

SINGLE AUDITS OF SCHOOL BOARDS SIGNIFICANT AUDIT FINDINGS For the Year Ended 6/30/02

INTERNAL AUDIT REPORT

Audit Control Number 03-03
January 15, 2004



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LOUISIANA DEPARTMENT OF EDUCATION
BUREAU OF INTERNAL AUDIT
Baton Rouge, LA

NOTICE

Under provisions of state law, this report is a public document. A copy of this report has been submitted to the Superintendent of Education, members of the Board of Elementary and Secondary Education, and to other officials as appropriate or required by law. A copy of this report is available for public inspection in the Bureau of Internal Audit at the Louisiana State Department of Education.



STATE OF LOUISIANA
DEPARTMENT OF EDUCATION
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January 15, 2004

Board of Elementary and Secondary Education
Mr. Cecil J. Picard, Superintendent of Education
Louisiana Department of Education

Enclosed is the report on significant audit findings for single audits of school boards for the year ended June 30, 2002. If you have any questions, please contact us.

Respectfully submitted,

A handwritten signature in blue ink that reads "Dudley J. Garidel, Jr." The signature is written in a cursive style.

Dudley J. Garidel, Jr.
Director of Internal Audit

DJGJr

Distribution:

Board of Elementary and Secondary Education (11)
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EXECUTIVE SUMMARY

The State Department of Education (SDE) performs certain cognizant agency functions related to school board single audits in the State of Louisiana. As part of its responsibilities, the SDE performs desk reviews of all school board single audit reports. The audit reports are prepared by independent certified public accountants and forwarded to the SDE for review. The review is performed to determine compliance with Office of Management and Budget (OMB) Circular A-133 and other regulatory guidelines. Listed below is a summary of significant or notable findings relative to school board audits (details begin on page 2).

Noncompliance with State Laws and Regulations

- Movable Property Accounting
- Timely Audit Report
- Collateralized Bank Deposits
- Louisiana Budget Act
- Accounting for School Activity Funds
- Public Bid Law
- Seventy Percent Instructional Expenditures

Noncompliance with Federal Laws and Regulations

- Title I
- School Food Service Program
- Timely Reimbursement Claims
- Class Size Reduction
- Headstart
- Special Education
- Office of Management and Budget Circular A-87

Other Significant Audit Findings

- Accounting Function/System Weaknesses
- Accounts Payable Imprest Account
- Interfund Debt
- Insurance Coverage

SIGNIFICANT FINDINGS NOTED

For the year ended June 30, 2002, significant audit findings and the school boards associated with those findings are as follows:

Noncompliance with State Laws and Regulations

Movable Property Accounting

Louisiana Revised Statutes require public entities to maintain adequate control over movable property. The following school boards did not comply with the statutes or had internal control weaknesses regarding accountability of movable property.

8th Consecutive Finding
Franklin

5th Consecutive Finding
Orleans

1st Finding
Bienville
City of Monroe

7th Consecutive Finding
Plaquemines

2nd Consecutive Finding
East Feliciana
St. Landry

Concordia
Lafourche
Madison
St. Helena
Vernon

Timely Audit Report

Louisiana Revised Statute 24:513 requires public and quasi-public organizations receiving state or federal assistance to obtain audit services and submit an audit report within six months from the end of the fiscal year. The following school boards did not comply with the requirements:

1st Finding
Livingston
St. Helena

Collateralized Bank Deposits

Louisiana Revised Statutes 39:1211-1235 require bank deposits of public entities be fully secured at all times. The following school boards failed to comply:

1st Finding
Assumption
Calcasieu
Franklin
Union

Louisiana Budget Act

Louisiana Revised Statutes 17:88 and 39:1304-1310 require specific information on the notification, adoption, and amendments of budgets. The following school boards did not comply with one or more of the requirements:

1st Finding
Jefferson
St. Helena
St. James

Accounting for School Activity Funds

While School Activity Funds are not the property of the school boards, the boards maintain a fiduciary responsibility over the funds. The following school boards had weaknesses in monitoring School Activity Funds:

5th Consecutive Finding
East Carroll
LaSalle
Orleans

4th Consecutive Finding
Morehouse

1st Finding
Beauregard
Caddo
St. Helena
St. Landry
Union
Vernon

Public Bid Law

The following school boards failed to comply with the Public Bid Law outlined in Louisiana Revised Statute 38:2212:

1st Finding
East Feliciana
Orleans

Seventy Percent Instructional Expenditures

Louisiana Senate Concurrent Resolution #142 of the 1993 Session requires at least seventy percent of General Fund expenditures be spent for instructional purposes. The following school boards did not meet the threshold:

2nd Finding
Grant
Jackson

1st Finding
Tensas

Noncompliance with Federal Laws and Regulations

Title I

This federal award provides funds to enable school districts to improve education in schools. The following school district(s) did not comply with requirements of this award:

2nd Consecutive Finding
Desoto

1st Finding
Caddo
City of Bogalusa

School Food Service Program

This federal award provides funds to enable school districts to meet the nutritional needs of students. The following school district(s) did not comply with requirements of this award:

3rd Consecutive Finding
St. Landry

1st Finding
Livingston
Plaquemines

Timely Reimbursement Claims

The Code of Federal Regulations requires claims on federal awards be paid on a reimbursement basis. School districts are required to use general fund resources to pay costs of federal programs. The general fund receives refunds through the reimbursement process. The following school district(s) did not submit reimbursement claims in a timely manner causing a significant loss in interest revenue to the school board's general fund.

