

STATE OF LOUISIANA

Department of Education
State of Louisiana
Baton Rouge, Louisiana

March 17, 2004



LEGISLATIVE AUDITOR

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DEPARTMENT OF EDUCATION
STATE OF LOUISIANA
Baton Rouge, Louisiana

Management Letter
Dated February 20, 2004

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.

March 17, 2004



OFFICE OF
LEGISLATIVE AUDITOR
STATE OF LOUISIANA
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February 20, 2004

DEPARTMENT OF EDUCATION
STATE OF LOUISIANA
Baton Rouge, Louisiana

As part of the audit of the State of Louisiana's financial statements for the year ended June 30, 2003, 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 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, 2002, we reported findings relating to improper charging of administrative expenditures to federal awards, ineffective controls over subrecipient monitoring, and inadequate controls over the Title I program. The finding on inadequate controls over the Title I program has been resolved by management. The findings relating to improper charging of administrative expenditures to federal awards and ineffective controls over subrecipient monitoring have not been resolved and are addressed again in this report.

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, 2003.

**Improper Charging of Administrative
Expenditures to Federal Awards**

For the third consecutive year, the state Department of Education (SDE) did not have adequate internal control to ensure that direct costs charged to federal programs complied with federal regulations when administering the Title I (CFDA 84.010) and Special Education Cluster (SEC) (CFDA 84.027/84.173).

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DEPARTMENT OF EDUCATION STATE OF LOUISIANA

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Office of Management and Budget (OMB) Circular A-87 states that costs are allowable if they are necessary and reasonable for the proper and efficient performance and administration of the federal award, are allocated to the particular program to the extent of relative benefits received, and appropriately documented.

Based on audit tests, administrative expenditures totaling \$304,056 were not properly charged to federal programs and these amounts are questioned costs as follows:

1. Expenditures totaling \$278,271 lacked the detailed documentation necessary to make a determination of allowability for the costs charged to the SEC.
 - Seven professional service contracts totaling \$209,858 for the Teach Louisiana State Certification project, a state program, were charged to SEC.
 - Five professional service contracts totaling \$68,413 for Learning Intensive Networking Communities for Success Program (LINCS), a state program, were charged to SEC.
2. Expenditures totaling \$25,785 were charged to programs other than the actual program affected.
 - Eight computers were purchased for eight employees who work on federal programs or state activities. The costs for the computers, \$12,200, were allocated to the SEC program; however, one of the eight employees worked on other federal programs. The remaining employees were contracted by the department to provide services for the Teach Louisiana Certification program, a state program.
 - Rental and data port charges were allocated for three employees who work on other federal programs or state activities. The costs, \$13,585, were allocated to Title I and SEC; however, one of the three employees worked on other federal programs and two of the employees worked on other state activities.

Failure to ensure that payment documentation supports the allocation of costs increases the risk that inaccurate, unsupported, or fraudulent expenditures could be improperly charged to the federal programs without timely detection. Without supporting documentation, the department cannot ensure compliance with allowable cost requirements.

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The SDE should implement procedures to ensure that federal costs are properly allocated, including a more detailed review of supporting documentation. The SDE should consult with the U.S. Department of Education regarding the resolution of questioned costs noted in this finding as well as the allowability of any related indirect costs claimed. Management concurred in part with our finding, acknowledging that the source documentation can be improved to further clarify individual grant goals on source documents for contracts and purchase orders and to ensure that the documentation supports the allocation of costs. However, management did not concur with any of the questioned costs, stating in part, it believes the funds were appropriately used to support federal objectives (see Appendix A, pages 1-2).

Additional Comments: Whether or not expenditures “support federal objectives” is not the criteria upon which the questioned costs are based. In accordance with OMB A-87, the general criteria affecting allowability of costs of federal awards require that the costs must be appropriately documented and must be allocable to a particular program if the goods or services involved are charged or assigned to such in accordance with relative benefits received.

