LEGISLATIVE AUDITOR
STATE OF LOUISIANA

ORLEANS PARISH SCHOOL BOARD

AUDIT REPORT
ISSUED MARCH 24, 2004

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March 24, 2004

DR. CHERYL E. MILLS, BOARD PRESIDENT,
AND MEMBERS OF THE ORLEANS
PARISH SCHOOL BOARD
New Orleans, Louisiana

We have audited certain transactions of the Orleans Parish School Board in accordance with Title 24 of the Louisiana Revised Statutes. Our audit was performed to determine whether unearned wages and benefits were paid to terminated school board employees and whether a school board vendor kept retirement funds belonging to a retired school board teacher.

Our audit consisted primarily of inquiries and the examination of selected financial records and other documentation. The scope of our audit was significantly less than that required by *Government Auditing Standards*; therefore, we are not offering an opinion on the Orleans Parish School Board's financial statements or system of internal control nor assurance as to compliance with laws and regulations.

The accompanying report presents our findings and recommendations as well as management's response. Copies of this report have been delivered to the Orleans Parish School Board; the Honorable Eddie Jordan, District Attorney for the Orleans Parish Judicial District of Louisiana; Mr. James Letten, United States Attorney for the Eastern District of Louisiana; and others as required by state law.

Respectfully submitted,

Grover C. Austin, CPA
First Assistant Legislative Auditor

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[OPSB04]

Former School Board Employees Received Wages and Benefits They Were Not Entitled to Receive

The Orleans Parish School Board (OPSB) paid $168,337 in unearned wages and benefits to and on behalf of terminated employees. According to OPSB records, some payroll checks were reversed in the accounting system but nevertheless paid to terminated employees. The OPSB did not have adequate management nor did it establish policy to safeguard public funds and prevent the payments to terminated employees. Specifically, the OPSB did not properly implement internal controls, codify policy and procedures, or staff and train department level managers.

The OPSB's computer system operates Oracle brand software for its financial and information management. An Oracle consultant hired by the school board extracted a file, from the Oracle database, of employees terminated between August 1997 and June 2003. The file contained 7,053 terminated employees. Terminated employees include those who left employment for any reason including retirement, resignation, or termination for cause.

Analysis of Payroll Checks to Terminated Employees

Through computer data analysis and interviewing active and terminated employees, we determined that terminated employees with risks of receiving unearned wages after termination were employees receiving three or more payroll checks after their termination dates; 2,125 of the 7,053 terminated employees met this criterion. The criteria helped to eliminated termination payments to employees for hours worked and unused annual and/or sick leave. Wages were paid to terminated employees by printed payroll checks and direct deposits into the employees' bank accounts.

We interviewed 27 of the 2,125 employees and identified factors that caused payments to them after their termination dates. Thirteen employees had factors that caused them to receive pay they were entitled to receive and for which they earned. For example, some teachers work 10 months a year but elect to receive payroll checks over a 12-month period. Another factor was a payroll coding error. The Human Resources Department coded active employees changing job duties as terminating employment on December 31, 2000, when in fact the employees were never terminated.

Fourteen employees received pay they were not entitled to receive and for which they did not earn. The total amount paid in wages and benefits to these 14 terminated employees was $162,239. An analysis of the 14 employees revealed they lacked the factors causing the 13 employees to received legitimate, earned wages. The 14 employees receiving the unearned payroll checks kept them for a variety of reasons. The following is a summary and perspective from the terminated employees of why they did not return the payroll checks to the school board.

- Four terminated employees admitted to knowing that payroll checks issued to them were errors and they made no attempt to return the checks.
  - A teacher retired in May 2002 and continued to receive, by mail, printed payroll checks until she was removed from the OPSB payroll system in July 2003. The checks totaled $31,129. The teacher stated to us that she kept the money because she needed to pay for daily living expenses. She realized it was the wrong thing to do and indicated that she was willing to return the money to the best of her ability.
  - A custodian at Sara T. Reed High School stated that he received numerous checks in the mail after his termination that were not due to him. The checks totaled $9,357. He knew that someone would eventually ask about the checks, but explained that times were tough, and he needed the money. He was willing to pay the money back to the best of his ability.

