

STATE OF LOUISIANA LEGISLATIVE AUDITOR

Department of Education
State of Louisiana
Baton Rouge, Louisiana

January 26, 2000



Financial and Compliance Audit Division

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Legislative Auditor***

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

**Management Letter
Dated December 15, 1999**

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, New Orleans, and Shreveport offices of the Legislative Auditor.

January 26, 2000



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December 15, 1999

DEPARTMENT OF EDUCATION
STATE OF LOUISIANA
Baton Rouge, Louisiana

As part of our audit of the State of Louisiana's financial statements for the year ended June 30, 1999, we conducted certain procedures at the state Department of Education. Our procedures included (1) a review of the department's internal control; (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, 1999, Annual Fiscal Report of the state Department of Education was not audited or reviewed by us, and, accordingly, we do not express an 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 other selected departmental personnel. We also evaluated selected documents, files, reports, systems, procedures, and policies as we considered necessary. After analyzing the data, we developed recommendations for improvements. We then discussed our findings and recommendations with appropriate management personnel before submitting this written report.

In our prior report on the state Department of Education for the year ended June 30, 1998, we reported findings relating to inadequate controls over data in the Minimum Foundation Program, improper administration of a joint conference, inadequate controls over the Church-Based Tutorial Network, inadequate controls for federal cash management, inadequate controls over electronic data processing systems, unallowable costs in Special Education Program, inadequate controls over movable property, inadequate controls for the Safe and Drug-Free Program, inadequate controls over reimbursements to subrecipients, unallowable costs for trip to Italy, overpayments to a teacher, inadequate controls for the Cash Management Improvement Act Agreement, inadequate planning for year 2000 computer issues, and lack of a cooperative endeavor agreement. All of the findings have been resolved by management, except for inadequate controls over data in the Minimum Foundation Program, inadequate controls for federal cash management, unallowable costs in Special Education Program, inadequate controls over movable property, and inadequate controls for the Safe and Drug-Free Program.

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 Audit Resolution

The state Department of Education (SDE) does not have adequate procedures to resolve audit findings in a timely manner. An adequate system of internal control requires follow-up and resolution of audit findings in a timely manner and requires that control procedures are developed and implemented to prevent reportable findings from reoccurring in the future.

The current superintendent of the department was appointed effective July 1, 1996. The deputy superintendent of the Office of Management and Finance was appointed effective November 30, 1992. The trend in audit findings for the last four fiscal years is as follows:

<u>Fiscal Year Ended June 30.</u>	<u>Number of Findings</u>	<u>Number of Repeat Findings</u>	<u>Total Questioned Costs</u>
1996	13	3	\$232,937
1997	9	3	387,129
1998	14	7	567,630
1999	18	5	782,504

Considering the growing number of findings and the nature of the findings relating to internal control weaknesses, noncompliance with federal and state laws and regulations, and the significant amount of questioned costs, this trend indicates a breakdown of the department's control environment and subjects the state's resources to the risk of loss or misuse.

The SDE should develop and implement adequate procedures to resolve audit findings in a timely manner. Management did not concur with the finding. Management expressed that it did not concur with many of the findings, that some of the findings do not appear reportable or material, that the timing of the findings causes many to be repeated the next year, and that the auditor's designation of "questionable" cost is incorrect (see Appendix A, page 1).

Additional Comments: In the response we received from the SDE, management expressed concern over the quality of the audit and whether the findings are reportable or material. That decision rests with the judgment of the auditor. We find that the bureaucracy within the SDE is preventing implementation of a control system that would assist the department in identifying weaknesses in operations or areas where the department is not complying with laws and regulations. Furthermore, during this audit, it

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took SDE management an average of 30 working days to respond to fiscal year 1999 audit findings.

Ineffective Internal Audit Function

The Bureau of Internal Audit within the SDE did not adequately assess risk to identify and prevent weaknesses related to internal control and noncompliance with state and federal laws and regulations. Considering the size of the SDE's reported assets (\$136,628,374) and revenues (\$2,825,784,072), an effective internal audit function is needed to ensure that the SDE's assets are safeguarded and that the SDE's policies and procedures are uniformly applied. In addition, as noted in the finding within this report titled "Inadequate Audit Resolution," audit findings and questioned costs have increased in each of the last three fiscal years, further demonstrating the need for an effective internal audit function.

The SDE had five employees assigned to its Bureau of Internal Audit section during the fiscal year. Based on a review of the function, the internal auditors were adequately trained and properly supervised, and there was evidence of written documentation of audit goals, policies and procedures, work schedules, workpaper format, and a risk assessment. However, while the internal audit structure was adequate, the internal auditors did not adequately assess risk and perform procedures that would mitigate findings on internal control and compliance. Instead, the internal auditor primarily followed up on the work of the external auditors.

While the internal auditor's risk assessment recognizes the risk of approximately \$2 billion of expenditures of the Minimum Foundation Program and \$600 million of expenditures for federal programs administered by the SDE, it concludes that the Office of the Legislative Auditor and/or other entities and/or sections within the SDE provide adequate oversight for these programs. The Legislative Auditor is not part of the SDE control structure. The internal auditor should seek to identify and eliminate problems before they become external audit findings and not rely on the Legislative Auditor for that function.

While other risks were identified by the internal auditor, a majority of the audit priorities approved by management and the Board of Elementary and Secondary Education were not met because the internal auditors devoted their time to audit follow-up. Nine of the 12 internal audit reports issued during the fiscal year related to follow-up issues from external audit findings. Six of those nine internal audit reports were in response to findings contained in audit reports issued for three technical colleges, the Louisiana School for the Deaf, the Louisiana School for the Visually Impaired, and the Treme

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Cultural and Enrichment Program, entities outside of the primary accounting function of the SDE and of lower dollar significance to the SDE.

The Bureau of Internal Audit should adequately assess risk to identify and prevent weaknesses related to internal control and noncompliance with state and federal laws and regulations. Management did not concur with the finding. The Deputy Superintendent of the Office of Management and Finance stated that (1) the Bureau of Internal Audit published 14 reports during fiscal year 1999 of which six were follow-ups of external audit findings; (2) the audit priority list was not intended to be completed in one fiscal year and follow-up audits are given priority; (3) the SDE seeks to maximize its audit efforts and audit resources and believes that internal audit should not duplicate audits of programs audited by the Legislative Auditor; and (4) the SDE has adequately assessed audit findings as a risk and that follow-up audits address potential weaknesses or deficiencies in internal control (see Appendix A, page 3).

Additional Comments: The number of published reports, the number of reports issued during the fiscal year related to follow-up issues from external audit findings, and the number of internal audit reports in response to findings contained in external audit reports have now been increased by one from 11, 8, and 5 to 12, 9, and 6, respectively. Our working papers support these numbers. As previously stated, an effective internal audit function should help to reduce the growing number of external audit findings at the SDE by identifying and improving areas of weakness before they become findings.

Inadequate Controls Over Data in the Minimum Foundation Program

For the third consecutive year, the SDE has not audited financial information and personnel data reported by the parish and city school systems used in the allocation and distribution of the Minimum Foundation Program (MFP). In addition, the SDE does not have adequate controls to minimize the amount of errors reported by the local school systems that are input into the computer system and are used to determine the student membership for the MFP formula. Furthermore, the SDE had not finalized any of the student count audits from the October 1, 1998, student counts as of June 30, 1999. For fiscal year 1999, the SDE distributed \$2,183,801,750 in state General Fund MFP monies to the local school systems.

Both Louisiana Revised Statute (R.S.) 17:7(d) and Attorney General Opinion 89-185 require the SDE to be fiscally accountable for the MFP and the information submitted by the school boards. The SDE established the Division of Education Finance within the Office of Management and Finance to meet this requirement. Adequate controls for a

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computerized data collection system should include edit checks and reviews to detect errors.

A review of the SDE's current policies, procedures, and eight MFP student count audits for fiscal year 1998 disclosed the following weaknesses:

- . The SDE did not audit approximately \$1.5 billion in ad valorem taxes, sales taxes, and other revenues that were reported by the local school systems and included in the fiscal year 1999 MFP formula. Local revenues are used to determine the equitable allocation of MFP funds and to determine if incentives should be paid for efforts above the minimum required of local school systems. The SDE requires the local school systems to transmit the information before the certified public accountants perform audits of the systems.
- . The SDE did not audit the October 1, 1998, budgeted personnel data that were reported by the local school systems and used in the MFP formula. A total of \$53,411,522 of pay raise enhancements was funded in fiscal year 1999 for 57,999 certificated staff based on this data. The auditor found that for fiscal year 1999, 63 staff were reported as employees in more than one district. Of these 63 staff, 27 (43%) were improperly included in the MFP formula and were funded \$19,106. In addition, it could not be determined if two staff of Orleans Parish School Board were improperly included in the MFP formula because Orleans Parish failed to respond to the auditor's request for information. The possible overfunding for these two staff is \$1,864. The computer system used to report this data accepts certificate numbers as valid without checking other districts for duplicate certificate numbers.
- . The SDE does not use audited financial data to determine if school districts expended 70% of the local General Fund on instruction. The House Concurrent Resolution establishing the MFP requires the SDE to report those districts not meeting the 70% requirement to the House and Senate Committees on Education. Because the data are unaudited, this information may be inaccurate. The local school systems receive annual audits of their financial data; however, the SDE does not reconcile the data submitted from the school systems to the audited financial data.
- . The SDE uses variance analyses comparing financial data submitted in the prior year to data submitted in the current year to determine the validity of information submitted by the local school systems. However, this information is unaudited in both cases. Furthermore, the SDE does

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not require the local school systems to provide explanations for large variances noted in these analyses. The SDE's variance analyses for eight local school systems found 836 variances of 20% or greater, of which 235 had dollar variances of at least \$100,000, but no explanation was required by the SDE.

The SDE did not finalize any student count audits for October 1, 1998, data during fiscal year 1999. In a review and test of the SDE's policies, procedures, and 8 (12%) of the 66 SDE student count audits for fiscal year 1998, the following weaknesses were detected:

1. The department funded 71 students twice. The Student Information System (SIS) database permits a school system to enter a student who has the same state identification number, name, birth date, sex, and race as a student reported by another school system (multiple enrollment). The SDE funds each school system that reports the student, even though at least one school system has reported the student in error. The SDE then performs audit procedures at each school system to determine which, if any, is entitled to report the student. The estimated overfunding in fiscal year 1998 that resulted from these multiple enrollment students in 8 school districts is \$190,651.
2. The SIS permits a school system to enter a student who has the same phonetic first name, last name, birth date, and sex, but different state identification numbers (duplicate students) as another funded student in the same or different school system. In the test sample for the 8 school districts, duplicate students within the same school system resulted in overfunding of \$64,306.
3. The MFP provides additional funding to districts through the use of weights for certain student populations. Those students designated as at-risk, special education - gifted and talented, special education - other exceptionalities, and vocational education student units receive additional weights of 17%, 60%, 150%, and 5%, respectively. The SDE does not consistently audit these membership counts. Of the eight districts reviewed, the SDE did not audit five districts' at-risk membership and five districts' special education memberships and four districts' vocational education student units.

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- Student enrollment has the risk of being inflated because no formal policy exists for dropping no-show and excessive absent students. No-shows are students who are included in a school's enrollment because they were enrolled at the school the previous year, but they have not reported to school on any day in the current school year. A performance audit issued by the Office of the Legislative Auditor in January 1999, recommended that the Board of Elementary and Secondary Education (BESE) establish a written policy directing local systems when to drop these students from enrollment.

Without verification of data reported by the local school systems and used in the MFP formula, the SDE cannot be sure that MFP funds are accurately and equitably distributed. The SDE uses detective and corrective controls over student enrollment data, which are not as efficient and effective as preventive controls. Having no policy for dropping no-show and excessive absent students, as well as funding multiple students and those duplicate students within the same school system, provides incentive for the school systems to overstate student enrollment and results in improper allocation. It also shifts the responsibility of verifying enrollment from the local school system to the SDE and requires the use of limited audit resources to determine which school system, if any, is entitled to report each student listed on the exception reports.