Ineffective Controls Over Subrecipient Monitoring

For the third consecutive year, the SDE did not have adequate internal control to monitor subrecipients for compliance with program requirements of the following federal programs:

- Adult Education (AE) (CFDA 84.002)
- Title I Grants to Local Educational Agencies (Title I) (CFDA 84.010)
- Special Education Cluster (SEC) (CFDA 84.027/84.173)
- Temporary Assistance for Needy Families (TANF) (CFDA 93.558)

OMB Circular A-133 requires the pass-through entity to monitor the activities of subrecipients to ensure that federal awards are used for authorized purposes in compliance with applicable federal laws and regulations and that performance goals are achieved. OMB A-133 also requires the pass-through entity to (1) issue a management decision on subrecipient single audit report findings; (2) ensure that the subrecipient takes corrective action; and (3) consider any effects the audit may have on the entity's own records. The management decision should clearly state whether the finding is sustained, the reasons for the decision, and the expected actions including repayment of related disallowed costs, as well as financial adjustments needed, if any.

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In a review of the SDE's subrecipient monitoring function, audit tests disclosed the following deficiencies:

- In a sample of 14 TANF monitoring files tested for fiscal review, none of them contained documentation or evidence of the procedures performed to examine for allowability of expenditures. One file included evidence of possible fraudulent transactions that were not listed as exceptions by the monitor. A copy of a provider's March 2003 reimbursement claim form revealed that the contractor requested reimbursement for several children that were either included more than once at a site or were included for reimbursement at multiple sites. The SDE monitors did not detect these irregularities even though they had a copy of the claim in the monitoring file. Also, the Division of Appropriation Control reviewed and paid the reimbursement claim and did not note these irregularities. After calling these transactions to the attention of department management, additional monitoring was begun on the contractor. To date, the department has found \$77,680 in subrecipient liability and is continuing to evaluate this issue. These costs are considered known questioned costs.
- For 47 single audit reports tested, 15 included findings related to a major federal program requiring management decisions. One (7%) of the reports reviewed, issued on December 5, 2002, included four reportable conditions in internal control over the Title I and SEC programs, one questioning \$15,490 in SEC salary overpayments. The management decision dated June 30, 2003, addressed only two of the four findings, and the subrecipient's responses to the findings included in the audit report were accepted without any further evidence of corrective action. Also, the decision did not address the finding with the questioned costs. Until prompted by our auditor in July 2003, the department had not taken steps to ensure that the questioned costs had been returned to the SDE per the subrecipient's response to the finding.
- The SDE's Division of Education and Finance (DEF) "fiscal reviews" of subrecipients for allowed/unallowed activities or costs for Title I and SEC are limited in number and are not performed in a timely manner. The reviews were done only after the federal grants were closed, up to 27 months after the funds were expended. For Title I, four on-site monitoring reviews were started in fiscal year 2003; however, no reviews were completed during fiscal year 2003, including one begun in January 2001. For SEC, six fiscal reviews opened during the 2000 and 2001 fiscal years were closed during fiscal year 2003 and three new reviews were started.

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- In a sample of five AE monitoring files tested, none of them included evidence of fiscal monitoring procedures. Programmatic reviews designed to test performance measures were documented in these files; however, four (80%) included findings or exceptions, but included no evidence of follow-up or corrective action; three (60%) indicated the need for technical assistance, but had no documentation of technical assistance planned or provided; one (20%) did not include the performance measure worksheet documenting whether or not the measures were met; and one (20%) indicated untimely (22 months after the date of the review) communication of review results with the subrecipient.

Based on discussions with staff, SDE program personnel do not have the level of training necessary to perform their specific monitoring responsibilities. The department did develop written policies and procedures outlining the subrecipient monitoring function; however, they were not disseminated to department personnel until October 2002.

The SDE's failure to adequately monitor subrecipients impairs the department's evaluation of the impact of subrecipient activities on its own ability to comply with laws and regulations applicable to the programs. Specifically, this has resulted in known questioned costs totaling \$77,680. Costs incurred by a subrecipient that have not been appropriately monitored by the pass-through entity may be treated as unallowable costs. Therefore, if controls are not strengthened and the department does not comply with the federal compliance requirement of subrecipient monitoring, the department may be subject to the questioning of all federal funds passed through to subrecipients. During the 2003 year, the SDE passed through a total of \$375,353,670 in federal funds through Title I (\$203,093,631); SEC (\$100,261,255); TANF (\$62,315,213); and AE (\$9,683,571).

