

RECOVERY SCHOOL DISTRICT  
DEPARTMENT OF EDUCATION  
STATE OF LOUISIANA



FINANCIAL AUDIT SERVICES  
MANAGEMENT LETTER  
ISSUED DECEMBER 21, 2015

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

**LEGISLATIVE AUDITOR**  
DARYL G. PURPERA, CPA, CFE

**ASSISTANT LEGISLATIVE AUDITOR**  
**FOR STATE AUDIT SERVICES**  
NICOLE B. EDMONSON, CIA, CGAP, MPA

**DIRECTOR OF FINANCIAL AUDIT**  
ERNEST F. SUMMERVILLE, JR., CPA

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 is available for public inspection at the Baton Rouge office of the Louisiana Legislative Auditor and at the office of the parish clerk of court.

This document is produced by the Louisiana Legislative Auditor, State of Louisiana, Post Office Box 94397, Baton Rouge, Louisiana 70804-9397 in accordance with Louisiana Revised Statute 24:513. One copy of this public document was produced at an approximate cost of \$0.65. 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 website at [www.la.la.gov](http://www.la.la.gov). When contacting the office, you may refer to Agency ID No. 10202 or Report ID No. 80150027 for additional information.

In compliance with the Americans With Disabilities Act, if you need special assistance relative to this document, or any documents of the Legislative Auditor, please contact Elizabeth Coxe, Chief Administrative Officer, at 225-339-3800.

---

# Louisiana Legislative Auditor

Daryl G. Purpera, CPA, CFE



## Recovery School District

December 2015

Audit Control # 80150027

---

## Introduction

As required by Louisiana Revised Statute 24:513 and as a part of our Single Audit of the State of Louisiana (Single Audit) for the year ended June 30, 2015, we performed procedures at the Recovery School District (RSD) to evaluate the effectiveness of RSD's internal controls over financial reporting and compliance and to determine whether RSD complied with applicable laws and regulations. In addition, we determined whether management had taken actions to correct findings reported in the prior year.

RSD's mission is to provide educational and related services to children who are enrolled in an elementary or secondary school transferred to the RSD.

## Results of Our Procedures

---

### Follow-up on Prior-year Findings

Our auditors reviewed the status of the prior-year findings reported in the RSD management letter dated December 10, 2014. We determined that the prior-year findings related to inadequate controls over movable property and inadequate controls over payroll terminations and overpayments have not been resolved by management and are addressed again in this letter.

---

### Current-year Findings

#### Inadequate Controls over Movable Property

For the ninth consecutive year, RSD did not maintain and accurately report equipment as required by state equipment regulations and did not maintain accurate information in the state's movable property system.

A test of assets purchased from July 1, 2014, to June 30, 2015, that were fully or partially funded with Disaster Grants - Public Assistance federal funds disclosed that 228 assets with an acquisition cost totaling \$709,295 were recorded in the Louisiana Property Assistance Agency (LPAA) asset management system (AMS) three to 85 days after the required 60-day period. The

assets did not show up as late additions in AMS because RSD incorrectly used the date of entry (system default date) as the date of acquisition, rather than entering the actual acquisition date.

A review of the AMS late additions report for July 1, 2014, through June 30, 2015, disclosed that RSD entered 30 assets with an acquisition cost totaling \$194,577 from 226 to 1,685 days after the required 60-day period. Twenty-nine of the assets (\$192,928) were purchased in 2009 and had not been tagged and recorded for almost five years.

RSD's annual certification of property inventory, which was submitted to LPAA on June 22, 2015, was disapproved by LPAA because of an unacceptable amount of current year discrepancies. The certification disclosed \$808,379 in unlocated movable property for the current period and \$6,151,811 in remaining unlocated items reported in the previous three years.

RSD's movable property function is hampered by inaccurate and incomplete information included in AMS; the decentralization of movable property at the various custodians (schools) and a lack of accountability and training of custodians for RSD property; RSD personnel not following established movable property policies; and a lack of enforcement of policies by RSD management. Failure to comply with state equipment management regulations increases the risk that assets may be misreported, lost, or stolen.

The Louisiana Administrative Code 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 LPAA within 60 calendar days after receipt of the item. It also requires entities to conduct an annual physical inventory of movable property and report any unlocated movable property to LPAA.

