

IBERVILLE PARISH SCHOOL BOARD



SPECIFIED PROCEDURES EXAMINATION

ISSUED MAY 18, 2005

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

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STEVE J. THERIOT, CPA

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May 2, 2005

**DR. MARTIN BERA, SUPERINTENDENT,
AND MEMBERS OF THE IBERVILLE
PARISH SCHOOL BOARD**
Plaquemine, Louisiana

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

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

Respectfully submitted,

Steve J. Theriot, CPA
Legislative Auditor

RLT:GLM:ss

[IBVSB05]

Findings and Recommendations

The following are findings and recommendations relating to our limited review dated May 2, 2005. Our recommendations are presented to improve the controls that safeguard, manage, and account for assets of the school board and ensure compliance with applicable state laws. However, management of the school board should consider the costs of implementing these recommendations compared to the benefits they will provide. For those recommendations not implemented, the school board should be aware of the risks of not implementing such controls.

Management's response to the findings and recommendations is included in Appendix A.

Written Procedures

The school board does not have written procedures for various business functions. Formal written procedures are necessary so that there is a clear understanding of what should be done, how, who, and when it should be done and that the procedures followed meet management's expectations. Also, written procedures aid in the continuity of operation and for cross-training of staff.

There are no written procedures for the following:

1. Preparing, adopting, monitoring, and amending the budget
2. Nature, extent, and frequency of financial reporting information provided to the board
3. Monitoring excess cash for investment purposes and the pledge of securities
4. Purchasing process, including (1) how purchases are initiated; (2) the preparation and approval process of purchase requisitions and purchase orders; and (3) checks and balances to ensure assets are safeguarded
5. Processing, reviewing, and approving disbursements
6. Processing, reviewing, and approving attendance records and payroll, including overtime and compensatory leave
7. Receiving, recording, and preparing deposits for cash receipts
8. Filing requests for reimbursement to the Department of Education
9. Recording and safeguarding capital assets, including conducting an annual physical inventory
10. Information systems, including who can update internal files on a server and what are critical data and non-critical data

Recommendation: Written procedures should be prepared for these business functions.

Budget Process

Budget Procedures Needed

The school board does not have written procedures for preparing, adopting, monitoring, and amending its budget.

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

Noncompliance With Local Government Budget Act

The FY2004-2005 budget does not include budget information for all special revenue funds as required by Louisiana Revised Statute (R.S.) 39:1305(C).

Recommendation: The board should strictly comply with the requirement of the Local Government Budget Act. We also suggest that an overall financial status of the school board be included in the budget message that includes the current financial status, the short-term outlook, and the long-term trends. The emphasis on this analysis should be understandability of the financial status and issues, not necessarily on exact numbers and detail. We suggest that this analysis be provided in written form, early in the budget process, so a broad financial framework is available to management of the school board.

Incorporate Performance Measures

Performance measures are not incorporated into the budgeting process.

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

Financial Management

Monthly Financial Statements Not Presented to School Board

The board is not provided financial statements and budget comparisons each month. Without accurate and complete financial statements, the board cannot effectively exercise its fiduciary responsibilities of managing the school board.

Recommendation: Each month, the board should be presented with accurate and complete financial statements and budget comparisons for all funds. Also, a concise summary and guide to the key issues and aspects of the operating and capital components of the financial statements and budget comparisons should be provided to the board.

Excess Cash Should Be Invested

At March 31, 2005, the board had cash, totaling \$13,070,895, in five demand deposit accounts earning .37% interest. R.S. 33:2955(A) authorizes and directs the board to invest monies that are determined to be available for investment in prescribed interest-bearing accounts or securities. In addition, good business practice requires the board to invest monies in excess of immediate cash needs.

Recommendation: We suggest that the board (1) develop written procedures for determining the amounts available for the payment of short-term and long-term obligations by fund and how those obligations affect investing decisions; and (2) determine estimated cash requirements by fund each month to determine available monies to invest in short-term and long-term securities.