In the 1999 Regular Session of the Legislature, R.S. 24:514(l) was enacted to require that local school systems and the SDE include schedules of performance and statistical data to be audited as part of the financial statements. The SDE should audit and/or reconcile financial and personnel data reported by the local school systems to independently audited data. The SDE should issue all MFP audit reports timely and react appropriately to those reports. In addition, the SDE should establish computer controls to detect duplicate teacher certificate numbers in all districts and should consider rejecting multiple student enrollments and duplicate students within the same school system until provided evidence of enrollment and attendance. Furthermore, a written policy should be developed for dropping no-show and excessive absent students from enrollment. Management did not concur with the finding. However, the SDE plans to bring certain policies back to BESE for reaffirmation or revision (see Appendix A, page 5).

Additional Comments: The SDE did not audit nor use audited local district revenue data, budgeted personnel data, or financial data for fiscal year 1999. The SDE cited corrective action taken and/or planned for fiscal year 2000. Such corrective action has no impact for the year audited. Management responded in part that the MFP weighted categories, which includes at-risk, are all audited on a 3-year cycle. However, 16 of 66

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school districts were not scheduled to receive audits of their at-risk membership based on the 3-year rotational schedule provided by the SDE.

Inadequate Information Systems Controls

The SDE has not developed adequate internal controls over information systems (IS) activities to ensure the integrity of programs, processing, and data. To ensure that the processing of transactions and financial data information is performed according to management's design, good internal controls require that:

1. A strategic plan to achieve department IS goals is developed, communicated, and periodically reviewed.
2. Security policies and procedures are developed, implemented, and documented.
3. On-line and physical access to computer programs and equipment is limited to current employees with a business need.
4. Each user is assigned an individual User ID and confidential password to provide for an audit trail and to ensure accountability for system activities.
5. There is adequate segregation of duties among employees receiving and approving requests for system changes, developing and/or making the changes, testing the changes, approving the changes, moving the changes into production, and operating the system.
6. A Disaster Recovery/Contingency Plan is developed and tested.
7. The design and operation of controls over development of programs, changes to programs, access to programs and data, and segregation of incompatible duties are regularly reviewed.

Annually, the SDE's Information Technology Services process information relating to approximately \$2.8 billion of expenditures. The following deficiencies in internal controls were noted:

Strategic Planning

- The SDE did not have a strategic plan to ensure that data processing resources were allocated on a basis consistent with the department's overall plans.

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Security Policies and Procedures

- The SDE did not have formal security policies and procedures to address the Local Area Network environment, personal computers, Internet access, and Web page administration.
- The SDE did not have formal procedures for notifying security administrators to adjust or eliminate on-line access when employees transferred or terminated.
- The internal network or Intranet within the SDE was not protected from the Internet because the SDE had bypassed its firewall to accommodate incompatible software.
- The SDE did not monitor and follow up on attempted network security violations.

On-line and Physical Access

- Physical access to computer equipment and programs was not restricted to those with a business-need-only for access. Furthermore, supervisory personnel disengaged the data center's electronic security system designed to protect employees, equipment, and data.
- On-line system-wide access as well as access to alter security and other critical files was not assigned on a business-need-only basis.

Individual User IDs

- Certain employees shared User IDs and passwords. These included those IDs used to grant or change network access as well as student IDs. In addition, project leaders shared their User IDs and passwords with program analysts to make programming changes.

Segregation of Duties

- The SDE had an inadequate segregation of duties in program change management. The project leader had the authority to receive the request for change, develop and/or make the change, test the change, and move the change to production without obtaining approval. In addition, computer operators occasionally made non-routine emergency

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programming changes directly to the production JCL (job control language).

Disaster Recovery

- The SDE did not have a Disaster Recovery/Contingency Plan to allow for continued operation of critical data processing services in the event of unexpected interruption of operations or in the event that normal data processing facilities are unavailable for an extended period of time.

Review of System Controls

- The SDE did not perform internal audits of information system internal controls to ensure that essential control activities were designed effectively, placed into operation, and functioned consistently.
- The SDE did not have a clear audit trail of change requests to the system or the review and approval of those changes.

These control deficiencies existed because upper management did not consistently include data processing issues in its strategic planning and channeled department resources into other areas. As a result, the risk exists that programs and data could be accessed and modified without proper authorization, review, and approval; that errors or fraud could occur and not be detected; and that a disaster could occur and the department may not be able to fully recover lost programs and data.

The SDE should establish adequate IS procedures and controls to ensure the integrity of programs, processing, and data, to include proper disaster recovery. Management partially concurred with the finding and described corrective action taken (see Appendix A, page 7).

Inadequate Controls for Improving America's Schools Act Programs

The SDE did not have adequate controls to ensure that the subgrantees' applications and reimbursements for Improving America's Schools Act (IASA) programs complied with federal regulations. The SDE disburses funds for these IASA programs to local educational agencies (LEAs) to help improve the teaching and learning of children who are failing or who are most at-risk of failing to meet the state's academic standards. Tests of federal compliance for these programs disclosed the following:

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- . The LEA must maintain not less than 90% of the combined fiscal effort per student of the previous year. However, a review of the program applications and reimbursements for the 66 LEAs disclosed the following instances of noncompliance:
 1. No evidence was found that the SDE had assigned personnel to monitor LEA applications for compliance with the 90% rule.
 2. The SDE reimbursed \$259,131 in total to Caldwell Parish School Board and Madison Parish School Board, in violation of the 90% rule.
 3. No evidence was found that the SDE took action on LEA applications when fiscal data on the applications appeared incorrect. The 1999 applications for six LEAs reported their actual 1998 fiscal effort in the same amount as the estimated 1998 fiscal effort in error, and this should have been researched and corrected by the SDE.

- . The IASA provides that not more than 15% of the funds allocated to an LEA for any fiscal year may remain available for obligation by such agency for one additional year. However, the SDE may, once every three years, waive the percentage limitation if it determines that the request of an LEA is reasonable and necessary. In addition, the SDE's policies state that a subgrantee has no authority to obligate funds past the grant period without an approved carryover. Subgrantees must submit carryover budgets for a grant period ending September 30, before October 31. A review of documentation for the carryover of fiscal year 1998 funds allocated to the 66 LEAs disclosed that the SDE reimbursed Ascension Parish School Board \$215,190 in excess of the authorized 15% carryover limit. In addition, the SDE did not grant a waiver for the carryover of the excess funds.

Management neither implemented the necessary controls nor adequately trained its employees as to the regulations applicable to these federal programs. As a result, \$474,321 of federal funds was expended in noncompliance with these regulations. These reimbursements are questioned costs [Title 1 Grants to Local Educational Agencies (CFDA 84.010), \$464,349; Safe and Drug-Free Schools and Communities - State Grants (CFDA 84.186), \$5,073; and Eisenhower Professional Development State Grants (CFDA 84.281), \$4,899].

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The SDE should develop controls to ensure that IASA subgrantee applications and reimbursements comply with federal regulations and should provide the proper training to SDE personnel over those programs. In addition, the SDE should consult with the U.S. Department of Education regarding the resolution of the questioned costs. Management did not concur with the finding. The Deputy Superintendent of the Office of Management and Finance stated that the SDE collected data for determining compliance with the 90% rule in a separate mailing and that, based on that data, the two schools were in compliance. In addition, the SDE contends that fiscal effort data on the applications are always estimates. Finally, management contends that payments to the Ascension Parish School Board were not carryover obligations (see Appendix A, page 8).

Additional Comments: In our test work, we obtained the district responses for the separate request letters sent by the SDE and found that Madison was still not compliant with the 90% requirement and that Caldwell had reported the same exact figure as the previous fiscal year. Because this appeared to be an error, we used the figure from the fiscal year 1998 application that was reported as an actual per pupil expenditure and not an estimate. Based on the figure in the application, Caldwell was not in compliance with the 90% rule. The payments to the Ascension Parish School Board were made after the fiscal year of the allocation and, therefore, are subject to the 15% carryover limitation.

Inadequate Controls for the Safe and Drug-Free Program

For the second consecutive year, the SDE did not have adequate controls to ensure contracts and expenditures of the Safe and Drug-Free Schools and Communities - State Grants (CFDA 84.186) program complied with federal and state laws. The SDE received funds from this federal program for distribution to local educational agencies and community-based organizations for use in drug and violence prevention activities.

The audit of program records and contracts disclosed that \$573,700 was paid in advance to fiscal agents before agreed-upon services were performed. 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 or any political subdivision shall not be loaned, pledged, or donated to or for any person, association, or corporation, public or private. In addition, federal regulations require that federal funds be expended in accordance with state laws, as well as federal regulations. The SDE has eight regional offices located at school boards or public universities throughout the state that provide services to the surrounding school districts. The SDE has fiscal agent contracts with these school boards and universities to finance the housing and operations of its regional offices. The terms of these contracts provide for certain payment amounts at certain

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times. During the fiscal year, contract payments to fiscal agents totaling \$573,700 were made in advance, pursuant to these terms, before services were rendered. As a result, the SDE loaned funds to the fiscal agent school boards and universities, which is a violation of the Louisiana Constitution. The funding source for the \$573,700 of contract payments includes state and federal program funds as follows:

State General Fund	\$401,750
State Administrative Expense for Child Nutrition (CFDA 10.560)	19,450
Title I Grants to Local Educational Agencies (CFDA 84.010)	48,000
Special Education - Grants to States (CFDA 84.027)	38,500
Safe and Drug-Free Schools (CFDA 84.186)	50,000
Innovative Education Program Strategies (CFDA 84.298)	<u>16,000</u>
Total	<u><u>\$573,700</u></u>

Management did not develop the necessary controls or training for its employees to ensure compliance with federal and state laws. As a result, \$171,950 of federal funds are questioned costs. State law related to advances was also violated.

Management should implement the necessary controls and train its employees to ensure that expenditures and contracts comply with federal and state laws. In addition, the SDE should consult with the U.S. Department of Education regarding the resolution of the questioned costs. Management partially concurred with the finding. Management expressed that the funds were either spent on allowable costs or returned to the SDE and, thus, should not be questioned costs (see Appendix A, page 10).

Unallowable Costs in Special Education Program

For the third consecutive year, 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 84.027) program. The Code of Federal Regulations (34 CFR 80.11) requires the SDE to submit a state plan before receiving this grant and that the SDE amend the plan whenever necessary to reflect a material change.

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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 1999 without any amendments. However, it was noted that program costs included support service charges for all or part of six employee positions not included in the original plan. During the year, management requested clarification concerning the prior year audit finding. However, the U.S. Department of Education did not respond to this request and, subsequently, management did not amend the state plan. Therefore, the costs associated with these unapproved employees totaling \$136,233 for the year ended June 30, 1999, are questioned.

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. Management did not concur with the finding. The Deputy Superintendent of the Office of Management and Finance stated that the SDE does not believe the six positions noted previously constitute a material change to the state plan that requires approval. Also, amendments to federal law no longer require a state plan to be submitted (see Appendix A, page 11).

Additional Comments: OMB Circular A-133 requires all questioned costs in excess of \$10,000 to be reported by the auditor. In addition, the amendment to federal law referenced above was not in effect until after the audit period.

Inadequate Controls for Federal Cash Management

For the third consecutive year, the SDE did not have adequate control procedures in place to ensure that the department and its subgrantees 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 procedures are used. The SDE 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 ensure complete and accurate draw downs. Finally, the SDE and its subgrantees are required to remit to the grantor agency, at least quarterly, interest earned on advances in excess of \$100.