Management should ensure that information included in AMS is accurate and complete; ensure the custodians are provided an accurate and complete inventory listing of tagged property provided by the state; emphasize established policies through training and guidance; continue to search for unlocated property; and increase its efforts to make the school level personnel responsible and accountable for assigned RSD movable property. Management concurred with the finding and provided a plan of corrective action (see Appendix A, pages 1-2).

### **Inadequate Controls over Payroll Terminations and Overpayments**

During fiscal year 2015, RSD failed to timely enter employee separation dates in its payroll system for 96 of its employees, potentially resulting in noted overpayments to 16 of these employees totaling \$5,338. In addition, RSD could not provide documentation to evidence a review of outstanding overpayments for accuracy or recoupment.

Of 204 employee separation dates entered in the LaGov/Human Capital Management (LaGov/HCM) payroll system from July 1, 2014, to June 30, 2015, 96 (47%) were entered from one to 81 days (an average of 11 days) after the close of the employees' last pay periods. Overpayments totaling \$5,338 were generated by LaGov/HCM for 16 of these employees.

A review of quarterly reports from the Division of Administration, Office of Technology Services (OTS) for December 2013 through June 2015 disclosed that potential overpayments totaling \$32,214 were made to 49 RSD employees (including the 16 overpayments previously mentioned totaling \$5,338). A test of eight of these potential overpayments, totaling \$18,958, disclosed the following:

- For seven of eight (88%) overpayments tested, RSD did not have supporting documentation to show that it determined the accuracy of the overpayment amounts, notified employees of the overpayments, attempted to recoup the overpayments, or referred the overpayments to the Louisiana Attorney General's Office for collection.
- For three of eight (38%) overpayments tested, RSD did not have supporting documentation available to confirm the employees' separation dates. Without this documentation, we could not determine if the separation dates entered into LaGov/HCM were accurate and, therefore, additional overpayments may have been made and not detected.

RSD management did not fully comply with established internal control policies and procedures relating to timely input of termination dates in LaGov/HCM, timely follow-up and review of overpayments identified in quarterly reports from OTS, and recouping overpayments. Good internal controls require that employee terminations should be entered accurately in the payroll system before the close of the employee's last pay period. This is the ninth consecutive year RSD has been cited for inadequate controls over the input of termination dates.

Failure to enter separation dates timely increases the risk that employees will be paid improperly. In addition, failure to review overpayments identified in quarterly reports from OTS for accuracy and to ensure prompt recouping of those overpayments results in increased risk that former employees could be billed inaccurately and/or overpayments will not be recouped, resulting in a loss of state and/or federal funds.

Management should improve control over payroll processing to ensure termination dates are input timely in LaGov/HCM; ensure that payroll personnel timely review overpayments identified in quarterly reports from OTS for accuracy and follow established procedures for recouping overpayments; track all overpayments and recoupments; and place stronger emphasis on compliance with payroll policies and practices through training and guidance. Management concurred in part with the finding and provided a plan of corrective action (see Appendix A, pages 3-4).

---

## **Federal Compliance - Single Audit of the State of Louisiana**

As a part of the Single Audit for the year ended June 30, 2015, we performed internal control and compliance testing on RSD's Disaster Grants - Public Assistance (Presidentially Declared Disasters) (CFDA 97.036) federal program, as required by the Office of Management and Budget Circular A-133. Those tests included evaluating the effectiveness of RSD's internal

controls designed to prevent or detect material noncompliance with program requirements and tests to determine whether RSD complied with applicable program requirements.

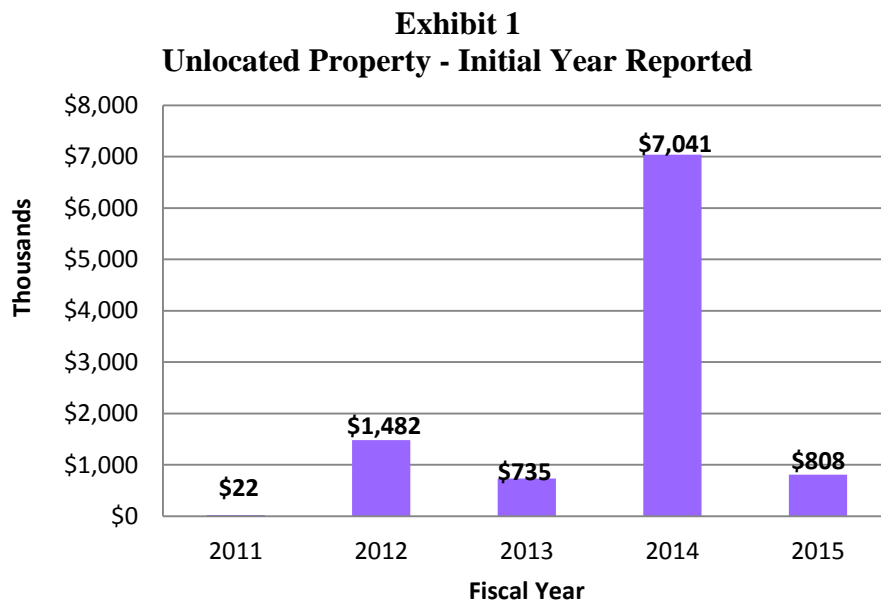
Based on the results of these Single Audit procedures, we did not report any internal control deficiencies or noncompliance with program requirements.

