

DEPARTMENT OF EDUCATION
STATE OF LOUISIANA



MANAGEMENT LETTER
ISSUED MARCH 10, 2010

**LEGISLATIVE AUDITOR
1600 NORTH THIRD STREET
POST OFFICE BOX 94397
BATON ROUGE, LOUISIANA 70804-9397**

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Under the provisions of state law, this report is a public document. A copy of this report has been submitted to the Governor, to the Attorney General, and to other public officials as required by state law. A copy of this report has been made available for public inspection at the Baton Rouge office of the Legislative Auditor.

This document is produced by the Legislative Auditor, State of Louisiana, Post Office Box 94397, Baton Rouge, Louisiana 70804-9397 in accordance with Louisiana Revised Statute 24:513. Five copies of this public document were produced at an approximate cost of \$17.95. This material was produced in accordance with the standards for state agencies established pursuant to R.S. 43:31. This report is available on the Legislative Auditor's Web site at www.la.la.gov. When contacting the office, you may refer to Agency ID No. 3343 or Report ID No. 80090042 for additional information.

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LOUISIANA LEGISLATIVE AUDITOR
DARYL G. PURPERA, CPA

January 26, 2010

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, 2009, we considered the Department of Education's internal control over financial reporting and over compliance with requirements that could have a direct and material effect on a major federal program; we examined evidence supporting certain accounts and balances material to the State of Louisiana's financial statements; and we tested the department's compliance with laws and regulations that could have a direct and material effect on the State of Louisiana's financial statements and major federal programs as required by *Government Auditing Standards* and U.S. Office of Management and Budget Circular A-133.

The Annual Fiscal Reports of the Department of Education are not audited or reviewed by us, and, accordingly, we do not express an opinion on these reports. The department's accounts are an integral part of the State of Louisiana's financial statements, upon which the Louisiana Legislative Auditor expresses opinions.

In our prior management letter on the Department of Education for the year ended June 30, 2008, we reported findings related to inadequate fiscal monitoring, noncompliance with federal and state equipment management regulations, failure to maintain public control over Restart program funds, noncompliance with A-87 payroll certification regulations, and noncompliance with the Cash Management Improvement Act. The findings related to failure to maintain public control over Restart program funds, noncompliance with A-87 payroll certification regulations, and noncompliance with the Cash Management Improvement Act have been resolved by management. The remaining findings have not been resolved and are addressed again in this letter. Any findings relating to the Recovery School District, as well as follow up of prior year findings, have been reported in a separate report for the year ended June 30, 2009.

Based on the application of procedures referred to previously, all significant findings are included in this letter for management's consideration. All findings included in this management letter that are required to be reported by *Government Auditing Standards* will also be included in the State of Louisiana's Single Audit Report for the year ended June 30, 2009.

**Failure to Perform Local Tax Revenue Reconciliations
for the Recovery School District**

The Department of Education (DOE) did not obtain and reconcile local tax revenue certifications required to determine the local tax revenue due to the Recovery School District (RSD). House Concurrent Resolution (HCR) 290 of 2006 adjusted procedures for school district funding through the Minimum Foundation Program (MFP) for districts affected by hurricanes Katrina and Rita for fiscal year 2007 only. Normally, actual local tax revenue collections are used in the formula. However, fiscal year 2007 local tax revenue estimates were based upon prior year collections for districts whose student membership counts and local tax revenue collections were affected by the hurricanes. This resulted in a significant understatement of the actual Orleans Parish local tax revenue collections.

HCR 290 of 2006, Section (V)(B)(6) provides that given the impact on the local tax bases in Orleans Parish, the state superintendent has the flexibility to adjust the local amount per student based on documented evidence of tax revenue collections for fiscal year 2007. HCR 208 of 2007 and HCR 207 of 2008, Section (V)(B)(7) require the DOE to obtain initial and year-end certifications of local tax revenues paid to any district that has a school(s) currently under the jurisdiction of the RSD. HCR 208 and HCR 207 require the DOE to obtain initial tax revenue certification on February 1 or March 1 of each year, respectively. The department is required to obtain the initial certification of local tax revenue from the local tax collection authority of the prior jurisdiction and reconcile those figures to the original local tax revenue allocation included in the MFP budget letter. If there is an increase in tax revenue, the district of prior jurisdiction is required to pay RSD its proportion of the increased taxes. These funds must be provided to RSD over the remaining monthly MFP payments. At fiscal year-end, the department is required to obtain a final certification of local tax revenue and perform a final reconciliation. If there is an increase in local tax revenue, the district of prior jurisdiction is to pay the RSD within 60 days after the close of the fiscal year.

