

STATE OF LOUISIANA LEGISLATIVE AUDITOR

Department of Education
State of Louisiana
Baton Rouge, Louisiana

January 31, 2001



Financial and Compliance Audit Division

***Daniel G. Kyle, Ph.D., CPA, CFE
Legislative Auditor***

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Daniel G. Kyle, Ph.D., CPA, CFE

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**DEPARTMENT OF EDUCATION
STATE OF LOUISIANA**
Baton Rouge, Louisiana

Management Letter
Dated December 18, 2000

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 office of the Legislative Auditor.

January 31, 2001



DANIEL G. KYLE, PH.D., CPA, CFE
LEGISLATIVE AUDITOR

OFFICE OF
LEGISLATIVE AUDITOR
STATE OF LOUISIANA
BATON ROUGE, LOUISIANA 70804-9397

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December 18, 2000

DEPARTMENT OF EDUCATION
STATE OF LOUISIANA
Baton Rouge, Louisiana

As part of our audit of the State of Louisiana's financial statements for the year ended June 30, 2000, we considered the state Department of Education's internal control over financial reporting and over compliance with requirements that could have a direct and material effect on a major federal program; we examined evidence supporting certain accounts and balances material to the State of Louisiana's financial statements; and we tested the department's compliance with laws and regulations that could have a direct and material effect on the State of Louisiana's financial statements and major federal programs as required by *Government Auditing Standards* and U.S. Office of Management and Budget Circular A-133.

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

In our prior management letter on the state Department of Education for the year ended June 30, 1999, we reported findings relating to inadequate audit resolution, ineffective internal audit function, inadequate controls over data in the Minimum Foundation Program, inadequate information systems controls, inadequate controls for Improving America's Schools Act programs, inadequate controls for the Safe and Drug-Free program, unallowable costs in Special Education program, inadequate controls for federal cash management, inadequate monitoring for Child and Adult Care Food Program, inadequate controls over movable property, inadequate controls over contracts and cooperative endeavor agreements, inadequate collection procedures, inadequate subrecipient monitoring, inadequate controls over Vocational Education program, inadequate controls in Starting Points program, noncompliance with year 2000 regulations, inadequate uniform payroll systems controls, inadequate controls over bank reconciliations, and failure to verify the claims loss listing. The findings relating to inadequate uniform payroll systems controls and failure to verify claims loss listing have not been resolved and are addressed again in this report. The remaining findings addressed in our previous management letter were resolved by management.

Based on the application of the 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, 2000.

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DEPARTMENT OF EDUCATION

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Management Letter, Dated December 18, 2000

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Subgrantee Applications Not Properly Reviewed

The state Department of Education (SDE) did not maintain adequate controls over the review of subgrantee applications for Title 1 Grants to Local Educational Agencies (LEAs) (CFDA 84.010) to ensure compliance with federal regulations. Office of Management and Budget (OMB) Circular A-87 states that for a cost to be allowable it must be necessary and reasonable for the performance and administration of federal programs. Also, according to the Improving America's Schools Act of 1994, Section 1114, an LEA should develop a comprehensive plan that describes how the school will use Title I funds, as well as other resources, to implement its plan. Under Section 1112, the SDE is required to approve these plans. Finally, the SDE's "Instructions for Completing an LEA Consolidated Application" require schools with at least a 75% poverty level to be funded in the order they are ranked.

A review of 20 LEA consolidated applications disclosed the following:

- The SDE reimbursed the Orleans Parish school district \$13,349 for health services that were not part of the district's approved plan; therefore, these expenditures are questioned costs.
- The SDE did not question the necessity and reasonableness of \$90,473 in medical and dental services reimbursed to the East Baton Rouge Parish school district. Justification for providing these services should have been obtained before reimbursement, considering the availability of these services to children through other federal grants and in comparison to similar expenditures by a much larger school district. The SDE requested justification from the school district after the legislative auditor questioned the expenditures.
- While testing the SDE application review process, the legislative auditor was not provided documentation from the SDE as to why some school districts funded alternative schools and some did not. Two school districts ranked but did not fund two public schools that had a poverty level over 75%. In each case, the school was identified as an alternative school or a separate school specifically created to meet student needs that could not be met in a regular school program. As part of developing its response to this finding, the SDE obtained documentation as to why those schools were not funded.