The SDE should further develop and implement comprehensive written policies and procedures for subrecipient monitoring that are centrally managed to ensure compliance with all of its programs' requirements. Management should ensure that program monitors are adequately trained to perform fiscal monitoring to include the recognition of indications of fraudulent transactions and that program personnel are trained in how to properly resolve subrecipient single audit findings as well as in-house findings. In addition, the DEF's fiscal reviews should be performed timely to allow the subrecipient and the SDE to take more timely corrective actions for noncompliance issues or disallowed costs. Management concurred with the finding and recommendation and outlined a plan of corrective action (see Appendix A, pages 3-6).

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Inadequate Internal Controls Over Federal Payroll Certifications

The SDE failed to ensure that payroll expenditures charged to federal programs were fairly and accurately allocated. OMB Circular A-87, Cost Principles for State and Local Governments, Attachment B, Section 11h states that when employees work on multiple activities or cost objects, a distribution of their salaries must be supported by personnel activity reports or equivalent documentation reflecting an after-the-fact distribution of the actual activity. Budget estimates or other distribution percentages determined before the services are performed do not qualify as support for charges to federal awards but may be used for interim accounting purposes, provided that quarterly comparisons of actual costs are made. Also, good internal controls should include the proper separation of duties including the assignment of incompatible functions to separate individuals.

Based on interviews with departmental employees and reviews of the SDE's written policies and procedures, we determined the following: (1) the Division of Appropriation Control performs incompatible functions including receiving, maintaining, and processing A-87 employee payroll certifications and making financial adjustments; (2) certain employees' payroll charges were based on budget estimates rather than actual work performed; (3) the SDE's policies and procedures prohibit time administrators from maintaining copies of time certifications with time and attendance records; and (4) the SDE did not perform quarterly comparisons of actual efforts to budgeted efforts to determine if payroll adjustments were needed.

Failure to implement adequate control procedures over the payroll certification process may prevent the accurate allocation of payroll expenditures charged to federal programs and increase the risk of erroneous or fraudulent charges. During 2003, the SDE expended over \$25 million in federal administrative funds.

The SDE should develop and implement procedures to ensure that expenditures charged to federal programs are fairly and accurately allocated. This includes ensuring that payroll certifications are maintained and processed in a centralized location, independent of the budget and accounting units. Management did not concur with the finding, noting that it believes it has complied with the payroll certification requirements (see Appendix A, pages 7-9).

Additional Comments: Allowing the employees to keep a copy of their payroll certifications for comparison would help to mitigate the risk caused by the incompatible functions within the Division of Appropriation Control. Management notes that comparisons between budgeted efforts and actual efforts were made on an ongoing basis. However, federal guidelines specifically require quarterly comparisons. Our audit evidence indicated that comparisons were performed only twice during the year.

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Inadequate Controls Over the Special Education Grants for Infants and Families With Disabilities Program

In a report issued May 30, 2003, the Bureau of Internal Audit (BIA) of the SDE reported that the SDE had not adequately monitored its subrecipients of the Special Education Grants for Infants and Families With Disabilities Program (CFDA 84.181) for programmatic and fiscal requirements. The Code of Federal Regulations, 34 CFR 303.501(a)(2), states that each lead agency is responsible for the monitoring of programs and activities used by the state to carry out this program. The SDE has not adopted and used proper methods of administering program oversight, including monitoring agencies and organizations, enforcing any obligations imposed on those agencies under federal regulations, providing technical assistance to those agencies and organizations, and correcting deficiencies that are identified through monitoring.

During on-site visits of seven school districts and 11 of their contracted family service coordinators, the BIA found internal control weaknesses and noncompliance with federal regulations resulting in questioned costs totaling \$53,198 as follows:

- One provider could not provide supporting documentation for claims for a three month period resulting in \$13,917 in questioned costs.
- One provider claimed reimbursement for ineligible children and verified fewer than those claimed resulting in \$3,338 in questioned costs.
- One provider claimed 100% reimbursement for two supervisors who supervise staff who do not work 100% on this program and claimed reimbursement for ineligible children resulting in \$35,943 in questioned costs.