- A teacher retired on June 1, 2001, and continued to receive payroll checks. The teacher stated that she received several direct deposits into her bank account and one printed check in the mail that were not due to her. The checks totaled $13,073. She did not know why the OPSB gave her the money. She spent the money on monthly expenses and can not pay the money back.
- A head custodian retired in September 2002 and continued to receive printed payroll checks until he was removed from the OPSB payroll system in May 2003. The checks totaled $9,332. In July 2003, the OPSB Payroll Department discovered the payments to the head custodian and initiated a repayment plan for the custodian to pay $100 every two weeks. The head custodian explained to us that after his termination, his payroll checks continued to be delivered to McMain High School where he worked. The succeeding head custodian would take possession of his checks and deliver them to his house. The custodian stated that had he known we were going to check up on these payments, he would not have kept them. He further stated that his advice to other employees in his situation would be to keep the money since the problem seems to be so widespread.

  As biweekly payroll checks were delivered to McMain High School, two school secretaries noticed that the terminated head custodian was still receiving payroll checks. On four occasions, the secretaries kept the terminated head custodian's payroll checks, endorsed the checks, and cashed or deposited the checks into their personal bank accounts. The net amount of the checks totaled $2,173. Both secretaries are willing to repay the money to the best of their ability.

- In one instance, a third party stole checks from the terminated employee. A teacher resigned from the OPSB in May 2002 and moved out-of-state. She continued to receive printed checks until January 10, 2003. These checks totaled $6,958. The teacher stated to us that she did not receive the checks, and the endorsements on the checks indicate that the checks were cashed by someone other than the teacher.
- In five instances, terminated employees received payroll checks after termination and supposedly tried to return the money, but received no help from the OPSB in collecting the printed checks or preventing additional checks from being mailed to their residences or deposited into their bank accounts. The total amount paid to the five employees was $35,362. One of the five employees, a former teacher, stated that he received a payroll check shortly after leaving the system. While attempting to return the money to the payroll department, a payroll clerk told him, "Don't look a gift horse in the mouth, just cash the check." Thereafter, he continued receiving payments totaling $9,621 in unearned wages.
- Finally, there were four instances of former employees denying any knowledge of receiving checks or direct bank deposits. The total amount paid to the four employees was $27,543.
  - Between August 2000 and February 2001, one of the four employees, a high school teacher for seven years, received 12 direct deposits into his personal bank account. The deposits totaled $15,910. The teacher stated he was building a house at the time, had a lot of money circulating through his account, and did not notice the deposits entering his account.
  - Another employee, the former chief information officer (CIO), stated to us that he never received direct deposits because he did not have a bank account at the time; he would always receive printed checks delivered to his desk. The former CIO contradicted himself by stating that he would check his bank records to be sure he did not receive direct deposits. OPSB records show that he received $3,462 in direct bank deposits and printed checks.
  - The remaining two employees denied knowing they received unearned wages.

The information gathered from interviews of the 27 terminated employees was evaluated to determine the conditions which an employee should not receive a paycheck after termination. The employee should therefore not receive a payroll check if the employee:

(1) received four or more payroll checks after termination;
- Because the OPSB paid terminated employees multiple checks instead of one final paycheck, we estimated that on average, an employee should receive three checks--sick leave, annual leave, and final pay.

(2) received payroll checks 30 days or longer after the termination date;
- According to Ms. Collins, terminated employees have to be paid within 30 days after termination.

(3) did not have a termination date of December 31, 2000;
- The OPSB coded some employees that changed job descriptions as being terminated on December 31, 2000.

(4) was a 10-month employee on the 12-month pay schedule and received payments for earnings that were not from the 12-month pay schedule;
- The OPSB routinely made payments to terminated 10-month employees on 12-month pay schedules.

(5) received payments for earnings that were not earnings from unused sick leave;
- According to Ms. Collins, sick leave was negotiable; therefore, we could not determine, in all cases, if sick leave was earned or unearned.

(6) received payments for earnings that were not earnings from unused annual leave; and
- According to Ms. Collins, annual leave was negotiable; therefore, we could not determine, in all cases, if annual leave was earned or unearned.

(7) was not a paraprofessional or substitute teacher.
- We found that paraprofessionals and substitute teachers returned to work part-time without information in Oracle indicating that they were reemployed.

We applied the above criteria to the entire group of 7,053 terminated employees and determined that 860 of the employees were paid $2,379,203 in gross wages[1] The OSPB also paid $820,204 in social security, retirement, and insurance benefits on behalf of the terminated employees.

Included in the wages paid to terminated employees were deductions paid by the employee for insurance coverage. The OPSB contributed to the cost of the insurance by paying, as a benefit to the employee, the majority of the insurance premiums. In total, the OPSB paid insurance companies $612,358 for dental, vision, life, cancer, and major medical insurance benefits for terminated employees.

Based on the above analysis, we question whether the terminated employees earned the $3,199,407 (2,379,203+$820,204) paid by the OPSB.

