

**SIGNIFICANT AUDIT FINDINGS -
SINGLE AUDITS OF SCHOOL BOARDS &
CHARTER SCHOOLS
For the Year Ended 6/30/17**

INTERNAL AUDIT REPORT

Audit Control Number 19-01
August 15, 2018



Issued: August 15, 2018

**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

August 15, 2018

Board of Elementary and Secondary Education
Superintendent John White, 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, 2017. If you have any questions, please contact us.

Respectfully submitted,

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

DJGJr

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EXECUTIVE SUMMARY

By agreement with the United States Department of Education (USDOE) Office of Inspector General (OIG), the Louisiana Department of Education (LDOE) administers some cognizant agency functions related to school district (LEA) and charter school single audits in the State of Louisiana.

The Bureau of Internal Audit (BIA) performs desk reviews of certain of these single audit reports. In addition, the BIA compiles a recap of the significant audit findings reported and forwards this information to appropriate Divisions within the LDOE.

The reports are based on audits by independent certified public accountants in accordance with federal and state regulations. The BIA desk review is performed to determine compliance with Office of Management and Budget (OMB) Circulars and other regulatory guidelines.

The following is a listing of significant or notable findings for the year ended June 30, 2016.

Noncompliance with State Laws and Regulations (page 2)

- Agreed Upon Procedures
- Charter School Law
- General Fund Deficit
- Public Bid Law
- School Activity Funds
- Timely Audit Report
- Fraud/Embezzlement/Theft

Noncompliance with Federal Laws and Regulations (page 4)

- Eligibility
- Fixed Asset Accounting/Movable Property
- School Food Service
- Suspended/Debarred Vendors
- Title I

Entities with repeated findings are noted as such by the Division of Education Finance 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 Education Finance during its annual audit process.

All reported findings related to federal programs administered by the LDOE must be resolved within 180 days of the report issue date.

Charter School Legend

ARISE	ARISE Academy
Crescent	Crescent Leadership Academy
Firstline	Firstline Schools, Inc.
International	International School of Louisiana
LaKey	Louisiana Key Academy
RENEW	RENEW Charter Management Organization
Shreveport	Shreveport Charter Schools, Inc.
South LA	South Louisiana Charter Foundation, INC.

SIGNIFICANT FINDINGS NOTED

The BIA believes findings posing the most risk to the school districts and charter schools are those related to noncompliance with applicable laws and regulations. Such findings could result in the recapture of those monies by the federal or state government.

For the year ending June 30, 2017, significant audit findings and the school district/system associated with those 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 Certified Public Accountant conducting a School Board/District/System Single Audits to perform certain “agreed upon 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, the below listed entities had exceptions noted.

<u>2nd Consecutive Finding</u>	<u>2nd Consecutive Finding</u>	<u>2nd Consecutive Finding</u>
ARISE	Ascension Parish	Grant Parish
Crescent	Assumption Parish	Iberville Parish
Firstline	Beauregard Parish	Jefferson Parish
International	Caldwell Parish	Lincoln Parish
LaKey	Catahoula Parish	Livingston Parish
RENEW	City of Baker	Orleans Parish
South LA	East Baton Rouge Parish	Pointe Coupee Parish
	East Carroll Parish	St. John Parish

East Feliciana Parish

St Martin Parish

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

Charter School Law

Criteria: Louisiana Revised Statute 42:1124.3 requires each member of the management board of a charter school created pursuant to Chapter 42 of Title 17 of the Louisiana Revised Statutes of 1950 to file a financial statement. The required financial statement shall be filed on a form prescribed by the Louisiana Board of Ethics and must be filed by May fifteenth of each year. The document shall be submitted by each new Charter Operator board member within thirty (30) days of appointment.

Finding: The below listed entity failed to ensure all board members filed the prescribed form.

2nd Consecutive Finding

Shreveport

Shreveport Corrective Action: Management stated: *"Every newly selected Board Member will be required to complete the Board Member Eligibility Form. Annually, each Board Member will complete the Tier 3 Personal Financial Disclosure Statement. Copies of these reports will be maintained on file"*.

General Fund Deficit

Criteria: Certain LEA incurred a General Fund deficit as of year-end. This might indicate a deficiency of available funding or lack of adequate management oversight for spending.

