equipment under the contract. LSD management submitted

a contract amendment in February 2009 to remove the stipulated savings and make operational savings measurable and verifiable. However, as of our review, the contract had not been approved and executed.

Management should revise its energy efficiency contract to comply with state law to ensure that each savings component is verifiable and that the guaranteed savings have been realized. In addition, management should ensure that the payments required by the contract are not greater than the energy cost savings attributable to the services or equipment under the contract. Management concurred with the finding and outlined a plan of corrective action (see Appendix A, page 1).

### **Noncompliance With A-87 Payroll Certification Regulations**

LSD did not ensure that certifications for payroll expenditures charged to federal programs were completed on a semiannual basis. Office of Management and Budget Circular A-87, "Cost Principles for State and Local Governments," states that where employees are expected to work solely on a single federal award or cost objective, charges for their salaries and wages will be supported by periodic certifications that the employees worked solely on that program for the period covered by the certification. These certifications will be prepared at least semiannually and will be signed by the employee or supervisory official having first-hand knowledge of the work performed by the employee.

In a test of 15 payroll certifications, eight (53%) were not on file. Salaries charged to the Special Education - Grants to States (CFDA 84.027) and Special Education - Preschool Grants (CFDA 84.173) programs during the period July 1, 2008, through December 31, 2008, were not supported by payroll certifications. LSD's failure to prepare and maintain required payroll certifications increases the risk that expenditures are not fairly and accurately allocated to federal programs.

Management should establish and enforce policies and procedures for completing payroll certifications to ensure compliance with federal regulations. Management concurred with the finding and outlined a plan of corrective action (see Appendix A, page 2).

### **Insufficient Controls Over Cash Receipts**

LSD did not maintain adequate controls over cash receipts to ensure checks were logged when received and deposited timely. Louisiana law and policy requires deposits to be made within 24 hours of receipt. Good internal controls require checks to be logged upon receipt as well as deposited timely. LSD did not maintain documentation to show when cash and checks were actually received. Without a log of receipts, auditors could not determine if deposits were made within 24 hours as required.

In a review of five months of receipts on a sample basis, possible late deposits were noted as follows:

- One check totaling \$208 was dated February 28, 2009, and deposited on April 1, 2009.
- Four checks totaling \$191 were dated June 9, 2008, through August 19, 2008, and deposited on August 20, 2008.
- One check totaling \$18 was dated June 20, 2007, stamped received on June 26, 2007, and deposited on July 5, 2007.
- Five checks and money orders totaling \$664 were dated September 9, 2008, through October 22, 2008, and deposited on October 27, 2008.

Failure to establish controls for tracking all cash receipts and ensuring timely deposits increases the risk that receipts may be lost and such losses will not be detected in a timely manner.

Management should develop controls to ensure cash receipts are logged when received and deposited within 24 hours as required. Management concurred with the finding and outlined a plan of corrective action (see Appendix A, page 3).

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

This report is intended solely for the information and use of the school, its management, others within the entity, the Board of Elementary and Secondary Education, the Department of Education, 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 report is distributed by the Legislative Auditor as a public document.

Respectfully submitted,

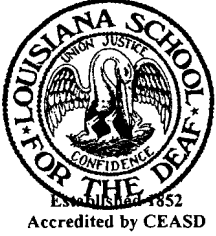


Steve J. Theriot, CPA  
Legislative Auditor

LLC:WDG:EFS:PEP:dl  
LSD09

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






# LOUISIANA SCHOOL FOR THE DEAF

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## MEMORANDUM

**TO:** Steve Theriot

**FROM:** Liz Moore   
Louisiana School for the Deaf Appointing Authority

**DATE:** June 15, 2009

**RE:** Louisiana School for the Deaf (LSD) Management letter addressing the audit finding concerning the Johnson Controls, Inc. Energy Management Contract.

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In regards to the finding concerning the Johnson Controls (JCI) Energy Contract, the LSD management concurs.