Because the SDE does not have controls that conform to cash management regulations, subgrantees received payments in excess of their immediate cash needs as evidenced by refunds received by the SDE. For the year ended June 30, 1999, the SDE

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received 16 refunds of excess cash totaling \$95,387 from subgrantees participating in the following federal programs:

- Title 1 Grants to Local Educational Agencies (CFDA 84.010), \$34,461
- Migrant Education - Basic State Grant Program (CFDA 84.011), \$22,869
- Special Education - Grants to States (CFDA 84.027), \$4,440
- Vocational Education - Basic Grants to States (CFDA 84.048), \$9,146
- Even Start - State Educational Agencies (CFDA 84.213), \$9,313
- Goals 2000 - State and Local Education Systemic Improvement Grants (CFDA 84.276), \$1,870
- Charter Schools (CFDA 84.282), \$10,386
- Innovative Education Program Strategies (CFDA 84.298), \$2,902

During fiscal year 1999, the SDE implemented a new reimbursement claim form that included information on the monthly cash balance. However, the SDE did not require subgrantees to begin using this form until April 1, 1999. In addition, a review of 165 of these reimbursement claim forms processed during the year-end close disclosed that 129 (78%) of these forms were completed incorrectly and/or were left blank for the amount of the monthly cash balance, which were subsequently completed by SDE employees after corresponding with the districts.

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

The SDE should establish and implement procedures to ensure that subgrantees limit draws to immediate cash needs, complete reimbursement claim forms accurately, 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 at subgrantees should be remitted immediately to the grantor agency. Management did not concur with the finding. The Deputy Superintendent of the Office of Management and Finance described a plan of corrective

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action implemented April 1, 1999, and asserts that the procedures implemented address the points in the finding (see Appendix A, page 12).

**Inadequate Monitoring for Child and
Adult Care Food Program**

The SDE did not have an adequate monitoring system to ensure the resolution of disallowed costs for subgrantees of the Child and Adult Care Food Program (CFDA 10.558). The Code of Federal Regulations [7 CFR 3015(b)] requires the SDE to maintain accurate and complete records of the source and application of grant and subgrant funds. Also, 7 CFR 3015(h) requires that a system be employed by each grant recipient to ensure the timely and appropriate resolution of audit findings and recommendations. Tests of federal compliance disclosed the following:

- The SDE did not maintain accurate and complete records of the resolution of disallowed costs for subgrantees. On June 29, 1999, the auditors requested the SDE to compile information and provide them with a listing of amounts owed by subgrantees for disallowed costs arising from audits, administrative reviews, and overclaims, and also, amounts turned over to the Attorney General for collection. This information was provided on August 24, or 56 days later. A review of the SDE listing of amounts owed by subgrantees and the amounts turned over to the Attorney General disclosed the following exceptions:
 1. The SDE did not refer subrecipient overclaims to the Attorney General for collection in a timely manner. A review of the 49 overclaims totaling \$1,290,192 disclosed overclaims for \$15,056 and \$783 from 1985 and 1987, respectively, that were not referred to the Attorney General until July 20, 1999. Section 7 CFR 226.14(a) provides that claims be referred to the appropriate legal authority if the subgrantee has not responded to a second demand letter after 60 days.
 2. The SDE did not make written demands to subgrantees for the return of overpayments in a timely manner. The review disclosed that 10 of 13 second demand letters were not sent to subgrantees after 30 days as required by Section 7 CFR 226.14(a). In addition, two of these second demand letters were dated two years after the first demand letters.

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A test of 21 SDE administrative reviews of subgrantee programs with disallowed costs and interviews with SDE personnel disclosed the following deficiencies:

1. The SDE closed 2 of the 21 administrative reviews before disallowed costs of \$279 and \$1,600 were correctly resolved. Section 7 CFR 226.6(n) requires the SDE to ensure that the subgrantee has corrected all violations within 60 days of written notification or terminate the program participation of the subgrantee.
2. The SDE did not ensure that deficiencies cited in 3 of the 21 administrative reviews were resolved within 60 days. Section 7 CFR 226.6(n) requires the SDE to ensure that the subgrantee has corrected all violations within 60 days of written notification or terminate the program participation of the subgrantee. The SDE took 75, 118, and 150 days, respectively, to resolve the three findings.

The SDE did not ensure that its personnel were familiar with the CFR requirements or that those requirements were consistently applied. As a result, the SDE lacks assurance that subgrantee disallowed costs were resolved in a timely manner in compliance with federal regulations.

The SDE should develop and implement adequate internal controls to ensure that program personnel are familiar with and comply with the CFR relating to appropriate resolution of disallowed costs for subgrantees of the Child and Adult Care Food Program. Management did not concur with the finding. Management stated, in part, that based on a letter from the U.S. Department of Agriculture, an overclaim is resolved when the SDE makes a decision to submit it to the Attorney General for collection. Management also stated that the finding was incorrect in regard to the timing of second demand letters for those cases in appeal, in that the wording should be that second demand letters must be submitted "after" not "within" 30 or 60 days (see Appendix A, page 13).

Additional Comments: The SDE did not provide the letter from the USDA that was cited in its response until after the response was received, and the letter does not address the administrative reviews or overclaims noted in the finding. In addition, the cases cited in the finding were not under appeal. Finally, the word "within" has been corrected to "after" with respect to the time frame for second demand letters, but this did not negate any part of the finding.

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Inadequate Controls Over Movable Property

For the third consecutive year, the SDE did not maintain adequate internal controls over movable property as prescribed by the commissioner of administration and state laws and regulations. Good internal controls require that the SDE have adequate control procedures to (1) safeguard movable property against loss and unauthorized use; (2) accurately reflect the acquisition, valuation, and disposition of movable property in the financial statements; (3) monitor and frequently update the location of property; and (4) timely reconcile property records to the property control system. In addition, Louisiana Administrative Code (LAC) 34:VII.307 requires all items of qualified property be tagged and reported to the Louisiana Property Assistance Agency (LPAA) within 45 days of actual receipt of the property. Also, LAC 34:VII:311 requires the SDE to maintain a master inventory listing of movable property and requires the property manager to update the listing on a monthly basis by submitting all property transactions to the commissioner. Finally, LAC 34:VII.313 requires the property manager to conduct a complete physical inventory of the property owned and record the true and actual results of the physical inventory. Various tests of movable property disclosed the following weaknesses:

- In our prior audit report, we noted that the Louisiana Learning Resource System (LLRS), a SDE program that provides property to local educational agencies to aid disabled students, had not performed an adequate inventory because it did not have access to its computerized inventory files. LLRS lost access to these files approximately three years ago when the files were downloaded from the SDE mainframe to a personal computer as a cost-saving measure. Consequently, in succeeding years, the property liaisons did not perform the necessary work to certify their inventory. The 1999 physical inventory of the LLRS property disclosed that 393 items, totaling \$373,045, could not be located.
- In a sample of 60 movable property items, totaling \$170,803, from various SDE property locations, the following discrepancies were noted:
 1. Four items (7%), totaling \$5,142, could not be located.
 2. Two additional items not included in our sample were found in the custody of the SDE but were not tagged or included in the property records. The value of these items could not be determined.

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- A sample of 10 transactions, totaling \$664,865, disclosed that one item with a cost of \$2,797 was tagged 11 days beyond the 45-day limit, was recorded on the property inventory incorrectly with the same serial number as that of another similar item, and could not be located.
- The SDE inventory procedures are inadequate in that the property manager does not receive invoices related to property purchases in a timely manner. Consequently, the property manager records the purchase order amount of property items in the master inventory and later changes these amounts when invoices are received. This procedure increases the risk of incorrectly recording property costs and duplicates work. As of June 28, 1999, the manager had possession of 50 purchase orders, totaling \$196,285, ranging in date from September 9, 1998, to May 20, 1999, but had not yet received the invoices. The amount of misstatement for the property recorded at purchase order value could not be determined.

Management has not placed sufficient emphasis on ensuring that its internal control policies and procedures are implemented as required by state laws and regulations. As a result, the SDE does not have reasonable assurance that its movable property control system safeguards assets against loss and unauthorized use, detects and corrects errors and/or fraud timely, and reports its movable property completely and accurately in the financial statements.

The SDE should follow its internal control policies and procedures and comply with state laws and regulations regarding its movable property. Management partially concurred with the finding. The SDE did not agree with the part of the finding relating to receiving invoices timely because the legislative audit staff was not able to provide a list of the specific invoices related to that part of the finding (see Appendix A, page 14).

Additional Comments: As part of testing, the auditor made an overall review of property purchase orders held in a suspense file by the property manager totaling \$196,285, for which invoices had not yet been received. No list was made because this was not a test sample. The suspense file items change daily, but the problem is ongoing. The invoices should be routed timely to the property manager for correct recording of the property items in the system.

Inadequate Controls Over Contracts and Cooperative Endeavor Agreements

The SDE has not established adequate internal controls over contracts and cooperative endeavor agreements to ensure compliance with state laws and regulations and

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contractual terms. R.S. 39:1500 requires that within 60 days of the completion of performance under a professional, personal, consulting, or social service contract, the department shall prepare and submit a final evaluation report to the director of contractual review, and no contract shall be entered into by the department with any contractor for which a delinquent final evaluation report remains outstanding. In addition, the Louisiana Administrative Code 34:V.121(G)(1) requires that certain contracts and cooperative endeavor agreements be approved by the Department of Civil Service. Also, the annual appropriation act requires the department to return to the state treasury the balance of any unused funds disbursed to a contractor unless approval to retain the funds is obtained from the Division of Administration and the Joint Legislative Committee on the Budget. Finally, the cooperative endeavor agreements executed between the department and the contractor contained specific criteria to be followed before making any disbursements.

A review of eight professional service contracts and five cooperative endeavor agreements, along with the related audit reports, disclosed the following deficiencies:

- Seven contracts totaling \$2,013,597 for fiscal year 1997-98 did not have final evaluation reports on file with the Office of Contractual Review as required by state law. Six of these contracts were inappropriately renewed in fiscal year 1998-99.
- Unexpended funds totaling \$39,272, which were disbursed to a contractor during fiscal year 1996-97, were improperly carried forward and expended in fiscal year 1997-98. The SDE did not obtain authorization from the Division of Administration and the Joint Legislative Committee on the Budget to retain the funds.
- The SDE disbursed \$50,000 to a contractor before receiving a required audit engagement letter. Another \$50,000 was disbursed to the same contractor before receiving and approving the prior year audit as required by the cooperative endeavor agreement.
- The SDE disbursed \$67,500 to a contractor before the SDE conducted a required site visit.
- The SDE did not receive required semiannual programmatic and expense reports from four contractors.
- The SDE did not obtain Civil Service approval as required for one cooperative endeavor agreement totaling \$270,000.

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Management has neither implemented the necessary controls nor adequately trained its employees as to the regulations applicable to state contracts and cooperative endeavor agreements. As a result, the risk increases that contractors may incur unallowable costs that may not be detected in a timely manner, which would subject the department to noncompliance with state laws and regulations and contractual terms.

Management should implement the necessary controls and adequately train its employees as to the applicable state laws and regulations related to disbursements on contracts and cooperative endeavor agreements. In addition, the SDE should attempt to recover the \$39,272 retained and expended by the contractor without proper authorizations. Management concurred with the finding and outlined a plan of corrective action (see Appendix A, page 15).

Inadequate Collection Procedures

The SDE has not adequately pursued the collection of questioned costs from subrecipients related to a prior year audit finding titled "Inadequate Controls Over the Church-Based Tutorial Network." Prudent business practice dictates that management make every effort to collect, in a timely manner, all monies due to the department. The prior year report noted that the SDE expended \$406,587 of state funds and \$51,788 of federal funds from the Child Care and Development Block Grant (CFDA 93.575) to reimburse program subrecipients for payroll taxes. These payments were made without verifying that the reimbursement claims were supported by actual expenditures.

In response to the prior year finding, management stated that program staff in cooperation with the internal auditors were in the process of recovering payroll taxes paid in error. Subsequently, the SDE wrote letters on March 19, 1999, to request that the 195 subrecipients either provide documentation to support the payroll tax reimbursements or pay back these amounts. These letters gave the subrecipients a deadline of April 30, 1999, to respond. However, the SDE did not follow up for those subrecipients that did not respond during the remainder of the fiscal year. Consequently, for those subrecipients that did not respond, the SDE cannot determine whether the remaining amounts totaling \$153,382 of state funds and \$22,245 of federal funds were spent for allowable costs. Also, the SDE has not sought timely recovery of these funds.