---

## Trend Analysis

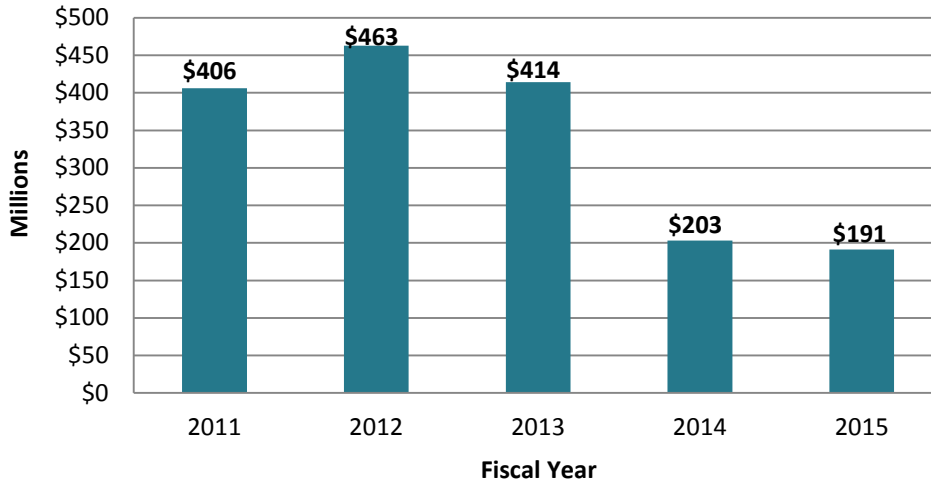
We compared the most current and prior-year financial activity using RSD's annual fiscal reports and/or system-generated reports and obtained explanations from RSD management for any significant variances. We also prepared an analysis of unlocated property and expenditures over the last five fiscal years, as shown in Exhibits 1 and 2.

In analyzing financial trends of RSD over the past five fiscal years, we found that the amount of unlocated property reported in RSD's annual certification of property inventory fluctuated widely, but increased significantly in fiscal year 2014 mainly due to RSD conducting a thorough inventory and accurately reporting unlocated items. RSD's expenditures remained fairly consistent from fiscal year 2011 to fiscal year 2013 but decreased in fiscal years 2014 and 2015. The decrease in fiscal year 2014 expenditures is attributed mainly to Minimum Foundation Program dollars flowing directly to charter schools rather than through RSD. The decrease in fiscal year 2015 expenditures is attributed mainly to RSD no longer operating any direct-run schools.



**Source:** Fiscal Year 2011-2015 Annual Property Certifications

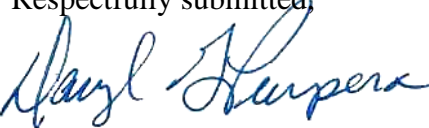
**Exhibit 2  
Expenditures**



**Source:** Fiscal Year 2011-2015 Annual Financial Reports

The recommendations in this letter represent, in our judgment, those most likely to bring about beneficial improvements to the operations of RSD. The nature of the recommendations, their implementation costs, and their potential impact on the operations of RSD should be considered in reaching decisions on courses of action.

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  
 Legislative Auditor

CV:JP:BQD:EFS:aa





## **APPENDIX A: MANAGEMENT'S RESPONSES**





November 16, 2015

Mr. Daryl G. Purpera  
Legislative Auditor  
1600 North Third Street  
P.O. Box 94397  
Baton Rouge, LA 70804-9397

Dear Sir:

Please accept this correspondence as our official response to the RSD 2015 Controls of Moveable Property.