SDE management in the Division of Special Populations as well as the DEF partially concurred with the finding. Also, the three subrecipients whose costs were questioned were notified that an audit resolution process will begin.

Recommendations for improvement and management's full response to these findings may be found in the audit report referred to previously. In addition, the SDE should consult with the U.S. Department of Education regarding the resolution of the questioned costs. To obtain a copy of the audit report and management's response, contact the Department of Education, Claiborne Building, 1201 North Third Street, Baton Rouge, Louisiana 70802.

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Noncompliance With State Reporting Law

The SDE did not comply with reporting requirements of R.S. 24:514:l that states the SDE shall use assurances on certain performance and statistical data provided as part of the financial statement audits of local school boards for reporting to the legislature. In a letter dated May 29, 2002, all Parish/City School Superintendents were informed by the state Superintendent of Education of the requirement noting that "The revision to this statute requires the independent auditors to report on performance and statistical data prepared by the local school boards for the fiscal year ending June 30, 2002." The CPA audits of school boards, including the additional assurances, were completed and submitted to the SDE. However, the assurance data were not compiled by the SDE nor were they used to reconcile to the SDE's electronic data that was ultimately reported to the legislature.

Audit testing in January 2003, noted that plans were in place for the SDE to verify that the data provided electronically by the school districts agreed with the required assurances and that this verification process would be documented. However, additional testing in June 2003, noted that the department did not verify its data against the assurances and reported its unaudited system data to the legislature.

As a result of the SDE's actions, the legislature will not receive timely, audited data for its use in making Minimum Foundation Program funding decisions. Also, local school boards incurred additional audit costs by paying CPAs to provide additional audit assurances that were ultimately not used.

The SDE should develop and implement verification procedures to ensure compliance with R.S. 24:514:l. This should include reconciling and documenting differences in audited and system data and reporting the most accurate, timely information to the legislature. Management concurred with the finding, but offered additional comments stating, in part, that the process used by the Legislative Auditor to implement this statute is unworkable and of no value, and that the auditor refused to meet with SDE staff on this issue (see Appendix A, pages 10-11).

Additional Comments: Staff of the Legislative Auditor met on numerous occasions with SDE staff to ensure agreement on the performance data to be included and tested by the various school boards' external auditors. Guidance was distributed to the school boards and their external auditors by the SDE and the Legislative Auditor to ensure an understanding of the requirements. The failure occurred when that audited data was returned to the SDE and the SDE did not reconcile it to SDE records.

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

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**DEPARTMENT OF EDUCATION
STATE OF LOUISIANA**

Management Letter, Dated February 20, 2004

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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,

A handwritten signature in black ink, appearing to read "Grover C. Austin". The signature is written in a cursive style with a large, prominent initial "G".

Grover C. Austin, CPA
First Assistant Legislative Auditor

AOE:WG:PEP:ss

[DOE03]

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>
1-800-453-2721

October 27, 2003

Grover Austin, CPA
Acting Legislative Auditor
Office of the Legislative Auditor
P.O. Box 94397
Baton Rouge, LA 70804-9397

Dear Mr. Austin:

The Department of Education concurs in part with the finding entitled **Improper Charging of Administrative Expenditures to Federal Awards**, with questioned costs of \$304,056.

The Department understands the importance and takes seriously the responsibility to appropriately utilize all federal funds. Consequently, it is Department policy that all obligations originate with program staff responsible for the administration of federal funds. All items of obligation (purchase orders, contracts, etc.) are prepared and approved by program staff and reviewed by program staff, with subsequent executive level approval.

While the Department concurs that source documentation may be improved, we believe federal funds have been appropriately used to support federal objectives. Accordingly, the Department will implement additional procedures to further clarify individual grant goals on source documents for contracts and purchase orders to assist the Legislative Auditor in future audits and to further ensure that documentation supports the allocation of costs. The Director of the Division of Appropriation Control will be responsible for corrective action.

1. The Department does not concur administrative expenditures totaling \$278,271 were not properly charged to federal programs.

The questioned cost of \$209,858 was incurred for seven (7) professional service contracts with the Teach Louisiana State Certification Project. These contracts were charged to the Local Teacher Quality Project 8(g) and IDEA-B. The Local Teacher Quality Project consists of the two main components of teacher certification and teacher training.