2nd Consecutive Finding

Crescent

South LA

Crescent Corrective Action: The deficit doubled from 2016 to 2017. Per Note 11 in the Notes to Financial Statement of the CLA audit report: *"Management has implemented financial and operational plans to ensure CLA continues to operate throughout fiscal year 2018. Additionally, CLA's management company Rite of Passage has committed to CLA to provide or maintain the necessary level of financial support to CLA, either through delay of payment on outstanding payables and reductions in management fees, to enable CLA to meet and discharge its liabilities in the normal course of operations through June 30, 2018"*.

South LA Corrective Action: SLCF management did not present a plan of corrective action in the financial statements pertaining to reducing the foundation's deficit.

Public Bid Law

Criteria: The Public Bid Law outlined in Louisiana Revised Statute 38:2212 mandates certain procedures and requirements for procurement of high-dollar value goods and services. Failure to comply might lead to the misuse or waste of public funds.

2nd Consecutive Finding

East Carroll

Ouachita

East Carroll Condition: When the audit firm tested a sample of purchases above the quote threshold completed during the year, there was one exception noted in which a bid was not obtained for a purchase of over thirty thousand dollars. In addition, there was one exception noted in which only one quote was obtained; and, finally, one exception where no quotes were obtained for purchases between ten thousand and thirty thousand dollars.

Corrective Action: Management stated: *"Once again, all personnel involved in purchasing will be issued procedures to ensure that public bid law is being followed"*.

Ouachita Condition: When the audit firm tested a sample of purchases above the quote threshold completed during the year, it was noted one project was split into two different projects and was not adequately bid per the Louisiana Revised Statutes. In addition, it was noted one contract had a change order which was outside the initial scope of the contract. It was also noted one contractor was paid in excess of the Board approved amount although the contractor refunded the excess after the audit firm pointed out the error.

Corrective Action: Management stated: *"Procedures will be developed to ensure planned public works projects and changes thereto are reviewed for compliance with state procurement laws prior to initiation and contract amounts on pay applications are verified against authorized bids, contracts, or change orders prior to approval for payment. Staff responsible for authorizing and initiating public works projects will receive training on related state procurement regulations or have planned projects, contracts and change orders reviewed for proper contracting and procurement by Legal Counsel or the Purchasing Agent, as appropriate, prior to initiating work or executing contracts or changes thereto"*.

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 Finding

St Landry

3rd Consecutive Finding

Lafayette

4th Consecutive Finding

Rapides

2nd Consecutive Finding

South LA

St Landry Corrective Action: Management stated: *"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 have been informed of the proper procedures for spending school activity funds"*.

Rapides Corrective Action: Management stated: *"The Finance Department will continue to conduct refresher meetings to emphasize the procedures as outlined in the School Activity Fund Manual and the importance of following these Board approved procedures. In addition, the Administration will conduct a meeting with the principal and secretary for Paradise Elementary, Caroline Dorman Junior High School, and Tioga High School to review the findings and discuss a plan to correct these findings and prevent future findings"*.

Lafayette Corrective Action: Management stated: *"The school activity department performs fifteen to twenty audits per year. These audits coupled with external audits provide close to 100% of schools being reviewed each year. In 2015, an audit rating form was implemented and is used to provide an overall rating to each school based on internal audit results. In 2016, performance objectives for principals were changed to allow including the audit ratings in the evaluation of the principals thereby increasing the level of accountability. In 2017, the school activity audit department began reviewing fundraisers as they were completed. Additionally, the department offers training to schools as requested. In January of 2018 the department will release training videos which will provide step-by-step instructions on the proper completion of fundraiser reconciliations. Administration has set a primary goal of all schools obtaining a "Fair" audit rating in fundraising and class fees areas"*.

South LA Corrective Action: Management stated: *"One of the schools within the foundation closed subsequent to the 2016-2017 school year, which affected its ability to provide records. Processes are being put in place to ensure that records are properly retained in the event of a school closure. The lead trainer of the SOA position continues to visit the schools to reinforce CSUSA cash receipts policies and stress the importance of record retention. The Principal and Regional Director are also aware that record retention has been a recurring issue and must be corrected. We are working on implementing new procedures that will help with record retention. Some of these process include requiring School Operations Administrator to provided [sp] electronic copies of all deposits to the staff accountant assigned to the school rather than only conducting intermittent checks that the proper backup is being retained".*

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.

2nd Consecutive Finding

Morehouse Parish

Morehouse Corrective Action: Management stated: *"We contracted with a new audit firm in August 2017. There were software conversion issues that resulted in delays as well. We will develop a time plan with our auditors to ensure that our audit is complete and filed by December 31st".*

Fraud/Embezzlement/Theft

The following LEA had reported instances of fraud, embezzlement, or theft.