Management failed to (1) obtain interim local tax revenue certifications from the local tax authorities as required for fiscal years 2007, 2008, and 2009; (2) perform mid-year reconciliations or make any adjustments for each of these years; and (3) perform the final reconciliations within 60 days of the fiscal year-end for each of these years, as required by the concurrent resolutions. As a result, at June 30, 2009, the Orleans Parish School Board (OPSB) owed the RSD \$32,976,284. The outstanding obligation is \$27,200,575 for fiscal year 2007 and \$5,775,709 for fiscal year 2008.

On November 10, 2009, over two months later than the required 60 days, the department provided a reconciliation for fiscal year 2009. The department noted through this reconciliation that RSD owed OPSB \$12,994,192.

Failure to perform local tax revenue reconciliations could result in cash flow problems and weakened operations at the RSD, excessive obligations due to/from RSD, and possible misallocation of local tax dollars.

Management should obtain and reconcile local tax revenue certifications as required by the concurrent resolutions and collect the local tax revenue that is owed. Management concurred in part with the finding. As part of its response, management agreed that there is a need to reconcile estimated local taxes to actual tax collections during the current fiscal year. Management also noted in part that any settlement and payment between RSD and OPSB would occur only when management is satisfied with the timeliness and quality of local tax data coming from the City of New Orleans (see Appendix A, pages 1-2).

Additional Comments: Management did not perform local tax reconciliations as required by the HCRs. The existence of counter claims for expenses owed to OPSB by RSD is outside the scope of the resolutions and was not considered when determining the fiscal year 2007 obligated amount.

Noncompliance With Federal and State Equipment Management Regulations

For the third consecutive year, DOE did not comply with federal and state equipment management regulations. DOE did not tag and report equipment as required, did not adequately safeguard its movable property, did not notify the district attorney and legislative auditor of thefts of assets as required by law, and did not maintain accurate information in the state's movable property system, Protégé.

Federal equipment means tangible nonexpendable property purchased with a federal award, having a useful life of more than one year, and an acquisition cost of \$5,000 or more per unit. Office of Management and Budget Circular A-87 requires a state to use, manage, and dispose of equipment acquired under a federal grant in accordance with state laws and procedures.

The Louisiana Administrative Code (LAC) requires that all movable property having an original acquisition cost of \$1,000 or more be tagged with a uniform state of Louisiana identification tag and all pertinent inventory information be forwarded to the Louisiana Property Assistance Agency (LPAA) within 60 calendar days after receipt of these items. The LAC also requires that the agency property manager conduct a complete physical inventory of the property owned by the agency each fiscal year and not more than 12 calendar months since the last physical inventory and report any unlocated property to LPAA. Efforts must be made to locate all movable property items for which there are no explanations available for their disappearance.

Louisiana Revised Statute 24:523 states that an agency head of an auditee who has actual knowledge of any misappropriation of public funds or assets of the agency shall immediately notify, in writing, the legislative auditor and the district attorney of the parish in which the agency is domiciled of such misappropriation.

In a test of 30 items of equipment purchased with federal funds, five (17%) were not recorded in Protégé. For the remaining 25 items, the following exceptions were noted:

- Ten (40%) items were not properly recorded in Protégé.
- One (4%) item did not have a state property tag attached or unique state identification number written on the item.
- Fourteen (56%) items were not entered into Protégé within 60 days. The delays in entering the equipment ranged from four to 373 days.
- Two (8%) items were not adequately safeguarded and/or maintained.

In a separate test of 19 state-funded movable property acquisitions, the following exceptions were noted:

- Eight (42%) items were not properly recorded in Protégé.
- Eight (42%) items were not entered into Protégé within 60 days. The delays in entering the equipment ranged from nine to 140 days.

A review of the Protégé late additions reports disclosed the following information regarding property items that were not reported within 60 days of acquisition as required:

- For Property Certification Agency 26804, DOE Operational Support Services, 183 items totaling \$565,619 were reported from three to 524 days late.
- For Property Certification Agency 26812, DOE Special School District, 46 items totaling \$77,719 were reported from one to 514 days late.
- For Property Certification Agency 26816, Restart Non-Public, 3,984 items totaling \$8,505,712 were reported from two to 780 days late. In addition, the agency's Annual Property Certification identified 350 items totaling \$526,402 as unlocated.