Due To/From Other Funds

Numerous balances *due to/from other funds* have been reported in the financial statements for more than one year. For example, the bond sinking fund has reported balances *due to* the general fund for the last two years (2004 financial statement reported \$6,921,572).

Recommendation: The school board should periodically analyze all balances *due to/from other funds* and if the loan is not expected to be repaid within a reasonable time, the *due to/from other funds* should be reduced by the amount not expected to be repaid and that amount should be reported as an interfund transfer by both funds that are a party to the transfer.

Contracts for Services

Our review of contracts revealed that the business office could not provide contracts for the following professional services:

- Legal services
- Public relations

- Consultant for School Improvement Plans
- Collection of sales and use taxes

Sound business practices require written agreements/contracts for services setting forth the specific terms and conditions. This will help ensure that services received comply with the board's expectations.

Recommendation: We suggest that all agreements for services (professional or otherwise) with third parties be in the form of a written contract. In addition, we suggest that you consider the following when contracting out services:

1. Determine whether contracted services are necessary or needed
2. Perform a cost/benefit analysis before considering contracting and before existing contracts are renewed
3. Obtain competitive prices for all contract services (although the public bid law does not require services to be bid)
4. Prohibit open-ended contracts and require that all contracts provide the specific services to be performed
5. Require that a legal advisor review all contracts before the documents are signed
6. Centralize contract monitoring/oversight to ensure that services received comply with the terms and conditions of the contract

Plan for Future Operations

The school board does not have a formal plan for making both short-term and long-range spending cuts to ensure it will operate within its available funding and maintain a reasonable fund balance. We were informed by management of the school board that an average of \$1,500,000 of its fund balance is used each year to cover current year expenditures and within four years the school board will be operating at a deficit. We commend the superintendent and the board for starting to discuss ways of reducing the budget to alleviate future deficit spending.

Recommendation: We suggest the school board:

1. Develop and adopt an operating plan that includes both short-term and long-range spending cuts
2. Monitor the plan, at least quarterly, to assess whether the school board is on target with the plan
3. Use the plan in decision-making processes and for budgeting (e.g., projects to undertake, major purchases, contracting, etc.)

Record Retention

The school board has not prepared and submitted a records retention schedule to the state archivist for approval, as required by R.S. 44:411.

Recommendation: A records retention schedule should be prepared and submitted to the state archivist for approval.

Other Suggestions for the Business Department

Based on the results of our review of the procedures and practices of the board's business department, we suggest that the following "good" business practices be implemented:

1. The responsibility for transcribing the minutes of board and committee meetings should be assigned to someone other than the business manager.
2. The monthly bank reconciliations and all journal entries should be reviewed and approved by the business manager. The business manager's approval should be documented.

Dedicated Taxes

Accounting for Dedicated Taxes

R.S. 39:704 provides that the records of the board should clearly reflect the objects and purposes for which the proceeds of dedicated taxes are used. The board's records do not clearly account for the expenditure of all dedicated taxes collected.

The proceeds from the 10.5 mill property tax (\$3,028,586 for fiscal year 2004) dedicated for salaries and benefits are deposited into the general fund and commingled with all other general fund monies. Therefore, there is no clear accounting of the expenditure of this dedicated property tax.

In addition, there is no clear accounting for the expenditure of the two-thirds of one percent sales tax intended for employee salaries, benefits, school bus operations, academic programs, and enhancements. Proceeds of this sales tax (\$3,558,286 for fiscal year 2004) were also transferred to the general fund and commingled with all other general fund monies.

Recommendation: The board should clearly account for the expenditure of these taxes to demonstrate that they are expended for their intended purpose.

Purchasing and Disbursements

Controls Over Purchasing and Disbursements Need Improvement

1. Purchasing is not centralized. Each department of the school board (General Fund, Federal Programs, Special Education, and Food Services) is responsible for its own purchasing.

Recommendation: To promote operational efficiency and to incorporate a proper system of checks and balances, we suggest that the board consider centralizing purchasing.

2. Accounts payable/disbursements are not centralized. Each department (General Fund, Federal Programs, Special Education, and Food Services) is responsible for its own accounts payable and disbursements.