It should be noted that because our criteria were restrictive, some instances of terminated employees receiving questionable wages were not included in the 860 employee population. For example, our restrictive criteria did not include unused sick leave payments; however, we identified a terminated employee receiving three times more in wages than she was entitled to receive. This employee was paid for 450 hours of unused sick leave totaling $15,802 instead of her correct amount of 150 hours unused sick leave or $5,267.

During our analysis, we also discovered two instances where terminated employees were not working, receiving payroll checks, and were listed as active in the payroll system. Because of the difficulty in detecting this type of employee, we have not determined the dollar amount of wages and benefits paid to terminated employees listed as active in the payroll system.

[1] Pursuant to *AICPA Codification of Statements on Auditing Standards* "AU Section 9350" 1. Applicability, .02(b), our determination of wages paid to terminated employees is not considered a sample population and is therefore not a statistical sample, but rather a test of the entire population using the seven criteria listed above.

Analysis of Reversed Payroll Checks to Terminated Employees

The OPSB reverses payroll check entries in the accounting records to reflect changes made during and after the payroll process. These changes could be due to errors discovered in the payroll before the payroll is issued, stop payments on checks, retrieving direct bank deposits made in error, and un-negotiated expired checks. For example, if an employee is paid in error, the payroll check is reversed, and the check should not be processed and forwarded to the employee. The school board did not have a proper reversing process and therefore could not determine the exact amount of wages paid to employees or the cost of payroll.

Through data analysis and using the same group of 860 terminated employees, we tested to determine if reversed payroll checks were actually paid to terminated employees. Electronic copies of canceled payroll checks for two of the four years we were auditing were not available and therefore we could not determine the total amount of payroll checks supposedly reversed but actually cashed. Through available records, we discovered that the OPSB recorded in its accounting records 847 payroll check reversals. Four of the reversals resulted in payroll checks being written to terminated employees and cashed. The amount of wages and benefits paid to the four terminated employees totaled $6,098.

Since reversed checks that are actually negotiated are not reflected in the accounting records as a cost of payroll, the OPSB can not determine the exact cost of its payroll. Combined, the OPSB paid $168,337 ($162,239+$6,098) to terminated employees, insurance companies, the Social Security Administration, and retirement systems for wages and benefits that the terminated employees were not entitled to receive and for which they did not earn.

OPSB Management

Adequate controls concerning payments to and termination of employees must exist at the administrative level to ensure that all employees are properly compensated and classified. Four OPSB administrative departments are involved in these processes--Human Resources, Payroll, Finance, and Information Technology. The following segment explains the internal control and management weaknesses that contributed to the unearned wages paid to and on behalf of terminated employees.

Human Resources Department

The human resources department (HR) is responsible, in part, for creating and maintaining master records for all employees. These records include personal information (name, address and phone number, social security number, date of birth, et cetera), date of hire, salary information, tax status, benefits and deductions, direct deposit information, domicile, salary adjustments, hours worked, retirement/resignation, leave time, et cetera. Notification of changes to this information is a primary function of HR.

HR also holds the responsibility of following proper hiring and termination procedures. These procedures include background checks, authorization to hire, and new employee orientation guides, which should be given to the employee on his/her first day of work. Upon termination or resignation of an employee, all paper work and notifications should be sent to the appropriate staff in a timely manner. The OPSB HR Department failed to perform some of these duties.

From October 1999 through July 2003, the OPSB employed three HR directors or interim directors. There is no evidence that the OPSB had a training process or process for familiarizing newly hired directors on their job duties. In addition, HR does not have a policy manual or formal process of addressing the critical issue of terminating employees.

According to Ms. Daphne Casmier, associate administrator of Internal Audit for the OPSB, there is no procedure, written or oral, for schools or decentralized support facilities to communicate the termination of employees to the HR Department. The communications from schools and support facilities are informal and inconsistent and directed mostly to the Payroll Department.

The lack of communication between the administration and other school board functions caused the HR to not be consistently notified of employee terminations. For example, the notification of a custodian's termination might only be communicated to HR from the Payroll Department as that department processes the payroll check for the custodian and discovers a termination notice on that school's time transmittal sheet. The notice is an informal handwritten note on the face of the transmittal sheet. If the payroll clerk overlooks the notice or does not communicate the termination to HR, the custodian will be paid and continue to be paid until the payroll clerk notifies HR.

An additional factor causing employees to receive paychecks after termination is HR's untimely recordkeeping. For example, HR will receive notice of a termination and not complete the termination process for several months and in some cases over a year. Consequently, HR does not classify employees as terminated in a timely fashion and those terminated employees continued to be paid. Untimely recordkeeping is the largest contributing factor for employees receiving payroll checks after termination.