As you will read in our detailed response to your findings below, the RSD has made tremendous progress in addressing concerns previously raised by your office. We are proud of the improvements we have made to the operations, policies, and procedures of our property management function and we thank you for the helpful feedback your office has provided along the way.

LLA Finding 1: A test of assets purchased July 1, 2014-July 30, 2015 that were fully or partially funded with Disaster Grants-Public Assistance (CFDA 97.036) federal funds disclosed that 228 assets with an acquisition cost totaling \$709,295 were recorded in the Louisiana Property Assistance Agency (LPAA) asset management system (AMS) 3-85 days after the required 60-day period. The assets did not show up as late additions in AMBE because RSD incorrectly used the date of entry (system default date) as the date of acquisition, rather than entering the actual acquisition date.

RSD Response: We concur with this finding and have made all necessary corrections.

- Between July 1, 2014-July 30 2015 the RSD completed construction of seven (7) new school facilities. All facilities completed in the summer and fall of 2014 had all newly acquired assets entered into AMS within the 60 day requirement. In the spring of 2015 four (4) facilities were either completed or assets ordered between April-July 2015. While your audit is correct that not all assets were entered into the data base within the allotted time, the RSD property management, made up of two full time staff, prioritized the following mission critical projects during this time period;
  - Completion of the 2015 Property Certification
  - Managing the disposition and movement of assets for four school transformations and twelve school moves. These actions were critical to the successful launch of schools for the current school year.
  - Managing the surplus and data sanitization of over 4,250 computers with an acquisition cost of over \$5,000,000
- In June 2015 one member of the two person property management team resigned and the RSD hired two additional property managers in August 2015 to help manage the multiple responsibilities of this department. The unplanned reduction of manpower and the significant number of priorities for the remaining one individual—not a lack of internal processes or controls--was the primary reason for this audit finding.

# RECOVERY

## School District

Excellence.Equity.Community.

LLA Finding 2: A review of the AMS late additions report for July 1, 2014 through June 30, 2015 disclosed that RSD had entered 30 assets with an acquisition cost totaling \$194,577 from 226 to 1,685 days after the required 60-day period. Twenty-nine of the assets (\$192,928) were purchased in 2009 and had not been tagged and recorded in almost five years.

RSD Response: We concur with this finding.

- As stated in our September 9, 2014 audit response: "In the fall of 2013 the newly formed RSD Property Management team began to review all assets purchased for newly constructed facilities over the past four years to determine assets that remained untagged or not entered in to the Asset Management System. This revised process for evaluating items that required entry in the AMS system was outlined in our response to the previous LLA audit in 2013."
- These additional 30 assets entered beyond the 60-day period are a product of the RSD property management team continuing to identify and track assets that remained unidentified as outlined in the two previous responses to the LLA. The identification of these assets has resolved this finding.

LLA Finding 3: RSD's annual property inventory, which was submitted to LPAA on June 22, 2015 was disapproved by LPAA because of an unacceptable amount of current year discrepancies. The certification disclosed \$808,379 in unlocated movable property for the current period and \$6,151,811 in remaining unlocated items reported in the previous three years.

RSD Response: We concur with this finding.

- It is important to note that also reported in the annual property inventory submitted to LPAA on June 22, 2015 was the identification of approximately \$2,140,000 worth of previously unlocated property.
- The overwhelming majority (84%) of currently unlocated assets are IT systems that were purchased prior to 2010 and are beyond their useful life and would be fully depreciated for accounting purposes to a value of \$0. In response to this the RSD has begun a massive campaign to remove or surplus aged Information Technology systems to prevent unwanted, nonfunctional systems as being classified as unlocated. Since June 2015 the RSD has surplused 2,496 IT systems with an acquisition cost of \$3,386,419 to the LPAA and has sanitized approximately \$2,000,000 worth of additional assets that are actively being transferred to the LPAA. We anticipate completing this surplus by the end of the calendar year.

We thank you for the opportunity to respond to the findings regarding the RSD 2015 Controls of Moveable Property. We appreciate the helpful feedback and insights provided by the LLA as we continue to improve our internal control structures.

Sincerely,



Patrick Dobard, Recovery School District Superintendent



November 30, 2015

Mr. Daryl G. Purpera, CPA, CFE  
Legislative Auditor  
1600 North Third Street  
P.O. Box 94397  
Baton Rouge, LA 70804-9397

Dear Sir:

Please accept this correspondence as our official response to your letter dated November 18, 2015, regarding your finding of Inadequate Controls over Payroll Terminations and Overpayments. We concur with the overall finding raised by your office; however, we concur in part to the following:

Of the 204 separations entered between July 1, 2014 to June 30, 2015, 96 were entered on average 11 days after the close of the employees' last pay period.