Recommendation: To promote operational efficiency and to incorporate a proper system of checks and balances, we suggest that the board consider centralizing disbursement activities.

3. The general fund and federal fund accountants perform a variety of duties relating to purchasing and cash disbursements for their department that are incompatible for a proper system of checks and balances. These two employees (a) prepare the purchase order; (b) record the purchase order in the purchasing system; (c) send the purchase order to the vendor; (d) receive the vendor invoice; (e) initiate the check to be written and record the disbursement in the accounting system/general ledger; (f) mail the checks; and (g) maintain the invoices and records.

Recommendation: Accounting responsibilities should be segregated so that no single individual controls all facets of a financial function.

4. The accounting system allows purchase orders to be created and invoices to be paid when an account is over budget.

Recommendation: We recommend that the computerized accounting system be reprogrammed so it will not allow a purchase order to be created when an account is over budget.

5. Controls over the check-signing machine are inadequate. Only one person is required to operate the machine and no reconciliation is performed between the number of checks signed and the number of checks listed on the check register.

Recommendation: We suggest that two people be present when checks are signed to ensure that the number of checks signed agrees to the number of checks listed on the check register. The check register can then be signed by the two employees to certify the number of checks signed agrees to the number of checks listed on the check register.

6. Signed checks are returned to the accountant who initiated the purchase and prepared the check for mailing.

Recommendation: The business manager or his designee should review the signed checks, approved invoices, purchase orders, along with the approved check register to ensure that all payments are appropriate and supporting documentation is available. After this review, the signed checks should be given to a person with no disbursement responsibilities/functions for mailing.

7. The individual signature stamps with the signature of the superintendent and the board president, used on manual checks and for other purposes, are not adequately safeguarded. These stamps are kept in an unlocked desk drawer.

Recommendation: The signature stamps should be secured and maintained by the business manager.

8. Checks received in the central office are not listed on a daily receipt log and checks are not restrictively endorsed upon receipt. In addition, the general fund accountant has incompatible duties, in that the accountant prepares the bank deposit, endorses the checks, (for deposit only) and records the receipts in the general ledger.

Recommendation: We suggest that the mail opener list all checks received on a daily receipts log and restrictively endorse all checks. The checks could then be given to the accountant for deposit and entry into the general ledger. The daily receipt log should then be given to the accounting supervisor to verify as being deposited during her bank reconciliation process.

Payroll and Attendance Records

Controls Over Payroll Transactions

1. The payroll accountant performs a variety of duties relating to payroll disbursements that are incompatible for a proper system of checks and balances. Without supervisory review, the payroll accountant (a) records the payroll data (salary schedule) in the accounting system; (b) adds and deletes employees; (c) prepares and prints the checks; (d) uses the check-signing machine to sign the checks; and (e) distributes the checks.

Recommendation: Accounting responsibilities should be segregated so that no single individual controls all facets of a financial transaction. Also, the business manager or his designee should review the payroll register for propriety each pay period.

2. A review of all changes made to the payroll system for a specific period of time is not performed.

Recommendation: We recommend that a computer-generated report of all changes made to the payroll system between pay periods be reviewed by someone independent of the payroll department.

Attendance Records

1. The school board does not have written procedures relating to employee attendance records and employees in the central office are not required to document the hours they work on either a sign-in sheet or an individual time sheet.

Recommendation: We suggest that the school board develop written procedures for time and attendance records for individual schools and the central office to follow. At a minimum, the procedures should include (1) using a standardized daily attendance log; (2) requiring all employees to sign-in for their attendance; and (3) requiring the principals and/or supervisors to account for all employees daily and document this process on the daily log.

School Activity Accounts

The school board does not have written procedures for the receipt and disbursement of funds for school activity accounts. In addition, other than an annual audit of the accounts during the board's annual financial audit, the school activity funds are not audited by someone from the central office during the year.

