

RECOVERY SCHOOL DISTRICT  
DEPARTMENT OF EDUCATION  
STATE OF LOUISIANA



MANAGEMENT LETTER  
ISSUED MARCH 27, 2013

**LOUISIANA LEGISLATIVE AUDITOR  
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LOUISIANA LEGISLATIVE AUDITOR  
DARYL G. PURPERA, CPA, CFE

February 21, 2013

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

As required by Louisiana Revised Statute 24:513 and as a part of our audit of the Single Audit of the State of Louisiana for the fiscal year ended June 30, 2012, we conducted certain procedures at the Recovery School District (RSD) for the period from July 1, 2011, through June 30, 2012.

- Our auditors obtained and documented a basic understanding of the RSD operations and system of internal controls, including internal controls over a major federal award program administered by RSD, through inquiry, observation, and review of its policies and procedures, including a review of the laws and regulations applicable to RSD.
- Our auditors performed analytical procedures consisting of a comparison of the most current and prior year financial activity using RSD's annual fiscal reports and/or system-generated reports and obtained explanations from RSD management of any significant variances.
- Our auditors reviewed the status of the findings identified in the prior management letter dated December 20, 2011. The prior year findings relating to lack of record and equipment retention policy for closed or transferred schools and noncompliance with A-87 payroll certification regulations have been resolved by management. The findings related to loss of movable property and inadequate controls over payroll have not been resolved and are addressed again in this letter.
- Based on the documentation of RSD's controls and our understanding of related laws and regulations, procedures were performed on RSD's school activity funds, movable property, and payroll expenditures.
- Our auditors performed internal control and compliance testing in accordance with *Government Auditing Standards* and Office of Management and Budget Circular A-133 on the Disaster Grants - Public Assistance (Presidentially Declared Disasters) (CFDA 97.036) program for the fiscal year ended June 30, 2012, as a part of the Single Audit for the State of Louisiana.

The Annual Fiscal Report of RSD was not audited or reviewed by us, and, accordingly, we do not express an opinion on that report. RSD's accounts are an integral part of the State of Louisiana's financial statements, upon which the Louisiana Legislative Auditor expresses opinions.

Based on the application of the procedures referred to previously, we have included all significant findings that are required to be reported by *Government Auditing Standards*. The following significant findings are included in this letter for management's consideration.

### **Loss of Movable Property Totaling over \$2.7 Million**

For the sixth consecutive year, RSD did not ensure that movable property was safeguarded against loss, including loss arising from unauthorized use and misappropriation. Our review of RSD's movable property activity disclosed the following:

- RSD's annual certification of property inventory, which the Louisiana Property Assistance Agency did not approve, disclosed \$26,664,976 in total movable property, which included 1,633 items with a total acquisition cost of \$2,738,016 that have been identified as unlocated during the past four-year period. Of the 1,633 unlocated items, 1,380 items were computers or computer-related equipment. The 2012 annual certification also identified 908 items with a total acquisition cost of \$1,482,060 as unlocated for the current period.
- RSD reported 10 incidents at six separate schools involving 97 movable property items with an acquisition cost of \$73,667 as missing/stolen to the legislative auditor and the local district attorney. Of the 97 movable property items, 70 were computers. Management has represented that seven items with an acquisition cost of \$6,118 have been recovered.

The 10 reported incidents involved computers being stolen from four RSD direct-run schools and one charter school. There was no sign of forced entry in three instances that resulted in a loss of 48 items with an acquisition cost of \$20,064. In one instance, 26 Dell laptop computers and 20 Apple I-Pod Nano media devices with an acquisition cost of \$17,031 were stolen from an RSD direct-run school's storage room.

RSD's movable property function is hampered by the decentralization of movable property at the various custodians (schools) and a lack of accountability and training of the custodians for RSD property. In state fiscal year 2012, the individual schools were responsible for performing the annual inventory at their schools. The custodians were not adequately prepared and trained to perform the inventory procedures. Failure to safeguard movable property increases the risk that assets may be misreported, lost, or stolen. In addition, the year-to-year cost of replacing lost or stolen movable items could reduce the availability of funds (federal or state) for other educational objectives.

Good internal control requires that adequate procedures be in place to ensure that the locations of all movable property items are monitored and updated frequently and that thorough periodic physical counts of property inventory be conducted. This includes adequately training and preparing the custodians at the individual schools who are responsible for overseeing and conducting the physical counts of property inventory. In addition, good internal control should ensure that movable property is properly safeguarded against loss or theft arising from unauthorized use and misappropriation.

Management should continue to improve controls over movable property by increasing its efforts to make the custodians responsible and accountable for assigned RSD movable property to include holding the custodians financially liable as allowed by the movable property regulations. In addition, management should emphasize compliance with established policies through training and guidance and continue to search for unlocated property. Management concurred with the finding and outlined a plan of corrective action (see Appendix A, pages 1-3).