The SDE should implement controls to ensure that subgrantee applications are thoroughly reviewed for compliance with federal regulations. The department should also obtain written clarification from the U.S. Department of Education regarding the

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Management Letter, Dated December 18, 2000

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eligibility of alternative schools. Questioned costs should be resolved with the U.S. Department of Education. Management did not concur with the finding and recommendation. The SDE contends, in part, that its application review process is very thorough, given the current resources, and the SDE provided its explanations for the exceptions (see Appendix A, page 1).

Additional Comments: While the SDE was able to explain certain exceptions as part of developing its response to this finding, the documentation needed to resolve the exceptions was not available when the audit tests were performed. More documentation is needed in the review process.

**Failure to Maintain Adequate Control Over
Equipment Purchased With Classroom-Based
Technology Fund**

The SDE did not maintain adequate internal control over equipment purchased for use in non-public schools through the Classroom-Based Technology Fund. Louisiana Revised Statute 17:3921.2(D) provides that equipment and software purchased with these funds shall remain the property of the state. Good internal controls require that detailed property records be maintained on the acquisition and disposition of property items and that property be safeguarded against loss and unauthorized use. Also, the SDE's administrative guidelines for the Classroom-Based Technology Fund require each non-public school to submit an annual sworn statement indicating the description, location, and use of property items with a unit value over \$300. In addition, all property items purchased with these funds are to be returned to the SDE if the schools cease to exist.

A review of the statutes that created the fund, interviews of SDE employees, a review of the administrative guidelines developed for the fund by the SDE, and a review of sworn statements submitted by the non-public schools disclosed the following weaknesses:

1. The SDE did not have a monitoring system in place to ensure that property items acquired through this fund were properly accounted for by the schools and were returned when required.
2. The SDE did not verify that all non-public schools submitted the required annual sworn statements, indicating the description, location, and use of property purchased through the fund.
3. The SDE neither maintained a listing of equipment purchased by the department for each non-public school nor included these state property items in its movable property records.

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DEPARTMENT OF EDUCATION STATE OF LOUISIANA

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Management did not ensure that appropriate department personnel were assigned the responsibilities of monitoring property purchased through the Classroom-Based Technology Fund. As a result, the SDE was not aware of the location or total dollar value of this equipment and understated the reported amount of movable property owned by the department by approximately \$5,869,286. In addition, without adequate tracking procedures, there is an increased risk of misuse and theft of this equipment.

Management should develop procedures to monitor property items purchased by the department for non-public schools. The department should also maintain a listing of the equipment located in each non-public school to validate the information certified by the schools and to accurately report the amount of movable property belonging to the department. Management concurred with the finding and recommendation and outlined a plan of corrective action (see Appendix A, page 3).

Weaknesses in Controls Over Payroll

For the second consecutive year, the SDE did not comply with Civil Service rules and existing internal control procedures over its payroll function. Civil Service rule 15.2 requires supervisors to certify the rendering of service by employees. Also, Civil Service rule 6.25 limits the amount of compensatory leave that can be carried over for an employee from one calendar year to the next. Departmental procedures require that (1) all timekeeping units have a backup timekeeper for online time entry in the absence of the primary timekeeper; (2) timekeepers do not share payroll system IDs and keep their individual passwords confidential; (3) overtime must be approved in advance and authorization of the approval should be on file; and (4) the Fixed Time Entry Report must be reviewed and verified by an employee who is not the employee entering time and attendance into the system. A review of the payroll function disclosed the following deficiencies:

1. In a test of time and attendance records for 24 employees for one pay period in 12 timekeeping units, the following exceptions were noted:
 - In three of the timekeeping units, the supervisor did not approve the time sheets. Also, in one of the three units, the supervisor had not approved time sheets for 17 of 18 pay periods.
 - Three of five employees who worked overtime did not have documentation on file to indicate prior approval and authorization of the overtime.
 - In three of the timekeeping units, the same employee who entered time and attendance into the payroll system also reviewed and verified the Fixed Time Entry Report.

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DEPARTMENT OF EDUCATION STATE OF LOUISIANA

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2. Five (33%) of 15 timekeeping units tested did not have a backup timekeeper. In addition, six backup timekeepers did not have their own user ID. One of the six reported using the ID and password of another employee for online data entry.
3. For two employees, the compensatory leave carried forward into the next calendar year exceeded the 360 hours allowed by Civil Service rules, one by 62 hours and the other by 35 hours.

The department has not placed sufficient emphasis on compliance with state rules and departmental procedures. Failure to comply with established rules and procedures increases the risk that inaccurate, unsupported, or fraudulent payroll data could be entered into the payroll system and processed without timely detection.