In addition to untimely recordkeeping, we found an inconsistency in how HR determines an employee's final paycheck. Sick and annual leave is earned according to the amount of time an employee works during a pay period. The sick and annual leave accumulates until the employee either uses the leave during employment or is paid to the employee upon termination. The employee typically has accumulated leave at the time of termination. According to Ms. Judy Collins, interim payroll manager, the amount of sick or annual leave an employee is paid at termination is negotiable. Some employees are paid their entire accumulated amount and some employees are paid only a portion of their leave accruals.

According to Attorney General Opinion 92-93, and pursuant to Louisiana Revised Statute 17:425, no terminal payment for sick leave earned shall exceed the value of 25 days and at the school board's discretion a maximum of 45 days. The OPSB is therefore violating Louisiana Revised Statute 17:452 when negotiating termination payments beyond the statutory limits.

<u>Payroll Department</u>

The payroll department (PR) is responsible, in part, for reviewing all employee master records and payroll change notifications entered by HR. The department should verify computations, employee ID numbers, pay period dates, and department codes. If a problem with the information exists, it is PR's duty to notify HR and the Information Technology Department so that the error may be corrected. The OPSB PR Department failed or was unable to perform these duties.

From October 1999 through July 2003, PR had seven managers. There is no evidence that the OPSB had a training process or process for familiarizing newly hired managers on their job duties. PR does have a procedure manual; however, the manual is inadequate and has not been updated since 1983. The PR manual does not address critical issues such as paying a terminated employee's last paycheck or verifying that an employee is still employed before a check is issued to the employee. Ms. Collins explained that since she has taken the position as interim payroll manager, she has not received or seen updated procedures that detail her specific duties. Ms. Collins stated that supposedly management was in the process of writing a new procedures manual, but currently she is not aware of any progress.

OPSB policy requires that schools and decentralized support facilities complete time transmittal sheets for each employee and deliver them to PR. The transmittal sheets contain information on when the employee worked and was on leave during a pay period. There are standard codes for work and leave taken by the employee. However, there is no standard code for when the employee quits working at the school or support facilities, and as stated in the HR section, the notice is an informal handwritten note on the face of the transmittal sheet, which can describe the termination as "quit," "delete," "terminate," or just a line drawn through the employee's name or date fields.

PR does have "Discovery Reports." The reports are intended to be used to verify payroll accuracy at the schools, support facilities, and administration levels. School principals and department heads should verify that the payroll is correct by signing the report and forwarding it to PR. However the report is not used and according to a PR processor, the Discovery Reports were never signed or returned to PR. As a result, payroll checks were routinely distributed without verification that the checks were paid to only active employees. Had PR used Discovery Reports, the two instances of terminated employees listed as active in the payroll system (as described in a previous section) might not have occurred.

PR has no written procedures outlining the retrieval of erroneous checks and direct bank deposits. Inadequate documentation describing PR employees' duties and responsibilities contributed to improper handling (printing and direct deposits) of checks resulting in terminated employees receiving payroll checks after termination.

The lack of procedures among schools, support facilities, HR, and PR caused payroll checks to be written to terminated employees and delivered throughout the OPSB system. The lack of procedures for retrieving those checks (1) allowed active employees to deliver checks to terminated employees; (2) allowed active employees to keep erroneous checks for themselves; (3) allowed checks to become lost and un-negotiated; and (4) prevented the Finance Department from timely requesting that the bank stop payments on erroneous checks.

In addition, the lack of procedures for retrieving erroneous direct bank deposits resulted in a lack of communication between PR and the Finance Department. Consequently, the Finance Department did not consistently reverse (retrieve) direct bank deposits made to terminated employees. PR's failure to use Discovery Reports is the second largest contributing factor for employees receiving payroll checks after termination.

Finance Department

The Finance Department (FIN) is responsible for, in part, (1) determining the cost of payroll; (2) reconciling the payroll bank account; (3) requesting stop payment actions from the bank on lost, stolen, un-negotiated, and erroneous checks; and (4) reversing erroneous direct bank deposits. FIN did not adequately perform these duties.

From October 1999 through July 2003, the OPSB employed three FIN administrators. According to Ms. Sue Alizadeh, administrator of finance, though she was provided a job description, her department has no procedures manual and she did not receive training for her job.

