

**SIGNIFICANT AUDIT FINDINGS -
SINGLE AUDITS OF SCHOOL BOARDS &
CHARTER SCHOOLS
For the Year Ended 6/30/2019**

INTERNAL AUDIT REPORT

Audit Control Number 21-02
September 1, 2020



Issued: October 14, 2020

**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 - Louisiana State Department of Education.



LOUISIANA DEPARTMENT OF EDUCATION

October 14, 2020

Board of Elementary and Secondary Education
Dr. Cade Brumley, Superintendent of Education
Louisiana Department of Education (LDOE)

Enclosed is the report on significant audit findings for single audits of school districts and charter schools for the year ended June 30, 2019. We recommend you pay particular attention to the observation related to Charter School Bank Deposits beginning on page 12.

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. CPA
Director of Internal Audit

DJGJr

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EXECUTIVE SUMMARY

The Louisiana Department of Education (LDE) administers some federal cognizant agency functions related to school district (LEA) and charter school single audits performed by independent certified public accountants. The Bureau of Internal Audit (BIA) performs desk reviews of these single audit reports to determine compliance with Office of Management and Budget (OMB) Circulars and other regulatory guidelines. In addition, the BIA compiles a recap of the significant audit findings reported and forwards this information to appropriate LDE Divisions.

Entities with repeated findings are noted as such by the Division of State Education Finance and Policy in its annual risk assessment. These entities are assigned a higher risk rating due to these repeated findings. As a result of a higher risk rating, these entities are more likely to be audited by the Division of State Education Finance and Policy during its annual audit process.

All reported findings related to federal programs administered by the LDE must be resolved within 180 days of the report issue date. The Division of Statewide Monitoring is mandated to ensure such findings are resolved.

The following is a listing of significant or notable findings for the year ended June 30, 2019:

Noncompliance with State Laws and Regulations (page 2)

- Agreed Upon Procedures
- Audit Report Untimely
- Debt Service
- Fixed Asset Accounting/Movable Property
- General Fund Deficit
- Louisiana Local Government Budget Act
- School Activity Funds
- Fraud/Embezzlement/Theft

Noncompliance with Federal Laws and Regulations (page 10)

- Eligibility
- Office of Management and Budget Circular A-87
- Title I

Further Research Issue (page 12)

- Charter School Bank Deposits

Charter School Legend

Belle Chasse	Belle Chasse Academy
CSAL	Community School for Apprenticeship Learning
D'Arbonne Woods	D'Arbonne Woods Charter School
Elan	Elan Academy
Firstline	Firstline Schools, Inc.
French & Montessori	French and Montessori Education, Inc dba Audubon Charter School and Audubon Schools Gentilly
GEO Prep Academy	GEO Prep Academy of Greater Baton Rouge
GEO Prep MidCity	GEO Prep MidCity of Greater Baton Rouge
Glencoe	Glencoe Education Foundation
Inspire-EBR	Inspire Charter Academy – East Baton Rouge
James Singleton	James M. Singleton Charter Middle School
Lafayette Charter	Lafayette Charter Foundation, Inc
LaKey	Louisiana Key Academy
Lycee´	Lycee´ Francais De La Nouvelle-Orleans
New Beginnings	New Beginnings Schools Foundation
NOLA Military	New Orleans Military and Maritime Academy
Pelican	Pelican Educational Foundation, Inc.
South Louisiana	South Louisiana Charter Foundation, Inc.
SW LA	Southwest Louisiana Charter Academy Foundation, Inc.

SIGNIFICANT FINDINGS NOTED

For the year ending June 30, 2019 significant audit findings were determined based on professional judgement during the review of annual single audit reports. The BIA believes findings posing the most risk to the school districts and charter schools are those related to internal control weaknesses surrounding asset security and noncompliance with applicable laws and regulations. Such findings could result in loss of funds or assets and/or recapture of monies by the federal or other governmental entities.