As background, since September 2014, the Recovery School District (RSD) has taken substantial steps in addressing concerns raised by your office. The human resources functions of the RSD were transferred to the Department of Education's Human Resources Office (LDOE/HR). The findings noted primarily occur to activities prior to this transition. LDOE/HR brought senior staff familiar with LaGov/Human Capital Management data entry requirements and provided oversight and audit services to maintain payroll records accurately. The new oversight structure ensured that controls over payroll were strengthened and enhanced. Furthermore, as of July 1, 2015, the LDOE/HR team became part of the Division of Administration's Office of State Human Capital Management (DOA/OSHCM); this will further strengthen the RSD's controls over payroll and overpayment recoupment procedures.

We concur in part to the finding listed above for two reasons:

- 1) In an effort to establish a roster of only true and active employees, LDOE/HR worked with the management team to conduct a line by line assessment of each employee, including intermittent When Actually Employed (WAE) employees, to certify status. It is our analysis that the process of separating some inactive seasonal employees, such as WAEs, has skewed the average as cited in this portion of the finding.
- 2) Additionally, improvements implemented are not recognized in the details of the finding. LDOE/HR assumed responsibility for the RSD human resources functions as the RSD was shuttering facilities and completing a layoff. The majority of the 204 separations, 162, occurred between July 1, 2014 and September 30, 2014 prior to the transfer of RSD human resources functions to the LDOE/HR. Between September 30, 2014 and June 30, 2015, after this transition, there were 42 separations entered, of which 29 occurred within the employee's last pay period. This data from September 30, 2014 through June 30, 2015, coupled with the information provided above about how the separation of some inactive seasonal employees skewed the average time of entering separation, illustrates the results of efforts to ensure strong controls over payroll.

Mr. Purpera  
November 30, 2015  
Page 2

We concur that there were inadequate controls; however, we strongly believe that we have remedied the problem and improvements will be reflective on the next audit cycle.

We thank you for the opportunity to respond to the findings and comments regarding Inadequate Controls over Payroll Terminations and Overpayments. We look forward to improvements to the human resources services provided to the RSD through our working relationship with DOA/OSHCM in ensuring that documentation is maintained and separations are processed timely as well as ensuring that recoupments are processed in accordance with policy. We appreciate the helpful feedback and insights provided by the LLA as we continue to improve our control structures.

Sincerely,

A handwritten signature in black ink, appearing to read "Patrick Dobard", with a long horizontal flourish extending to the right.

Patrick Dobard  
Superintendent

## APPENDIX B: SCOPE AND METHODOLOGY

We performed certain procedures at the Recovery School District (RSD) for the period from July 1, 2014, through June 30, 2015, to evaluate relevant systems of internal control in accordance with *Government Auditing Standards* issued by the Comptroller General of the United States. The procedures included inquiry, observation, review of policies and procedures, and a review of relevant laws and regulations. Our procedures, summarized below, are a part of the Single Audit of the State of Louisiana (Single Audit) for the fiscal year ended June 30, 2015.

- We evaluated RSD's operations and system of internal controls through inquiry, observation, and review of its policies and procedures, including a review of the laws and regulations applicable to RSD.
- Based on the documentation of RSD's controls and our understanding of related laws and regulations, we performed procedures to evaluate the effectiveness of RSD's internal controls over movable property and payroll expenditures and to determine whether RSD complied with applicable laws and regulations.
- We performed procedures on the Disaster Grants - Public Assistance (Presidentially Declared Disasters, CFDA 97.036) federal program for the year ended June 30, 2015, as a part of the 2015 Single Audit.
- We compared the most current and prior-year financial activity using RSD's annual fiscal reports and/or system-generated reports to identify trends and obtained explanations from RSD management for significant variances.

The purpose of this report is solely to describe the scope of our work at RSD and not to provide an opinion on the effectiveness of RSD's internal control over financial reporting or on compliance. Accordingly, this report is not intended to be, and should not be, used for any other purposes.

We did not audit or review RSD's Annual Fiscal Report, and, accordingly, we do not express an opinion on that report. RSD's accounts are an integral part of the state of Louisiana's financial statements, upon which the Louisiana Legislative Auditor expresses opinions.