4th Consecutive Finding
Orleans

1st Finding
Morehouse

Class Size Reduction

This federal award provides funds to employ additional classroom teachers in order to reduce classroom size in targeted grades or schools. The following school boards did not comply with the requirements of this award:

1st Finding
Lafayette

Headstart

This federal award provides funds to enable school districts to assist preschool at-risk children with beginning learning at an early age. The following school district(s) did not comply with requirements of this award:

1st Finding
Assumption

Special Education

This federal award provides funds to enable school districts to assist in meeting the special education needs of some children. The following school district(s) did not comply with requirements of this award:

1st Finding
East Baton Rouge

Office of Management and Budget Circular A-87

This federal circular establishes certain administrative requirements for all federal awards. The following school district(s) did not comply with certain requirements of the circular:

1st Finding
East Feliciana
St. Tammany

Other Significant Audit Findings**Accounting Function/System Weaknesses**

- Allen 11th Consecutive Finding
- Inadequate separation of duties
- Bienville 1st Finding
- Unprepared or untimely bank reconciliations
- Concordia 2nd Finding
- Internal control related to fund collections and deposit of funds needs to be strengthened
- 1st Finding
- Unprepared or untimely bank reconciliations
 - General Fund trial balance and accompanying records contained material errors
- East Carroll 1st Finding
- Inadequate separation of duties
 - Unprepared or untimely bank reconciliations
 - Payroll/personnel files with proof of existence, degree obtained, and approval for deductions are not being maintained
- East Feliciana 1st Finding
- Unprepared or untimely bank reconciliations
 - Purchases without Superintendent's approval
- Iberia 5th Finding
- Employees hired before July 1, 1979 received advance salary payments. Advances are now being reduced through attrition.
- 1st Finding
- Bank reconciliation indicates \$200,000 difference between bank account and general ledger
 - Claims for reimbursement not prepared properly based on attendance records and eligibility documents
- Jefferson 1st Finding
- Employees not complying with policies related to sabbatical leave
- Jefferson Davis 1st Finding
- Inadequate separation of duties
 - Inadequate/deficient close-out and reporting procedures
 - Material amount of unrecorded payable in General Fund
- Lafourche
 - Retroactive pay increases, totaling more than \$619,000, granted to employees
- Morehouse 1st Finding
- Unprepared or untimely bank reconciliations
 - Personnel files do not contain documents to support some administrative salaries

- Natchitoches 1st Finding
- Unprepared or untimely bank reconciliations
- Orleans 3rd Consecutive Finding
- Payroll department not keeping adequate documentation
 - Software general controls are weak
 - Unable to provide a complete list of deposits and investments reconciled to the general ledger balances
 - Periodic financial reports not prepared during the year
- 1st Finding
- Payroll processing controls are weak, leading to numerous errors
 - An extreme public emergency, declared in board minutes, was not advertised in the official journal
 - Payroll deduction remittances based on projections caused overpayments to the IRS, State of Louisiana, and other vendors
 - Improper termination procedures caused overpayments to employees and vendors
 - Failure to file reports with the IRS in a timely manner caused the School Board to pay penalties of more than \$620,000 in 2001-02 alone
- Rapides 2nd Consecutive Finding
- School board has not properly designed, managed, or maintained school bus routes.
- St. Helena 5th Consecutive Finding
- General Fund deficit
 - No accounting procedures manual
 - Use of manual accounting system
 - Inadequate separation of duties
 - Year end and monthly interim financial statements not prepared on a timely basis
- 1st Finding
- Unprepared or untimely bank reconciliations
 - Employee received compensation for work not performed
- City of Monroe 1st Finding
- Unprepared or untimely bank reconciliations
 - Inadequate separation of duties between the Human Resources and Payroll functions

Accounts Payable Imprest Account

The East Feliciana Parish School Board uses an accounts payable imprest account through which all nonpayroll checks are disbursed. Theoretically, this account should have a zero balance at the end of each month after funds for payments have been transferred to the account and payments have been made. At June 30, 2002, this account had a balance of approximately \$900,000 which indicates the account is not being balanced or reconciled to those funds for which payments are being made.

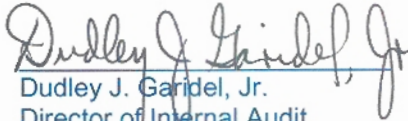
Interfund Debt

The Orleans Parish School Board General Fund owes the Debt Service Fund more than \$22,934,000. If the General Fund fails to repay the amount owed, the ability of the Debt Service Fund to pay its scheduled debt could be jeopardized.

Insurance Coverage

For the fifth consecutive year, St. Helena Parish School Board does not have insurance for property or general liability. The school district is only carrying student liability insurance. Sound business practices dictate organizations maintain adequate insurance coverage to reduce exposure to risk.

By provisions of state law, this report is a public document, and it has been distributed to appropriate public officials.


Dudley J. Garidel, Jr.
Director of Internal Audit


Charles J. Trahan, CGFM
Audit Supervisor