Ms. Alizadeh stated that the employee responsible for "costing" calculates the cost of each payroll processed. She stated that the costing position is vacant, and no one is presently performing this task on a timely basis. In addition, the payroll bank account was not reconciled to monthly bank statements. Had FIN reconciled the payroll bank account to payroll costing, un-negotiated payroll checks written to terminated employees could have been identified. By doing so, a more accurate cost of payroll could be determined and additional checks written to the terminated employees could be avoided.

According to Ms. Alizadeh, these are not the only neglected tasks. Because PR, as normal practice, writes or reverses checks from a pervious time period, her department can not reconcile payroll reports. Ms. Alizadeh also stated that FIN does not monitor the payroll budget to the actual cost of payroll. By monitoring the budget to actual cost of payroll, the OPSB could increase its opportunity to determine whether compensation is being paid to terminated employees.

Had other departments clearly communicated, in a timely manner to FIN the erroneous checks paid to terminated employees, FIN could have stopped payment on the printed checks and reversed the direct bank deposits paid to those employees. Had FIN compared the actual to budgeted costs for payroll, FIN might have realized that payroll costs were too high and informed other departments of the problem.

<u>Information Technology Department</u>

The information technology department (IT) is responsible for the technology and computer infrastructure that drives an organization's business systems. IT should be staffed with technical professionals that support the organization in six critical areas: end user technical support, desktop management, network management and security, voice and data communications, business applications, and strategic technology planning. The OPSB failed to adequately perform some of these key functions.

<u>System Audit Feature Not Used</u>

Oracle software provides the ability to audit all actions that take place within a database. The auditing feature is useful in determining who performed specific actions or in detecting malicious or unauthorized activities. However, for the auditing feature to work effectively, it must be properly installed, activated, and configured to audit appropriate actions. Finally, the data collected must be properly logged and analyzed to locate malicious events.

Oracle was installed in 1999. At that time, the OPSB activated only the most basic features of Oracle’s auditing feature. With the basic auditing feature active, it is possible to identify unauthorized or malicious changes made to financial records such as pay amounts and leave accruals or operational data such as employee names and addresses, but only if the information is logged and analyzed in a timely manner.

According to an Oracle consultant hired by the school board, they never logged or analyzed the information produced from the auditing feature. Consequently, the audit information is overwritten by subsequent data added to the system, which renders the audit feature useless and makes detection of unauthorized or malicious changes difficult. For example, if an employee, with authority to change payroll check information, decides to increase the amount of money paid to himself/herself, the audit feature will record who the employee was that made the change and what change was made. However, if the logged information is not analyzed before the next payroll is issued, the increased pay change information is overwritten and therefore lost.

<u>Open System Access</u>

The idea of separating departmental duties is a basic accounting practice. To account for and control the payroll process, the hourly rate a person is paid should be controlled by HR; the amount of money a person is paid for a period should be controlled by PR; FIN should be in control of releasing the funds; and IT, in part, should secure the process. Through computer analysis and interviewing OPSB employees, we have determined that since 1999, individual employees had the ability to change financial and operational data outside of their functional departments such as HR, PR, and FIN.

According to Ms. Collins, interim PR manager, for many years she and individuals in her department had the ability to change HR records. OPSB records reveal that HR employees also had the ability to change payroll records.

The ability to change payroll records across functional departments lends itself to abuses of the system. For example, an employee in IT may decide to change a pay element such as overtime pay to increase his/her pay amount. This arrangement gives the employee easy access to cash while diminishing IT's ability to perform a primary function of securing the Oracle system. In addition, because the audit feature is not logging these transactions nor is these transactions analyzed in a timely manner, the risk of this activity not being detected is high.

School Board Vendor Appears to Have Kept OPSB Employee's Retirement Savings

An OPSB vendor, New Legacy, LLC, appears to have kept $91,836 that belonged to a retired OPSB employee. Ms. Tanya Price Draughter, owner of New Legacy, was supposed to deposit the $91,836 into an annuity account for the retiree's brother. However, according to records provided to us, Ms. Draughter deposited the money into her New Legacy bank account and appears to have used the money to finance her business located in New Orleans adjacent to the school board's office and to establish a new business in Jackson, Mississippi.

On April 15, 2003, OPSB Superintendent Anthony Amato distributed a memorandum to all school board employees. The memorandum was in response to the school board's payroll problems; the OPSB could not confirm the number nor identify its active employees. The memorandum required that every qualifying employee meet with New Legacy in order to keep his/her insurance benefits. New Legacy performed this enrollment and was active in selling voluntary benefits to OPSB employees.