Prior to FY 2003, the Local Teacher Quality Project, (formerly known as Tuition Exemption) was 100% 8(g) funded and consisted of the teacher training component only. In FY 2003, SBESE combined a number of 8(g) projects into the single Local Teacher Quality Block Grant. At that time, the second, or supplemental, component of Local Teacher Quality encompassing the certification component was initiated. It is this component that provides for teacher certification activities for both regular and special education teachers. Therefore, the Department feels Special Education IDEA-B funds were appropriately charged.

\$68,413 expended for Learning Intensive Networking Communities for Success Program (LINCS) contracts was noted as inappropriately charged to federal programs.

The LINCS program has historically been funded with statutorily dedicated 8(g) funds. Program focus is whole school reform through content emphasis, working with teachers to improve achievement of students. This program did not historically require service to Special Education students in the whole school improvement process. In FY 2003, the program was expanded to promote inclusion of Special Education students in the whole school

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improvement process through the addition of a Special Education member on the content leadership team. Inclusion is the primary objective of all Special Education funding.

Additionally, all 8(g) funding had been exhausted, and in accordance with federal policy, federal funds were utilized to provide for supplementary levels of expanded activities. Therefore, the Department believes the use of IDEA-B funding in a supplemental fashion for the LINC program is appropriate.

2. The Department does not concur expenditures totaling \$25,785 were charged to programs other than the actual program affected.

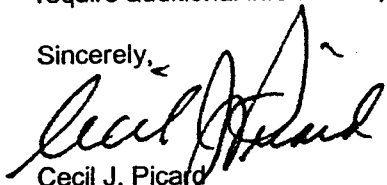
Of the above questioned costs, \$12,200 for computer purchases was noted for eight (8) individuals. Seven (7) of the eight (8) computers purchased were support equipment for the Certification Counselors noted in #1 above. See response #1. The purchase of one (1) computer not assigned to a Certification Counselor contract for \$1,525 was charged to the correct fund source for the individual through journal voucher J6 5775 on 05/03/03. A copy of this journal voucher is being provided separately to the Legislative Auditor.

\$13,585 expended for rental and data ports of the above amount is noted as a portion of the above. These costs are allocated based on funding for each position. In instances where employees work away from federal position funding or are moved to another position, an adjustment is made to the grants affected for salary and related benefits. Adjustments are not made in these instances to rent, and data port charges as the federal position and all related expenditures continue to exist.

As recommended by the Legislative Auditor, the Department will consult with the U.S. Department of Education regarding the above questioned costs.

We appreciate your assistance as we continue to strive for excellence in all operations. If you require additional information, please contact me.

Sincerely,



Cecil J. Picard
State Superintendent of Education

CJP/MJL

c: Carole Butler-Wallin
Marlyn J. Langley
John Guilbeau



STATE OF LOUISIANA
DEPARTMENT OF EDUCATION
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November 3, 2003

Mr. Grover Austin
Acting Legislative Auditor
Office of the Legislature Auditor
P. O. Box 94397
Baton Rouge, LA 70804-9397

Dear Mr. Austin:

The Department of Education concurs with the finding entitled **Ineffective Controls Over Subrecipient Monitoring**.

The Department understands the importance and takes very seriously the responsibility of Subrecipient Monitoring of federal funds. The Department has made great strides in improving our monitoring programs over the last several years. To continue this success, the Department has taken the following steps to correct or address the areas noted:

- The Department concurs that in the 14 TANF monitoring files reviewed, none of the files contained sufficient documentation that a review of the allowability of expenditures was conducted. In the TANF grants, there are 5 purchases that are unallowed. In the monitoring procedures for the After School for All Program, expenditures were examined for allowability; however, this review was not documented satisfactorily. In the Adult and Family Literacy Program and the Pre-GED/Skills Options Programs, the allowability of expenditures was not examined. In the LA4 Program, since January 2003, the allowability of expenditures has been examined and documented in a brief manner. As corrective action for this deficiency, program staff will implement procedures to 1) review the allowability of expenditures based on TANF guidelines, and 2) sufficiently document the items reviewed and the results of the review, ie., compliance/noncompliance.
- The Department concurs that one TANF monitoring file did contain documentation of possible fraudulent transactions not listed as exceptions by the monitor. It was determined that weaknesses in the internal controls of the computer system allowed duplicate students to be reported in this one instance. The Department has taken action to work with the computer system contractor to revise the system to eliminate this capability and strengthen internal

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controls. In addition, when this instance was confirmed, reimbursement requests totaling \$33,119.10 were held. This action reduced the total overpayments to \$44,561.13. The Department is currently seeking the repayment of the known questioned costs of \$44,561.13 through the appropriate channels.

