

STATE OF LOUISIANA LEGISLATIVE AUDITOR

Department of Education
State of Louisiana
Baton Rouge, Louisiana

February 27, 1998



Financial and Compliance Audit Division

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Legislative Auditor*

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

Management Letter
Dated February 9, 1968

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.

February 27, 1968



CHARLES B. BYRD, PRESIDENT, 1997
LEGISLATIVE AUDITOR

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February 9, 1998

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STATE OF LOUISIANA
Baton Rouge, Louisiana

As part of our audit of the State of Louisiana's financial statements for the year ended June 30, 1997, we conducted certain procedures at the State Department of Education. Our procedures included (1) a review of the department's internal controls; (2) tests of financial transactions; (3) tests of adherence to applicable laws, regulations, policies, and procedures governing financial activities; and (4) a review of compliance with prior year report recommendations.

The June 30, 1997, Annual Fiscal Report of the State Department of Education was not within the scope of our procedures, and, accordingly, we express no opinion or any other form of assurance 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.

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

In our prior management letter dated March 5, 1997, to the State Department of Education, we reported findings relating to the Church-Based Tutorial Program, the Cash Management Improvement Act, audit resolution, monitoring of professional contract, Title 1 sponsored conference, telephone calls, bank accounts, lease distribution records, lease payments, Title 1 funds distributed to public schools, federal financial reports, payroll controls, and bank reconciliations. The findings relating to the Cash Management Improvement Act, audit resolution, monitoring of professional contract, Title 1 sponsored conference, telephone calls, bank accounts, lease distribution records, Title 1 funds distributed to public schools, federal financial reports, and bank reconciliations have been resolved by management. The findings relating to the Church-Based Tutorial Program, lease payments, and payroll controls are addressed again in this report.

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

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**Inadequate Administration of the
Church-Based Tutorial Network**

For the third consecutive year, the State Department of Education (SDE) did not comply with certain laws, regulations, and contract provisions that regulate the Child Care and Development Block Grant (CCDBG, 49.575), as well as state laws and regulations affecting the Church-Based Tutorial Network, a program funded under the Office of Academic Affairs. The SDE obtained these funds from the U.S. Department of Health and Human Services through an interagency agreement with the Louisiana Department of Social Services (DSS) covering the fiscal year ended June 30, 1997, as well as funding from the state's General Fund. The SDE distributed these funds to churches and referral centers contracted to operate tutorial programs. During the year, the SDE expended \$1,034,904 and \$1,945,296 of federal and state monies, respectively, through the Church-Based Tutorial Network.

Our audit of program records and visits to seven tutoring sites disclosed the following instances of noncompliance:

Federal Eligibility Criteria

For the third consecutive year, the SDE failed to verify the eligibility criteria of students participating in the federally funded tutorial programs. Eligibility guidelines ensure that a program is being offered to the population of students identified in the objectives of the program. The Code of Federal Regulations (45 CFR 98.22) states that to be eligible for services, a child must be under 13 years of age and reside with a family whose income does not exceed 75 percent of the state's median income for a family of the same size. The child must also reside with a parent or parents who are working or attending a job training or educational program. Our tests of the records of 129 students at six federally funded tutoring sites disclosed the following:

- Four students did not meet the age criteria, and 10 students did not provide a correct date of birth.
- Three students' parents exceeded the family income criteria, and the income verification document for one of the three students showed a family income of over \$87,000 per year.
- Fifty-five students' parents did not provide verification of employment and income or verification of enrollment in a job training or educational program.

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During our audit period, a total of \$63,060 of federal funds was expended for those participants in noncompliance with eligibility requirements; therefore, we question the allowability of these expenditures.

State Eligibility Criteria

The SDC has not established adequate eligibility criteria for the state-funded tutoring sites. The Church-Based Tutorial Network administrative manual indicates that the state-funded program is designed to serve students who lack proficiency in basic academic skills, who evidence a high rate of school absenteeism, who exhibit personality and social adjustment problems, and who are at risk of dropping out of school. However, the only existing eligibility criterion required for the state-funded sites is that a child must be between 5 and 18 years old and enrolled in a public or private school. Eligibility guidelines would ensure that the program is being offered to the population of students identified in the objectives of the program. During our audit period, the SDC expended \$1,267,482 for state-funded tutoring sites, which includes referral centers.