Based on the above, the school district/system/charter schools and associated significant findings, of noncompliance or internal control weakness are as follows:

Noncompliance with State Laws and Regulations

AGREED UPON PROCEDURES [AUP]

Criteria: Louisiana Revised Statute 24:514 requires the Public Accounting firm conducting School Board/District/System/Charter School Single Audits to perform certain additional procedures. These procedures are related to School Board Performance and Statistical Data and are not normally part of an audit. The procedures are intended to assist users in evaluating management's assertions about performance and statistical data and determine whether specified schedules are free of obvious errors and/or omissions.

Finding: When the audit firm tested the AUP for compliance, the below listed entities had exceptions noted.

<u>4th Consecutive</u>	<u>2nd Consecutive</u>
Firstline	Belle Chasse
	CSAL
<u>3rd Consecutive</u>	D'Arbonne Woods
French & Montessori	Elan
Inspire-EBR	GEO Prep Academy
Lafayette Charter	GEO Prep MidCity
Lycee´	Glencoe
Pelican	James Singleton
South Louisiana	New Beginnings
	NOLA Military

Corrective Action: *All entities more or less indicated procedures would be developed or modified to ensure there would be no further occurrences of the errors found.*

AUDIT REPORT UNTIMELY

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 of the close of the entity's fiscal year.

<u>4th Consecutive</u>	<u>3rd Consecutive</u>	<u>2nd Consecutive</u>
Morehouse Parish	Firstline	New Beginnings
Tensas Parish	East Carroll Parish	Caldwell Parish
	Richard Parish	Madison Parish
	Union Parish	

Morehouse Corrective Action: *"Due to hardships of the School Board's financial operations, focus was not placed on the audit and redirected towards solutions for the School Board's future. We will implement procedures to ensure information is gathered to submit the audit by the statutory December 31 deadline. Proper controls and procedures will be implemented to ensure the data is properly secured and protected and backups are stored off-site and not connected to its network."*

Tensas Corrective Action: *"The School Board will ensure that all accounts are properly reconciled and adjusted prior to the beginning of the audit."*

Firstline Corrective Action: *"The finance department at Firstline Schools has experienced significant personnel turnover during FY2019 and during the subsequent fiscal year. As a result of the turnover, we experienced limited staffing capacity to facilitate a timely year-end close. This is a challenge we are still overcoming, but we are working to diligently to fill vacant positions and increase capacity to ensure a timely year-end financial close for FY2020."*

East Carroll Corrective Action: *“Management will meet with the auditor to ensure the auditor has adequate staff to prevent this from occurring in the future.”*

Richland Corrective Action: (The Single Audit report was still outstanding as of September 1, 2020.)

Union Corrective Action: (The Single Audit report was still outstanding as of September 1, 2020.)

New Beginnings Corrective Action: *“New Beginnings Schools Foundation experienced turnover in its Chief Financial Officer role at the end of the 6/30/2018 and 6/30/2019 fiscal years. The Foundation has since hired an external accounting services firm to serve as the school's Chief Financial Officer, as well restructured its internal finance team, in order to ensure proper internal controls are followed and financial statement activity is properly recorded and reviewed.”*

Caldwell Corrective Action: (The Single Audit report was still outstanding as of September 1, 2020.)

Madison Corrective Action: *“We concur with this audit finding. We will work to prevent this from reoccurring by engaging an independent CPA consultant closer to fiscal year end, thereby giving more time to get our books in order for the audit. Also, staff will be provided more training on recordation of certain accounting transactions.”*

DEBT SERVICE

Criteria: Louisiana Revised Statute 39:569 states that the governing authority of a subdivision issuing bonds hereunder shall impose and collect annually, in excess of all other taxes, a tax on all property subject to taxation by the subdivision sufficient in amount to pay the interest annually or semiannually and the principal falling due each year, or such amount as may be required, for any sinking fund necessary to retire said bonds at maturity.

Finding: The listed entity failed to ensure one or more bond sinking funds had sufficient funds available at year end to pay the principal and interest payments for the next year.