### **Inadequate Controls over Payroll**

During fiscal year 2012, RSD did not ensure that employee separation dates were accurate or timely. Not recording separation dates accurately and timely could result in overpayments for terminated employees. This is the sixth consecutive year that we have cited RSD for inadequate controls over its payroll process.

From July 1, 2011 to June 30, 2012, 762 employee separation dates were entered in the ISIS/Human Capital Management payroll system (ISIS/HCM). Our test disclosed the following exceptions:

- For all 14 employees tested, final separation dates were not entered into ISIS/HCM before the close of the employees' last pay periods. Days late ranged from seven to 107 days.
- For eight of the 14 (57%) exceptions noted above, RSD did not have supporting documentation available to confirm the employees' separation dates. Without this documentation, we could not determine if the separation dates entered into ISIS/HCM were accurate and, therefore, overpayments may have been made and not detected.

Documentation relating to payroll transactions including separation dates was not provided to RSD's Human Resources section in a timely manner. Lack of detailed policies and procedures relating to the notification of terminations and a lack of accountability at the RSD sites hamper the timely transfer of information. In addition, since RSD's personnel are decentralized, the large volume of documentation that is required to be transferred from the various RSD sites to the central office increases the risk of lost documentation. Failure to support payroll charges with adequate documentation increases the risk that employees will be paid improperly. Good internal controls require that employee terminations should be entered accurately in the payroll system before the close of the employee's last pay period.

Management of RSD should continue its efforts to (1) improve control over payroll; (2) ensure payroll policies and practices clearly communicate and instruct RSD personnel to report termination immediately; (3) consider storing and transmitting supporting documentation electronically; and (4) place emphasis on compliance with payroll policies and practices through training and guidance. Management concurred with the finding and outlined a plan of corrective action (see Appendix A, page 4).

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

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, CFE  
Legislative Auditor

JMJ:CRV:EFS:THC:dl

RSD 2012

## APPENDIX A

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

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February 21, 2013

Mr. Daryl G. Purpera  
Legislative Auditor  
1600 North Third Street  
P.O. Box 94397  
Baton Rouge, LA 70804-9397

Dear Sir:

Please accept this correspondence as the Recovery School District's official response to the Reportable Audit Finding –Loss of Movable Property totaling over \$2.7 Million.

The RSD sincerely appreciates the opportunity to address the finding regarding the loss of moveable property. The RSD would also like better explain the definition of unlocated property as defined by the Legislative Auditor. The \$2.7 million noted in the finding is an extremely misleading number as a large percentage of the property noted as lost in fact is still in the schools serving the educational needs of the kids in the RSD's system of schools. The RSD would estimate that 70% of the noted assets have incorrect location codes. The RSD is eager to explain and outline the corrective actions the organization will take with this year's property certification and moving forward to correct the assets with incorrect location codes and improve property management practices while creating a long term solution that is a better fit for a decentralized school district focused on student achievement.

## 2012 Property Certification Responses

- The Louisiana Property Assistance Agency did not approve the 2012 property certification
  - The RSD concurs with this finding. The LPAA noted that a major reason for this included the increased amount of property versus 2011 that was marked as missing. This was due primarily to correcting historical data errors. These historical data errors were self exposed through the program improvements made last year by the RSD.
  - Corrective Action: The RSD will make progress on this year's certification through the corrective actions outlined below.
- The RSD's annual certification of property inventory included 1633 items with a total acquisition cost of \$2,738,016 that have been identified as unlocated during the past four year period.
  - The RSD concurs with this finding, however notes that a high percentage of the unlocated assets are not lost, stolen or misappropriated but shown in the report because of outdated location codes.
  - This issue has also been compounded by challenges faced during the time of district rebuilding post hurricane Katrina when property control did not receive proper attention and mass quantities of property was purchased without proper protocols for data entry. During this time and ongoing, property has moved between sites.
  - Corrective Action: This solution is not an easy fix given the historical complexity. However, this year the RSD will make progress towards locating as many missing assets as possible through:
    1. Conducting an inventory at each school site undergoing a transformation and reconcile inventory (10 sites)
    2. Conducting site by site inventories of locations we believe house a large amount of property marked as missing or unlocated that we believe is actually still serving students. This property may have shifted between locations historically over the last 4 years without proper paperwork submission.
    3. Implement a new process for controlling the transfer of property while adding accountability for all parties including the site operators and the RSD.

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- 10 incidents at 6 schools of stolen property
  - The RSD concurs with this finding. We report no discrepancy in the noted number, but wish to note that in all cases, many reasonable measures are taken to protect the assets in RSD buildings. These include twenty four hour security guards, monitored security systems, CCTV systems with other physical theft deterrent systems. The RSD has also immediately notified and assisted the New Orleans Police Department in investigation of reported missing/stolen property.