The SDE should comply with Civil Service rules and existing internal control procedures over its payroll function. Management concurred with the finding and recommendation and outlined a plan of corrective action (see Appendix A, page 4).

Failure to Properly Review the Claims Loss Listing

For the second consecutive year, the SDE did not properly review the Claims Loss Listing received from the Office of Risk Management (ORM). Each quarter, the ORM distributes a Claims Loss Listing to all state agencies that contains all claims submitted by each agency. The ORM uses this listing for computation of experience ratings and premiums. The ORM requests that the agencies review this listing for accuracy and report any errors or omissions to them.

The SDE did not verify the accuracy and completeness of previously reported claims information detailed on the ORM Claims Loss Listing because these reports were not forwarded for review to the personnel responsible for the collection and reporting of claims. As a result, errors or omissions in claims may not be detected in a timely manner. In addition, experience ratings and premiums assessed by the ORM could be incorrect since these errors or omissions may not be reported.

The SDE should establish procedures to ensure that the appropriate personnel review the quarterly Claims Loss Listing received from the ORM for accuracy and completeness of the claims reported. Management concurred with the finding and recommendation and outlined a plan of corrective action (see Appendix A, page 6).

LEGISLATIVE AUDITOR

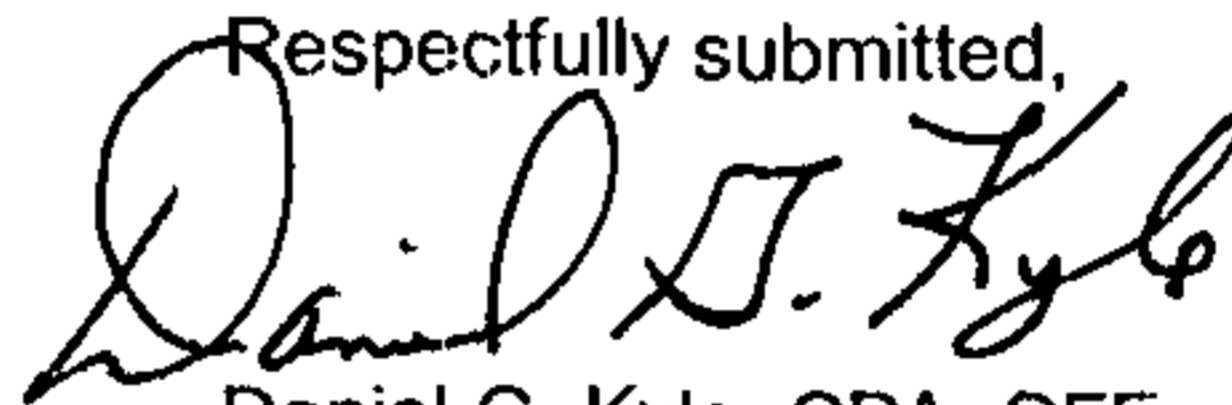
DEPARTMENT OF EDUCATION
STATE OF LOUISIANA

Management Letter, Dated December 18, 2000

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

This letter is intended for the information and use of the department and its management and is not intended to be and should not be used by anyone other than these specified parties. Under Louisiana Revised Statute 24:513, this letter is a public document, and it has been distributed to appropriate public officials.

Respectfully submitted,

Daniel G. Kyle, CPA, CFE
Legislative Auditor

ADE:BMcC:PEP:dI

[DOE00]

Appendix A

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



STATE OF LOUISIANA

DEPARTMENT OF EDUCATION

POST OFFICE BOX 94064, BATON ROUGE, LOUISIANA 70804-9064

<http://www.doe.state.la.us>

December 4, 2000

Dr. Daniel G. Kyle, CPA, CFE
Legislative Auditor
Office of the Legislative Auditor
P.O. Box 94397
Baton Rouge, LA 70804-9397

Dear Dr. Kyle:

The Department of Education (SDE) does not concur with the finding related to *Subgrantee Applications Not Properly Reviewed*. The SDE offers the following information:

The SDE employs a comprehensive method of ensuring compliance with federal law in the process of reviewing applications for Title I funding, and monitoring expenditures. While this method could, like any other, be improved, the application process is very thorough given the current resources of the SDE. Consolidated Applications for all Title funding are reviewed by fiscal and program staff to ensure that all costs are allowable, that program and budget are appropriately articulated, and that the needs of at risk children are addressed. Most of Louisiana's Title I programs are "schoolwide" programs. The plans for these programs were thoroughly reviewed at the time of the authorization of the *Improving Americas Schools Act (IASA)*, in 1995, and since then have been reviewed by peers as continuing plans. The SDE would review these "schoolwide" plans only if they were substantially changed or IASA was re-authorized. Nevertheless, budget revisions to these plans (over 25% in existing budget categories or any change that entailed a new category) are scrutinized by fiscal and program staff. There are also regular on-site visits by SDE staff to all districts receiving Title I funds to do compliance monitoring as well as provide technical assistance.