Upon identification of this instance of noncompliance, *all* claims for *all* subrecipients in this program were reviewed to determine if this same event occurred more than once. This examination process verified that no other instances had occurred.

- The Department concurs that complete and proper audit resolution was not performed on 4 reportable conditions for Title I and Special Education reported in a single audit for one school district. Training will be provided to program staff regarding the proper actions necessary to resolve findings.
- The Department concurs that an attempt was made to recover questioned costs for the Special Education program totaling \$15,490. Rather than issuing the Department a check in the amount of the questioned costs, the subrecipient reduced a reimbursement claim for the amount of the questioned costs. The subrecipient did not notify the Department as to which claim the reduction was made or the amount. As a result, Department staff could not identify this action. As a corrective action, the Department will amend its Grants Management policies to clarify the requirement that subrecipients issue a check in the amount of any questioned costs; the reduction of claims will not be allowed. The Department is pursuing correcting this situation with the identified subrecipient.
- The Department concurs that fiscal reviews of subrecipients conducted by the Division of Education Finance for allowable activities for Title I and Special Education are limited in number and are not performed in a timely manner. The Division of Education Finance staff has entered into discussions with the Legislative Auditor's Office staff to gain knowledge regarding their interpretation of the federal compliance requirements. As a result, the Division of Education Finance will be revising its audit plan to include three types of reviews in the future: 1) limited scope, but more timely monitoring reviews, 2) expanded scope reviews of entities with findings, and 3) special projects.

- The Department concurs that the 5 Adult Education monitoring files did not include documentation of fiscal monitoring procedures. The Department will take the following corrective actions to address this matter:
 - 1) The Division of Education Finance will assume the responsibility for the fiscal monitoring responsibilities for Adult Education as of November 2003.
 - 2) The Department concurs that the FY 2001-02 Adult Education files included no evidence of follow-up procedures or corrective actions as defined by the Legislative Auditor's Office. In FY 2001-02, the format for Adult Education reports included the words "findings" or "exceptions," and these terms were used interchangeably. In later discussions with the Legislative Auditor's Office staff, it was determined that they interpreted "findings" differently than Adult Education program staff had intended. Program staff had intended to identify instances of noncompliance but also issues for discussion only. As soon as this was brought to the attention of the program staff, corrective actions were implemented to redesign the reporting format for monitoring visits to more clearly specify the type of problem or issue encountered. In addition, a system of checks and balances was put into place to track monitoring documents to ensure that all issues and required actions are brought to closure.
 - 3) The Department concurs that some files had no documentation of technical assistance planned or provided, even though technical assistance was provided via telephone, email, or fax communications. Adult Education program staff will implement procedures to ensure that each instance of technical assistance provided to entities requiring this action as a result of a monitoring visit is documented in writing.
 - 4) The Department concurs that one file did not contain the performance measures worksheet documenting whether the measures were met. Training will be provided to Adult Education program staff to ensure that required documentation is maintained in every file.

Mr. Grover Austin
Page 4
November 3, 2003

5) The Department concurs that review results were not communicated to one subrecipient in a timely fashion. Based on proactive efforts by the program staff to ensure required documentation was present in the monitoring files, a review of all files was conducted. At that time, it was determined that one closure letter was not issued timely. The program staff immediately drafted and distributed the necessary letter. At the time the Legislative Auditor's staff reviewed the file, this action had already taken place. The program staff also instituted corrective actions to include a periodic completeness review of all files and training for staff to ensure they are aware of all required documentation.