3rd Consecutive Webster Parish

Webster Corrective Action: *“The District will adjust the millages until the issue is resolved.”*

FIXED ASSET ACCOUNTING/MOVABLE PROPERTY

Criteria: Louisiana Revised Statutes require public entities to maintain adequate control and accountability over movable property. The inability of an entity to properly account for such assets might lead to an unfavorable audit opinion for the entity's annual audit or the recapture of grant monies by the federal or other government entities.

3rd Consecutive
Natchitoches Parish

2nd Consecutive

Natchitoches Condition Based On Audit Report: "Deficiencies were noted in the capital asset records. Buildings and improvements titled to the School Board were not kept on a subsidiary ledger. No asset descriptions were provided to the auditor. These errors in the capital asset records were caused by failure to implement internal control procedures to ensure that all items are recorded, valued properly, and classified properly in the school board's capital asset records. The Independent Auditor's Report on the governmental activities is modified because we are unable to satisfy ourselves as to the fair presentation of the School Board's governmental activities capital assets. Failure to maintain an inventory control system could result in the reporting of inaccurate amounts and increases the possibility of the loss or misappropriation of assets."

Natchitoches Corrective Action: "Management is currently working with our CPA to resolve this deficiency. Management plans to implement an internal control process over capital assets to verify that they are recorded and tracked properly."

GENERAL FUND DEFICIT

Criteria: The entities below incurred a General Fund deficit as of year-end. Such a condition indicates a deficiency of available funding or lack of adequate management oversight for spending.

3rd Consecutive
Lafayette Charter
SW LA

2nd Consecutive
East Feliciana Parish

Lafayette Charter Corrective Action: Management did not present a plan of corrective action in the financial statements related to reducing the deficit.

SW LA Corrective Action: Management did not present a plan of corrective action in the financial statements related to reducing the deficit.

East Feliciana Parish Corrective Action: Management did not present a plan of corrective action in the financial statements related to reducing the deficit.

LOUISIANA LOCAL GOVERNMENT BUDGET ACT

Criteria: In accordance with the Louisiana Local Government Budget Act (Louisiana Revised Statutes 39:1301 through 39:1315), the proposed budget shall be accompanied by a proposed budget adoption instrument and include a budget message signed by the budget preparer. In addition, a political subdivision shall certify completion of the adopted budget by publishing a notice of adoption in the official journal.

3rd Consecutive
Madison Parish

2nd Consecutive
Glencoe
Lafourche Parish

Madison Parish Condition Based On Audit Report: “The School Board did not cause to be published in the official journal at least 10 days prior to the public budget hearing a notice stating that a proposed budget is available for public inspection at the School Board office.”

Madison Corrective Action: “We will work to prevent this from reoccurring by making sure the budget hearing is advertised in the newspaper at least 10 days before the Board Meeting. We have asked the Board Secretary to note on her calendar the need to annually advertise at least 10 days in advance of the public hearing.”

Glencoe Condition Based On Audit Report: The adopted budget did not include a budget message and adoption instrument. In addition, a notice was not published in the official journal to certify completion of the adopted budget. Also, the notice of public hearing was published less than ten days prior to the date of the first public hearing.

Glencoe Corrective Action: “Management was made aware of these issues during the audit of the 2017/2018 financial statements. At this time, the 2018/2019 budget steps had already occurred. Management has corrected these processes and ensured all steps of the Louisiana Local Government Budget Act were completed for the 2019/2020 budget.”

Lafourche Parish Condition Based On Audit Report: The School Board did not advertise prior to its public hearing and adoption of the 2019 budget. Additionally, the budget was not completed and submitted to the School Board and made available for public inspection at least 15 days prior to the date of budget adoption.

Lafourche Corrective Action: “A control sheet has been established for the production and adoption of the budget. This control sheet will be prepared prior to assembling the budget, and will contain the date for submitting the budget to the School Board, for publishing the notice of the public hearing and for the adoption of the budget. The Business Manager and the Assistant Business Manager will monitor the progress of the budget and make sure all deadlines are met.”

SCHOOL ACTIVITY FUNDS

Criteria: While School Activity Funds are not property of the LEA or charter schools, the entity maintains a fiduciary and monitoring responsibility for these funds. Louisiana Revised Statute 17:414 regulates the management, expenditure of, and accounting for School Activity Funds. The failure to properly maintain these monies might lead to fraud, waste, or abuse of public funds.