On June 3, 2003, Ms. Sandra Smith retired from the OPSB. During her employment as a school teacher, she and the school board contributed to her retirement account, thereby accumulating $91,836. According to Teachers Retirement System of Louisiana, upon retirement, Ms. Smith applied to transfer her accumulated balance into a Transamerica annuity policy. Teachers Retirement System issued a $91,836 check payable to Transamerica Life Insurance and Annuity Company for the benefit of Ms. Smith and forwarded it to Ms. Draughter, who in turn forwarded the check to Transamerica.

On June 15, 2003, Ms. Smith died. According to Ms. Selma Lewis, agent for New Legacy, upon notification of her death, Transamerica contacted Ms. Draughter and informed her they could no longer accept Ms. Smith's money and would return it to the care of New Legacy. New Legacy mailed the check back to the Teachers Retirement System.

On November 15, 2003, the Teachers Retirement System mailed a $91,836 check payable to Mr. Alton Johnson, Ms. Smith's brother and beneficiary. According to Ms. Lewis, shortly thereafter, Mr. Johnson was instructed by Ms. Draughter to cash the check, acquire a $91,836 cashier check made payable to New Legacy, and deliver the cashier check to New Legacy. Mr. Johnson complied and on November 23, 2003, delivered the cashier check to New Legacy.

According to Ms. Lewis, on November 24, 2003, she was instructed by Ms. Draughter to deposit the check into New Legacy's bank account and told by Ms. Draughter that Transamerica would draft the money from the account to establish the annuity policy. At that time, Mr. Johnson was given and completed an application form for a $91,836 annuity policy.

According to Ms. Lewis, a few days later she received a call from someone who identified himself as an employee of Transamerica. The caller told Ms. Lewis that the $91,836 was drafted from the New Legacy bank account and that New Legacy would be receiving correspondence to that effect following his call. Ms. Lewis stated that Mr. Johnson never received correspondence from Transamerica concerning the drafted funds.

On February 6, 2004, Ms. Lewis contacted Transamerica and was told that no annuity application was submitted on behalf of Mr. Johnson and that Transamerica had not received Mr. Johnson's $91,836.

During the previously outlined course of events, Ms. Keycia Hadrad was employed by New Legacy as an administrative assistant. According to Ms. Hadrad, her job duties included writing checks from New Legacy's checking account. Ms. Hadrad stated that New Legacy has only one checking account. Ms. Hadrad agreed with the course of events Ms. Lewis described and added that Ms. Draughter:

(1) knew the $91,836 was to be forwarded to Transamerica for Mr. Johnson's annuity policy;

(2) told her in November 2003, that she (Ms. Draughter) was refused a business loan from her bank, and that the money was a blessing;

(3) told her the money was needed to expand her business to Jackson, Mississippi; and

(4) told her she would pay the money back to Mr. Johnson in March 2004.

Ms. Lewis provided to us copies of what she claimed was New Legacy's banking records. A review of the records reveals that on October 31, 2003, the New Legacy bank account had an ending cash balance of $531 with seven checks returned for insufficient funds. On November 28, 2003, the bank account had a deposit of $91,836 with an ending account balance of $70,758. On December 31, 2003, the bank account had less than $20,000 in deposits for the month with an ending account balance of $2,716. On January 30, 2004, the bank account had $14,000 in deposits for the month with an ending account balance of $4,539.

We contacted Ms. Draughter and she directed us to her attorney. Her attorney stated that he would be in contact with us after speaking with Ms. Draughter to explain her understanding of the above outlined course of events. Ms. Draughter's attorney later contacted us and stated that Ms. Draughter is represented by a criminal attorney, and that we should direct our inquiries to him. Ms. Draughter's criminal attorney would not return our telephone calls.

This report has been provided to the District Attorney for the Orleans Parish Judicial District of Louisiana and United States Attorney for the Eastern District of Louisiana. The actual determination as to whether an individual is subject to formal charge is at the discretion of the district attorney.[2]

[2] R.S. 14:67 provides, in part, that theft is the misappropriation or taking of anything of value which belongs to another, either without the consent of the other to the misappropriation or taking, or by means of fraudulent conduct, practices, or representations.

R.S. 14:134 provides, in part, that malfeasance in office is committed when any public officer or public employee shall (1) intentionally refuse or fail to perform any duty lawfully required of him, as such officer or employee; (2) intentionally perform any such duty in an unlawful manner; or (3) knowingly permit any other public officer or public employee, under his authority, to intentionally refuse or fail to perform any duty lawfully required of him or to perform any such duty in an unlawful manner.