- The Department concurs that management should ensure program monitors are adequately trained. Arrangements have been made to provide training to program staff regarding DOE grant policies, program monitoring, fiscal monitoring, fraud detection, and audit resolution of both single audit findings and in-house findings, including issuance of management decisions, verification of corrective actions taken, and collection of questioned costs. These classes are scheduled for December 4, 2003, and January 16, 2004.

As recommended by the Legislative Auditor, the Department will consult with the appropriate federal agencies regarding any noted questioned costs. The Director of the Division of Education Finance will be responsible for coordinating the corrective actions noted here.

We appreciate your assistance as we continue striving for excellence in the administration of all of our many programs.

Sincerely,



Cecil J. Picard
State Superintendent of Education

CJP/MJL/BS

c: Carole Butler-Wallin
Marlyn J. Langley
John Guilbeau



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January 30, 2004

Grover Austin, CPA, Acting Legislative Auditor
Office of the Legislative Auditor
P.O. Box 94397
Baton Rouge, LA 70804-9397

Dear Mr. Austin:

The Department of Education does not concur with the finding entitled *Inadequate Controls over Federal Payroll Certifications*. No questioned costs are noted in the finding.

The Department believes that we have complied with OMB Circular A-87 related to payroll certifications of actual effort on federal programs. In conjunction with legal consultants, the Department revised and adopted extensive Payroll Certification procedures for federal programs in 2001. These procedures were provided to the Legislative Auditor at that time for review and comment. Extensive annual training has taken place in subsequent years for all Department staff to ensure employees were knowledgeable of requirements for certification of actual work performed on federal programs. The main issues identified in the above finding are addressed below.

- (1) The Division of Appropriation Control performs incompatible functions.** The Department believes the federal intent for certification of actual effort to federal programs is to reflect financial adjustments to grant dollars where actual effort is different from the anticipated ("budgeted") effort. We do not interpret that the federal intent is to drive the payroll process within the states. As such, the Department viewed the receipt, maintenance, and adjustments of grants to reflect effort to be financial in nature. We believe the location of the performance of these functions to be a management decision. Additionally, management elected to place performance of these functions within the Division of Appropriation Control for reasons noted in (3) below. Automation of this process was not previously possible within the ISIS/HR system. Consequently, this has been a manual process.
- (2) Certain employees' payroll charges were based on budget estimates rather than actual work performed.** All employees are directed through Department policy and training to complete certification forms which reflect their actual effort rather than their budgeted effort. Additionally, each form is reviewed and signed by the employee's supervisor. The anticipated ("budgeted" effort) is also entered on the form to ensure the requirements outlined in OMB Circular A-87 are met. Under the requirements, a comparison of anticipated and actual effort must occur. It is the Department's interpretation that the comparison process must begin at the employee level.

(3) The SDE's policies and procedures prohibit time administrators from maintaining copies of time certifications with time and attendance records.

To accommodate a Legislative Audit concern in FY 2001 regarding having to locate and pursue forms from all employees in the Department, housed over 10 floors, certification records were centralized in the Division of Appropriation Control. As the Legislative Auditors were housed with the Division of Appropriation Control, centralization of the records in this division was done to facilitate the auditors' time in the audit process. We note that the Legislative Auditor recommends that the records continue to be maintained in a centralized location, specifically the Human Resource Office. Also, please see response (1).

(4) The SDE did not perform quarterly comparisons of actual efforts to budgeted efforts to determine if payroll adjustments were needed.

The Department did perform quarterly comparisons and performed financial adjustments as necessary. For the audit period, the Department performed payroll corrections through the ISIS/HR system where actual effort differences were deemed to be of a permanent nature. These adjustments were done on an ongoing basis through the audit period. Consequently, our quarterly review did not indicate a need for the adjustment. A final review of all A-87 transactions in comparison to actual payroll costs was performed immediately after the close of the 4th quarter, and the final adjustment was input. This was the Department's method to ensure that all certifications were properly allocated to the grants.

The ISIS/HR system has just recently been modified by the Division of Administration in a manner that may permit the entry of actual effort into the payroll system. If actual effort is reported as different from the budgeted salary coding, the budgeted salary default coding will be overridden, and the grant receiving the benefit will be immediately charged. We are researching this option for possible use in automation of the A-87 process. If this option proves viable, the timekeepers will enter actual effort as the payroll is completed, and the A-87 certifications could be maintained with the payroll, eliminating the need for the quarterly reconciliation process. However, prior to implementation, as required by OMB Circular A-87, the Department will seek approval from the granting agencies for use of a substitute reconciliation method.