Finding: The school systems listed below had one or more individual schools which did not properly document or account for transactions in the school's activity fund(s). In every case, this was caused by a lack of proper internal control procedures in place at the affected school(s).

9th Consecutive
St Landry Parish

5th Consecutive
Lafayette Parish

3rd Consecutive
Webster Parish
West Carroll Parish

St Landry Corrective Action: *"The School Board performs routine audits of the school activity funds. In the past, school administrators allowed certain groups to spend funds that were not available to their group, which has created negative cash balances for some groups. All school administrators and bookkeepers have been informed of the proper procedures for spending school activity funds. Duties have been modified at the district level to allow for an additional school auditor. This will allow for more school audits during the year and a greater presence at the schools."*

Lafayette Corrective Action: *"The school activity department performs fifteen to twenty audits each year. These audits, coupled with external audits, provide close to 100% of schools being reviewed each year. In addition to audits, several other procedures have been implemented over the past few years. In 2015, an audit rating form was implemented and is being used to provide an overall rating to each school based on internal audit results. In 2016, performance objectives for principals were changed to allow the inclusion of the audit ratings in the evaluation of the principals, thereby increasing the level of accountability. In 2017, the school activity audit department began reviewing some fundraisers as they were completed. This has allowed the department to assist the fundraiser sponsor with any issues that may exist with the fundraiser reconciliation. In 2018, training videos that provide step-by-step instructions on the proper completion of fundraiser reconciliations were made available. All sponsors of fundraisers are required to view the videos. In 2019, account clerks were hired to assist high school bookkeepers with fundraiser reconciliations. The school activity department will continue to work with and provide training to the account clerks."*

Webster Corrective Action: *"Our annual finance workshop is now split into four sessions. Two sessions are for the high school and junior high school north and south end of the district. The other two sessions are for the north and south end of the district elementary schools."*

FRAUD/EMBEZZLEMENT/THEFT

The following entities had one or more reported instances of fraud, embezzlement, or theft.

6th Consecutive

St Landry Parish
St Martin Parish

3rd Consecutive

Caddo Parish
City of Monroe
St John the Baptist Parish

St Landry Condition Based On Audit Report: On November 10, 2018 a backpack containing a School Board issued HP laptop computer was stolen from an employee's personal vehicle at his residence. The Opelousas Police department was contacted, and a police report was filed. As of the date of this report, the laptop computer has not been recovered; however, the employee has reimbursed the School Board for the replacement value of the laptop computer.

St Landry Corrective Action: *"The School Board will continue to conduct routine inventory checks to mitigate these types of risks. As of the date of this report, the Notebook has not been recovered".*

St Martin Condition Based On Audit Report: In fiscal year ended June 30, 2016, an employee of the school board misappropriated funds from the administrative office. The employee was arrested in August 2016. The approximate amount of the misappropriation was estimated at \$17,338 as of June 30, 2016.

In fiscal year ended June 30, 2017, Casey V. Broussard, CFO and Allen Blanchard, Jr., Director of Personnel contacted the St. Martin Parish Sheriff's Office, the Sixteenth Judicial District Attorney's Office, and the Legislative Auditor's Office. The case is being handled by the District Attorney's Office. The defendant pled guilty on April 24, 2017. She was sentenced to serve three years of hard labor, which was suspended, and she was placed on supervised probation for a period of five years. The defendant has paid very little restitution. The school board is still owed funds of approximately \$15,118. The former employee has until April 24, 2022 to make full payment. Although the finding was not completely resolved as of June 30, 2019, the only "open" component of the matter is the restitution owed to the school board.