Movable Property

The SDC does not have adequate controls to monitor the locations of state-owned movable property purchased for use by the Church-Based Tutorial Network. Movable property regulations require each state agency to track the location of movable property items. Our tests of 88 items of movable property assigned to seven tutoring sites disclosed the following:

- Sixty-two items of computer equipment with a total cost of \$84,997 were listed on the movable property inventory at two sites, but could not be located at these sites. The System Administrator stated that the equipment had been moved to other tutoring sites; however, he did not provide itemized lists by site of the relocated movable property. Also, he did not notify the department's property control manager of these property transfers.
- Another item of computer equipment costing \$2,166, reported as unlocated, was found at a tutoring site other than the site to which it was originally assigned.

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Licensing

The SDE has not verified that state-funded referral centers complied with departmental policy for licensing requirements contained in Louisiana Revised Statutes (R.S.) 48:1400-1415. The regulations require licensing of all child care facilities that provide care, supervision, and guidance to seven or more children on a regular basis for at least twenty hours per week, including facilities owned or operated by any governmental, profit, nonprofit, or church agency. In addition, the SDE policy required that all referral centers be licensed by March 17, 1997. However, information provided by DSS indicates that none of the referral centers had obtained the required licenses. Without the standards and inspections required for child care licensing, the SDE cannot ensure that the sites will adequately protect the health, welfare, and safety of the children tutored. The state funds expended for the referral centers totaled \$320,423 for the year. Various licensing issues have been reported for three consecutive years.

Nonpublic Alternative Schools

For the second consecutive year, the SDE continued to fund four tutoring sites after the Board of Elementary and Secondary Education approved the sites as nonpublic alternative schools. These sites should not have received Church-Based funding after approval as nonpublic alternative schools, but instead should have received nonpublic school funding determined in accordance with R.S. 17:301. The state funds expended for these four tutoring sites totaled \$206,482 for the year.

The department made considerable progress in implementing a plan of corrective action in response to the prior year audit finding. However, the SDE needs to further refine its corrective action plan to ensure compliance with certain federal and state laws and regulations and the interagency agreement with DSS. As a result, we question \$53,565 of federally funded expenditures. In addition, the use of \$320,423 to fund unlicensed referral centers and \$295,462 to fund nonpublic alternative schools appears to be in violation of state law. Finally, the SDE asks the misuse or loss of state-owned property as a result of inadequate tracking of property at the tutoring sites.

Management of the department should properly administer the Church-Based Tutorial Network and adhere to all state and federal laws and regulations. In addition, the SDE should strengthen its grant administration system to ensure compliance with all laws and regulations relating to federal grants and contracts. The department should consult with the U.S. Department of Health and Human Services and DSS concerning the resolution of questioned costs determined in this finding. Finally, the department

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should adequately track movable priority used in the Church-Based Tutorial Network. In a letter dated October 9, 1997, Ms. Marilyn J. Langley, Deputy Superintendent of the Office of Management and Finance, concurred with all elements of the finding, except for "State Eligibility Criteria," and outlined the steps for corrective action. Relating to state eligibility criteria, she stated the department tries to ensure that all students at state-funded sites have the desirable characteristics listed in the administrative manual but purposely requires only an age requirement for a child enrolled in a public or nonpublic school to allow more leeway for eligibility.

Additional Comments: With eligibility criteria designed for the target population, the Church-Based Tutorial Network could do more to ensure that participating students needed the services offered by the program. Comprehensive eligibility criteria would also enhance the development of performance indicators to assess the program's effectiveness in achieving its goals and objectives.

Unallowable Costs in Special Education Program

The SDE did not have adequate procedures to ensure that the department complied with the terms of its Louisiana Special Education State Plan funded by the Special Education - Grants to States (CFDA 84.007) program. The Code of Federal Regulations (24 CFR 80.11) requires the SDE to submit a state plan before receiving this grant and that SDE amend the plan whenever necessary to reflect a material change.

The U.S. Department of Education approved the Louisiana Special Education State Plan for the fiscal years 1994-1996. This plan was subsequently extended through fiscal year 1998 without any amendments. However, our audit disclosed that program costs included expenditure charges for all or part of 14 employee positions not included in the original plan. Management did not anticipate that an amendment would be necessary. Therefore, we question the costs associated with these unsupported employees totaling \$278,321, for the year ended June 30, 1997.