Recommendation: To ensure that receipt and disbursement of money for the various school activity funds is handled consistently from school to school, we suggest that written procedures be prepared and disseminated to the principal of each school. We also suggest that periodic surprise reviews of the records be performed during the year, so that if a problem does exist, it can be caught in a timely manner.

Maintenance Department

Controls Needed Over Gasoline Purchases

Gasoline charge tickets for maintenance department vehicles did not always identify the vehicle (license or vehicle number) and odometer readings were not included on the charge tickets.

Recommendation: The school board should (1) require that charge tickets include the vehicle number and odometer readings; (2) prepare a monthly analysis or summary by vehicle that includes, at a minimum, the number of gallons received, miles traveled, and miles per gallon; and (3) present the analysis to the maintenance director and business manager each month to determine whether fuel usage is reasonable.

Capital Assets

The school board does not have written procedures on how to account for movable property (add, delete, transfer, etc). In addition, an annual physical inventory of movable property as required by board policy is not being conducted. Failure to conduct an annual physical inventory exposes the board to possible loss, theft, and misuse of its assets.

Recommendation: The school board should prepare written procedures for adding, deleting, transferring, disposing and taking of a physical inventory of movable property. The property manager for the school board should conduct a complete physical inventory of movable property each year.

Ethics

The school board has a good ethics policy that deals with nepotism, prohibited activities (related party transactions), abuse of office, and transactions after termination of public service. However, the policy could be strengthened by requiring an annual certification letter from board members and other members of management attesting to their compliance with the ethics policy.

Computer Controls

Disaster Recovery/Business Continuity Plan Needed

The school board does not have a disaster recovery/business continuity plan for either of its two computer systems (AS400 for the general accounting system and the Meral Computing System used by the Food Services Section). Good internal control requires that the school board develop a written disaster recovery/business continuity plan and obtain access to an offsite facility to provide for the timely restoration of operations in the event that the school board office is unavailable for an extended period of time.

Recommendation: We suggest that the school board prepare a formal disaster recovery/business continuity plan, which encompasses both systems, to reduce the risk that untimely or excessive delays in processing data may occur and that data may be lost. In addition, the plan should be tested periodically to ensure that it works.

Computer Server Not Secured

Physical access to the server for the food services computer system is not limited. The server is located on the floor in the office of the food services field manger.

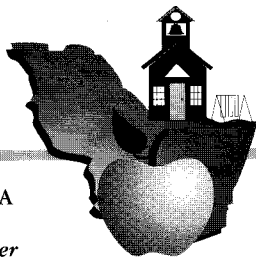
Recommendation: We suggest that the server for this system be moved to a more secure location, possibly in the same restricted access room where the AS400 system server is located.

Computer Back-Up Tape

Although the food services system is backed up daily, the back-up tape is not taken offsite each day.

Recommendation: We suggest that the back-up tape be taken offsite each day and kept in a secure place.

Management's Response



Iberville Parish School Board

MARTIN H. BERA
Superintendent
Secretary-Treasurer

MELVIN LODGE
President

GLYNA KELLEY
Vice-President

May 12, 2005

State of Louisiana
Office of Legislative Auditor
Attention: Mr. Steve J. Theriot, CPA, Legislative Auditor
PO Box 94397
Baton Rouge, LA 70804-9397

RE: Iberville Parish School Board Specified Procedures Examination

Dear Mr. Theriot:

We have been presented with your preliminary draft report on the limited review of the **Iberville Parish School Board** (School Board). We would first like to express our deepest appreciation to you and your staff from the **Division of Advisory Services** for the exemplary performance in the fieldwork and report preparation stages of this engagement. **Mr. Gary McCrary** and **Mr. Bobby Trahan** at all times exhibited true professionalism in their conduct. They had a positive demeanor, and took care to not be intrusive into our daily operations. At the exit conference on **May 2, 2005**, **Mr. Robbie Robinson** also gave sound advice and counsel in his explanations of the findings and recommendations.

We have reviewed the findings and recommendations included in **Attachment I** to the report, and we have concluded that most of the findings and recommendations have merit. While some of the recommendations can be implemented almost immediately, others will require more time to fully carry out. And under our current staffing levels and financial constraints, we have determined that some of the recommendations are administratively infeasible.