The SDE should immediately follow up on those subrecipients that did not respond to the SDE's March 19, 1999, letter and request them to either provide documentation to support the payroll tax reimbursements or pay back those questioned amounts. Management did not concur with the finding. The Deputy Superintendent of the Office

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of Management and Finance stated that collection procedures are in place, and the SDE is continuing to pursue collection (see Appendix A, page 16).

Inadequate Subrecipient Monitoring

The SDE did not have an adequate monitoring system to ensure that subrecipients receiving federal funds complied with applicable federal regulations and departmental policy. The Office of Management and Budget Circular A-133 requires that the SDE, as a pass-through entity, (1) identify federal awards made by informing each subrecipient of the CFDA title and number, award name and number, award year, and the name of the federal agency; (2) advise subrecipients of the requirements imposed on them by federal laws, regulations, and the provisions of contracts or grant agreements as well as any supplemental requirements imposed by the SDE; (3) require each subrecipient to permit the SDE and auditors to have access to the records and financial statements as necessary; and (4) ensure that subrecipients expending \$300,000 or more in federal awards during the subrecipient's fiscal year receive a single audit or a program specific audit for that year. Furthermore, the superintendent has not designated any other person to sign subgrants and contracts on behalf of the department, except him. In prior fiscal year 1998, 41 federal programs administered by the SDE passed through approximately \$517.7 million of federal funds to over 600 subrecipients. The auditor selected a fiscal year 1999 application and agreement for the 24 largest programs that passed through funds during fiscal year 1998 and the following deficiencies were noted:

- Nineteen (79%) did not include the correct CFDA program title.
- Seven (29%) did not include the correct CFDA number.
- Three (13%) did not inform the subrecipient of the applicable program rules and regulations.
- Twenty-four (100%) did not inform the subrecipient that federal law requires that they have a single audit or a program specific audit if the expenditure level of \$300,000 or more in federal awards is incurred during the fiscal year.
- Twenty-four (100%) did not ask the subrecipient for the prior year expenditures of federal funds from all sources to determine the necessity of a single audit or program specific audit.
- A member of SDE middle management signed six (25%) of the subgrants, which is not SDE policy. The superintendent has not delegated this authority.

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- Fifteen (62%) did not include a right to audit clause.

Management has not implemented the necessary controls and adequately trained its employees as to the regulations applicable to federal programs. As a result, the risk increases that subrecipients will incur unallowable program costs that may not be detected in a timely manner and subjects the department to noncompliance with federal regulations and departmental policy.

Management should implement the necessary controls and adequately train its employees as to the applicable federal regulations and policies for funds passed through to subrecipients. Management partially concurred with the finding and described corrective action taken (see Appendix A, page 17).

Inadequate Controls Over Vocational Education Program

The SDE did not establish adequate controls to ensure compliance with federal law as it relates to the Vocational Education - Basic Grants to States (CFDA 84.048) program. Tests of federal compliance disclosed the following:

- The individual amounts allocated to all 66 subrecipients of secondary vocational education funds were incorrect. The errors ranged from an under allocation of \$24,504 to an over allocation of \$14,890 to individual subrecipients, but the errors did not affect the total program award of \$8,837,617. The Code of Federal Regulations [34 CFR 403.112(b)] outlines the formula for distribution of these funds.
- The department did not require subrecipients to return to the department any amounts not obligated from the 1997 and 1998 awards. Federal regulations (34 CFR 403.116) require a subrecipient to return to the department any amounts not obligated during a fiscal or program year so that the funds could be reallocated.
- A test of 12 subrecipient application plans outlining the uses of vocational education funding disclosed that one plan did not address how the needs of individuals who are members of special populations will be assessed and how funds will be used to address those needs, as required by 34 CFR 403.111(b) and 34 CFR 403.190(a).
- A review of the annual financial status reports (Forms A and B) submitted by the SDE showed that the accountant did not follow the instructions for preparing the report. The accountant appropriately combined secondary

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and postsecondary educational expenditures on Form B but reported them all as postsecondary expenditures instead of secondary expenditures. Furthermore, the accountant did not explain on Form A that these expenditures had been combined. Instructions for the annual financial status report require that when secondary and postsecondary educational expenditures are combined, they must be shown as secondary expenditures on Form B and an explanation provided on Form A.

Since management has not implemented the necessary controls and adequately trained its employees, the department has not complied with federal regulations.

Effective July 1, 1999, the Louisiana Community and Technical College System (LCTCS) has been designated as the recipient for this program. The SDE should communicate to the LCTCS the deficiencies mentioned previously. The LCTCS should establish adequate controls to ensure compliance with federal regulations over the Vocational Education - Basic Grants to States (CFDA 84.048) program. In addition, the LCTCS should consider the deficiencies mentioned previously when making future allocations. Management concurred with the finding and outlined a plan of corrective action (see Appendix A, page 18).

Inadequate Controls in Starting Points Program

The SDE did not establish adequate internal controls to ensure compliance with certain terms of its Child Care and Development Block Grant contract with the Department of Social Services (DSS), Office of Family Support. DSS is the recipient of Child Care and Development Block Grant funds (CFDA 93.575) and contracts with SDE to administer these funds through the Starting Points program. Contract terms direct the SDE to monitor all subrecipient program sites receiving Starting Points funds at least every other year, to expend funds in a manner consistent with the major budget categories in the contract, and to submit final invoices to DSS within 15 days after termination of the contract on June 30, 1999. The SDE did not comply with contract requirements as follows:

- In a test of 29 Starting Points program sites, the SDE had not monitored 11 sites within the last two years.
- While the SDE did not overspend the contract budget in total, they overspent three of eight lines of the contract budget for a total of \$17,262.
- The SDE expended program funds totaling \$1,618,634 after July 15, 1999, the date on which the final invoice was due to DSS.

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Management has not placed sufficient emphasis on compliance with the DSS contract terms. Furthermore, program responsibilities were decentralized with no one employee or section charged with overseeing compliance with the contract. As a result, the SDE cannot provide assurance that Child Care and Development Block Grant funds were used efficiently and effectively to promote program goals, and noncompliance with the DSS contract exists.

The SDE should develop and implement adequate internal controls to ensure compliance with the terms of the DSS contract. Management partially concurred with the finding. The SDE did not agree with the part of the finding relating to program responsibilities and further stated that the Division of Student Standards and Assessments handled programmatic responsibilities for the contract, and the Office of Management and Finance was assigned fiscal responsibility (see Appendix A, page 19).

Additional Comments: As part of the audit process, we interviewed several employees in the Office of Management and Finance and were unable to determine who was responsible for monitoring the contract.

Noncompliance With Year 2000 Regulations

The SDE did not comply with executive orders designed to ensure that current purchases of computer hardware and software are Year 2000 compliant by the turn of the century. Executive Order MJF 96-50, as amended by Executive Order MJF 98-04, requires all contracts in excess of \$5,000 for the purchase of computer hardware, software, firmware products, data processing services, information systems, and custom computer items to contain a provision requiring the items or services purchased to be Year 2000 compliant by July 1, 1999. The Code of Federal Regulations [34 CFR 80.36] requires a state to follow the same policies and procedures it uses for procurements from its non-federal funds when procuring property and services under a federal grant.

A test of nine purchase orders disclosed that none of the orders included the required Year 2000 provision. These purchases totaled \$116,041, of which \$11,200 was funded by the state, and the remainder by the following federal programs:

- Special Education - Grants to States (CFDA 84.027), \$75,627
- Technology Literacy Challenge Fund Grants (CFDA 84.318), \$17,749
- Safe and Drug-Free Schools and Communities - State Grants (CFDA 84.186), \$11,465

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Language requiring Year 2000 compliance was omitted from procurement documents because the SDE purchasing director was not knowledgeable of this requirement. Because the Year 2000 provision was not included in the purchase orders for these purchases, the department may have no recourse against vendors if the hardware and software provided are subsequently found not to be Year 2000 compliant. Any cost associated with replacement or modification of these products might therefore be borne by the department. Furthermore, purchasing computer equipment that is not Year 2000 compliant could impair the department's ability to provide services to the public.

The SDE should obtain assurances that the computer-related hardware and software purchased are Year 2000 compliant for the contracts awarded without the Year 2000 provision and should initiate corrective action if they are not. In addition, the department should include the Year 2000 provision in all future contracts in accordance with Executive Order MJF 98-04 and 34 CFR 80.36. Management concurred with the finding and outlined a plan of corrective action (see Appendix A, page 20).

Inadequate Uniform Payroll System Controls

The SDE did not maintain adequate internal controls over payroll transactions input into 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/or 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 require the employee and supervisor to certify the number of hours of attendance or absence from duty on the time and attendance records. The following weaknesses were noted:

- A review of the UPS Agency Operator Listing found that 13 SDE employees had access that allowed them to perform incompatible functions as follows:
 1. Nine operators can add new employees, change pay amounts, change existing employee payroll records, and change the time and attendance records. One of these operators also reviews and approves the Employee Variance Report which discloses unusual changes to payroll data.
 2. Three operators can change pay amounts, change existing employee payroll records, and change the time and attendance records.

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3. One operator can change the time and attendance records beyond the period that changes to records are allowed.

In a test of 14 timekeeping units for two pay periods, the following exceptions were noted:

1. One timekeeper provided two different time sheets (original had been misplaced and a second one prepared) for the same employee for the same pay period. These time sheets had been certified by the employee (bureau director) and approved by the supervisor (assistant superintendent). The bureau director stated both time sheets were incorrect and edited the original time sheet to reflect actual hours of worked and leave taken. However, these changes were made seven months later only after the auditor pointed out errors in the two time sheets. The assistant superintendent did not subsequently certify the revised time sheet.
2. Four timekeepers did not have all employees verify and sign their time and attendance records.
3. Twelve timekeepers did not have the Fixed Time Entry Listing and Current Leave Register verified by an employee different from the one entering time and attendance into the system.
4. Five timekeepers' time and attendance records did not have bureau director approval.
5. One timekeeper's time and attendance record appeared to be certified only by a "rubber stamp" signature of the director.
6. Twelve timekeepers did not have all employees' time of arrival and departure noted on the time and attendance records.
7. Seven timekeepers did not have appropriate documentation for employees who worked overtime.
8. Thirteen timekeepers did not have approved leave slips for employees who took leave.

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9. Seven timekeepers did not indicate that the Fixed Time Entry Listing and Current Leave Register had been reconciled to the time and attendance records.
 10. Nine timekeepers had employees whose time and attendance records did not agree with the hours recorded in the Fixed Time Entry Listing and Current Leave Register.
 11. Three of five applicable timekeepers completed prior period adjustment forms improperly.
 12. One timekeeper failed to submit a leave adjustment form for a correction of an error.
- Sixteen (24%) of 66 timekeepers tested did not have a backup timekeeper shown on the SDE listing of timekeepers and backup timekeepers as required by the SDE Automated Time and Attendance Manual. In addition, one SDE employee informed the auditors that she was the backup timekeeper for one of these 16 timekeepers and that she shared the timekeeper's user identification code (ID) when she functioned as the backup. Good internal controls should provide that individuals are permitted business-need-only access to electronic data files and this access is restricted through the use of passwords and user IDs.
 - A test of the Personnel Adjustment/Master File transactions disclosed that one of six employees' prior period adjustment was submitted and adjusted without proper approval. The SDE Automated Time and Attendance Manual requires that a member of upper management approve a prior period adjustment.

Management has not placed sufficient emphasis on time and attendance review. As a result, errors and/or fraud may occur and not be detected timely, and noncompliance with Civil Service rules and regulations may exist.

The SDE should develop and implement adequate internal controls over payroll transactions in the UPS to safeguard assets and to ensure compliance with Civil Service and departmental rules and regulations. Management partially concurred with the finding and described a plan of corrective action. The Deputy Superintendent of the Office of Management and Finance, in response to the test of 14 timekeeping units for two pay periods, stated that the finding contained errors in item 3 where the finding should state 10 timekeepers rather than 12; item 4 should say one timekeeper rather than five; item 7 for seven timekeepers should be three timekeepers; and item 8 for 13

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timekeepers should be three timekeepers. In addition, the SDE Automated Time and Attendance Manual does not require the names of timekeepers and backup timekeepers to be kept in a list for the 16 exceptions listed in the finding (see Appendix A, page 21).