The SDE should develop and implement procedures to ensure the Special Education - Grants to States program is charged for only positions authorized in the Louisiana Special Education State Plan and that timely amendments are made to the state plan as required by law. In addition, the department should confer with the U.S. Department of Education regarding the resolution of the questioned costs. In a letter dated December 5, 1997, Ms. Marilyn J. Langley, Deputy Superintendent of the Office of Management and Finance, concurred with the finding and outlined a plan of corrective action.

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Improper Administration of Joint Conferences

The SDE did not have adequate controls to ensure that conference expenditures and program income related to the Special Education - Grants to States (CFDA 84.007) program complied with applicable federal and state regulations. In addition, the department did not ensure that all employees complied with state regulations and departmental policies concerning the authority to sign contracts. The Code of Federal Regulations (24 CFR 80.25) provides that program income shall be used only for the purposes specified under the conditions of the grant agreement, and parties are encouraged to earn program income to defray program costs. Also, the Louisiana Constitution of 1974, Article VII, Section 14(A) states in part that the funds, credit property, or things of value of the state shall not be loaned, pledged, donated to or for any person, association, or corporation, public or private. In addition, the Louisiana Administrative Code requires the head of the using state agency or his designee to sign all contracts for personal, professional, consulting, or social services. The Superintendent of the SDE has not designated any other person to sign contracts on behalf of the department.

We reviewed two conferences that the department's Office of Special Education Services (OSESS) co-sponsored during the 1987 fiscal year and noted the following:

Special Education Administrators' Conference

OSESS co-sponsored a conference on July 16-19, 1987, with the Louisiana Association of Special Education Administrators (LASEA). No written agreement existed between the parties. OSESS personnel planned and coordinated the program and agenda; reserved hotel rooms and arranged for the conference speakers; developed, printed, and mailed the registration forms and conference information; printed program handbooks for the training sessions; collected and recorded the conference registration fees; and performed various other administrative duties during the conference.

The department allowed LASEA to act as fiscal agent for the conference. OSESS personnel collected registration fees (program income) totaling \$21,375, and remitted all of these funds to LASEA for deposit. LASEA paid for conference expenses out of program income, but did not submit reports to the department on expenses paid. At our request, the department contacted the LASEA treasurer and was informed that expenses for the conference totaled \$13,081, resulting in net program income of \$8,294. As of October 30, 1987, OSESS had not received any program income from this conference. Also, no support for expenses was provided.

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17th Annual Super Conference on Special Education

OSES co-sponsored a conference on March 10-11, 1997, with the Louisiana Federation of the Council of Exceptional Children (LFCEC). The agreement for this conference, which was signed by the Assistant Superintendent of OSES, violates the state regulation and departmental policy that requires the Superintendent to sign all contracts, and also obligated the department without the Superintendent's knowledge. This agreement provided for a split of the program income--60 percent for OSES and 40 percent for LFCEC, which constitutes a donation of public funds. OSES personnel performed the same types of duties related to the conference mentioned in the Special Education Administrators' Conference section of this finding.

Gross revenues (program income) of \$108,813 in registration fees, exhibition fees, and luncheon receipts were collected during the conference. Net program income, after expenses, from this conference totaled \$50,930. Included in the conference expenses of \$57,881 was an expenditure of \$754 for entertainment, which is not allowed by Office of Management and Budget Circular A-87. The agreement with LFCEC provided that its treasurer act as fiscal agent for the conference. Following the conference, the LFCEC treasurer was to submit records of the conference to the department for a determination of the split of program income. However, records for the conference were not submitted until September 1997, approximately 6 months after the conference, and OSES has not received its contracted share of the program income (\$20,580) as required by the agreement, as of October 30, 1997.

The department co-sponsored these conferences with LASEA and LFCEC because they have similar training objectives. However, the department neither has grants with these entities nor do these entities administer the Special Education - Grants to States Program, which would allow them to use program income. Because the department allowed LASEA and LFCEC to retain all and/or part of the program income, this constitutes a donation of public funds. These conditions can be attributed to departmental personnel not being fully familiar with federal and state regulations; therefore, they have not implemented the controls necessary to ensure compliance with these regulations.

As a result, for the two conferences, we question \$13,091 of undocumented expenses and \$704 of entertainment expenses for a total of \$13,845. Because the expenses were undocumented for the Special Education Administrators' Conference, the total program income of \$21,375 should be returned to the department. The total net program income of \$50,930 for the 17th Annual Super Conference should also be returned to the department because no provision for sharing is allowed.