St Martin Corrective Action: *"In fiscal year ended June 30, 2016, an employee of the school board misappropriated funds from the administrative office. The employee was arrested in August 2016. The approximate amount of the misappropriation was estimated at \$17,338 as of June 30, 2016. In fiscal year ended June 30, 2017, Casey V. Broussard, CFO and Allen Blanchard, Jr., Director of Personnel contacted the St. Martin Parish Sheriff's Office, the Sixteenth Judicial District Attorney's Office, and the Legislative Auditor's Office. The case is being handled by the District Attorney's Office. The defendant pled guilty on April 24, 2017. She was sentenced to serve three years of hard labor, which was suspended, and she was placed on supervised probation for a period of five years. The defendant has paid very little*

restitution. The school board is still owed funds of approximately \$17,030. The former employee has until April 24, 2022 to make full payment. Although the finding was not completely resolved as of June 30, 2018, the only "open" component of the matter is the restitution owed to the school board. Ms. Broussard and/or Mr. Blanchard will contact the District Attorney's Office to inquire about restitution payments. They will also continue to monitor the collection of the restitution owed to the school board".

Caddo Condition Based On Audit Report: In July 2018, an electronic bank transfer of approximately \$988K was made with the intent that it would be deposited in an account for Magnolia Charter School. The information provided via email for the transfer was fraudulent and the charter school did not receive the funds. The Caddo Parish Sheriff along with the FBI investigated the theft. The authorities were able to locate a large portion of the money. A total of \$832,864 was recovered which includes \$100,000 received from the insurance claim.

Caddo Corrective Action: *"Procedures have been implemented to prevent email scams or phishing schemes from occurring. These procedures include placing a phone call to businesses notifying the School Board of a bank account change."*

City of Monroe Condition Based On Audit Report: In 2019, the School Board became aware of misappropriation of funds at Roy Neal Shelling Elementary (formerly known as Lincoln Elementary). The Louisiana Legislative Auditor, the Ouachita Parish Sheriff's Office, and District Attorney and the School Board's attorney were notified immediately.

City of Monroe Corrective Action: *"Employees have been terminated and job responsibilities have been reassigned to current employees until processes and controls can be developed to ensure that there is a proper level of review."*

St John Condition Based On Audit Report: During the current fiscal year the School Board received an allegation of potential payroll fraud at the Garyville/Mt. Airy Math and Science Magnet School ("GMMS"). The complaint alleged that two (2) teachers were being compensated for time during which they were not physically present at the GMMS and that the Principal allegedly had knowledge of and approved these aforementioned absences, and directed a GMMS employee to alter teacher attendance records in order to conceal their absence. The School Board conducted an internal investigation and forwarded the information to the St. John the Baptist Parish Sheriff's Office, who is currently investigating the allegation. In addition, the allegation was forwarded to our CPA firm (CRI) by the Louisiana Legislative Auditor and is in the process of also being investigated by CRI. No charges have been filed as of the date of this report. Both teachers and the Principal had resigned from the School System by the start of the 2019-2020 school year.

St John Corrective Action: *"During the current fiscal year the School Board received an allegation of potential payroll fraud at the Garyville/Mt. Airy Math and Science Magnet School ("GMMS"). The complaint alleged that two (2) teachers were being*

compensated for time during which they were not physically present at the GMMS and that the Principal allegedly had knowledge of and approved these aforementioned absences, and directed a GMMS employee to alter teacher attendance records in order to conceal their absence. The School Board conducted an internal investigation and forwarded the information to the St. John the Baptist Parish Sheriff's Office, who is currently investigating the allegation. In addition, the allegation was forwarded to our CPA firm (CRI) by the Louisiana Legislative Auditor and is in the process of also being investigated by CRI. No charges have been filed as of the date of this report. Both teachers and the Principal had resigned from the School System by the start of the 2019-2020 school year."

Noncompliance with Federal Laws and Regulations

Federal programs contain eligibility requirements which must be met in order to allow and/or continue participating in a program. Such requirements vary depending on the program.

ELIGIBILITY

Criteria: Federal programs contain various eligibility requirements which must be met in order to participate in a program. Requirements vary depending on the program. Noncompliance could lead to recapture of those monies and possibly being disqualified from participating in future grant programs.