Additional audit procedures identified that 193 items were reported stolen. Of these, 164 items purchased at a cost of \$257,435 were required to be tagged and entered into Protégé. As of October 15, 2009, the department had not notified the district attorney or the legislative auditor of the thefts. These items were purchased with federal funds from the Hurricane Education Recovery - Immediate Aid to Restart School Operations program (CFDA 84.938A) and Hurricane Katrina Foreign Contributions program (CFDA 84.940).

DOE has not developed, implemented, and enforced adequate internal controls over movable property, and off-site property liaisons were not adequately instructed and monitored resulting in noncompliance with state and federal regulations. Failure to comply with federal and state equipment management regulations increases the risk that assets may be misreported, lost, or stolen.

Management should ensure that equipment is tagged and reported accurately and timely in accordance with state and federal regulations. Management should also ensure that records are corrected when equipment is relocated and that all misappropriations of public funds and assets are reported to the district attorney and legislative auditor as required by law. Management concurred with the finding and outlined a plan of corrective action (see Appendix A, pages 3-4).

Inadequate Fiscal Monitoring

For the fourth consecutive year, DOE did not perform adequate fiscal monitoring of federal awards. Office of Management and Budget Circular A-133 requires pass-through entities of federal awards to monitor the activities of subrecipients as necessary to ensure that federal awards are used for authorized purposes in compliance with laws, regulations, and provisions of contracts or grant agreements. DOE's policy is to perform fiscal monitoring for all subrecipients at least once every five years. DOE failed to monitor 12 of 71 (17%) local educational agencies at least once within the past five years.

Management did not adequately emphasize the importance of fiscal monitoring to its program managers. Without adequate identification and monitoring, DOE did not ensure that only allowable expenditures were charged to the following major federal programs: Title I Grants to Local Educational Agencies (CFDA 84.010), Title II Improving Teacher Quality State Grants (CFDA 84.367), Special Education - Grants to States (CFDA 84.027), Special Education - Preschool Grants (CFDA 84.173), and Temporary Assistance to Needy Families (CFDA 93.558). Failure to identify and monitor subrecipients could also result in possible misuse of federal funds by subrecipients.

Management should perform adequate fiscal monitoring on all federal awards as required by federal regulations. Management concurred with the finding and outlined a plan of corrective action (see Appendix A, pages 5-6).

The recommendations in this letter 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 the 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.

In addition, we have included Budgetary Comparison Schedules, which were prepared from the Annual Fiscal Reports of the DOE and from additional data in the Integrated Statewide Information System (ISIS), the state's accounting system. These schedules are presented as additional information but have not been subjected to auditing procedures.

This letter is intended for the information and use of the department and its management, others within the entity, the Board of Elementary and Secondary Education, and the Louisiana Legislature and is not intended to be, and should not be, used by anyone other than these specified parties. Under Louisiana Revised Statute 24:513, this letter is a public document, and it has been distributed to appropriate public officials.

Respectfully submitted,



Daryl G. Purpera, CPA, CFE
Temporary Legislative Auditor

CRV:WDG:EFS:PEP:dl

DOE09

BUDGETARY COMPARISON SCHEDULES (UNAUDITED)

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UNAUDITED

**DEPARTMENT OF EDUCATION
AGENCY 678 - DOE STATE ACTIVITIES**

**Budgetary Comparison Schedule
For the Fiscal Year Ended June 30, 2009**

APPROPRIATED REVENUES:

	TOTAL BEFORE ADJUSTMENTS	AGENCY ADJUSTMENTS	ADJUSTED TOTAL	REVISED BUDGET	VARIANCE FAVORABLE (UNFAVORABLE)
State general revenue	\$63,883,055		\$63,883,055	\$66,648,867	(\$2,765,812)
General fund-SGR	2,838,355		2,838,355	4,184,743	(1,346,388)
General fund-IAT	18,435,046		18,435,046	21,820,630	(3,385,584)
Federal aid-cmia	40,199,756		40,199,756	47,414,094	(7,214,338)
Academic improvement fund	15,616		15,616	15,616	
Sd motorcycle safety	124,333		124,333	124,333	
Overcollections fund	21,827		21,827	23,750	(1,923)
Total Appropriated Revenues	\$125,517,988	NONE	\$125,517,988	\$140,232,033	(\$14,714,045)

APPROPRIATED EXPENDITURES:

	OFFICE OF				
	EXECUTIVE OFFICE	MANAGEMENT AND FINANCE	STUDENT AND SCHOOL PERFORMANCE	QUALITY EDUCATORS	SCHOOL AND COMMUNITY SUPPORT
Salaries	\$4,376,507	\$8,432,405	\$8,432,784	\$4,396,161	\$5,131,586
Other compensation	1,103,325	746,709	500,998	625,952	580,089
Related benefits	1,241,656	5,040,116	2,229,478	1,360,125	1,449,333
Travel & training	296,897	58,120	774,723	344,441	457,744
Operating services	832,685	1,240,631	928,328	2,226,345	899,170
Supplies	803,948	449,262	696,523	675,457	382,271
Professional services	1,438,715	718,897	29,475,475	1,958,874	2,093,295
Other charges	855,259	76	3,888,686	247,837	2,918,314
Capital outlay	106,225	89,515	278,297	415,213	60,293
Major repairs	98,400				
IAT	1,872,490	5,189,587	3,602,615	2,202,606	3,398,037
Auxiliary program					
Total appropriated expenditures before adjustments	13,026,107	21,965,318	50,807,907	14,453,011	17,370,132
System adjustments	(10,854)	(2,741)	(4,408)	(32,525)	(31,809)
Total Appropriated Expenditures	13,015,253	21,962,577	50,803,499	14,420,486	17,338,323
Revised Budget	15,266,879	25,225,486	52,328,534	17,651,596	20,130,706
Variance Favorable (Unfavorable)	\$2,251,626	\$3,262,909	\$1,525,035	\$3,231,110	\$2,792,383

NOTE: This schedule was prepared using information from the Integrated Statewide Information System (ISIS), the state's accounting system.

Additional detail is available on request.

<u>REGIONAL SERVICE CENTERS</u>	<u>DOE AUXILIARIES</u>	<u>TOTAL</u>
\$4,188,187		\$34,957,630
462,539		4,019,612
1,103,225		12,423,933
516,324		2,448,249
126,423		6,253,582
24,292		3,031,753
49,227		35,734,483
503,720		8,413,892
		949,543
		98,400
571,793	\$5,837	16,842,965
	42,732	42,732
<u>7,545,730</u>	<u>48,569</u>	<u>125,216,774</u>
	(23)	(82,360)
7,545,730	48,546	125,134,414
<u>9,318,789</u>	<u>310,043</u>	<u>140,232,033</u>
<u>\$1,773,059</u>	<u>\$261,497</u>	<u>\$15,097,619</u>

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**DEPARTMENT OF EDUCATION
AGENCY 681 - SUBGRANTEE ASSISTANCE**

**Budgetary Comparison Schedule
For the Fiscal Year Ended June 30, 2009**

APPROPRIATED REVENUES:

	TOTAL BEFORE ADJUSTMENTS	AGENCY ADJUSTMENTS	ADJUSTED TOTAL	REVISED BUDGET	VARIANCE FAVORABLE (UNFAVORABLE)
State general revenue	\$206,811,197		\$206,811,197	\$213,329,848	(\$6,518,651)
General fund-IAT	26,805,638		26,805,638	44,560,635	(17,754,997)
Federal aid-cmia	1,018,209,360	\$65,772,231	1,083,981,591	1,137,260,992	(53,279,401)
St. Landry parish excellence fund	622,250		622,250	622,250	
Academic improvement fund	818,977		818,977	950,000	(131,023)
La mega-project development fund	47,800,226		47,800,226	48,600,000	(799,774)
Overcollections fund	166,250		166,250	166,250	
Education excellence fund	20,128,497		20,128,497	20,128,497	
Total Appropriated Revenues	\$1,321,362,395	\$65,772,231	\$1,387,134,626	\$1,465,618,472	(\$78,483,846)

APPROPRIATED EXPENDITURES:

	DISADVANTAGED/ DISABLED STUDENT SUPPORT	QUALITY EDUCATORS	CLASSROOM TECHNOLOGY	SCHOOL ACCOUNTABILITY AND IMPROVEMENT	ADULT EDUCATION
Other charges	\$590,364,178	\$96,808,316	\$5,160,800	\$107,094,717	\$21,665,209
IAT	28,983,142	4,370,072	1,916,846	1,277,872	1,435,729
Total appropriated expenditures before adjustments	619,347,320	101,178,388	7,077,646	108,372,589	23,100,938
System adjustments	(733,331)	(185,739)	(117,769)	(1,253,796)	(3,260)
Agency adjustments	18,400,855	3,459,195	1,047,232	3,385,854	6,139,821
Total Appropriated Expenditures	637,014,844	104,451,844	8,007,109	110,504,647	29,237,499
Revised Budget	678,318,602	115,039,106	10,315,148	134,206,023	28,375,585
Variance Favorable (Unfavorable)	\$41,303,758	\$10,587,262	\$2,308,039	\$23,701,376	(\$861,914)

NOTE: This schedule was prepared using information from the Integrated Statewide Information System (ISIS), the state's accounting system.