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The SDE should implement the necessary controls to ensure that any future conferences comply with federal and state regulations applicable to program income and allowable costs, including Article VI, Section 14(A) of the Louisiana Constitution of 1974. These controls would require the department, not the co-sponsoring entity, to maintain accurate and complete records. In addition, the department should seek recovery of gross program income from LAGÉA, or evidence of expenditures, and net program income from LPEDC. Also, the department should ensure that all personnel comply with state regulations and departmental policy regarding the signing of contracts. Finally, the department should confer with the U.S. Department of Education regarding the resolution of the questioned costs. In a letter dated December 9, 1987, Ms. Matlyn J. Langley, Deputy Superintendent of the Office of Management and Finance, concurred with the finding and outlined a plan of corrective action.

**Inadequate Administration of
Minimum Foundation Programs**

The SDE has not audited financial data reported by the parish and city school systems used in the cost determination of the Minimum Foundation Programs (MFP) for public elementary and secondary education, as required by state laws and regulations. In addition, the SDE transferred \$100,000 to another state agency from funds appropriated for the MFP without obtaining the approval of the Joint Legislative Committee on the Budget.

R.S. 17:7(c) requires the Board of Elementary and Secondary Education through the SDE to provide a program of fiscal accountability for purposes of providing an audit, evaluation, and computerization of data submitted by the parish and city school systems and used in the MFP. The SDE established the Educational Finance Services section within the Office of Management and Finance to meet this requirement. In addition, Attorney General Opinion 89-185 states that the obligation to divide MFP funds equitably carries with it a corresponding duty to ensure that the funds so distributed are allocated in accordance with law by verifying the information submitted by the school boards to support the allocations. Finally, R.S. 38:73(c) requires the approval of the Commissioner of Administration and the Joint Legislative Committee on the Budget for the transfer of funds between programs in a budget unit.

For the year ended June 30, 1987, the SDE expended approximately \$1.9 billion in state General Fund monies appropriated for the purpose of funding MFP. However, we noted the following weaknesses:

- The SDE did not audit the prior year financial data reported by the parish and city school systems, as required by state laws and regulations. This data reflected special education costs of approximately \$444 million and

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transportation costs of approximately \$196.6 million. In addition, certain other expenditures totaling approximately \$2.2 billion were not audited by the SDC, but were used in calculating the state average per pupil amount for 1996-97, a major component in the MFP formula. Because the SDC did not audit this data, it cannot be reasonably ensured that approximately \$1.9 billion in state General Fund monies were distributed equitably through MFP. The MFP audit supervisor informed us that the SDC concentrated its limited resources on student count audits.

- The SDC did not issue reports on two audits of special education and transportation expenditures from fiscal year 1994-95 until November 25, 1997, almost 29 months after the close of the fiscal year under audit. An effective control system would require that audits of MFP data be completed and reported in a timely manner to enable both the local school system and the SDC to take appropriate corrective action and to make informed planning decisions. The MFP audit supervisor informed us that the audits were completed late because she did not have time to complete her review of the audit files until October and November 1997.
- The SDC has not been consistent in its policies for making adjustments to MFP funding resulting from audit findings. For example, in fiscal year 1994-95, the SDC's written policy for making funding adjustments for financial audit findings was the same policy as that for student count audit finding adjustments. This policy requires no MFP funding adjustments for first-year audits and requires adjustments for all findings in the second and subsequent audits. However, audit reports for two second-year audits of fiscal year 1994-95 data disclosed a total overstatement in special education expenditures of \$2,104,073 and a total understatement of other expenditures of \$2,080,851. Because the SDC did not complete these second-year audits and recommend funding adjustments in fiscal year 1996-97, these two school systems were over-funded by a total of \$443,222, and the remaining school systems were under-funded by a total of \$289,853, or a net over-funding of \$163,439. Management states these adjustments were not considered because the questioned costs were immaterial; however, the SDC makes adjustments for student count audit findings, regardless of the amount.
- The SDC transferred \$100,000 of MFP funds to the Office of the Attorney General without the approval of the Joint Legislative Committee on the Budget, in violation of state law. For fiscal year 1995-97, the SDC was appropriated MFP funds for the sole purpose of providing state funds to parish and city school systems. According to the SDC Deputy

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Superintendent of Management and Finance, the Commissioner of Administration directed the SDE to transfer up to \$250,000 of departmental funds to the Office of the Attorney General for MFP litigation expenses. The SDE initially applied to the Interim Emergency Board for these funds, but we were informed that the SDE withdrew the application at the verbal request of the commissioner. Subsequently, the superintendent made the decision to use surplus MFP funds for these expenses and an interagency agreement was signed to accomplish the transfer. However, we found no evidence that the SDE submitted a BA-7 form to obtain the approval of the transfer from the Joint Legislative Committee on the Budget. According to the Deputy Superintendent of Management and Finance, the SDE made the transfer without obtaining a BA-7 because the Commissioner of Administration signed the interagency agreement and was aware of the funding source.