Additional Comments: Our working papers support the number of exceptions noted in the finding. No one employee should be in a position to approve his or her own time and attendance record. Employees traveling on state business would not be exempt from the civil service rule requiring certification of hours of attendance and absence from duty. The Fixed Time Entry Listing and Current Leave Register should be reconciled by someone other than the timekeeper to the time and attendance records. Finally, for the 16 timekeepers noted in the finding, no written evidence was found indicating that those timekeepers had a backup timekeeper.

Inadequate Controls Over Bank Reconciliations

The SDE failed to maintain adequate internal controls over its Imprest Travel/Petty Cash and Pell Grant Program bank accounts. Adequate internal controls require the timely reconciliation of all bank accounts by an appropriate person in the fiscal section, preferably at the time that monthly bank statements are received. In addition, adequate internal controls require that all reconciling items are followed-up and resolved timely. A review of bank reconciliations disclosed the following deficiencies:

- Audit procedures performed on June 10, 1999, disclosed that the Imprest Travel/Petty Cash bank account had not been reconciled since December 31, 1998. For 11 months, receipts and disbursements in this account totaled approximately \$1.5 million. Management had not emphasized the importance of this control, and this duty was delegated to the Internal Audit section, rather than a fiscal employee.
- Personnel responsible for the Pell Grant Program bank account did not resolve reconciling items timely and carried them forward to succeeding monthly reconciliations. Some of these reconciling items date back to 1992 and now cannot be resolved. After the close of the fiscal year, management had to use \$4,639 in state funds to liquidate unresolved reconciling items to close the Pell Grant Program bank account and transfer the operations of this program to the Louisiana Community and Technical College System.

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Untimely reconciliations and unexplained reconciling items increase the risk that errors and/or fraud may have occurred and gone undetected.

The SDE should ensure that all bank accounts are reconciled monthly by an appropriate person in the fiscal section. Furthermore, the SDE should ensure that all reconciling items are followed up and resolved in a timely manner. Management concurred with the finding and described corrective action taken (see Appendix A, page 23).

Failure to Verify the Claims Loss Listing

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

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

The SDE should ensure that the appropriate personnel review the quarterly Claims Loss Listing received from the Office of Risk Management for accuracy and completeness of the claims reported. Furthermore, the SDE should ensure that any errors or omissions detected are properly reported to the Office of Risk Management. Management concurred with the finding and described corrective action taken (see Appendix A, page 24).

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 relating to the department's compliance with applicable laws and regulations should be addressed immediately by management.

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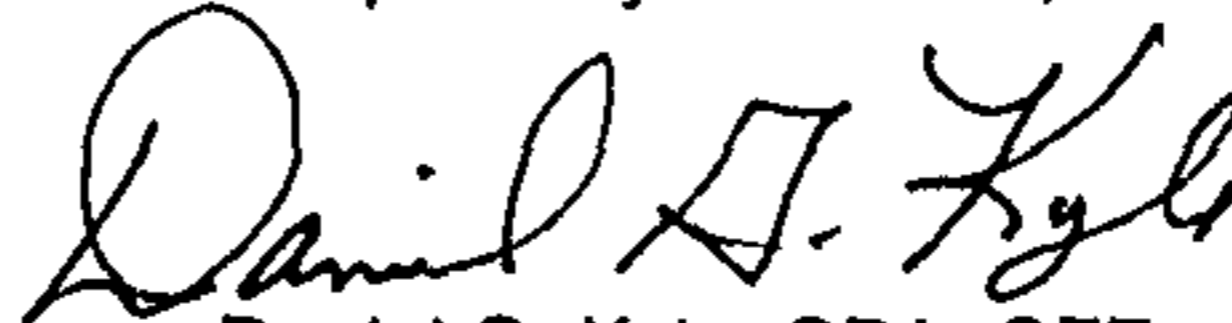
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This report is intended for the information and use of the department and its management. By provisions of state law, this report is a public document, and it has been distributed to appropriate public officials.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Daniel G. Kyle". The signature is written in a cursive style with a large initial "D".

Daniel G. Kyle, CPA, CFE
Legislative Auditor

JGG:BJJ:PEP:dl

[DOE]

Appendix A

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



STATE OF LOUISIANA
DEPARTMENT OF EDUCATION
POST OFFICE BOX 94064, BATON ROUGE, LOUISIANA 70804-9064
<http://www.doe.state.la.us>

November 16, 1999

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

Dear Dr. Kyle:

The Department of Education (SDE) does not concur with the finding related to Inadequate Audit Resolution. The SDE offers the following information.

Of the twenty-four findings issued in 1998-99, the SDE concurred with five, partially concurred with seven and did not concur with twelve. As you expressed concerns with the growing number of findings, we express concern over the quality of the audit and the growing number of findings that do not appear reportable or material.

There were approximately eleven findings relating to internal control weaknesses. The Department concurred with two, partially concurred with five and did not concur with four. One was a repeat finding and ten were new. The majority of the internal control findings were specific to certain aspects of an individual program's administration. The SDE is diligently continuing to address weaknesses with specific emphasis on major internal control systems such as movable property, payroll and information management. Additionally, in some cases, controls were in place, but specific employees failed to adequately perform their duties. Personnel actions have been taken in those cases.

There were approximately nine findings related to noncompliance with federal and state laws and regulations. Of the nine, the SDE concurred with three, partially concurred with one and did not concur with five. Three of these findings were repeats in which the SDE did not concur. The SDE is continuing efforts to redesign compliance measurement procedures and align activities to improve effectiveness and efficiency of operations.

The SDE disagrees with the designation of "questionable" cost assigned to selected expenditures. There were four findings in this category of which the SDE partially concurred with one and did not concur with three. In all cases, the SDE does not consider the cost to be "questionable." The circumstances surrounding these findings are complex, may involve obsolete procedures that have been in place for many years, and/or may involve interpretation of federal program criteria during a federal transition period. Nevertheless, management strongly feels the cited expenditures were in order and appropriate actions were taken.

"An Equal Opportunity Employer"

Dr. Daniel G. Kyle, CPA, CFE

November 16, 1999

Page 2

There were seven repeat findings. Of the seven findings, the SDE partially concurred with two and did not concur with five. Four were third year repeat findings and three were second year repeat findings. It should be noted that this is an ongoing problem and frustration for our agency. Given the complexity of the operations and programs administered by the SDE and the time-frame for implementing a solution once a reportable weakness has been identified, it is not unusual for corrective actions to cover a two or three year period before an acceptable remedy is operational. For example, a weakness identified in the 1997-98 audit is reported in the first or second quarter of 1998-99. If a remedy were put into effect immediately, the finding would still be reported in 1998-99, creating a second year repeat finding. If the remedy were more complex and could not be developed or implemented until some time in the next fiscal period, the finding would be a repeat for the third year.

This is a problem of timing and does not in any way indicate that the Department does not immediately respond to identified weaknesses. Furthermore, these repeat findings do not reflect the management effort expended within our control to resolve internal control or compliance weaknesses. Findings identified as unresolved as a ratio of the number of findings from the prior year for the years questioned were 23.1% in 1997, 77.8% in 1998 and 50% in 1999. Given the nature of these findings during the Department's reorganization year of 1997-98, these findings do not reflect a breakdown of the SDE's complex control environment. The SDE is committed to continuously improving the internal control procedures and processes used to fulfill our responsibilities. The SDE position is: (1) there were controls in place in 1998-99 for the findings in which we did not concur; (2) there were new controls put in place in 1998-99 to resolve the second year findings; and (3) these controls will resolve 1998-99 repeat findings for 1999-2000.

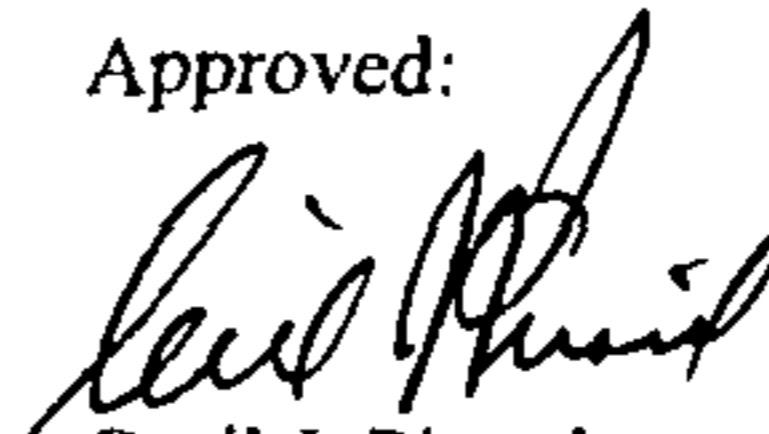
The persons responsible for corrective actions are Marlyn Langley, Deputy Superintendent for Management and Finance, Carole Wallin, Deputy Superintendent of Education and Cecil Picard, State Superintendent of Education. Should you have any questions concerning this response, please contact me at your earliest convenience.

Sincerely,



Marlyn J. Langley
Deputy Superintendent
Management and Finance

Approved:



Cecil J. Picard
State Superintendent of Education

MJL:s



STATE OF LOUISIANA
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November 17, 1999

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

Dear Dr. Kyle:

The Department of Education (SDE) does not concur with the finding Ineffective Internal Audit Function.

In the recent audit finding Inadequate Audit Resolution, the SDE is criticized for failure to resolve audit findings. In this finding the Bureau of Internal Audit (BIA) is cited for follow-up of audit findings in an attempt to resolve them. The contradictions in these two findings are confusing and do not clearly identify an internal control solution.

The finding states "...the internal auditors were adequately trained, properly supervised, and there was evidence of written documentation of audit goals, policies, and procedures, work schedules, workpaper format, and a risk assessment", and, yet, it says the function was ineffective. These characteristics do not indicate an ineffective internal audit function.

Additionally, there are factual errors in the finding; related to the statement internal audit staff "...primarily followed up on the work of external auditors." The finding indicates the BIA published eleven audit reports during 1998-99, when the BIA actually published fourteen reports during this period. Of the reports published, only six involved follow-up of findings from external audit reports. Of those six, one follow-up audit, Treme' Cultural and Enrichment Program, was performed at the specific request of the Louisiana State Inspector General's office.

The finding also states, "...a majority of the audit priorities, approved by management and the Board of Elementary and Secondary Education, were not met because the internal auditors devoted their time to audit follow-up." This is incorrect for a number of reasons. The priority list was never intended to be completely finished in one fiscal year as your finding suggests. In addition, follow-up audits are given priority as a matter of SDE and BESE policy, because both entities believe it important to ensure appropriate steps are taken to correct conditions which led to the audit findings in the first place. The "Audit Priority List" dated July 1998 was received and discussed by the Board of Elementary and Secondary Education (BESE) at its August 1998 meeting. This list includes follow-up audits as one of the priority items, with a statement that such audits, along with "special audits" would take priority over other audits listed. In addition, the priority list includes a statement clearly indicating the audits listed would take two or more fiscal years to complete.

In addition, the finding states, "The internal auditor should seek to identify and eliminate problems before they become external audit findings, and not rely on the Legislative Auditor for that function." The Office of the Legislative Auditor (OLA) annually audits the Minimum Foundation Program and major federal programs, which you are required to audit by the provisions of Office of Management and Budget Circular A-133. We believe the BIA should not perform duplicate audits of programs which the OLA audits annually. The SDE seeks to maximize its audit efforts and auditor resources and believes it is a more efficient use of taxpayer's dollars.