Additional detail is available on request.

SCHOOL AND COMMUNITY SUPPORT	TOTAL
\$441,537,010	\$1,262,630,230
<u>20,719,075</u>	<u>58,702,736</u>
462,256,085	1,321,332,966
(11,270,976)	(13,564,871)
<u>35,391,229</u>	<u>67,824,186</u>
486,376,338	1,375,592,281
<u>499,364,008</u>	<u>1,465,618,472</u>
<u><u>\$12,987,670</u></u>	<u><u>\$90,026,191</u></u>

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**DEPARTMENT OF EDUCATION
AGENCY 695 - MINIMUM FOUNDATION PROGRAM**

**Budgetary Comparison Schedule
For the Fiscal Year Ended June 30, 2009**

APPROPRIATED REVENUES:

	TOTAL BEFORE ADJUSTMENTS	AGENCY ADJUSTMENTS	ADJUSTED TOTAL	REVISED BUDGET	VARIANCE FAVORABLE (UNFAVORABLE)
State general revenue	\$3,022,172,183		\$3,022,172,183	\$3,022,172,184	(\$1)
Minimum foundation - lottery	141,413,565		141,413,565	141,413,565	
Support education in la first	129,016,856		129,016,856	131,340,667	(2,323,811)
 Total Appropriated Revenues	<u>\$3,292,602,604</u>	<u>NONE</u>	<u>\$3,292,602,604</u>	<u>\$3,294,926,416</u>	<u>(\$2,323,812)</u>

APPROPRIATED EXPENDITURES:

	MINIMUM FOUNDATION PROGRAM
Other charges	<u>\$3,292,602,604</u>
Total appropriated expenditures before adjustments	3,292,602,604
System adjustments	(7,480,096)
Agency adjustments	<u>7,480,096</u>
 Total Appropriated Expenditures	3,292,602,604
 Revised Budget	<u>3,294,926,416</u>
 Variance Favorable (Unfavorable)	<u>\$2,323,812</u>

NOTE: This schedule was prepared using information from the Integrated Statewide Information System (ISIS), the state's accounting system.

Additional detail is available on request.

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**DEPARTMENT OF EDUCATION
AGENCY 697 - NON-PUBLIC EDUCATIONAL ASSISTANCE**

**Budgetary Comparison Schedule
For the Fiscal Year Ended June 30, 2009**

APPROPRIATED REVENUES:

	TOTAL BEFORE ADJUSTMENTS	AGENCY ADJUSTMENTS	ADJUSTED TOTAL	REVISED BUDGET	VARIANCE FAVORABLE (UNFAVORABLE)
State general revenue	\$32,397,524		\$32,397,524	\$32,746,572	(\$349,048)
Total Appropriated Revenues	<u>\$32,397,524</u>	NONE	<u>\$32,397,524</u>	<u>\$32,746,572</u>	<u>(\$349,048)</u>

APPROPRIATED EXPENDITURES:

	REQUIRED SERVICES	SCHOOL LUNCH SALARY SUPPLEMENT	TRANSPORTATION	TEXTBOOK ADMINISTRATION	TEXTBOOKS	TOTAL
Other charges	\$14,292,704	\$7,917,607	\$7,202,105	\$166,832	\$2,818,276	\$32,397,524
Total Appropriated Expenditures	14,292,704	7,917,607	7,202,105	166,832	2,818,276	32,397,524
Revised Budget	<u>14,292,704</u>	<u>7,917,607</u>	<u>7,202,105</u>	<u>186,351</u>	<u>3,147,805</u>	<u>32,746,572</u>
Variance Favorable (Unfavorable)	<u>NONE</u>	<u>NONE</u>	<u>NONE</u>	<u>\$19,519</u>	<u>\$329,529</u>	<u>\$349,048</u>

NOTE: This schedule was prepared using information from the Integrated Statewide Information System (ISIS), the state's accounting system.