Without adequate policies, procedures, and related controls, the SDE cannot fulfill its obligation to ensure that MFP funds are equitably distributed. In addition, the transfer of \$190,000 of MFP funds for litigation expenses without the required approvals conflicts with the purposes for which the funds were appropriated and is a violation of state law.

The SDE should establish adequate policies and procedures to ensure that financial data reported by the parish and city school systems and used in the MFP formula are audited, and that the results of the audits are reported and considered in a timely manner. The Board of Elementary and Secondary Education should approve these policies and any future changes, and the SDE should also consider submitting these changes to the education committees of the Louisiana House of Representatives and Senate for review before implementation. Finally, the SDE should not use funds appropriated for MFP for other purposes without submitting a BA-7 form to obtain approval from both the Commissioner of Administration and the Joint Legislative Committee on the Budget. In a letter dated January 12, 1998, Ms. Marilyn J. Langley, Deputy Superintendent of the Office of Management and Finance, stated that the SDE does not concur with the finding for the following reasons:

- "Audits of 1995-96 data, other than those of student count, by the Educational Finance Services (EFS) section during fiscal year 1996-97 were unnecessary because this data has no direct bearing whatsoever on the current MFP formula.
- "The SDE made a management decision to not issue in a timely manner two audit reports of special education and transportation expenditures for fiscal year 1994-95. This was a result of other higher priorities

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which directly impacted funding issues regarding the MFP. The EPS section concentrated limited resources on audits of student membership count (SMC) which is the single most important data element in the MFP. The two reports mentioned in your finding were "technical assistance" audits, and, as such, did not directly impact funding.

- "SDE management recognized greater taxpayer savings would be realized by concentrating limited EPS section resources on SMC audits of ALL school districts (LEA) as opposed to "technical assistance" audits of a limited sample of LEA. By conducting SMC audits of all LEA during 1995-97 for 1996-98 student counts, the EPS generated a savings of \$2.9 million in MFP formula funding. This savings was seventeen times greater than that cited in your finding for the technical assistance audits.
- "The transfer of MFP funds to the Louisiana Attorney General was based on an Interagency Agreement which was approved by the Superintendent of Education, the Attorney General, the Office of the Governor, and the Commissioner of Administration. On that basis, the SDE believes the transfer of funds was appropriate."

Additional Comments:

- The 1995-96 expenditures reported by the parish and city school systems and used in the MFP formula should have been audited because the SDE has a legal mandate to verify this data, regardless of the current MFP formula. In addition, the SDE used 1995-96 data as the basis for calculating certain fixed components in the MFP formula for special education and transportation costs, and the state average per pupil amount, which was used in the 1996-97 MFP formula.
- Each audit that discloses erroneous data that is used in the MFP allocation formula does have a direct impact on MFP funding, regardless of whether it is a "technical assistance" audit or "student count" audit.
- The \$2.9 million in savings from student count audits results from audits of all 66 school systems, as compared to the \$162,439 from only two second-year audits of special education and transportation costs.
- Regardless of the interagency agreement, the SDE should have submitted a RA-7 form for approval to the Joint Legislative Committee on the Budget for the transfer as required by state law.

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Inadequate Controls in Movable Property System

The SDE did not maintain adequate internal controls over movable property, as prescribed by the Commissioner of Administration and state and federal laws and regulations. The State Department of Education, Bureau of Internal Audit, issued a report on December 5, 1997, which cited deficiencies in the department's policies and procedures for movable property. The report, which covered the two-year period ended June 30, 1997, disclosed the following weaknesses:

- Twenty-seven items purchased during fiscal year 1996-98 at a cost of \$67,625 were not tagged or reported to the Louisiana Property Assistance Agency (LPAA). "In addition, 92 items were not tagged or reported to LPAA within 45 days of receipt." Also, in some instances the shipping, ordering, or invoice dates were entered as the receipt date rather than the actual receipt date. Louisiana Administrative Code (LAC) 34-VII-307(A) requires all items of qualified property be tagged and reported to LPAA within 45 days of actual receipt of the property.