## 2013 Key Actions to Improve State of Moveable Assets

- **Property Certification:** As the report notes, the 2012 Property Certification preparation was partly conducted through asking LEAs to reconcile inventory. This year, the RSD's Property Manager will conduct as many inventories as possible or train direct representatives of RSD to do so, given the lack of incentive for accountability on the part of LEAs in property reporting. As noted above, the RSD has begun to organize and prioritize the work this year to lead to a cleaner inventory in 2013.
- **Improving Protocol for New Assets:** The RSD will improve the working procedures required to immediately account for and tag state assets in new buildings immediately upon building substantial completion, as well as immediately enter new assets purchased for RSD's direct run schools into the system with proper description.
- **Communication and Follow up To Charter Schools:** The RSD will create a new approach and better communicate two key processes to all parties handling moveable assets over \$1,000. RSD believes this will contribute towards reducing the amount of property marked as missing each year
  - The process for moving property between schools
  - The process for disposal
- **Staffing:** For the 2013-2014 school years, the RSD's goal is to create school level manager positions that would be responsible for site level property accountability and reporting property movement and disposals...

## Long Term Solutions

- The report notes that RSD's moveable property function is hampered by decentralization of movable property at the various custodians' and a lack of training and accountability. The RSD concurs with this assessment.
- While we believe that the four part 2013 strategy noted above will lead to improved state of property management for the 2012 property certification. We will also hold charter school's accountable for property management.
- RSD management will increase efforts, as recommended, to create and communicate a plan that makes charter schools directly responsible for property. The current accountability strategy may include components such as:
  - Property management criteria when a school is moving into a temporary space:
    1. Reconcile an inventory list
    2. Report property movement and disposal appropriately
    3. Be held financially accountable for missing property
  - Property management criteria when a school is moving into a final building space:
    1. Contribute towards resourcing property management and tracking of state assets in the building
    2. Agree to a plan that shifts ownership directly to them

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In approaching a decentralized school district, the RSD will improve our current state, while also creating plans for shifting property directly to schools.

The individuals responsible for the internal controls over property are: Delano Ford, Deputy Superintendent Services and Operations Division and Jim Austin, Executive Director of Facilities Management Operations.

Sincerely,



Patrick Dobard  
Superintendent  
Recovery School District

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February 21, 2013

Mr. Daryl G. Purpera  
Legislative Auditor  
1600 North Third Street  
P.O. Box 94397  
Baton Rouge, LA 70804-9397

Dear Sir:

Please accept this correspondence as the Recovery School District's official response to the Reportable Audit Finding –Inadequate Controls over Payroll for Fiscal Year ended June 30, 2012.

Finding: Separation Dates for 14 employees not recorded in ISIS/HCM before the close of the employees' last pay period. 8 of the 14 employees tested did not have documentation to confirm the separation date.

- The RSD concurs with the finding for the 14 employees tested and agrees that employee separations need to be recorded timely and supported by documentation to confirm the separation date. The RSD separated 762 employees for the fiscal year ended June 30, 2012 and acknowledges that every one of them should be processed timely and have the proper documentation. We believe that when looked at over the entire population of separated employees our internal control procedures over Payroll are improving. The findings also occurred during the last payroll period in July, which is the busiest time of the year as we are onboarding and separating hundreds of teachers in preparation for the new school year. RSD appreciates that no overpayments were found. RSD has implemented a bi-weekly payroll review to identify any potential overpayments.

Since the RSD does have a large decentralized staff, timely communication between the schools and our central office is critical to ensuring that separations occur timely. Principals must notify our Director of Achievement team immediately when an employee submits notification of a resignation. The Director of achievement notifies our Human Resource Director who provides written documentation of the separation to Payroll. The payroll department then enters the separation in the ISIS/HCM system. The documentation supporting the separation is placed in the employee's file and the employee's file is moved from active to inactive in the HR file room.

The RSD has strengthened communication regarding the proper separation procedures to our school based staff and central office personnel through professional development training meetings that were held during December 2012 and January 2013. We have a new Human Resource Director and a new Director of Achievement who are working closely with our payroll department to ensure communication occurs timely. A working group including achievement, human resources, payroll and finance was developed that began meeting in December 2012 to map out the timeline and key dates for deliverables to ensure timely and accurately separations occur for the reduction in force for the upcoming 2013-2014 school year. The individuals responsible for the timely separation of employees are: Tracey Branch, Payroll Manager, Karen Craig, Controller, Joey LaRoche, Director of Achievement and Ivan Illidge, Human Resource Director

Sincerely,



Patrick Dobard  
Superintendent  
Recovery School District