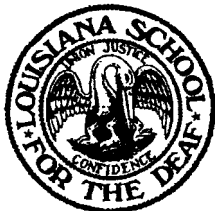
In May 2004, the LSD entered into a 15-year performance-based energy efficiency contract for a cost of approximately \$4.35 million with JCI that includes stipulated savings and therefore does not comply with state laws. At the signing date of the contract, management believed that the contract complied with state law. Louisiana Revised Statute (R.S.) 39: 1496.1 (A) provides that a state agency may enter into a performance-based energy efficiency contract for services and equipment. R. S. 39:1484(A)(14) requires the payment obligation to be either a percentage of the annual energy cost savings attributable to the services or equipment under the contract: or guaranteed by the company under contract to be less than the annual energy cost savings attributable to the services or equipment under the contract. R. S. 39:1496.1(D) requires the contract to contain a guarantee of energy savings to the university. The statute further provides that the annual calculation of energy savings must include maintenance savings that result from operational expenses eliminated and future capital replacement expenditures avoided as a result of equipment installed or services performed by the contractor.

Attorney General Opinion 07-0002 provides, "...for the stipulated operational savings to be included in the total guaranteed savings, those savings must actually be guaranteed. In order for the operational savings to be guaranteed, the Contract would have to provide for some type of measurement and/or verification of the operational savings...." Although the Attorney General Opinion was directed to local government, the same guarantee is required in state law.

The LSD staff submitted a contract amendment in February 2009 to remove the "stipulated" savings and make operational savings measurable and verifiable. However, as of this writing these changes have not taken place.

LM

C: Kevin Lemoine



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July 2, 2009

Mr. Steve J. Theriot, CPA  
Louisiana Legislative Auditor  
P.O. Box 94397  
Baton Rouge, LA 70804-9397

Dear Mr. Theriot:

This is a response to the audit finding titled "**Noncompliance with A-87 Payroll Certification Regulations**". We concur with the finding that the school did not ensure that certifications for payroll expenditures charged to federal programs were completed on a semi-annual basis. The following procedure has been implemented to establish compliance.

Finding Example - Louisiana School for the Deaf failed to prepare and maintain required payroll certifications, thus resulting in the risk that expenditures were not fairly and accurately allocated to federal programs.

Proposed Solution – The school has established and continues to enforce policies and procedures for completing payroll certifications to ensure compliance with federal regulations.

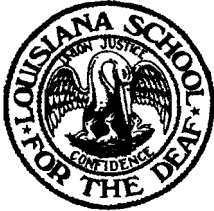
The contact person responsible for the corrective action is Mark Antoon, Chief Financial Officer. The monitoring of this plan will be on going.

Should you need any additional information, please feel free to contact me at (225) 757-3200.

Sincerely,

Kevin Lemoine  
Superintendent Board Special School

C: Elizabeth Moore  
State Director of Special School District



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July 2, 2009

Mr. Steve J. Theriot, CPA  
Louisiana Legislative Auditor  
P.O. Box 94397  
Baton Rouge, LA 70804-9397

Dear Mr. Theriot:

This is a response to the audit finding titled **"Insufficient Controls over Cash Receipts"**. We acknowledge that the school did not maintain adequate internal control over documenting when checks were received and deposited timely, therefore we concur with the finding. The following procedure has been implemented to establish controls for tracking all cash receipts and ensuring timely deposits in order to reduce the risk that receipts may be lost and not detected in a timely manner.

**Finding Example** - Louisiana School for the Deaf receives a check from Coca-Cola for the school's percentage of profits from vending machine sales. The check is issued monthly. Although the check is dated the last day of the month, it is not received by LSD until the following month. Immediately upon receipt the funds are deposited into the appropriate activity fund. Because the check did not have a stub it was not date stamped in.

**Proposed Solution** -The accountant will date stamp all checks received. For all checks received that do not have a check stub, a photo copy of the check will be made and date stamped in.

The school will ensure that deposits are made daily. All deposits will be made prior to the bank's cut-off time for the day, which will reflect cash at the bank within the required 24-hour window of receipt. This procedure will further ensure that a deposit made on Friday will have a Friday date on the bank validation receipt and not appear to be cash receipts held until Monday for deposit.

The contact person responsible for the corrective action is Mark Antoon, Chief Financial Officer. The monitoring of this plan will be on going.

Should you need any additional information, please feel free to contact me at (225) 757-3200.

Sincerely,

Kevin Lemoine  
Superintendent Board Special School

C: Elizabeth Moore  
State Director of Special School District