We respectfully present herewith the following response to your preliminary draft report from me and members of the management staff of the School Board.

Written Procedures

We concur with the recommendation that written procedures should be prepared for the business functions that you outlined in your report. We plan to address some of the internal control deficiencies that you presented later in your report, and then direct the staff members of the Business Department to prepare a sort of '**Desktop Procedures Manual**' for their respective positions. These desktop procedures will address the business functions outlined in your report, among others. They will provide for the critical functions of their jobs, timelines and deadlines, and the locations of all related hard-copy and electronic files. I will then direct our Business Manager, to assemble, edit, and update these procedures as necessary.

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Budgeting Process

Budget Procedures Needed

We concur with these recommendations. Our Business Manager is currently coordinating the preparation of our budget for the upcoming fiscal year, and I have directed him to contemporaneously document all of the steps of the process for the preparation of the budget. We also plan to obtain the recommended industry checklists and incorporate them into our budget preparations and processes.

Noncompliance with Local Government Budget Act

We concur with these recommendations. I would also like to point out that this exact finding was made by our external auditors, **Postlethwaite & Netterville**, in their **Report on Compliance and Internal Control** issued in connection with their audit of our financial statements as of and for the year ended **June 30, 2004**.

We plan to include all special revenue funds in all future annual operating budgets that we present to the School Board for approval.

As part of the preliminary process for the preparation of the budget for the upcoming fiscal year, we have begun to present data on the overall financial status of the School Board at Regular and Special meetings of the School Board and the Finance Committee of the School Board. We plan to continue these efforts, with the goal of educating and gathering input from the School Board and the public on the finances of the School Board. These presentations will include both short-term and long-term trends and projections, and information on the stability, or lack thereof, of the School Board's revenue sources. Finally, the presentations will include information on unfunded mandates imposed by the state and federal government, and actions that can be taken to control costs.

Incorporate Performance Measures

We concur with the recommendation that we incorporate performance measures into the budgeting process. We plan to poll our supervisors and other department heads to suggest both financial and non-financial performance indicators that should be measured. We will then begin to track these measures, report on them in School Board meetings, and incorporate them into our budget.

Financial Management

Monthly Financial Statements Not Presented to School Board

While we concur substantially with the intent of this recommendation, in the interest of saving time and printing costs, we plan to present only a summary version of the financial statements to the School Board each month. We do, however, plan to present more detailed information each month on a particular department or operating function of the School Board on a rotating basis.

Excess Cash Should Be Invested

We concur with this recommendation. As part of the budget process, we plan to develop a cash flow model which will be used to establish our immediate cash requirements for each month. Any funds on hand in excess of these requirements will be invested either in the **Louisiana Asset Management Pool (LAMP)**, or locally if the rates are competitive.

Due To / From Other Funds

We concur with these recommendations. One of the reasons for many of the *due to / due from* accounts is that we have a single investment account maintained in our bond sinking fund, and this one account also holds money on behalf of several other funds. These amounts are tracked by showing amounts due to the other funds from the bond sinking fund.

We recognize now that this is not the best way to report the financial position within these funds. We plan to account for all of our shared investment accounts similar to the way in which we currently account for our **LAMP** account; whereby we maintain an internal accounting of which funds own an interest in the investment account, and then report these amounts on our balance sheet as an owned investment within each of these funds.

Some of our *due to / due from* accounts are in the nature of actual advances that have been made from one fund to another. Wherever possible, we plan to make cash transfers between these funds to clear out these balances prior to the end of our fiscal year. Where this is not possible, we plan to, with School Board approval and wherever legal, clear out these balances by using a transfer in / transfer out.

Contracts for Services

We concur substantially with the intent of this recommendation. We plan to execute written contracts for significant, ongoing agreements for professional services. For immaterial or one-time agreements, we believe that a purchase order establishes a contractual arrangement that is binding upon both parties.

Plan For Future Operations

We concur with these recommendations, and we plan to implement each of them.