- "Movable property is written off each year as stolen or missing with minimal effort by the SDE to examine the circumstances surrounding the missing items. LAC 34-VII-312 states, in part, efforts must be made to locate all items for which there are no explanations available for their disappearance.

"The Department has not emphasized filing reimbursement claims for these items. Furthermore, within the last three years, the SDE has written off 289 items of movable property, with an original cost of \$221,746. These write-offs, along with the Department's failure to file for reimbursement claims, increases program cost upon replacement of property."

- "During 1997, field locations certified items as being physically located; however, items were missing prior to and during the inventory certification. LAC 34-VII-313(A) requires state agencies to conduct a complete physical inventory of property owned and record the true and actual results of physical inventory.

"There are no departmental procedures for verifying the validity of movable property certifications submitted by locations outside the SDE's main office. Without such procedures, the SDE's movable property certification may misrepresent the Department's actual inventory."

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- The fiscal agents that contract with the department to manage the fiscal affairs of the department's regional service centers have purchased movable property and recorded these transactions in their own accounting system, rather than in the department's records. Therefore, the department has no records for the movable property located at its regional service centers.
- "The SCE does not consistently account for movable property purchased with funds provided to subgrantees and contractors. The SCE allows some subgrantees and contractors to maintain their own inventory system while others are maintained by the SCE. Sound internal control procedures require consistent application of accounting policies. In addition, Education Department General Administrative Regulations (EDGAR) 34CFR 80.32(a) states, in part, "Title to equipment acquired under a grant or subgrant will vest upon acquisition in the grantee or subgrantee respectively." Finally, EDGAR 34 CFR 80.32 (d)(1) requires, in part, property records be maintained, which include the acquisition date and cost of the property.

"The SCE has not established written procedures regarding movable property purchased by subgrantees and contractors. Inconsistencies in inventory control may result in an overstatement of the general fixed assets."
- The department's 1995 general fixed assets were understated by approximately \$1,680,567 or 11.7 percent, resulting from an omission of Job Training Partnership Act inventory; duplication of the copy/print shop inventory; and other errors and omissions. An adequate system of internal control necessitates that financial statements present fairly, in all material respects, the assets of the department.
- The department's Louisiana Learning Resources System does not have access to its movable property inventory system and cannot adequately account for inventory items loaned to local education agencies. The department could not properly account for 50 percent of items loaned totaling \$67,182. A control system is needed to insure adequate safeguarding against loss, damage, or theft of property.
- The movable property inventory database does not contain the correct federal share percentages for items purchased with federal funds as required by federal regulations. "Crediting federal percentages may

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prevent the Department from being reimbursed proceeds from the sale of surplus items."

- The report noted other control weaknesses including (1) the department has not placed emphasis on purging data from internal hard drives of computers before transfer, surplus, or disposal; (2) property is being relocated within the department without written acknowledgment of receipt; and (3) the department records both taggable and nontaggable acquisitions in the same expenditure object code making it difficult to ensure all qualified property has been identified, tagged, and included in the inventory system.

The department should take the necessary measures to develop and implement adequate internal controls over movable property to safeguard assets and to ensure compliance with state and federal laws and regulations. The department should implement the recommendations noted in the SOE internal audit report. In a letter dated December 10, 1997, Ms. Matys J. Langley, Deputy Superintendent of the Office of Management and Finance, concurred with the finding and stated that the department intends to take corrective action after further review of the internal audit report.

**Inadequate Controls Over Electronic
 Data Processing Systems**

The SOE did not have adequate control procedures for the assigning and monitoring of access given users for the input of transactions into the Advanced Governmental Purchasing System (AGPS) and the Government Financial System (GFS). An adequate control structure should limit access only to authorized employees and include a proper segregation of duties. Also, employee access identification codes (user IDs) should be deleted immediately for employees who retire or resign. During the fiscal year ended June 30, 1997, the department processed approximately \$2.5 billion of expenditure transactions through these systems. Access problems were noted as follows:

- The AGPS/GFS Security Administrator instructed nine employees to use four user IDs assigned to other employees, including one user ID assigned an employee who had recently retired. These instructions circumvented an Office of Statewide Information Systems policy that temporarily denied these nine employees being assigned new user IDs with access to perform different functions. As a result of the Security Administrator's actions, these nine employees had use of two user IDs each with access to both enter and approve transactions in AGPS and GFS.