<u>4th Consecutive Finding</u>	<u>2nd Consecutive Finding</u>
---------------------------------------	--------------------------------------------------

St Landry

Avoyelles

St Martin

Ouachita

St Landry Corrective Action: Management stated: *"The School Board has evaluated its security controls at all locations to ensure that they are functioning properly. As of the date of this report, none of the stolen property has been recovered."*

St Martin Corrective Action: Management stated: *"In fiscal year ended June 30, 2017, Casey V. Broussard, CFO and Allen Blanchard, Jr., Director of Personnel contacted the St. Martin Parish Sheriffs (sp) 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 not*

paid any restitution. The school board is still owed funds of approximately \$17,338. The former employee has until April 24, 2022 to make full payment. Although the finding was not completely resolved as of June 30, 2017, the only "open" component of the matter is the restitution owed to the school board."

Avoyelles Corrective Action: Management stated: *"System policies and procedures are in place that provide internal controls and detection controls to prevent theft of system assets by employees. These controls detected the theft and appear to be working. Applicable personnel will continue to monitor controls and implement new policies, procedures and controls as deemed necessary and appropriate".*

Ouachita Corrective Action: Management stated: *"Timely receipting and depositing of cash collections to meet School Board policy continues to be a challenge in all 36 schools due to the volume of student fees and ongoing sales activities. Current policy is for all cash collected during the day to be deposited on the same day of collection. District-level training is provided to school leadership annually and bookkeepers no less than on 3 occasions each year, in addition to reminders during Principal Meetings and through emails. The responsibility of training school staff on cash management policies and procedures lies with the School Principal. Management recognizes that educating school staff of their responsibility in handling public funds and following proper procedures designed to get cash out of employee hands and out of the school as quickly as possibly is a challenge. Providing resources to school leadership to assist with training school staff on proper procedures in handling cash is an ongoing focus for the district, and many procedures, forms and worksheets have been added to the district website to make the information more accessible to staff in schools.*

The incidents reported at West Ridge Middle School and Sterlington High School both were the result of initial reports made by those school principals (West Ridge in April 2014 and Sterlington High in August 2017) to district administration of possible improprieties of school staff in handling cash. Upon further review by district administration, an outside auditor was engaged to conduct a more thorough investigation in each case, and the Louisiana Legislative Auditor and the District Attorney were notified.

The two employees investigated in the incident at West Ridge Middle School are no longer employed with the School Board. The District Attorney obtained a restitution payment of \$10,301 from the former bookkeeper. A claim has been filed with the School Board's insurance carrier for reimbursement of remaining losses. The incident at Sterlington High School is currently under review by the law enforcement. One sponsor has resigned and sponsorship and cash-handling activities have been removed from another employee. The School Board's insurance carrier has been notified of this loss and claim filing is pending."

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 the future.

2nd Consecutive Finding

Lafayette

Lafayette Condition: 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.

Lafayette Corrective Action: Management stated: *"Beginning in August 2017 the attendance reports prepared by the teachers are being reviewed by the Resource Coordinator prior to submission to the Early Childhood office. Beginning in November 2017 the Director of Early Childhood or an appointee reviews the monthly attendance reports prior to submitting them to the Louisiana Department of Education. Additionally, in March 2017 the staff enrollment sheet and the online application were updated. At that time new forms that have been developed by the Louisiana Department of Education were incorporated. The new forms included were a Declaration of Income for Irregular Employment Form and a Statement of No Income Form. The department also developed an income scenarios sheet which lists 25 scenarios for staff to use when determining income eligibility".*

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.

2nd Consecutive Finding

Pointe Coupee

Pointe Coupee Condition: Property and equipment purchased with federal awards in an amount equal to or exceeding the School Board's capitalization policy of \$5,000 must be identified with the federal award identification number (FAIN)

within the accounting records. The School Board did not identify an equipment purchase of \$64,825 (Special Education Cluster) and two equipment purchases totaling \$27,057 (Child Nutrition Cluster) with program funding by the FAIN within its property control (accounting) records.

Pointe Coupee Corrective Action: Management stated: *"The School Board will review the recommended best practices Capital Assets Policies & Procedures, from the Legislative Auditors We Site and make recommended revisions to incorporate needed changes to ensure that all capital assets are captured on the depreciation schedule. During the last quarter of 2017, all assets were converted to the new business system. The review process did not pick-up on the item noted and were inadvertently left off the report. During the year, the CFO will randomly check that certain items are included on the depreciation list".*

School Food Service

These federal awards provide funding to meet the nutritional requirements of eligible school children.