Record Retention

We concur with these recommendations. We have already done some initial research into the letter of R.S. 44:411, as well as related research into the application of this law through the website of the Records Management Section of the Louisiana State Archives, which is a Division of the Louisiana Department of State. Prior to the beginning of the next fiscal year, I plan to designate a Records Officer and send this person to the training session offered by the Records Management Section to initiate our compliance with this law.

Other Suggestions for the Business Department

We concur with these recommendations. We plan to remove the responsibility for preparing the minutes of School Board meetings from the job description of the Business Manager, and assign this task to another individual. We also plan to have the bank reconciliations and journal entries reviewed and approved by the Business Manager.

Dedicated Taxes

Accounting for Dedicated Taxes

We do not concur with these recommendations. We believe that the dedicated property and sales taxes that you mentioned were passed by voters to **supplement** the salaries, benefits, school bus operations, academic programs, and enhancements. These dedicated taxes do not come close to covering the total expenditures of the School Board in these areas, so our position is that as long as the **General Fund** is spending at least as much in these areas as we are collecting in the **General Fund** or transferring into the **General Fund**, then we are within the letter and intent of the law.

For the dedicated sales tax that you mentioned, we do maintain an internal accounting of the appropriate amounts to transfer to the **General Fund** and the **School Food Service Fund**.

We believe that requiring these taxes to be paid out directly as a portion of the salaries, benefits, etc. would diminish our ability to be able to track the total amounts of the expenditures in these areas, and would create an undue administrative burden on the accounting staff.

Purchasing and Disbursements

Controls Over Purchasing and Disbursements Need Improvement

We do not concur with the recommendation that Purchasing and Accounts Payable be centralized, for the following reasons:

- We believe that there is little overlap between the departments that perform their own purchasing and accounts payable, so we question whether we could achieve operational efficiencies by centralizing these functions.
- The person responsible for these functions within each department is also responsible for many other tasks, so we question whether we could eliminate any positions by centralizing these functions. In fact, we would likely be required to create at least one additional central office position to centralize these functions.
- These individuals have intricate knowledge of the specialized nature of their respective operations, and we believe that much of this knowledge would be lost if we were to centralize these functions.

We concur substantially with the intent of the recommendation that accounting responsibilities should be segregated. However, implementing a textbook model of segregation of duties would require the creation of several additional central office positions. With our existing central office staffing levels and responsibilities, we believe that we do have internal controls in place that mitigate the risk of fraud, misappropriation, or material misstatement, including but not limited to the following:

- Neither of the individuals mentioned in your finding have the capability to actually cut checks. This function is performed by our Systems Administrator, and our blank check stock is secured in a room that is locked at all times.
- Neither of the individuals mentioned in your finding have the capability to create or change a master vendor record. These functions are restricted to the Accounting Supervisor and the Benefits Accountant.

We concur substantially with the intent of the recommendation that measures should be implemented to restrict spending when an account is over budget. We would like to point out that we currently have the capability to input budgeted numbers for each fund, which gives us the capability to monitor whether we are going over budget. We are currently using this capability in our federal funds, and we plan to begin using this feature in our General Fund and all other funds in the upcoming fiscal year.

Although there are special regulations within some of the federal funds, for the General Fund and most other funds, the budget is required to be amended when **total** expenditures exceed the budget by more than five percent, not each account. There is naturally some give and take whereby some accounts are over budget, and some accounts are under budget. We believe that a system that prevents overspending in a single account would be administratively infeasible.

We concur with the recommendations concerning the check-signing machine, and we plan to require the presence of two of the three people that know the code to the machine when it is operated. These two individuals will also each initial the control form that is currently being used when the machine is operated as operator and observer, as applicable.

We concur with half of the recommendation concerning the handling of signed checks. It should be noted that we currently have the President of the Board and myself approve the check register prior to the checks being run through the check-signing machine or released. We plan to change our process to also have the signed checks matched up with their respective invoices and given to the Business Manager for a final review. Finally, all invoices are individually approved by the **IPSB Executive Committee** after the fact, and a listing of the monthly expenses for each area is also approved by the **IPSB Finance Committee**.