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- The Director of Purchasing instructed a new employee to use the user ID of a former employee.
- Six (7 percent) of 90 user IDs listed on the May 31, 1987, AGPS Security Report and seven (7 percent) of the 99 active user IDs listed on the June 4, 1987, GPS System User ID Listing by Agency Report, belonged to former employees whose access to the systems had not been disabled. Eight of these employees listed on one or both of these reports had terminated their employment during 1986.
- Thirty-six (40 percent) of the 90 AGPS user IDs were assigned incompatible functions. Included in this total were 29 employees for whom the functions of requisitioning, purchasing, and receiving were not segregated from invoice processing, accounts payable, and general ledger functions; six employees for whom the functions to enter new vendors and approve payments were not segregated; and one employee who has both sets of incompatible functions as mentioned previously.

Management overrode certain existing controls, discussed in the first bullet, to allow for the timely processing of payments while centralizing fiscal operations effective April 1, 1987. In addition, the conditions noted in the second through fourth bullets occurred because of the decentralized nature of fiscal operations at that time. These weaknesses place employees in a position to both initiate and conceal errors and/or irregularities that may not be detected in a timely manner.

Management should ensure that duties are properly segregated and that user IDs assigned to individuals are valid and used only by that individual. In addition, management should implement controls so that the Security Administrator is notified timely of any change in employment status or duties of an individual assigned access to AGPS/GPS. Finally, the Security Administrator should follow up to ensure that the user IDs for individuals that no longer require access are disabled. In a letter dated November 12, 1987, Ms. Matyn J. Langley, Deputy Superintendent of the Office of Management and Finance, concurred with the finding and described corrective action that has occurred or will take place in the future.

Inadequate Controls for Federal Cash Management

The DOE did not have adequate procedures to ensure that the department and its subsidiaries complied with federal cash management requirements. The Code of Federal Regulations (34 CFR 80.20-21) requires grantees and subgrantees of U.S. Department of Education grants to minimize the time elapsing between the transfer of funds from the U.S. Treasury and disbursement whenever advance payment

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procedures are used. The SDC is also required to monitor cash draws of its subgrantees for compliance with cash management requirements and to ensure reports on subgrantees' cash balances and disbursements are received in sufficient time to prepare complete and accurate cash transaction reports. Finally, the SDC and its subgrantees are required to remit to the grantor agency, at least quarterly, interest earned on advances in excess of \$100.

The SDC submits cash transaction reports to the U.S. Department of Education on a monthly basis. However, the SDC does not require subgrantees to submit cash balance reports or refund excess cash until the end of 15 months and 27 months, the due dates for a preliminary and final project completion report, respectively. In addition, the SDC neither requires subgrantees to report interest earned on advances nor to remit to the grantor agency interest earned in excess of \$100.

Because these procedures do not conform to cash management regulations, subgrantee received payments in excess of their immediate needs as evidenced by refunds received by SDC. For the year ended June 30, 1987, we noted that the SDC received 12 refunds of excess cash totaling \$300,058, from the following federal programs: Title I Grants to Local Educational Agencies (CFDA 84.010), \$258,867; Special Education Grants to States (CFDA 84.007), \$12,754; Special Education Preschool Grants (CFDA 84.073), \$2,741; Eisenhower Mathematics and Science Education State Grants (CFDA 84.184), \$2,440; and Innovative Education Program Strategies (CFDA 84.288), \$20,856.

Without adequate cash management procedures, the SDC cannot ensure that payments to subgrantees are limited to their immediate cash needs or that cash transaction reports submitted to the federal grantor agency reflect accurate and complete information. Furthermore, the SDC cannot determine if subgrantees earned interest on advances and then remitted that interest to the federal grantor agency as required by federal regulations.

The SDC should establish and implement procedures to ensure subgrantees limit draws to immediate cash needs, submit monthly cash balance and disbursement reports, remit any excess cash balances monthly or adjust monthly draws accordingly, and remit at least quarterly, to the grantor agency, any interest earned on cash advances. Also, existing accumulated interest balances of subgrantees should be remitted immediately to the grantor agency. In a letter dated December 5, 1987, Ms. Marilyn J. Langley, Deputy Superintendent of the Office of Management and Finance, concurred with the finding and outlined a plan of corrective action.

