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STATE OF LOUISIANA
LEGISLATIVE AUDITOR

Louisiana School for the Deaf
Board of Elementary and
Secondary Education
Department of Education
State of Louisiana
Baton Rouge, Louisiana

June 11, 1997

Financial and Compliance Audit Division

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

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

Management Letter
Dated April 16, 1997

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.

June 11, 1997

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April 16, 1997

LOUISIANA SCHOOL FOR THE DEAF
BOARD OF ELEMENTARY AND
SECONDARY EDUCATION
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 ending June 30, 1997, we conducted certain procedures at the Louisiana School for the Deaf. Our procedures included (1) a review of certain school internal control structures; (2) tests of certain financial transactions for the years ended June 30, 1997, and June 30, 1996; and (3) tests of adherence to applicable laws, regulations, policies, and procedures governing financial activities for the years ended June 30, 1997, and June 30, 1996.

The Annual Fiscal Reports of the Louisiana School for the Deaf are not within the scope of our work, and, accordingly, we offer no form of assurance on those reports. The school's accounts are an integral part of the financial statements of the State of Louisiana, upon which the Louisiana Legislative Auditor expresses an opinion.

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

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

Lack of Segregation of Duties Over Payroll

The Louisiana School for the Deaf did not have adequate segregation of duties over electronic data entry for changes to the payroll master file, entry of time-keeping files, distribution of pay checks, and reconciliation of payroll records. A good internal control structure should provide for adequate segregation of duties so that no one employee would be in a position to both perpetrate and conceal errors or irregularities. No one employee should be able to make changes to a master file, process time sheets, distribute payroll checks, and reconcile reports to the payroll files.

During the two years ending June 30, 1997, both the payroll supervisor and the payroll accountant at the Louisiana School for the Deaf:

(1) were given access to and made changes to the EDP master file and the EDP time-keeping file;

(2) received termination pay checks for distribution; and

(3) received and reconciled biweekly Master Record System Audit Reports, Payroll Calculation Reports, and annual W-2 forms.

Because of limited staff resources within the payroll section, management has not limited electronic data processing access to the payroll master file and time-keeping files for these employees and has not established adequate compensating procedures for performing necessary reviews by employees who are not responsible for processing payroll. This lack of segregation of duties and the absence of adequate compensating controls increases the risk that errors and irregularities could occur and remain undetected.

Management of the school should implement procedures that require an employee not responsible for data entry of time-keeping files to input changes into the payroll master file and another employee without master file data entry access to review and approve the changes. Alternatively, management may assign an employee not responsible for processing payroll to reconcile changes actually made in the electronic master file, as shown on the biweekly Master Record System Audit Reports, to the authorized changes and reconcile the Payroll Calculation Reports (showing items that have not passed the system edits) to the authorized payroll and time-keeping records. In a letter dated January 22, 1997, Mr. Luther B. Prickett, Superintendent for the Louisiana School for the Deaf, did not concur with the finding and identified monitoring procedures already in place to compensate for the weakness noted by the auditors. In addition, Mr. Prickett stated "Because of the limited staff, we are unable to separate the master file and time-keeping duties while continuing to meet the school's comprehensive payroll services. However, as an additional control and in an attempt to prevent an audit finding, we have implemented the practice that the Accounting Director will conduct bi-weekly reviews of the Master Record System Audit Report and the Payroll Calculation Report as well as perform random samplings of source documents similar to those conducted by audit teams."

Additional Comments: During our audit, we reviewed the procedures identified in Mr. Prickett's letter, and we still conclude that the duties of employees were not adequately segregated; however, our preliminary review of the newly implemented procedures indicates that they should adequately compensate for the weaknesses noted.

Timely Deposits

The Louisiana School for the Deaf did not deposit timely registration and book fees for sign language classes and did not use prenumbered, sequential receipts in its reconciliation of bank deposits. Good internal controls require that cash receipts be deposited intact and in a timely manner, preferably the same day or the first day following receipt of funds, and that the number sequence of all receipts be accounted for and reconciled to deposits by an employee independent of the cash receipt function.

Of 164 individual cash receipts for deposits examined by us, totaling $7,193, a total of 152 cash receipts for $6,623 (92 percent) were deposited from 3 to 125 days after the date cash was received. In addition, we observed that the prenumbered cash receipts used by the Sign Language/Interpreting Services (SL/IS) department were not forwarded to the business office to be compared with amounts actually deposited. Failure to ensure that deposits are made timely and failure to reconcile prenumbered, sequential receipts to deposits could result in the loss of interest earnings and increases the risk that funds could be lost or stolen or that errors or irregularities could occur and not be detected.

The SL/IS department should transmit cash, checks, and cash receipts to the business office for deposit daily, and a business office employee should compare the prenumbered, sequential cash receipts to the amount deposited. In a letter dated March 11, 1997, Mr. Luther B. Prickett, Superintendent, concurred with the finding and recommendation and outlined procedures that will ensure deposits are made timely and that prenumbered receipts are accounted for and used in the reconciliation process.

Unauthorized Investments

The Louisiana School for the Deaf invested $20,000 of student activity agency fund moneys in investments that did not meet the requirements of Louisiana law. Louisiana Revised Statute (R.S.) 49:327(C) provides that state agencies may invest moneys under their control only in certificates of deposit of state banks organized under the laws of

Louisiana or national banks having their principal office in Louisiana, savings accounts or shares of savings and loan associations and savings banks, or share accounts and share certificate accounts of federally or state chartered credit unions.