With respect to reimbursement of the Orleans Parish School District of \$13,349 for health services under Section 1112, Local Education Agencies (LEAs) annually submit to the SDE for approval a consolidated application for their Title I, II, IV, VI, and Class Size Reduction Funds. As part of their consolidated application the Orleans Parish School District included a statement of the district philosophy for the education of all children in the LEA. Within this statement of philosophy the district "commits to ensuring that every child in every grade of every public school will achieve the maximum potential of her/his ability," and that "Decisions by the Board, especially in the allocation of limited resources, will be evaluated by how expected outcomes increase the learning experiences of students, enhance the quality of instruction, improve student academic performance, and strengthen the learning environment of the classroom." The SDE contends that the application therefore encompasses the limited health services provided. Also, in this application, all criteria required in Section 1112 of Title I are included except their continuing schoolwide plans. For schoolwide programs only a one-page summary, with a checklist of options, is required as part of the Consolidated Application. Schoolwide plans, developed in accordance with Section 1114, use a somewhat more detailed application for their initial year of operation and the less comprehensive continuing application for subsequent years.

Dr. Daniel Kyle
December 4, 2000
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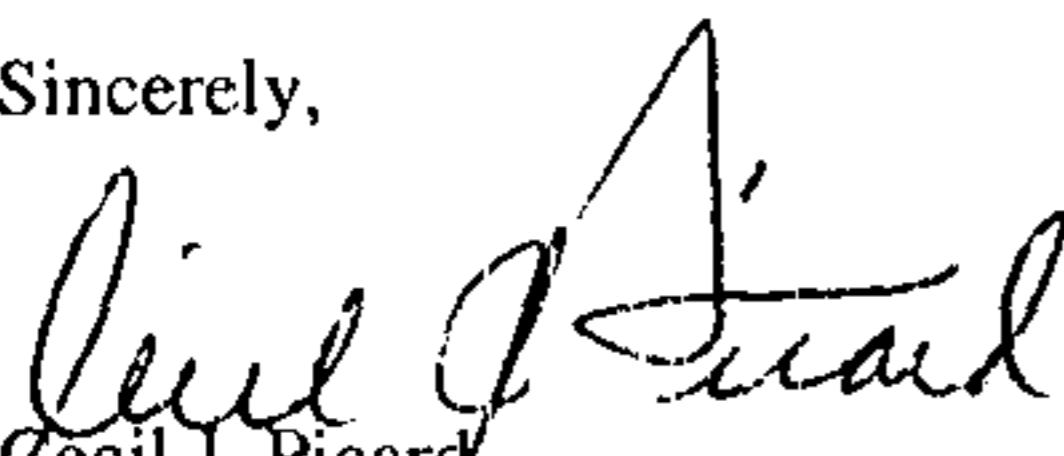
Continuing schoolwide applications are not approved by the SDE. The schoolwide plans are reviewed by peers to ensure all required elements are present. The districts report to the SDE that the peer review has taken place and that the required school support teams have participated in the process.

With respect to the \$90,473 in medical and dental services reimbursed to the East Baton Rouge Parish school district, this service has been part of schoolwide plans (which includes all of East Baton Rouge Parish Title I schools) for many years. With respect to the necessity and reasonableness of the costs of these services, Title I law Section 1112 (E) states that it is the LEA which determines the extent to which the provision of health services to children is necessary. Title I law is silent on the issue of Title I funds being used as 'last resort funding' for these services in schoolwide programs; however, East Baton Rouge Parish School District has put in place safeguards to ensure that children referred to this service do not have other alternatives. Because the district provides transportation (when the family has no alternative) for referred children to the source of these services, and makes the services a priority within the district, comparisons with other districts that do not place such emphasis on these services is problematic.

With respect to documentation of why specific alternative schools were not funded, attendance area selection is the responsibility of the district as described under Title I, Section 1113 (3). Of the two alternative schools cited, one does not meet the definition of an eligible attendance area, which is determined by the LEA. The other was not funded because it fell under 1113 (7)(b)(1), which stipulates that the LEA may choose not to fund a school because it already receives funding from other sources that would exceed what it may receive for Title I (see attached).