Furthermore, the BIA has, in fact, identified problems and irregularities in the SDE and provided this information to OLA staff which has, in turn, reported these same findings in OLA audits of the SDE. We cite the following examples:

Finding	Fiscal Year
Inadequate Controls Over the Church-Based Tutorial Network	1997-98
Inadequate Controls for the Safe and Drug-Free Program	1997-98
Inadequate Controls in the Movable Property System	1996-97
Unauthorized Long-Distance Telephone Calls	1995-96

Finally, we disagree with the overall premise of your finding that the BIA did not adequately assess risk to identify and prevent weaknesses related to internal control and noncompliance with state and federal laws and regulations. Generally Accepted Auditing Standards, AU §319.31, states: "An entity's risk assessment differs from the auditor's consideration of audit risk..." As noted, risk assessment from the SDE perspective is philosophically different from that of the OLA. Additionally, risk cannot be assessed solely by dollar amount as your finding suggests. Audit findings are a risk because they represent potential weaknesses or deficiencies in internal control which should be addressed. The BIA is the independent body in the SDE best suited to follow-up these findings to determine whether corrective action has occurred. The BIA recognized this in its risk assessment, which indicates to us its assessment was adequate and that follow-up on audit findings is a function appropriately placed within the Department's BIA.

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

Sincerely,


Marlyn J. Langley
Deputy Superintendent
Office of Management and Finance

Approved:


Cecil J. Picard
State Superintendent of Education

MJL:DJGJr



STATE OF LOUISIANA
DEPARTMENT OF EDUCATION
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November 12, 1999

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

Dear Dr. Kyle:

The Department of Education does not concur with the finding entitled Inadequate Controls Over Data in the Minimum Foundation Program. The SDE offers the following:

The SDE does not audit the Local District Revenue Data.

The SDE does not concur with this finding. The SDE is reconciling all Ad Valorem and Sales tax revenue used in the fiscal year 1999 MFP formula and reported in the districts' Annual Financial Reports (AFRs) to the revenues reported in the Comprehensive Annual Reports (CAFRs) for fiscal year 1998. Adjustments for revenues reported in error in the 1997-98 Annual Financial Report will be made in the January 2000 MFP Budget Letter equalization distribution.

The SDE does not audit the Budgeted Personnel Data.

The SDE does not concur with this finding. The SDE is conducting audits of the October 1, 1998 budgeted personnel data reported by the school districts. All districts are scheduled to be audited over the next nine months. Audit adjustments will be made as a result of these audits, beginning in the January 2000 Budget Letter. The SDE is considering other repayment options for those audits not completed in time for inclusion in the January 2000 Budget Letter.

The SDE does not audit the financial data and does not use audited data to determine the 70% Requirement of local general funds for instruction.

The SDE does not concur with this finding. The Annual Financial Report is prepared based on the school district's financial records as a whole which are audited each year. In fact, in a number of districts the Annual Financial Report is prepared at the time the independent audit is completed. The annual independent audit report demonstrates that the accounting system produced reliable financial records. Hence, reports based on this data can be viewed as reliable and accurate. The independent auditors suggest necessary adjustments to the accounting records so transactions are reflected accurately. At this time, some of these adjustments are not captured in the fall data collection period. To capture all of this information in the financial data reported by the school districts to the SDE, a plan is being developed to institute new procedures for the FY 1999-2000 data reporting cycle.

The SDE does not utilize variance analyses to determine validity of information submitted by local school districts.

The SDE does not concur with this finding. The SDE does utilize a variance analysis to determine validity of financial information. This analysis is part of a larger review of the district financial information. A portion of this review is designed to identify reporting errors. The school districts are required to correct all errors. The second portion of the review of the financial data is aimed at identifying for the school districts possible data errors. The school district business managers are instructed to review these analyses, including a year to year variance analysis and determine if any large differences indicate errors. If errors are detected, then these must be corrected. In the past, most large variances were the result of changes in revenue collections or spending patterns.

SDE did not finalize audits of Oct. 1, 1998 student data before June 30, 1999:

The SDE does not concur with this finding in that there is no requirement that the audits be finalized before June 30, 1999. The audits of the student data are completed within a twelve month period allowing for the complexity, volume of audits, and state-wide location of records. Normally, the preparation of the MFP Budget Letter in January of each year

Dr. Daniel G. Kyle, CPA, CFE
November 12, 1999
Page 2

is the due date for the completion of the audits. However, with the expansion of audit coverage, timelines for recovery of audit adjustments may be extended.

The SDE funded 71 students twice in the student count utilized in the Minimum Foundation Program formula. In addition, the SDE permits students with the same phonetic first name, last name, birth date and sex but different identification numbers to be funded.

The SDE does not concur with this finding. This decision to fund students in the MFP Budget Letter who are counted in two different districts or similar students in the same or different districts and later audit these circumstances to adjust funding was a policy decision made by the Board of Elementary and Secondary Education. It was the opinion of BESE that districts should not be penalized before the special circumstance surrounding these situations could be examined in detail by the SDE auditors. With only approximately a month between the identification of these students with the completion of the student data collection and the preparation of the MFP Budget Letter, the SDE is precluded from completing reviews of these errors prior to making allocations. Instead, each error is reviewed during the detailed audits completed over the next 12 months and adjustments are made in the next year's MFP Budget Letter. The approximate value of these students in FY 1998 was \$254,957 or .00012 of the total \$2,187,213,147 of the MFP. Although BESE has stood by this policy since 1992-93, the SDE plans to bring this issue to BESE in the near future so they may reaffirm or revise this policy.

The SDE does not consistently audit the weighted membership counts.

The SDE does not concur with this finding. The MFP weighted categories are all audited on a 3 year cycle. A copy of the schedule was presented to the Legislative audit staff. In addition to the scheduled cycle of audits of weighted membership, SDE audit staff uses an annual risk analysis for areas identified with problems. This has resulted in expanded audits of the weighted membership counts, in some cases resulting in audits of 100% of the weighted membership counts.

The SDE has not developed a policy regarding no-shows and excessive absences.

The SDE does not concur with this finding. BESE has chosen to instruct districts on how students with excessive absences should be handled through Bulletin 741. Section 1.055.00 states that each district must establish an attendance policy. If this policy is complied with then a student is considered enrolled and in attendance. Many unusual circumstances surround situations in which students are absent for extended periods. BESE has chosen to be sensitive to such issues. Therefore, if a student is considered in compliance with this policy they may be counted for MFP purposes. Although BESE has stood by this policy since 1992-93, the SDE plans to bring this issue to BESE in the near future so they may reaffirm or revise this policy.

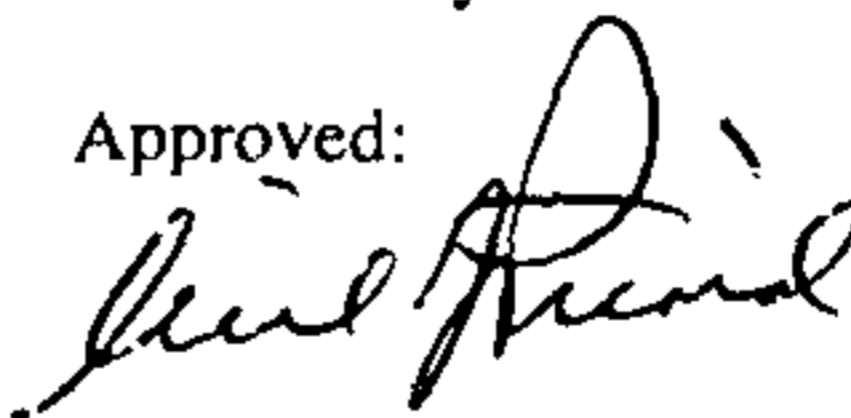
Should you have any questions concerning this response, please contact me at your earliest convenience.

Sincerely,



Marlyn Langley
Deputy Superintendent
Office of Management and Finance

Approved:



Cecil J. Picard
State Superintendent of Education

ML/BCS/jh



STATE OF LOUISIANA
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November 12, 1999

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

Dear Dr. Kyle,

The Department of Education (SDE) partially concurs with the finding Inadequate Information Systems Controls. There were a number of items noted in the finding which the SDE was aware of and working to resolve--please see attached detailed response to each item. The SDE continues to implement remedies and anticipates all deficiencies should be corrected by December 1, 1999. There are, however, two exceptions noted below.

Exception 1


Due to a recommendation by the State Fire Marshall, the SDE is currently unable to restrict physical access to the Information Technology Services (ITS) computer room. The computer room is a main path for emergency evacuation of staff and visitors. ITS will continue to evaluate emergency evacuation routes, but has no other alternative at this time.

Exception 2

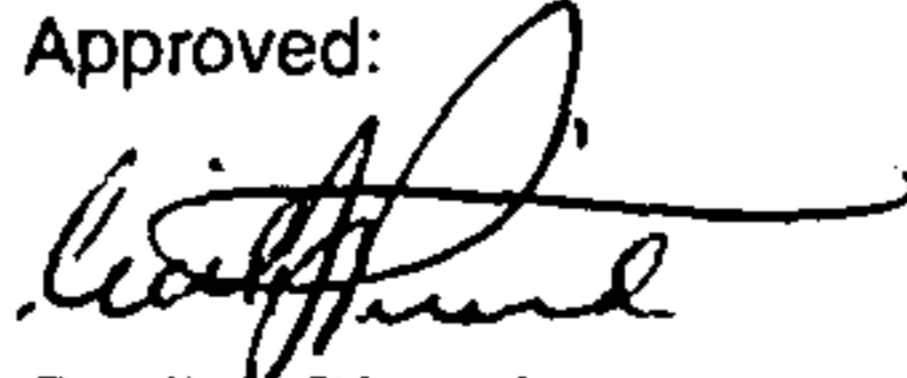
The Bureau of Internal Audit (BIA) had, in fact, scheduled a review of system controls, which was to begin in October 1998. Upon learning your staff had also scheduled such a review, the BIA opted to delay its review in order to reduce the possibility of duplicated audit effort.

The person responsible for corrective action is Bobby Franklin, Director of Planning, Analysis, and Information Resources. Should you have any questions concerning this response, please contact me at your earliest convenience.

Sincerely,


Marlyn J. Langley
Deputy Superintendent
Office of Management and Finance

Approved:


Cecil J. Picard
State Superintendent of Education

MJL:DJGJr



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November 12, 1999

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

Dear Dr. Kyle:

The Department of Education (SDE) does not concur with the finding entitled Inadequate Controls for Improving America's Schools Act Programs. Regarding the individual points in the finding:

No evidence was found that the SDE had assigned personnel to monitor LEA applications for compliance with the 90% rule.

The program staff did send out the forms and collected the necessary data for the calculation of the 90% rule. At that time, the responsibility was still with the program staff. Since reorganization, it has been determined this task will be performed by the Office of Management and Finance.

The SDE reimbursed \$259,131 in total to Caldwell and Madison Parish School Boards, in violation of the 90% rule.

According to the information the SDE is utilizing to calculate the 90% rule, neither Madison nor Caldwell were out of compliance with this requirement, and therefore, no monies were reimbursed improperly.

No evidence was found that the SDE took action on LEA applications when data regarding fiscal effort on the applications appeared incorrect.

Information provided on the applications is always an estimate. Recognizing this, the SDE collects audited financial data in a separate data collection process to utilize in the calculation of the 90% rule.

The SDE reimbursed Ascension Parish School Board \$215,190 in excess of the authorized 15% carryover limit and did not grant a waiver for carryover of excess funds. Management did not implement necessary controls or adequately train its employees as to applicable federal regulations.

The Department does not agree that the Ascension Parish School Board was reimbursed \$215,190 in excess of the authorized 15% carryover limit. Due to the date of two payments, the Legislative Auditor staff assumed the \$91,347.56 and \$435,661.57 (paid 5/17/99 and 07/28/99 respectively), were carryover obligations. However, these payments were correctly charged to the original FY 98 allocation and approved budget, and were not part of the school district's approved carryover project for FY 98.

Dr. Daniel G. Kyle, CPA, CFE
Legislative Auditor
November 12, 1999
Page 2

The Department utilizes both automated system and manual controls to permit payment only within the allowable grant period in compliance with federal regulations and continues to provide training regarding the period of availability of funds to all financial staff. Additionally, the U.S. Department of Education has automated controls to prevent the release of funds to the Department beyond the authorized period of funding for Title I.