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Inadequate Uniform Payroll System Controls

For the second consecutive year, the SDE did not ensure that all of its timekeeping units complied with existing internal control procedures over payroll transactions input to the Uniform Payroll System (UPS). Good internal controls include an adequate segregation of duties and a review of transactions to ensure data are accurate and reliable and to ensure that errors and fraud are detected within a timely period. In addition, departmental regulations assign the bureau directors with the responsibility for certifying the accuracy and completeness of time and attendance records. Finally, Civil Service Rule 15.2 for classified employees and Executive Order MUF 88-76 for unclassified employees require the employee and supervisor to certify the number of hours of attendance or absence from duty on the time and attendance records.

In our test of 10 timekeeping units with a total of 40 employees for two pay periods and an additional test of 8 unclassified employees for one pay period, we noted the following exceptions:

- One employee did not initial/sign the time sheet for one pay period.
- Two timekeepers had a pay period where the bureau director did not approve the time and attendance sheet.
- One timekeeper had a pay period where the bureau director's signature was certified only by a 'rubber stamp' signature of the director.
- Two employees did not indicate time of departure for one day during the pay period.
- Two unclassified employees had no records of time and attendance.
- These employees had leave slips missing from their time and attendance records.
- Two employees had leave slips without all required signatures.
- One timekeeper had five leave slips for three employees for two pay periods that were certified only by a 'rubber stamp' signature of the bureau director.
- One employee had no prior period adjustment for incorrectly entered leave.

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Six timekeepers for two pay periods and one timekeeper for one pay period did not indicate that the Fixed Time Entry Listing and Current Leave Registers had been reconciled to the time and attendance sheets.

Management has not placed sufficient emphasis on bureau directors performing an adequate and complete review of all time and attendance records before approval. As a result, errors and/or fraud could occur and not be detected timely, which subjects the department to noncompliance with state rules and regulations.

Management should reemphasize the need for all bureau directors to perform an adequate review of all time and attendance records before approval, and should ensure that a reconciliation is performed between the Fixed Time Entry Listing and Current Leave Registers and the time and attendance sheets. Furthermore, the bureau directors should ensure that someone other than the timekeepers verify that payroll transactions are correctly input into UPS. In a letter dated August 26, 1997, Ms. Marlys J. Langley, Deputy Superintendent of the Office of Management and Finance, concurred with the finding and outlined a plan of corrective action.

Lease Payment Advanced Improperly

For the second consecutive year, the DOE violated state and federal laws by paying the entire annual lease payment in the amount of \$122,000 prior to services being rendered under the Special Education - Grants to States (CFDA 84.027) program, and did not obtain proper approval as required for the lease. Article VII, Section 14(A) of the Louisiana Constitution of 1974 states in part that the funds, credit, property, or things of value of the state or of any political subdivision shall not be loaned, pledged, donated to or for any person, association, or corporation, public or private. In addition, F.S. 36-11 requires that the Commissioner of Administration be a party to any leasing transaction involving the state. Finally, the Code of Federal Regulations [31 CFR 205.7(d)] states that a state and a federal agency shall limit the amount of funds transferred to a state to the minimum required to meet a state's actual, immediate cash needs.

The department entered into a cooperative interagency agreement with the Louisiana School for the Deaf (LSD) to provide office space for employees of the Office of Special Education Services for the period October 1, 1998, through September 30, 1997, without obtaining the Commissioner of Administration's approval on the agreement. The department did not adequately review the agreement and amend the clause that provided for payment of the entire annual lease amount on the first day of the lease. The department transferred the \$122,000 annual lease amount on October 1, 1998, to LSD, following receipt of its invoice. After the department learned that the payment should not have been made in advance, it made several unsuccessful

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attempts to recover the unearned portion of the lease payment. By paying in advance the department risks losing a portion of the payment if the lease is not fulfilled to term; the state could incur an interest liability for drawing federal funds in excess of immediate cash needs, and the department did not comply with state and federal laws.

The department should strengthen its internal controls over lease payments to ensure that payments are properly approved, are made only for services rendered, and are in compliance with applicable state and federal laws. In a letter dated August 25, 1997, Ms. Marilyn J. Langley, Deputy Superintendent of the Office of Management and Finance, concurred with the finding and outlined a plan of corrective action.

The recommendations in this report 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 operations of the department should be considered in reaching decisions on courses of action. The findings related to the department's compliance with applicable laws and regulations should be addressed immediately by management.

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

Respectfully submitted,



Daniel G. Kyle, CPA, CFE
Legislative Auditor

JCOB:JH#