R.S. 14:230 provides, in part, that money laundering is the supervision or facilitation of a financial transaction involving proceeds known to be derived from criminal activity, when the transaction is designed in whole or in part to conceal or disguise the nature, location, source, ownership, or the control of proceeds known to be derived from such violation or to avoid a transaction reporting requirement under state or federal law. It is also the receiving or acquisition or proceeds derived from any violation of criminal activity, or knowingly or intentionally engaging in any transaction that the person knows involves proceeds from any such violation.

18 U.S.C. §1344(2), "Bank Fraud" states, in part, that whoever knowingly executes, or attempts to execute, a scheme or artifice to obtain any of the moneys, funds, credits, assets, securities, or other property owned by, or under the custody or control of, a financial institution, by means of false or fraudulent pretenses, representations, or promises, shall be fined not more than $1,000,000 or imprisoned not more than 30 year, or both.

The Orleans Parish School Board and management should revise or establish employee manuals and handbooks, outlining specific job descriptions, responsibilities, and processes and ensure management supports and complies with OPSB policy and procedures. The policies should address, in part, the following:

1. Establishing responsibility for payroll accuracy
   - Principals and departmental managers should each verify and certify the accuracy of their respective payrolls before payroll checks are processed.
2. Notifying the payroll and finance departments of all erroneous payroll checks
   - Principals and departmental managers should appoint an employee responsible for collecting erroneous payroll checks and certifying that the checks were delivered to the FIN Department.
3. Instituting controls for the timely notification of employee termination to the HR Department and the timely processing of final payment to and termination of the employee
   - Principals and departmental managers should, in a timely and an established manner, notify the HR Department of employee resignations or terminations.
   - The HR Department should process the employee's final pay by the following payroll process date.
4. Expanding the use of direct bank deposits for employees' payroll checks and limiting the amount of printed payroll checks, thereby reducing the risk of lost or stolen printed checks
5. Establishing a clear policy, compatible with state law regarding payment to terminated employees for unused sick and annual leave
6. Timely reconciling the payroll process
   - The FIN Department should confirm accounting records with bank statements on a monthly basis.
   - Payroll costing should be performed prior to the following payroll issuance.
7. Establishing responsibility for monitoring the budgeted and actual cost of payroll at the schools, support facilities, and administration levels of the school system
   - Budgeted to actual cost reports should be developed and reviewed monthly.
   - The reports should be detailed allowing for accurate determination of the causes of variances.
8. Limiting employee access within the Oracle system
   - The school board should assess employee job duties to ensure proper segregation of those duties. Employees' access should be limited to their functional area within the Oracle system.
   - The IT Department should generate, on a routine basis, a report that identifies employees with write access to payroll. Managers in the affected departments should confirm that employees are approved for the access.
9. Using the audit feature available within the Oracle system
   - The IT Department should log and file reports detailing changes made to payroll.
   - The OPSB should appoint a department and position responsible for analyzing the reports. The reports should be analyzed and corrective action taken on a timely basis.

In addition, the OPSB should review its relationship with New Legacy, LLC, and other benefits providers and ensure these vendors are complying with applicable contracts and other agreements.

The Orleans Parish School Board is a political subdivision created for providing public education to the residents of Orleans Parish under Louisiana Revised Statutes 17:51 and 17:121, as amended. The school board is presently comprised of seven members elected by districts serving concurrent four-year terms; these terms began January 2001.

The school board is comprised of a central office, more than 130 schools and educational support facilities. Student enrollment for the 2003-2004 year was approximately 80,000 regular and special education students. The school board employs more than 10,000 persons.

The legislative auditor received information of possible improprieties involving the school board's payroll processes and in a separate matter, a school board vendor. This fraud audit was performed to determine if terminated employees received pay and benefits they were not entitled to receive and whether an insurance vendor kept retirement earnings for her personal benefit.

The procedures performed during the fraud audit consisted of the following:

(1) interviewing employees and officials of the school board;

(2) interviewing other persons as appropriate;

(3) examining selected school board records;

(4) performing observations and analytical tests; and

(5) reviewing applicable state and federal laws and regulations.

Orleans Parish School Board

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Executive Director of Board Operations

CERTIFIED MAIL
7003-0500-0000-0808-5659

March 16, 2004

Mr. Grover C. Austin, CPA
First Assistant Legislative Auditor
State of Louisiana
1600 North Third Street
Baton Rouge, LA 70804-9397

Dear Mr. Austin:

We have reviewed the two Findings and Recommendations outlined in the Legislative Auditor's report on the Orleans Parish School Board, scheduled for release on March 22, 2004.