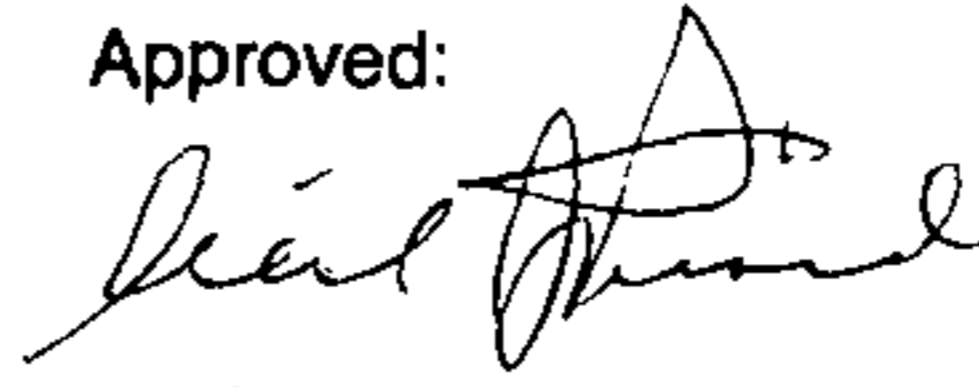
If you require additional information, please contact me.

Sincerely,



Marlyn Langley
Deputy Superintendent
Office of Management and Finance

Approved:



Cecil J. Picard
State Superintendent of Education

ML/BCS/djgjr

cc: Carole Wallin
Dudley Garidel
Beth Scioneaux
Kitty Littlejohn

J:\MF\EF\ADMSEC\SHARON\BETH\LEGAUDIT\IASAFIND.WPD



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November 30, 1999

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

Dear Dr. Kyle:

The Department of Education (SDE) partially concurs with the finding related to Inadequate Controls for the Safe and Drug Free Schools and Communities (SDFSC) Program. The SDE offers the following information.

Advance payment to fiscal agents.

The Department partially concurs with the finding related to advance payment of Safe and Drug Free Program funds to fiscal agents for the Regional Service Centers. Regardless of the procedures utilized to make these funds available, they were either expended on allowable activities or the fiscal agents returned them to the Department. Therefore, the Department feels the \$292,941 in federal expenditures noted should not be questioned costs. A number of improvements in the fiscal agent process were implemented in 1999-2000 and review for additional improvements is on-going.

Individuals responsible for corrective actions are Ann Faulkner, Steve Parker, and Kitty Littlejohn. Should you have any questions concerning this response, please contact me at your earliest convenience.

Sincerely,

Marlyn J. Langley
Deputy Superintendent
Management and Finance

Approved:

Cecil J. Picard
State Superintendent of Education

MJL:s

"An Equal Opportunity Employer"



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November 12, 1999

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

Dear Dr. Kyle:

The Department of Education (SDE) does not concur with the finding related to Unallowable Costs in Special Education Program. Regarding this finding, the SDE offers the following:

The Code of Federal Regulations (34CFR 80.11) required the SDE to submit a state plan before receiving the grant in question for the 1994-96 years. The SDE complied with this requirement. The CFR also provided for an amendment to the plan, "...whenever necessary to reflect a material change" (my emphasis).

The Division of Special Populations (formerly Office of Special Education Services) previously contacted the United States Department of Education (USDOE) by letter, dated July 13, 1998, to clarify the criteria as to what constitutes a "material" change for state plans. The SDE does not believe the six positions to which the finding refers constitute a "material" change. To date, the SDE has not received a response from the USDOE concerning this matter.

Additionally, amendments to the Individuals with Disabilities Act of 1997 (IDEA) no longer require a State Plan to be submitted. On April 26, 1999, required budget information and amendments were submitted to the USDOE which rendered moot the sections of the 1994-96 plan in question. The State Plan no longer authorizes positions, but, rather, a percentage of IDEA dollars which can be charged for administrative and/or state level activities. The SDE Office of Management and Finance, through budgetary oversight, will ensure adherence to the percentage of IDEA dollars approved for administrative and/or support services.

The person responsible for corrective action is Virginia Beridon, Director, Division of Special Populations. Should you have any questions concerning this response, please contact me at your earliest convenience.

Sincerely,

Marilyn J. Langley
Deputy Superintendent
Office of Management and Finance

Approved:

Cecil J. Picard
State Superintendent of Education

MJL:DJGJr



STATE OF LOUISIANA
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November 17, 1999

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

Dear Dr. Kyle:

The Department of Education (SDE) does not concur with the finding Inadequate Controls for Federal Cash Management. Regarding this finding, the SDE offers the following:

The SDE agrees the collection of subgrantee cash management was implemented April 1, 1999. Since April 1, however, the SDE has fully complied with collection and review of this information. The following caused the delay in implementation:

1. The SDE did not receive the original audit finding until well after the beginning of the current fiscal year.
2. The SDE worked with the Division of Education Finance to include these changes in the Quick Reference Funding Guidelines that apply to all funds. This was done to ensure all subrecipients received consistent, written requirements from the SDE. A coordinated approach to financial requirements is the cornerstone of the SDE's fiscal reorganization.
3. The changes in school district information submittal was presented to the Education Finance Advisory Committee in March 1999. All changes to budget and claims forms are presented to this committee prior to general release.

Due to midyear implementation, accountants contacted all subgrantees omitting cash on hand information; noted the individual providing the missing information; and noted the date of contact on the claim form. This procedure was utilized to avoid returning the claim to the subrecipient, thus causing significant delay in reimbursement. Effective with FY 2000, all claims will be returned to the subrecipient for missing information without additional payment processing.

The SDE asserts that procedures implemented address the Legislative Auditor's concerns and this area should not be cited as a repeat finding. Should you have any questions concerning this response, please contact me at your earliest convenience.

Sincerely,

Marlyn J. Langley
Deputy Superintendent
Office of Management and Finance

MJL:DJGJr

Approved:

Cecil J. Picard
State Superintendent of Education



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November 12, 1999

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

Dear Dr. Kyle:

The Department of Education (SDE) does not concur with the finding Inadequate Monitoring for Child and Adult Care Food Program.

The United States Department of Agriculture previously submitted a letter to the SDE, provided to your staff, which stated audit resolution occurs when a management decision has been made regarding an individual overclaim. Based on this letter, therefore, an overclaim is resolved when the SDE makes a management decision to submit it to the Attorney General for collection. Except for overclaims submitted to the Attorney General for collection, all information requested by your staff was available at the SDE.

7CFR Part 226.6(c) requires "...the State agency shall afford an institution every reasonable opportunity to correct problems before terminating the institution for being seriously deficient...". The time frame for sending a second demand letter will be suspended for a number of reasons, not the least of which is if the institution files an appeal regarding the first demand letter. In such cases, as were the cases cited in your finding, the second demand letter cannot be sent until the appeals officer decision has been properly served.

Your finding contains factual errors in both the first and second parts in which you state second demand letters must be submitted "...within 30 days..." or "...within 60 days...", which is incorrect. In fact, the regulations you cited state second demand letters are to be submitted AFTER thirty or AFTER sixty calendar days, as may be the case.

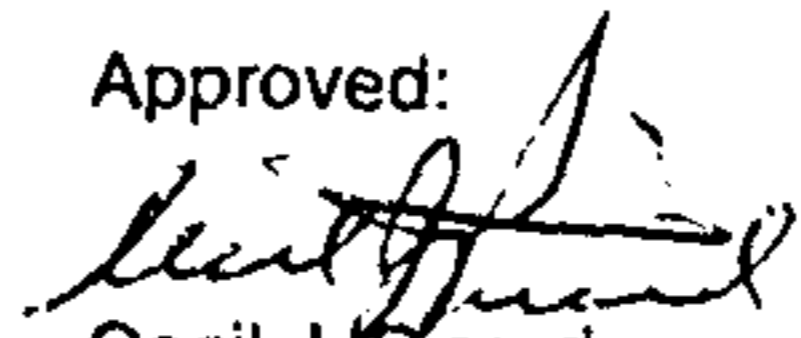
In addition, the two overclaims you cite as not having been remitted to the Attorney General in a timely manner represent only 1.2% of the overclaim dollars your staff tested. This amount is neither material nor even significant in comparison to the overclaim dollars tested as a whole. The SDE believes this is a nonreportable condition as defined in Generally Accepted Governmental Audit Standards.

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

Sincerely,


Marilyn J. Langley
Deputy Superintendent
Office of Management and Finance

Approved:


Cecil J. Picard
State Superintendent of Education

MJL:DJGJr



STATE OF LOUISIANA
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September 8, 1999

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

Dear Dr. Kyle:

The Department of Education (SDE) partially concurs with the finding related to Inadequate Controls Over Movable Property. Regarding this finding, the SDE offers the following:

The SDE does not concur with the fourth subparagraph of the finding related to receiving invoices for property purchases in a timely manner. Your staff was unable to provide us a list of or any information related to the invoices which comprise that part of the finding. Without such information, it is, therefore, not possible for us to provide any response to that part of the finding. For this reason, the SDE believes this part should be removed from the finding.

Louisiana Learning Resource System (LLRS) property has, in the past, been the source of several audit findings for the SDE. The SDE has maintained that property related to the LLRS should not be accounted for in SDE property records. The property, which is provided to local education authorities (LEA) for handicapped and disabled students, would more appropriately be accounted for in the property records of the student's LEA. On July 7, 1999, the Division of Administration concurred with this view and approved the transfer of all LLRS property to the LEA and Louisiana School for the Visually Impaired. This transfer was completed on July 23, 1999.

The SDE implemented new movable property procedures in February 1999. In March 1999, inservice training was provided for all SDE property liaisons. These procedures are adequate to address the concerns noted in the finding. They cannot, however, correct those parts of the finding which occurred prior to the implemented date nor prevent human error.

The person responsible for corrective action is Rex Thomas, Director of Operations. Should you have any questions concerning this response, please contact me at your earliest convenience.

Sincerely,

A handwritten signature in cursive script that reads "Marlyn J. Langley".

Marlyn J. Langley
Deputy Superintendent
Office of Management and Finance

Approved:

A handwritten signature in cursive script that reads "Cecil J. Picard".

Cecil J. Picard
State Superintendent of Education

MJL:DJGJr



STATE OF LOUISIANA
DEPARTMENT OF EDUCATION
POST OFFICE BOX 94064, BATON ROUGE, LOUISIANA 70804-9064
<http://www.doc.state.la.us>

October 1, 1999

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

Dear Dr. Kyle:

The Department of Education (SDE) concurs with the finding Inadequate Controls Over Contracts and Cooperative Endeavor Agreements. Regarding this finding, the SDE offers the following:

The SDE cooperative endeavor agreement (CEA) has been modified to include Section 15B requirements from Act 10 of the 1999 Regular Session, as well as language requiring an evaluation and audit of services provided. The SDE will require evaluation reports be submitted in accordance with Louisiana Revised Statutes §39:1500.

The SDE will no longer disburse CEA funds by lump-sum payments. Future CEA's will require the return of all unexpended funds, which will be determined by the SDE upon receipt of the final audit report for each agreement. The SDE will obtain the refund of \$39,272 noted in the finding.

The SDE will implement internal controls to ensure no funds will be disbursed which are contingent upon a site visit, receipt of an audit engagement letter, and receipt and acceptance of a prior year audit report. The SDE will ensure all required semiannual programmatic and expense reports are received on a timely basis.

The SDE has submitted a request to exempt all CEA's associated with legislative line-item appropriations from Civil Service approval. The response from Civil Service is pending, and the SDE will ensure all CEA's which have not received a specific exemption will receive Civil Service approval.

The person responsible for this corrective action is Steve Parker, Director of Management and Budget. Should you have any questions concerning this response, please contact me at your earliest convenience.

Sincerely,

Marilyn J. Langley
Deputy Superintendent
Office of Management and Finance

Approved:

Cecil J. Ricard
State Superintendent of Education

MJL:DJGJr



STATE OF LOUISIANA
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November 12, 1999

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

Dear Dr. Kyle:

The Department of Education (SDE) does not concur with the finding related to Inadequate Collection Procedures. The SDE does have collection procedures in place.