3rd Consecutive Finding

Lafayette Parish

Lafayette Condition Based On Audit Report: "Code of Federal Regulations [CFR] 45 Section 260.31 requires TANF assistance be received only by financially needy families. Information necessary for eligibility determination was not properly obtained, analyzed, and/or documented in the student eligibility files for the Temporary Assistance to Needy Families [TANF] [93.558] Program. In addition, enrollment reports required by the TANF--LA4 Early Childhood Program grantor were not accurately prepared or reported.

The public accounting firm conducting the annual audit stated in its report: As described in the accompanying schedule of findings and questioned costs, the School Board did not comply with requirements regarding CFDA 93.558 Temporary Assistance for Needy Families as described in finding number 2018-006 for Eligibility. Compliance with such requirements is necessary, in our opinion, for the School Board to comply with the requirements applicable to that program. In our opinion...the School Board did not comply, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on Temporary Assistance for Needy Families for the year ended June 30, 2018."

Lafayette Corrective Action: *“In order to improve our eligibility determination training adjustments were made and updated documents will be used by the group collecting information. The number of people collecting income will be limited and employees collecting income will be given samples of how to document unique situations. All files with unique situations will be double checked for issues that may have not been resolved. Someone from the LDE verified that the new process we will be using is adequate. Also, we updated forms that are completed when collecting information, and added an additional person to check the packet once it is complete to ensure compliance.”*

TITLE I

Criteria: This federal award provides funds to enable school districts/systems to improve the teaching and learning of children failing or most at-risk of failing and meet challenging State academic standards. Noncompliance could lead to recapture of those monies and possible disqualification by the federal government from further participation. 2 CFR 200.303 requires that the entity establish and maintain effective internal controls over the Federal award that provides reasonable assurance that the entity is managing the Federal award in compliance with statutes, regulations, and the terms and conditions of the Federal award. Nonfederal entities are required to have certain written policies and procedures surrounding the management of their federal award funding. The cost principles in 2 CFR Part 200, subpart E prescribe the cost accounting requirements associated with the administration of Federal awards by local governments including the requirements for allowable costs/cost principles and states that the entity is responsible for oversight of the operations of the Federal award supported activities.

3rd Consecutive Finding

Tensas Parish

Tensas Condition Based On Audit Report: *“The School Board did not demonstrate adherence to certain program compliance requirements by ensuring that effective internal controls were maintained to provide reasonable assurance that the School Board managed Federal awards in compliance with statutes, regulations, and the terms and conditions of the Federal Awards. Management attempted to follow up on irregularities and deficiencies identified in audits, reviews and monitoring, but actions were not effective and timely enough for the School Board to be in compliance during the fiscal year ended June 30, 2018.”*

Tensas Corrective Action: *“The new Business Manager is utilizing all resources along with the continued assistance of the consulting CPA firm to ensure that financial records are kept up-to-date and that staff is provided appropriate training and resources to perform their job. She is also creating systematic procedures to increase the efficiency and effectiveness of current school board business practices.”*

Further Research Issue

CHARTER SCHOOL BANK DEPOSITS

Criteria: LA. R.S. 17:3996(B) states: “Notwithstanding any state law, rule, or regulation to the contrary and except as may be otherwise specifically provided for in an approved charter, (emphasis added) a charter school established and operated in accordance with the provisions of this Chapter and its approved charter and the school's officers and employees shall be exempt from all statutory mandates or other statutory requirements (emphasis added) that are applicable to public schools and to public school officers and employees...”

Observation: During the review of the FY 2018-19 charter school Single Audit reports, the BIA determined Type 2, 4, and 5 charter schools had in excess of \$86,200,000 in uninsured uncollateralized bank deposits.

Although LA. R.S. 17:3996(B) exempts charter schools from LA R.S. 39:1211-1245 regarding bank deposits and security of deposits, and no charter schools have suffered any financial losses to date, the risk associated with such large sums of uninsured uncollateralized publicly funded bank deposits, however, is too great to ignore. Any loss of charter school funds due to a bank failure would, in all likelihood, result in the State of Louisiana having to provide additional public funds to cover such losses.

Recommendation: The LDE should research options which will address this issue and safeguard public funds.

Public Document

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



Dudley J. Garidel, Jr. CPA
Director of Internal Audit