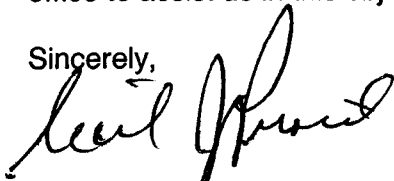
The Department will refer our position on the finding to the U.S. Department of Education for their final resolution. Individual responsible for resolution is Mrs. Kitty Littlejohn, Director, Division of Appropriation Control.

The Department remains committed to compliance with all aspects of federal program laws and regulations, and continually strives to improve policies and processes for the

Mr. Grover Austin, CPA
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payroll certifications required by OMB Circular A-87. We appreciate the efforts of your office to assist us in this objective.

Sincerely,



Cecil J. Picard
State Superintendent of Education

CJP:MJL:KCL

c: Carole B. Wallin
Marlyn J. Langley
John J. Guilbeau
Kitty C. Littlejohn



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DEPARTMENT OF EDUCATION
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January 29, 2004

Mr. Grover Austin
Acting Legislative Auditor
Office of the Legislature Auditor
P.O. Box 94397
Baton Rouge, LA 70804-9397

Dear Mr. Austin:

In response to the finding on Noncompliance with State Reporting Law, the State Department of Education (SDE), concurs and offers the following:

The current process being used by the Office of Legislative Auditor (OLA) to implement R.S. 514.1 is unworkable and of no value to either the SDE or users of SDE data. This situation occurred because the OLA changed the process in the middle of its implementation without consulting the SDE. The original agreement between the SDE and the OLA in January 2001, required the school districts to hire their independent auditors to prepare schedules of certain prior year published data and provide assurances. The OLA and SDE agreed the local CPAs would use the most recently published Annual Financial and Statistical Report which would correspond to the data in the assurances to determine the level of compliance by the districts in reporting accurate data.

In August 2002, the OLA notified the SDE that this would not be the procedure. Instead, the year under review by the CPAs would be the most current year. The assurances should be reviewed and reconciled by the SDE. Then, any SDE data should be changed, and the CPA data was to be the information published in the Annual Financial and Statistical Report (AFSR).

At this point, SDE staff pointed out to the OLA that this would have a negative impact on the entire process. First, because of this change, the data reviewed by the CPAs for the assurances would reflect data at a single point in time. It would not be of any value to use the data from the assurances for comparisons and adjustments to the SDE data since the assurances did not reference the complete and final version of the SDE data. The current process would always be inefficient because the data collection system provides for a very extensive edit and cleansing process, and this would always take place simultaneously or subsequent to the preparation of the assurances.

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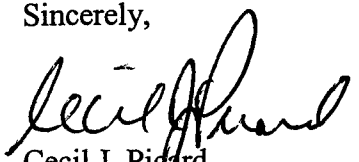
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On numerous occasions, SDE staff attempted to contact the OLA to discuss the problems existing with this process. The OLA failed to acknowledge these concerns early on and refused to meet with SDE staff on this issue after several requests to do so. The desire for a meeting was so the SDE would have an opportunity to once again identify the flaws in the current system, and to convey to the OLA the willingness to work cooperatively with the OLA on revising this process to make it meaningful and a wise use of taxpayer dollars.

The SDE has made an enormous investment over the last 10 years to develop data systems that are state-of-the-art; these systems have been recognized nationally for being outstanding. The primary driving force behind placing so much effort into development is to ensure the data collected are the most accurate possible. A very sophisticated system of edits and error checks has been imbedded into each different data collection system. This cleansing process is continually being upgraded to refine the data collection processes. The SDE would welcome additional avenues to enhance the accuracy and reliability of its data. With some revisions to the current law and process, the SDE believes the assurances can be used to enhance this goal.

If you should require additional information, please contact Ms. Marlyn Langley of my staff at 342-3617 or use the toll free number, 1-877-453-2721.

Sincerely,



Cecil J. Picard
State Superintendent of Education

CJP/ML/BS