2nd Consecutive Finding

Union

Union Condition: At fiscal year end, the School Board is required to submit the income and expense report to the Louisiana Department of Education for the fiscal year, which should reflect amounts per the accounting records of the School Food Service fund based on the Louisiana Department of Education's prescribed object codes and functions. When testing the income and expense report for the year ended June 30, 2017, the audit firm noted several exceptions noted where the amounts reported did not agree to proper underlying supporting documentation.

Union Corrective Action: Management stated: *"In the future, the Union Parish School Board will submit the income and expense report to the Louisiana Department of Education for the fiscal year that reflects amounts per the accounting records of the School Food Service fund based on the Louisiana Department of Education's prescribed object codes and functions".*

Suspended/Debarred Vendors

Criteria: Under the OMB Circular A-133 Compliance Supplement, an entity is prohibited from contracting with vendors which have been suspended or debarred from conducting business with federal award programs. The entity must certify the vendor is not suspended or debarred from transactions expected to equal or exceed \$25,000. Noncompliance could lead to recapture of those monies and possible disqualification by the federal government from further participation.

2nd Consecutive Finding

East Feliciana

East Feliciana Condition: During the performance of our audit procedures, we noted that for new vendors the School Board is performing the search for suspension and debarment procedures however they should annually perform the search on all vendors. Management has underlying controls that they believe to be sufficient to ensure all vendors are not debarred; however, these the searches must be documented annually for all vendors.

East Feliciana Corrective Action: Management stated: *"Although the School Board presently searches the federal website for vendors receiving federal funds, an annual process to document on-going review of present vendors will be implemented immediately. The search results will be maintained to support this control process"*.

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.

3rd Consecutive Finding **2nd Consecutive Finding** Bossier East Baton Rouge

Bossier Condition: Under the No Child Left Behind Act of 2001, schools must use Title I, Part A funding awarded to support activities that address specific educational needs of the school identified by the needs assessment and articulated in the school's schoolwide plan. During testing of the Title I school wide plans the audit firm found one incomplete plan. The School's strengths and weakness section was completed, but the source of the information was very vague. The remaining sections of the plan were not completed.

Bossier Corrective Action: Management stated: *"All Title I schoolwide plans now include required core elements and components"*.

East Baton Rouge Condition: The School System must report graduation rate data for all public high schools at the school level using the 4-year adjusted cohort rate under 34 CFR section 200.19(b)(1)(i)-(iv)). Only students who earn a regular high school diploma may be counted as a graduate for purposes of calculating the 4-year adjusted cohort graduation rate. To remove a student from the cohort, a school must confirm, in writing, the student transferred out, emigrated to another country, or is deceased. When the audit firm tested internal controls with respect to 34 CFR §200.19(b), exceptions were noted in the required documentation set forth by the Louisiana Administrative Code Title 28, Part LXXXIII, Chapter 6, §611 for students leaving the system. The rate of exception indicates that the School System does not have adequate internal control procedures in place to ensure that all

documentation is maintained contemporaneously with the removal of the student to support the removal from a cohort.

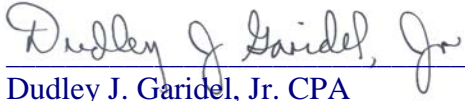
East Baton Rouge Corrective Action: Management stated: *"The District implemented a Universal Transfer and Withdrawal Form and Associated Procedures in August 2011. The procedures outlined below reflect revisions made in April 2014, November 2016, and August 2017 on the district's withdrawal/drop procedures. All schools are required to follow the district's withdrawal/drop procedures. The procedures were updated to clearly define the required documentation for students who withdraw from school with the following withdrawal codes:*

- *Out of State/Country (10):*
- *Out of State: A copy of the records request from the receiving school*
- *Out of Country: A copy of the records request from the receiving school or a statement signed by a parent*
- *Non-Public (14): A copy of the records request from the receiving school*
- *Home Schooling (16): A Copy of the home school approval letter*
- *Death of Student/Permanent Incapacitation (07)-A letter from the parent or copy of obituary*

A copy of the records will be maintained at the school site for five years. All withdrawal/drop documents will be maintained in a secure location at each high school campus".

Public Document

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


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Director of Internal Audit