However, we plan to continue to return the signed checks to the accountant responsible for that area for mailing. We have attempted assigning this task to others in the past, but we have found that the original accountant often has knowledge of remittances and other information that must be included with the check prior to mailing.

We concur substantially with the intent of the recommendation concerning the safeguarding of the signature stamps. However, we do not believe that both stamps should be secured and maintained by the Business Manager, or any other single individual. We plan to have two individuals responsible for securing and maintaining each of the two signature stamps under lock and key; and at least one of these individuals will not be one of the three individuals that are responsible for operating the check-signing machine.

We concur substantially with the intent of the recommendation concerning the handling of checks that are received in the central office. However, we receive so few checks and cash at the central office each month that we believe it would be administratively infeasible to incorporate the use of a daily log by the person responsible for opening the mail. For one thing, our sales tax checks, which are our most significant grouping of revenue checks that we receive each month, are not sent through the mail; they are hand-delivered each month to our Accounting Supervisor.

With respect to the handling of checks and cash that we receive at the central office, we believe that we do have internal controls in place that mitigate the risk of fraud, misappropriation, or material misstatement, including but not limited to the following:

- The **Accounting-Supervisor**, Ms. Paula H. Pitre, receives all checks and cash that is sent to the central office, updates any related spreadsheets or other files related to the receipts, and only then forwards the checks and cash to the General Fund Accountant to prepare the bank deposit and record the receipt in the general ledger. We believe that having the Accounting Supervisor keep a record of each receipt, independent of the general ledger, is substantially equivalent to maintaining a daily log of receipts as recommended.
- We concur with the recommendation that the checks received in the central office should be restrictively endorsed as soon as possible upon receipt, and we plan to assign this task to the Accounting Supervisor.

Payroll and Attendance Records

Controls Over Payroll Transactions

We concur substantially with the intent of the recommendation that payroll responsibilities should be segregated. I would also like to point out that this exact finding was made by our external auditors, Postlethwaite & Netterville, in their Management Letter issued in connection with their audit of our financial statements as of and for the year ended June 30, 2004.

We would also like to point out the following measures that are currently in place that contribute to a reasonable assurance against fictitious employees and other risks:

- Nearly all employees take advantage of some portion of the benefit package offered by the School Board, and our Benefits Accountant reviews the benefits side of the payroll process prior to the checks being printed.
- As a point of clarification, the Accounting Supervisor does review the annual changes to the Master Salary Schedule after they are input into the computer.
- As a further point of clarification, although the Payroll Accountant does distribute most of the payroll checks for central office employees, all other payroll checks are sent to the schools for distribution by their respective principals.

Implementing a textbook model of segregation of duties would require the creation of at least one additional central office position. Within the framework of our existing central office staffing levels and responsibilities, and with the intention of further mitigating the risk of fraud, misappropriation, or material misstatement, we plan to supplement the internal controls in the payroll area by implementing the following procedures:

- To ensure accuracy, the Payroll Accountant currently compares a printout of the payroll register against the prior month prior to printing the payroll checks. This payroll register provides summaries of gross wages by Job Code, and the Payroll Accountant then resolves and makes notations for any differences from month to month. We will direct the Accounting Supervisor to also review and sign off on the payroll register.
- When the payroll checks are signed, we plan to have the check-signing machine operated by an individual other than the Payroll Accountant. As the Payroll Accountant is one of the three individuals that knows the code to the machine, we retain the right to have her as one of the two individuals present when the machine is operated, as the observer.