The Community-Based Tutorial Program (CBTP) staff did, in fact, make follow-up telephone calls to those subrecipients not responding to the letter dated March 19, 1999. As of this date, the CBTP has received affidavits or reimbursement from 147 of the 195 (75%) subrecipients. The CBTP, in cooperation with the Bureau of Internal Audit, continues to pursue the collection of monies or affidavits from the remainder. Further program funding has been eliminated for those subrecipients which were still active in the program and did not respond to the original request or follow-up. It is intended to refer accounts not collected by December 30, 1999 to the Attorney General.

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

Sincerely,

Marlyn J. Langley
Deputy Superintendent
Office of Management and Finance

Approved:

Cecil J. Picard
State Superintendent of Education

MJL:DJGJr



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November 12, 1999

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

Dear Dr. Kyle,


The Department of Education (SDE) partially concurs with the finding Inadequate Subrecipient Monitoring. The SDE was in the process of implementing new internal controls over the awarding of federal funds to local education agencies in FY 1998-99. The new control system should resolve issues noted in the finding. Additionally, the SDE has taken these specific actions:

1. A letter was distributed to all involved in working with federal awards with guidance as to procedural changes which should be made related to federal awards.
2. The Bureau of Internal Audit is conducting a department-wide management assistance project for all staff involved with federal awards related to procedures required by Office of Management and Budget Circular A-133 for subrecipients.
3. An addendum to all FY 1999/00 applications and budgets will be mailed to grantees listing *items to be completed and information to be furnished to adequately administer federal funds as a pass through entity*. Beginning in FY 2000/01 applications and budgets will include this item.
4. For FY 1999/00 the Division of Education Finance will require applicants to provide the amount of federal funds received for the current year and prior year before approving audit costs in any budget request.

The SDE does not concur with that part of the finding related to "middle management signed" because the approvals were for participation in Child Nutrition Programs. As provided by the National School Lunch Act, as amended, these programs are entitlement programs which guarantee a fixed reimbursement rate for services provided to participants and have no associated dollar amounts. Entitlement programs are not competitive or formula-driven to allocate or distribute funds, thus are not viewed as an award or allocation of federal funds. Participation in these programs is voluntary, and the US Department of Agriculture dictates in the Code of Federal Regulations (7 CFR 210-245) how these program funds are reimbursed. It is, therefore, only necessary to list the approval of the Director of the Division of Nutrition Assistance.

The persons responsible for these corrective actions are Dudley J. Garidel, Jr., Director, Bureau of Internal Audit, Beth Scioneaux, Director of Education Finance, and Kitty Littlejohn, Director of Appropriation Control.

Sincerely,


Marilyn J. Langley
Deputy Superintendent
Office of Management and Finance

Approved:


Cecil J. Picard
State Superintendent of Education

MJL:DJGJr



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November 12, 1999

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

Dear Dr. Kyle:

The Department of Education (SDE) concurs with the finding--Inadequate Controls Over Vocational Education Program.

This program was transferred to the Louisiana Community and Technical College System (LCTCS) effective July 1, 1999; therefore resolution is now the responsibility of that Board. The SDE calculated the adjustments necessary and notified LCTCS in a letter dated August 25, 1999 of recommended corrective actions per discussions with personnel at the U. S. Department of Education (USDOE). In the letter to LCTCS, the situation related to funds not returned by subrecipients was also described with the recommendation that in the future any amounts not obligated during the fiscal or program year be returned. Reallocation of funds should be made under the appropriate rules and regulations in effect for that fiscal year.

The SDE Financial Management reporting unit contacted the USDOE by telephone for guidance on correct classification of expenditures for the Vocational Education program for the report period. Acting on USDOE verbal instruction, the local expenditure in question was classified to Post Secondary, which was in error. Your representatives advised us, however, the classification error is immaterial.

The Financial Management reporting unit will submit an amended SF-269 to correctly classify this expenditure to Secondary on the report. Additionally, all future clarification issues will be submitted to the USDOE in writing. However, it should be noted if the USDOE fails to provide timely clarification, financial status reports could potentially be submitted beyond the due dates.

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

Sincerely,

Marlyn J. Langley
Deputy Superintendent
Office of Management and Finance

Approved:

Cecil J. Picard
State Superintendent of Education

MJL:DJGJr



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November 12, 1999

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

Dear Dr. Kyle:

The Department of Education (SDE) partially concurs with the finding related to Inadequate Controls in Starting Points Program. Regarding this finding, the SDE offers the following:

The SDE is currently revising the Interagency Agreement with the Department of Social Services (DSS) to address parts one and three of your finding by changing monitoring requirements for sites with less than ten participants and changing the due date for the final invoice to DSS.

The SDE does not concur with that part of your finding related to program responsibilities. The SDE does, in fact, have assigned responsibilities for this program as delineated in the SDE organization. The Division of Student Standards and Assessments handles programmatic responsibilities for the program; and the Office of Management and Finance is assigned fiscal responsibilities.

The persons responsible for corrective action are Mary Louise Jones, Section Supervisor, Division of Student Standards and Assessment and Kitty Littlejohn, Director, Appropriation Control. Should you have any questions concerning this response, please contact me at your earliest convenience.

Sincerely,

Handwritten signature of Marlyn J. Langley in cursive.

Marlyn J. Langley
Deputy Superintendent
Office of Management and Finance

Approved:

Handwritten signature of Cecil J. Picard in cursive.

Cecil J. Picard
State Superintendent of Education

MJL:DJGJr



STATE OF LOUISIANA
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August 20, 1999

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

Dear Dr. Kyle:

The Department of Education (SDE) concurs with the finding--Noncompliance with Year 2000 (Y2K) Regulations as regards placing a Y2K compliance statement on purchase orders in excess of \$5,000. Regarding this finding, the SDE offers the following:

Computer hardware and software obtained through the purchase orders identified in the audit will be verified for Y2K compliance. Corrective action will be taken as may be necessary. In addition, the SDE will ensure Y2K compliance requirements are stated on all future bids and/or purchase orders for computer-related hardware and software.

The person responsible for corrective action is Linda Montagnino, Director of Purchasing and Contracts. Should you have any questions concerning this response, please contact me at your earliest convenience.

Sincerely,

Marlyn J. Langley
Deputy Superintendent
Office of Management and Finance

Approved:

Cecil J. Picard
State Superintendent of Education

MJL:DJGJr



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November 12, 1999

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

Dear Dr. Kyle:

The Department of Education (SDE) partially concurs with the finding--Inadequate Uniform Payroll System Controls. The SDE does not concur with the following items from the finding:

Twelve timekeepers did not have the Fixed Time Entry Listing and current leave register verified by an employee different from the one entering time and attendance into the system

Based on our review of information provided by the Legislative Auditor (OLA) staff, we found this occurred with ten timekeepers rather than twelve as cited in the finding.

Five timekeepers time and attendance records did not have bureau director approval

Based on our review of information provided by the Legislative Auditor (OLA) staff, we found only one record which did not have bureau director approval. Two of the records cited were for assistant superintendents, whose names were the only ones on the time sheet, who approved their own time and attendance (T&A) record. The Bureau of Internal Audit (BIA) found this in previous audits and discussed this with management for corrective action. We were unable to locate the other two instances cited in the information provided by the OLA staff.

Twelve timekeepers did not have all employees' time of arrival and departure noted on the time and attendance records

Based on our review of information provided by the Legislative Auditor (OLA) staff, we found the finding relates to employees who were on travel status. The SDE has a policy established October 6, 1992, which allows employees traveling on Departmental business to indicate "TRAVEL" for the applicable days on the T&A records. This policy is found on page 71 of the SDE Automated Time and Attendance Manual.

Seven timekeepers did not have appropriate documentation for employees who worked overtime

Based on our review of the information provided by the Legislative Auditor (OLA) staff, we found this was true for only three timekeepers. Four timekeepers had overtime approval on file, which was not asked for by the OLA staff. The SDE Automated Time and Attendance Manual requires records to be maintained and made available upon request. It does not, however, require overtime approval to be "attached" to the T&A record.

Thirteen timekeepers did not have approved leave slips for employees who took leave

Based on our review of the information provided by the Legislative Auditor (OLA) staff, we found only three instances. We were unable to find the other ten instances from the information provided us by the OLA staff.

Seven timekeepers did not indicate that the Fixed Time Entry Listing and current leave register had been reconciled to the time and attendance records

Based on our review of the information provided by the Legislative Auditor (OLA) staff, we found this relates to a timekeeper verifying his/her own work. The SDE does not understand the rationale for this part of the finding because a supervisor verifies the timekeeper's work. Good internal control requires work to be verified by a person in a position of authority over the employee not the employee.

Sixteen of the 66 timekeepers tested did not have a backup timekeeper shown on the SDE listing of timekeepers and backup timekeepers as required by the SDE automated time and attendance manual

This is a factual error. The SDE automated time and attendance manual DOES NOT require the names of timekeeper and back-up timekeeper to be kept in a list. The manual only requires there be a back-up timekeeper. All SDE payroll units have both a timekeeper and back-up.

The SDE will continue to audit T&A records semiannually and take appropriate steps to address and correct the pertinent areas in this finding.

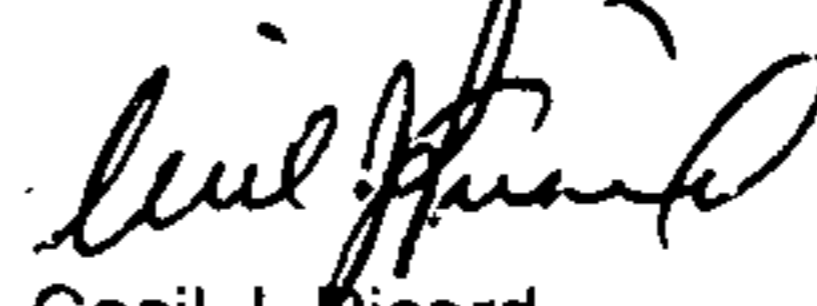
Corrective action is the responsibility of those Offices cited in your finding and will be monitored by the Bureau of Internal Audit. Should you have any questions concerning this response, please contact me at your earliest convenience.

Sincerely,



Marlyn J. Langley
Deputy Superintendent
Office of Management and Finance

Approved:



Cecil J. Picard
State Superintendent of Education

MJL:DJGJr



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November 12, 1999

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

Dear Dr. Kyle:

The Department of Education (SDE) concurs with the finding related to Inadequate Controls Over Bank Reconciliations. Regarding this finding, the SDE offers the following:

The auditor responsible for this function was reprimanded and is no longer employed by the SDE. The monthly bank statements were subsequently reconciled to date by the end of June 1999. Effective immediately responsibility for reconciling all bank statements has been transferred to the Division of Appropriation Control as recommended by the Office of the Legislative Auditor.

The responsibility for the PELL Grant program was transferred to the Louisiana Community and Technical College System effective July 1, 1999. The PELL Grant bank account balance was transferred to the Louisiana Community and Technical College System effective October 29, 1999. The SDE no longer has responsibility for or control over the PELL Grant Program or bank account.

The person responsible for corrective action is Kitty Littlejohn, Director of Appropriation Control. Should you have any questions concerning this response, please contact me at your earliest convenience.

Sincerely,

A handwritten signature in cursive script that reads "Marlyn J. Langley".

Marlyn J. Langley
Deputy Superintendent
Office of Management and Finance

Approved:

A handwritten signature in cursive script that reads "Cecil J. Picard".

Cecil J. Picard
State Superintendent of Education

MJL:DJGJr



STATE OF LOUISIANA
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October 22, 1999

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

Dear Dr. Kyle:

The Department of Education (SDE) concurs with the finding Failure to Verify the Claims Loss Listing. Procedures have been established and formally adopted as SDE policy in the Employee Assistance Guide. We are confident these procedures will ensure timely review of the claims loss listing.

The person responsible for this corrective action is Kitty Littlejohn, Director of the Division of Appropriation Control. Should you have any questions concerning this response, please contact me at your earliest convenience.

Sincerely,

Handwritten signature of Marlyn J. Langley in cursive.

Marlyn J. Langley
Deputy Superintendent
Office of Management and Finance

Approved:

Handwritten signature of Cecil J. Picard in cursive.

Cecil J. Picard
State Superintendent of Education

MJL:DJGJr