On behalf of all of the members of the Orleans Parish School Board, I want to express our regret about the conditions disclosed by your audit. We also pledge our firm commitment to achieve a prompt resolution of these unacceptable conditions. In reference to the two Findings, with the assistance of staff and consultants, we have developed the following strategy. The strategy is designed to address the internal control weaknesses that have caused the shortcomings disclosed in your audit. The superintendent is authorized to take the steps necessary to implement the strategy.

Finding #1 - Untimely Termination of Employees in the Human Resource/Payroll System

A review of the hiring and termination procedures will be performed. Revised procedures will be developed and used to ensure all employees and work site managers are informed of the procedures and understand the critical need to notify the Human Resources Department. The Payroll and the Human Resource Departments will do ongoing and periodic payroll verifications in coordination.

A more detailed Corrective Action Plan is attached.

Finding # 2, Theft, by an insurance vendor's subcontractor, of funds from a retired employee's beneficiary.

Our investigation into this matter is ongoing. To date, our records of contracts and payments to vendors indicate Mrs. Tanya Price Draughter and her company, New Legacy LLC, did not have a direct relationship with the Orleans Parish School Board. Rather, we suspect that vendors of insurance and other voluntary benefits products paid commissions or fees on products which New Legacy was able to market to Board employees.

Our new Superintendent, Anthony Amato, began working in this school district in March, 2003, the same time frame for the "open enrollment" process for Board employees to sign up for insurance and other voluntary benefits funded by payroll deductions. In connection with that process, the Interim Risk Manager, Jean Anderson, directed her staff to prepare a letter for the Superintendent's signature, instructing employees to meet with Ms. Draughter in order to initiate or continue enrollment in the benefit programs.

Clearly, the Board and the Administration need access to more information to allow them to properly evaluate not only direct contractors with NOPS, but also their subcontractors and agents who make money from their access to Board employees. In that regard, I will ask the School Board to explore the development of policies and procedures to:

1. Require all vendors of insurance and benefits products to disclose the names of all their agents and subcontractors who earn fees for services related to their contracts with the School Board, and disclose the selection criteria for such agents and subcontractors.

2. Require those subcontractors and agents to agree in writing to abide by a code of conduct that specifically mandates separate bank accounts for funds held in trust for Board employees, and permits the Board to periodically audit such accounts.

3. Insure that all contracts with vendors of insurance or other voluntary benefits products include provisions for indemnification from acts of the vendors' agents and subcontractors, and a code of conduct binding on both the vendors and all the vendors' agents and subcontractors.

4. Assist all/any law enforcement agents in the collection of monies obtained fraudulently. We will assist law enforcement agencies to the fullest extent of our ability in the prosecution of this matter.

As we learn more about this matter, we will supplement this corrective action plan if necessary.

Sincerely,

Cheryl E. Mills, Ph.D.
President

CEM:ajs

Enclosure

Finding #1 **Untimely Termination of Employees in the Human Resource/Payroll System**	**Accounting Administrator** **Executive Administrator for Technology** **Executive Administrator for Human Resources** **Budget Director**	**1. Install position control module in Oracle 11i.**	**In process**	**March 31, 2004**	**Installation signed off by contact person(s) as done.**
		2. Develop written position authorization process, procedures and forms for position control.	**In process**	**April 30, 2004**	**Distribution of guidelines, procedures, and forms to district users.**
		3. Train staff on position control module.	**Training agenda and frequency to be developed.**	**May 31, 2004 (although training will be a re-occurring event.)**	**Number of staff trained and training sessions held each month.**
		4. Install cross-validation rules in Oracle 11i.	**In process**	**March 31, 2004**	**Installation signed off by contact person(s) as done.**
		5. Develop written guidelines for cross-validation rules.	**In process**	**April 30, 2004**	**Distribution of guidelines.**
		6. Train staff on cross-validation rules.	**In process**	**May 31, 2004 (although training will be ongoing as needed.)**	**Number of staff trained.** **Number of invalid account numbers in general ledger.**
		7. Implement revised termination notification procedure and new personnel action form.	**In process**	**March 31, 2004**	**Notification sent to all school principals and department heads for distribution to staff.**
		8. Activate use of Oracle payroll audit reports with payroll check distributions.	**In process**	**March 19, 2004**	**Payroll Office report listing number of unclaimed checks transmitted to Executive Administrator of Human Resources and number of paychecks confirmed by Human Resource as generated in error (for terminated employees).**
		9. Implement monthly budget versus actual comparisons for detection of possible payroll errors.	**Pending**	**April 30, 2004**	**Number of payroll errors disclosed through monthly analysis.**