Additional detail is available on request.

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**DEPARTMENT OF EDUCATION
AGENCY 699 - SPECIAL SCHOOL DISTRICTS**

**Budgetary Comparison Schedule
For the Fiscal Year Ended June 30, 2009**

APPROPRIATED REVENUES:

	TOTAL BEFORE ADJUSTMENTS	AGENCY ADJUSTMENTS	ADJUSTED TOTAL	REVISED BUDGET	VARIANCE FAVORABLE (UNFAVORABLE)
State general revenue	\$13,572,317		\$13,572,317	\$14,252,332	(\$680,015)
General fund-IAT	2,131,807		2,131,807	4,748,310	(2,616,503)
Total Appropriated Revenues	\$15,704,124	NONE	\$15,704,124	\$19,000,642	(\$3,296,518)

APPROPRIATED EXPENDITURES:

	ADMINISTRATION	SSD#1 INSTRUCTION	TOTAL
Salaries	\$456,925	\$9,237,867	\$9,694,792
Other compensation	4,900	157,269	162,169
Related benefits	1,197,291	2,219,158	3,416,449
Travel & training	979	99,680	100,659
Operating services	124,566	366,836	491,402
Supplies	17,131	690,647	707,778
Professional services	(21)	228,660	228,639
Other charges		100,828	100,828
Capital outlay	10,706	90,126	100,832
IAT	551,235	149,341	700,576
Total appropriated expenditures before adjustments	2,363,712	13,340,412	15,704,124
System adjustments	(137)	(32,796)	(32,933)
Total Appropriated Expenditures	2,363,575	13,307,616	15,671,191
Revised Budget	2,678,133	16,322,509	19,000,642
Variance Favorable (Unfavorable)	\$314,558	\$3,014,893	\$3,329,451

NOTE: This schedule was prepared using information from the Integrated Statewide Information System (ISIS), the state's accounting system.

Additional detail is available on request.

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



STATE OF LOUISIANA
DEPARTMENT OF EDUCATION
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December 10, 2009

Mr. Steve Theriot, CPA
State Legislative Auditor
Office of the Legislative Auditor
Post Office Box 94397
Baton Rouge, LA 70804-9397

Re: Proposed Comments "Failure to Perform Local Tax Reconciliations for the Recovery School District (RSD)"

Dear Mr. Theriot:

While the Department of Education agrees with the general thrust of the proposed comments for our FYE2009 audit report, we do not believe the comments place the activities of the Department in a proper perspective.¹ Furthermore, given the uncertainties surrounding the data on local revenues provided by the City of New Orleans, we do not believe this issue to be significant or material to the Department's financial statements.

The comments accurately state the Department's responsibility with respect to the Minimum Foundation Program (MFP) Resolutions authorizing and implementing the Minimum Foundation Program post-Katrina. However, they do not acknowledge that the Department met with the City of New Orleans as early as December 2006 in an attempt to obtain sufficient information to further the process, that the Department began to reconcile the estimated local revenues to actual revenues immediately after the close of the 2007 fiscal year, began reporting to the Board of Elementary and Secondary Education on efforts of settlement during the spring of 2008, and has continued to negotiate with the Orleans Parish School Board (OPSB) in an effort to obtain agreement to the settlements envisioned by the MFP legislation.

With the close of the 2006-2007 fiscal year, the Department determined the local revenue adjustment to be \$41,056,187 payable by the OPSB to the RSD for the 2006-2007 fiscal year. As a result, the OPSB paid the RSD \$23,612,824, and then submitted to the RSD a counter claim of \$17,443,363 for expenses the OPSB claimed to have paid on behalf of the RSD. It took more than a year for the OPSB to present documentation to the RSD on this counter claim, and for RSD to pre-audit the claim with a remaining liability of \$257,064 from the OPSB to the RSD. In early 2009, it was determined that OPSB had incorrectly reported local revenues on its Annual Financial Report for the 2006-2007 fiscal year, increasing the original liability by \$9,757,709. As a result, the current reconciled and settled liability of the OPSB to the RSD for the 2006-2007 fiscal year is \$10,014,773 (\$9,757,709 + \$257,064), not the \$27,200,575 stated in the auditor's comments.

The reconciled local revenue for the 2007-2008 fiscal year is \$5,775,709 and for the 2008-2009 fiscal year is (\$12,994,192). For the three year period ending June 30, 2009, there is a net liability of the OPSB to the RSD of \$2,796,290. However, I have delayed any settlement and payment between the two parties until such time as I am satisfied with the timeliness and quality of local tax data coming from the City of New Orleans.