Should you have any questions concerning this response, please contact me at your earliest convenience.

Sincerely,


Cecil J. Picard
State Superintendent of Education

CJP:RB:cm

Attachment

cc: Carole Butler-Wallin
Marlyn Langley
John Guilbeau
Billy Crawford
Rodney Watson



STATE OF LOUISIANA
DEPARTMENT OF EDUCATION
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December 11, 2000

Dr. Daniel G. Kyle, CPA, CFE
Office of the Legislative Auditor
Post Office Box 94397
Baton Rouge, Louisiana 70804-9397

Dear Dr. Kyle:

The Department of Education (SDE) concurs with the finding relative to Failure to Maintain Adequate Control over Equipment with Classroom-Based Technology Funds. Regarding this finding, the SDE offers the following:

The SDE will verify that all of the non-public schools submit the required annual sworn statements verifying the location and other relevant information. The Class-Room Based Technology guidelines for non-public schools will be revised to require the annual sworn statement indicating the description, location and use of property purchased through the fund include all property purchased through the fund. This certification is to include all prior years as well as current year purchases from the fund. The SDE will implement internal controls to ensure no funds will be disbursed until the required certifications have been received.

The SDE will review and revise the monitoring system and its implementation to ensure that property items acquired through the fund are properly accounted for by the non-public schools and/or disposed of or returned to the Department according to fund guidelines.

A listing of equipment purchased by the non-public schools will be prepared and maintained for each non-public school to account for all equipment purchased since the inception of the Class-Room Based Technology fund.

The person responsible for this response is Beth Scioneaux, Director of Education Finance. Should you have any questions concerning this response, please feel free to contact Beth Scioneaux at 342-8848.

Sincerely,

Cecil J. Picard
State Superintendent of Education

CJP:ML:BS:pel

c: Carole Wallin John Guilbeau
Marlyn Langley Beth Scioneaux



STATE OF LOUISIANA
DEPARTMENT OF EDUCATION
POST OFFICE BOX 94064, BATON ROUGE, LOUISIANA 70804-9064
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November 6, 2000

Dr. Daniel G. Kyle, CPA, CFE
Legislative Auditor
Office of the Legislative Auditor
P.O. Box 94397
Baton Rouge, LA. 70804-9397

Dear Dr. Kyle:

The Department of Education (SDE) concurs with the finding entitled Weaknesses in Controls Over Payroll. Regarding this finding, the SDE has taken the following steps to correct/address the weaknesses noted:

1. Effective September 1, 2000 Policy 3.35 Time and Attendance was issued. This policy outlines the employees, timekeepers, supervisors, and division director's responsibilities to ensure consistent practices and procedures regarding time and attendance records are followed.
2. As part of this policy, a Time and Attendance Checklist was included to assist the timekeepers and supervisors in ensuring all procedures, validations and required documents are maintained. Proper utilization of this tool should ensure the audit findings as noted should not reoccur.
3. Effective September 22, a departmental in-service training was conducted to review the above documents, along with revised Time and Attendance Procedures for timekeepers and supervisors. Additional training was provided for the Special School Districts on October 5, 2000 and for the Regional Service Centers on October 26, 2000.
4. The Human Resource Office has updated the list of primary and back-up timekeepers and will make regular reviews to ensure all units/timekeepers have their own user ID's and are not sharing passwords. Quarterly reminders will be sent to all divisions reminding them of this requirement.
 - Increased support will be provided from the Human Resource Office. This will include quarterly meetings with timekeepers to offer additional training, answer questions and discuss problems regarding the new policy, procedures and checklists.
5. Effective July 1, 2000 quarterly reviews are being conducted of employees with compensatory leave balances. Those individuals with balances in excess of 300 hours are being issued written notification of the requirements of Civil Service rule 15.2.