In March 1996, the school invested excess agency fund cash in a money market investment portfolio consisting of United States Government securities, bank certificates of deposit, commercial paper, and repurchase agreements, managed by the Bradford Funds, Inc. The business manager at the school was not aware of the legal requirements regarding the kinds of investments and financial institutions allowed state agencies in Louisiana. As a result, the school did not comply with Louisiana law and has subjected funds to unnecessary risk.

Management of the school should become more familiar with applicable Louisiana laws regarding investments and should take steps to properly invest these funds as authorized by Louisiana law. In a letter dated March 13, 1997, Mr. Luther B. Prickett, Superintendent, stated that he was of the understanding that the investment did meet the requirements of Louisiana law. However, the school has contacted Bradford Funds, Inc., and requested that they close the account and remit all funds on deposit to the school.

Improper Lease of State Property

The Louisiana School for the Deaf leased office space to Very Special Arts of Louisiana, International Learning and Technology Center, a nonprofit corporation, without publicly advertising and bidding the space, without timely executing a written agreement, and without obtaining required approvals from the Commissioner of Administration. R.S. 41:1211, *et seq.* requires that leases of public land and buildings be publicly advertised and bid, and R.S. 17:6 provides that the state Board of Elementary and Secondary Education (BESE), in the exercise of its supervision and control over special schools, has the authority to lease real property subject to the approval of the Commissioner of Administration and in accordance with applicable law. In addition, R.S. 39:11 provides that no immovable property shall be leased or encumbered without the Commissioner of Administration being a party to the transaction. Prudent business practices also require that leases of property be fully executed before any benefit or encumbrance to the leasee and lessor.

The school leased office space to the nonprofit corporation for $50,000 per year for the fiscal years ending June 30, 1996, and June 30, 1997, without publicly advertising and bidding the space. For the fiscal year ending June 30, 1997, the school did not initiate a written lease agreement until December 1996, six months after the start of the lease period, and because the lease of office space was not advertised and bid, the agreement has not been approved by BESE or the Commissioner of Administration, as required by law. Management of the school believed the nonprofit corporation was a state agency and that the lease was subject to R.S. 39:1641 regarding lease or rental of space for the housing of state agencies and, therefore, was not subject to bid requirements. This instance of noncompliance results in increased risk of liability, and space may have been used in a more beneficial manner had the space been offered for public bidding.

The school should comply with the provisions of state law by obtaining proper approvals, by advertising and obtaining bids for the lease of office space, and by executing written lease agreements. In a letter dated March 26, 1997, Mr. Luther B. Prickett, Superintendent, stated that the school was of the understanding that the nonprofit corporation leasing the space was a quasi-public organization and was not subject to the law requiring public bids when leasing state property. However, management of the school has agreed to bid and is in the process of bidding the space for the 1997-98 fiscal year.

Internal Controls Over Meal Counts

The Louisiana School for the Deaf does not have adequate internal controls for counting, reconciling, and reporting the number of meals claimed for cost reimbursement under the School Breakfast Program (CFDA 10.553) and the National School Lunch Program (CFDA 10.555). The Code of Federal Regulations (7 CFR 210.8) require internal controls that ensure accurate lunch counts before submitting claims for reimbursement. Good internal controls and the school's agreement with the Louisiana Department of Education (LDOE) require accurate counts of meals at the point of service; control counts of used plates that are reconciled to the primary counts, accurate claim reimbursement reports, and an accountable manual back-up system for electronic systems. The school uses an electronic card scanner as its primary point of service count of children served and eligible for free and reduced meals and conducts a physical count of plates to verify the scanner's count.

We examined supporting documentation for 68 meal counts and observed that scanner and plate counts did not support reimbursement claims submitted to LDOE as follows:

- For 24 (35 percent) of the meal counts tested, claims for reimbursement for free meals were estimated using plate counts when data from scanners was either lost, incomplete, or inaccurate. In addition, there was no back-up system in place to provide an accurate count of meals served and to identify the children whose meals were claimed for reimbursement when the electronic scanner failed.

- For 18 (26 percent) of the meal counts tested, claims for reimbursement for free meals were based on scanner counts that differed with plate counts, and there was no evidence that variances were investigated and reconciled.

- For 22 (32 percent) of the meal counts tested, claims for reimbursement for free meals were based on scanner counts that were adjusted for differences with plate counts; however, there was no evidence that variances had been investigated and reconciled and that adjustments were proper.

Inaccurate meal counts were caused by employee error and scanner failure. As a result, the lack of internal controls places management in noncompliance with the agreement for the School Breakfast and National School Lunch Programs.

The school should establish and implement internal control policies and procedures to provide accurate and complete meal counts, investigate and reconcile scanner and plate count variances, report reconciled meal information on its claims for reimbursement, and provide a back-up system in the event the electronic system fails. In addition, management should emphasize to its employees the importance of accurate meal counts and records. Management may want to investigate alternative procedures to accurately capture meal count data. In a letter dated April 17, 1997, Mr. Luther B. Prickett, Superintendent, concurred in part with the finding and recommendation and stated that the difficulties were encountered in the implementation of a new custom designed automated meal accountability software program and installation of a network system. Management currently feels that the equipment and software provide a stable and reliable meal accountability system. Further, backup procedures have been and will be employed to ensure accurate meal counts if the electronic system should fail.

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

This report is intended for the information and use of the school and its management. By provisions of state law, this report is a public document, and it has been distributed to appropriate public officials.

Respectfully submitted,

Daniel G. Kyle, CPA, CFE
Legislative Auditor

MCS:JR:dl

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