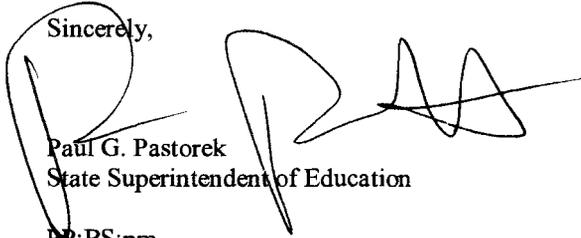
¹ *Government Auditing Standards (2007)*, Section 5.22

Mr. Steve Theriot, CPA
State Legislative Auditor
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I do agree that there is a need to reconcile estimated local taxes to actual tax collections during the current fiscal year, so as to limit the impact of these adjustments to the budgetary process of the OPSB, the RSD, and the charter schools. My staff met with the City of New Orleans on November 17, 2009 to discuss the process needed to obtain timely and accurate information on local taxes to support a timely reconciliation process. I have also asked my legal staff to draft changes to the annual MFP Resolution that authorizes the reconciliation, so that we might have a legal process that matches what is a practical process from a financial standpoint. I think that these two efforts will allow the Department in future years to timely reconcile and settle estimated local revenues with actual local revenues and at the same time limit the impact of such adjustments on the budgets of the OPSB, the RSD, and charter schools in Orleans Parish. Beth Scioneaux is the Department contact on this issue at (225) 342-3617 or Beth.Scioneaux@la.gov.

I appreciate the support and efforts of you and your staff.

Sincerely,



Paul G. Pastorek
State Superintendent of Education

PP:BS:pm

c: Ollie S. Tyler, Deputy Superintendent of Education
Elizabeth C. Scioneaux, Deputy Superintendent for Management and Finance
Patrick Weaver, Deputy Undersecretary
Paul Vallas, Superintendent – RSD
Charlotte Stevens, Division Director
Susie Buchmann, Division Director
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November 5, 2009

Mr. Steve Theriot, CPA
State Legislative Auditor
Office of the Legislative Auditor
Post Office Box 94397
Baton Rouge, LA 70804-9397

RE: Noncompliance with Federal and State Equipment Management Regulations

Dear Mr. Theriot:

The Department concurs with the finding regarding the "Noncompliance with Federal and State Equipment Management Regulations." It implemented corrective action, as outlined below, beginning in April of 2009 to address fiscal year 2007-2008 exceptions that were cited in February of 2009. The contact person for this finding for the Louisiana Department of Education is Susie Buchmann, Director, Division of Appropriation Control, at (225) 342-3830.

The federal and state property exceptions cited for the non-public schools account for 81% of the total exceptions. Currently, there are more than 13,000 items of moveable property located throughout South Louisiana in 111 non-public schools. This compares with approximately 3,000 items for the Department. The enforcement of internal controls and monitoring of moveable property has been a difficult process, considering the number of inventory items and non-public school locations.

The Department required the non-public schools to strengthen their compliance with equipment management regulations. While inventory training was provided initially, the non-public schools were required to attend additional property training conducted by the Louisiana Property Assistance Agency (LPAA), with a focus on equipment location and the receipt and proper tagging of all equipment. This training was held in New Orleans, LA, on September 16, 2009, with 85% of the non-public schools in attendance. Due to the turnover of property managers at the non-public schools, training will be required for all new property managers. The Department has already experienced an improvement in reporting by the non-public schools, due to the additional training.

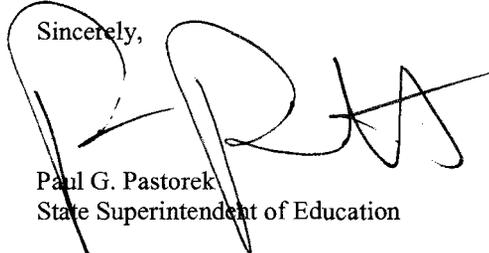
In March of 2009, a workflow system, Metastorm, was fully implemented by which an item purchased can be tracked from its purchase through payment. Metastorm enables the property manager to access invoices and receiving reports online to reduce time delays of entry into Protégé. Previously, there were delays in getting documentation which caused an item to be entered into Protégé after the 60-day time period. It should be noted that the high number of items entered late into Protégé occurred before the Department required additional training and the implementation of Metastorm. Of the 4,213 items entered late in Protégé, 95% were non-public schools inventory items.