Attendance Records

We concur partially with the intent of this recommendation. We would like to point out the following measures that are currently in place with respect to employee time and attendance:

- In compliance with the provisions of the Fair Labor Standards Act of 1938, all non-exempt school-based employees are required to submit time sheets, which must be approved by their Supervisors. The supervisors then keep these time sheets on file, and only turn them in to payroll if an individual works more than 40 hours in a work week. All approved leave forms are likewise submitted to payroll.
- All other school-based employees (mainly teachers) are required to sign in each morning prior to reporting to their classroom. They are then required to sign out only if they leave prior to their normal time in the afternoon. We believe that requiring these employees to return to the school office in the afternoon to sign out prior to leaving the campus would place an unnecessary and undue hardship on these individuals. Also, many of these employees remain on campus long after the main office is closed, and would not be able to sign out prior to leaving.

We intend to begin to require non-exempt central office employees to submit time sheets for approval and retention as outlined above. We believe that existing supervisory oversight is sufficient for all exempt central office employees. We also intend to prepare and submit to the School Board for approval written procedures to document these existing and future processes.

School Activity Accounts

We concur substantially with the intent of the recommendation that written procedures should be developed relating to school activity accounts. We actually have models of such policies from other School Boards in the state that we will draw from to develop our procedures.

We would like to point out that the Accounting Supervisor reviews the monthly statements and activity for the school activity accounts at each school, and investigates all significant variances. We would also like to point out that a new school bookkeeper is usually paired with another school's bookkeeper that serves as a mentor, and that the Accounting Supervisor gives heightened attention to schools that have an inexperienced bookkeeper.

We would like to further point out that the Accounting Supervisor does periodic surprise reviews of the records at the schools, but performing these reviews more frequently would likely require the creation of an additional central office position.

Maintenance Department

Controls Needed Over Gasoline Purchases

We concur with these recommendations. We plan to require our personnel to include the vehicle number and odometer reading on the fuel ticket when they sign it. We will then summarize and track this data each month. It should be noted that many of our fuel purchases are for lawnmowers and tractors, so there will be no odometer readings. But we do intend to track these purchases by school.

Capital Assets

We concur with these recommendations. We would like to point out that we developed a '**Fixed Asset Policy**' a few years ago for additions, deletions, and transfers of fixed assets. This policy references the forms which we also developed and use for these purposes. These forms also have detailed instructions on their use and disposition. However, this policy has never been formalized and presented to the School Board for approval, which we plan to do in the upcoming months.

We would like to further point out that our Procedure DIC does provide that a complete inventory of our fixed assets shall be conducted annually; and we will stipulate that a complete inventory of our fixed assets has not been conducted for several years. However, we have conducted an inventory at least annually for assets which are traditionally prone to 'walk', including but not limited to computers, and fixed assets within the School Food Service and Maintenance Departments.

We have recently switched to maintaining our fixed asset records on our main computer system, which has helped to streamline this process. Our Property Control Coordinator is currently conducting a complete inventory of our fixed assets, and we will direct her to perform this task at least annually. This individual also has responsibility for non-maintenance General Fund and federal program receiving, and this activity has increased significantly in recent years.

Ethics

We concur with the recommendation that we require an annual certification of compliance with our ethics policy, and we plan to implement it.

Computer Controls

Disaster Recovery / Business Continuity Plan Needed

We concur with the recommendation that we develop a formal plan for disaster recovery and business continuity, and we will direct our Systems Administrator to develop and implement such a plan. We would like to point out that we are currently performing daily backups of our computer data and maintaining off-site storage of this data.

Computer Server Not Secured

We concur with the recommendation that the computer server for School Food Services be moved to a more secure location. We plan to relocate this equipment to our main server room.

Computer Back-Up Tape

We concur with the recommendation that the computer back-up tapes for School Food Services should be stored in a secure, off-site location, and we plan to implement it.

Conclusion

Mr. Theriot, thanks again for the invaluable service that you and your staff have provided to the Iberville Parish School Board, and to the State of Louisiana. We believe that this engagement will lead to positive results by safeguarding the assets and reducing the risks of the School Board. Please feel free to contact myself or my Business Manager, Daniel W. Miller, CPA, if you require any further information.

Sincerely,

A handwritten signature in black ink, appearing to read 'M. Bera', is written over a horizontal line. The signature is enclosed within a large, hand-drawn oval.

Martin H. Bera, Superintendent
Iberville Parish School Board