"An Equal Opportunity Employer"

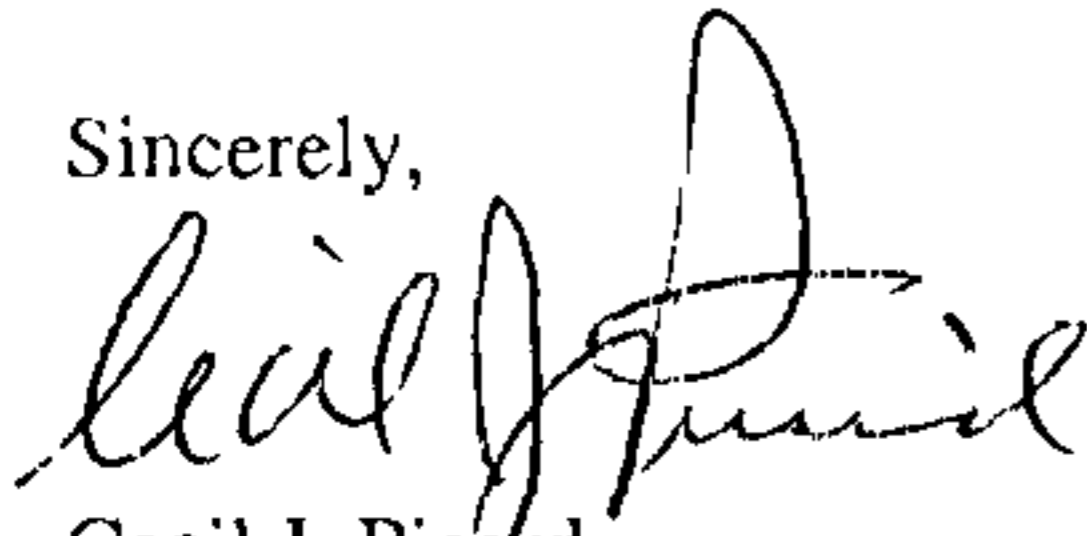
Dr. Daniel G. Kyle, CPA, CFE
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November 6, 2000
Page 2

- The two employees who had compensatory leave carried over in excess of the 360 hours allowed by Civil Service rules, have been notified that their balances will be reduced to 360 if they have not personally reduced their balances to the allowable limit by the end of the calendar year.
- Policy 3.24 Overtime/Compensatory Leave is currently being revised to include the requirement that employees with an excess of 360 hours be reduced at the end of the calendar year in accordance with Civil Service rule 15.2.

The Department understands the importance of following Civil Service rules and ensuring internal controls are in place to reduce the risk of inaccurate, unsupported or fraudulent payroll data. We anticipate the implementation of the aforementioned measures will greatly improve our payroll program and reduce our risk.

If you require additional information, please contact me.

Sincerely,



Cecil J. Picard
State Superintendent of Education

CJP/KF

cc: Carole Butler-Wallin
Marlyn Langlely
John Guilbeau
Kim Fitch



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November 29, 2000

Dr. Daniel G. Kyle, CPA, CFE
Legislative Auditor
Office of the Legislative Auditor
P.O. Box 94397
Baton Rouge, LA 70804-9397

Dear Dr. Kyle:

The State Department of Education (SDE) concurs with the finding entitled Failure to Properly Review the Claims Loss Listing. Regarding this finding, the SDE makes the following comments and has taken the following steps to correct/address the weaknesses noted:

1. The Workers Compensation-Regular quarterly report, one of the reports included in the Claims Loss Listing, has in fact been reviewed quarterly by a staff person in the Human Resource Office who is responsible for collecting and reporting employees who file Workers Compensation claims, but has not properly documented the review process.
2. The Department currently has a policy in place regarding the review of the Claims Loss Listing, however this policy was revised by the Accounting Division in April 2000, in anticipation of the transfer of the Payroll staff to the Human Resource Office, which also took place in April 2000.

Regrettably, there was no follow up to ensure that all parties involved were cognizant of their roles and responsibilities regarding this matter. Therefore, the reports that should have been reviewed by other Divisions were not forwarded/reviewed.

3. Individuals from the Human Resource Office met with the Office of Risk Management on November 17, 2000 to get a better understanding of the contents and purpose of these reports. As a result, it has been determined that the Department's policy should be revised.
4. Accordingly, the Department will take the steps to meet with all parties involved (in the immediate future) to discuss and define the purpose of these reports, and the requirements and/or procedures necessary to ensure the reports are reviewed on a regular and timely manner. The anticipated completion date of this revised policy is January 2001.


The Department understands the importance of ensuring procedures are in place to review the Claims Loss Listing reports for accuracy as a measure to reduce our experience ratings and premiums as assessed by the Office of Risk Management.

Dr. Daniel G. Kyle, CPA, CFE
Legislative Auditor
November 29, 2000
Page 2

We fully anticipate that the revised policy and procedures, when finalized, will eliminate future audit findings in regards to this matter.

If you require additional information, please contact me.

Sincerely,


Cecil J. Picard
State Superintendent of Education

CJP/KF:cm

cc: Carole Butler-Wallin
Marlyn Langley
John Guilbeau