Although a police report was completed for all the 164 inventory items reported stolen from the non-public schools, the Department's property manager failed to process the paperwork to notify the appropriate district attorneys and the Legislative Auditor of the thefts. The Department will immediately institute procedures to address the non-compliance with Louisiana Revised Statute 24:523.

Mr. Steve Theriot, CPA
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The Department takes very seriously its obligation to properly account for all items procured with public funds and is continuing to work diligently to accomplish this objective. We appreciate the assistance your staff provides on a daily basis to assist us in the process of the continual improvement of our operations.

Sincerely,

A handwritten signature in black ink, appearing to read 'P. Pastorek', written over a large, faint circular stamp or watermark.

Paul G. Pastorek
State Superintendent of Education

PGP/sb

c: Ollie S. Tyler, Deputy Superintendent of Education
Beth Scioneaux, Deputy Superintendent for Management and Finance
Patrick Weaver, Deputy Undersecretary
Susie Buchmann, Director, Division of Appropriation Control
Wesley D. Gooch, CPA
Carmen R. Victorian, CPA



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November 19, 2009

Mr. Steve J. Theriot, CPA
Office of Legislative Auditor
1600 North Third Street
P. O. Box 94397
Baton Rouge, LA 70804-9397

Re: Inadequate Fiscal Monitoring

Dear Mr. Theriot:

The Louisiana Department of Education (LDE) appreciates the opportunity to respond to the Louisiana Legislative Auditor's (LLA) finding entitled: "Inadequate Fiscal Monitoring". The Department takes seriously its responsibility for fiscal monitoring and has taken steps necessary to improve the adequacy of fiscal monitoring of federal awards.

As we noted in our previous response to the LLA, two contracts were executed to comply with federal monitoring requirements. The vendors are 1) Provost, Salter, Harper & Alford, LLC and; 2) Postlethwaite & Netterville. These entities were charged with conducting a set of specific agreed-upon procedures in accordance with AICPA guidelines. The contracts include a list of specific objectives that must be met in order to achieve adequate review of federal programs. The federal audit plan includes the review of the subrecipient's application, allocation, budget and reimbursement claims to determine allowable costs. The contracted portion included fiscal monitoring of Restart, HEAP, NCLB, IDEA, Career and Technical Education, Adult Education and TANF programs. Both contracts are complete, and preliminary reports have been reviewed by the LDE staff. Final reports will be issued within the next 15 days.

In a coordinated effort between LDE staff and the contractors, 24 subrecipients were monitored in the 2008-2009 fiscal year.

The Department of Education concurs with the audit finding entitled: "Inadequate Fiscal Monitoring" and has included the following corrective actions:

- We are reviewing our monitoring protocol and researching best practices in other states to determine approaches that will result in greater efficiencies and a more "real time" review of expenditures.
- We are exploring how to best utilize the Grants Management System's (eGMS) capability to upload source documents to support expenditures. This will allow us to have a more real time review of reimbursement claims and to facilitate desk audits.
- We are also investigating an expanded review process at the point of reimbursement.

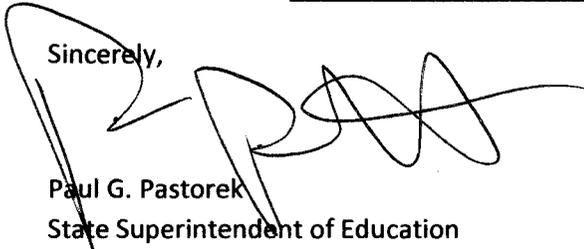
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Presently, there are twenty-one subrecipients scheduled to be monitored for Fiscal Year 2009-2010. Once the new monitoring protocol is in place additional subrecipients will be scheduled for Fiscal Year 2009-2010. The review will consist of:

- On-site monitoring
- Desk reviews
- Fiscal self-assessment

Contact person for this issue is Charlotte Stevens, Director of the Division of Education Finance, at 342-4989 or via email at charlotte.stevens@la.gov.

Sincerely,



Paul G. Pastorek
State Superintendent of Education

BS:CS:jh

c: Ollie S. Tyler, Deputy Superintendent of Education
Elizabeth C. Scioneaux, Deputy Superintendent for Management and Finance
Charlotte Stevens, Division Director
Dudley J. Garidel, Jr., Director Internal Audit