

LEGISLATIVE AUDITOR  
STATE OF LOUISIANA



————— BOGALUSA CITY SCHOOL BOARD —————

SPECIFIED PROCEDURES EXAMINATION  
ISSUED DECEMBER 15, 2004

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December 2, 2004

**MR. S. GREGORY GENCO, SUPERINTENDENT,  
AND MEMBERS OF THE BOGALUSA CITY  
SCHOOL BOARD**  
Bogalusa, Louisiana

As you requested, we applied our *Checklist of Best Practices in Government* in reviewing the procedures and practices of the Bogalusa City School Board's (school board) business department. Attachment I provides our findings and recommendations resulting from the limited review for the school board's consideration. The response from management of the school board is presented in Appendix A.

A limited review is substantially less in scope than an audit conducted in accordance with generally accepted auditing standards, the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, we do not express such an opinion.

Respectfully submitted,

Steve J. Theriot, CPA  
Legislative Auditor

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## Findings and Recommendations

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The Bogalusa City School Board (school board) is responsible for developing policies as guides for administrative action and for employing a superintendent to implement its policies. The Board is also responsible for evaluating the effectiveness of its policies and their implementation.

The superintendent is responsible for supervising all personnel employed and managing the schools under Board policy. The duty of the superintendent is to inform the Board promptly of the need for policy. Also, written procedures are necessary as a clear understanding of what should be done, how, who, and when it should be done, and that the procedures followed meet management's expectations. In addition, written procedures aid in continuity of operation and for cross-training of staff.

The following are findings and recommendations relating to our limited review dated October 27, 2004. Management's response is included in Appendix A.

### **Budgeting Process**

#### Budget Policy and Procedures Needed

The school board does not have a budget policy or written procedures for preparing, adopting, monitoring, and amending its budget.

Recommendation: We suggest that the Board adopt a budget policy and that detailed written procedures be developed by the business manager to include all steps required for each phase of the budget process, including monitoring and amending the budget during the fiscal year. In addition, a time schedule for preparing the budget and the person responsible for each phase of the budget should be incorporated in the detailed steps. Also, we suggest that the business manager consider using the Association of School Business Officials International *Meritorious Budget Awards Program* checklist and the Government Finance Officers Association *Distinguished Budget Presentation Awards Program* checklist in preparing future budgets and developing budget procedures.

#### Incorporate Prior Year Deficit Into Current Year Budget

Although the school board recently borrowed \$1,000,000 to pay a portion of its past due bills, its 2004/2005 General Fund budget does not provide for eliminating the estimated \$700,000 deficit carried over from the prior fiscal year (2003/2004).

Recommendation: The superintendent, with input from the business manager, should prepare a comprehensive corrective action plan that (1) eliminates the General Fund deficit; (2) provides for the payment of all past due bills (estimated at \$1,700,000 on October 14, 2004); and (3) provides for the repayment of loans (principal and interest). The corrective action plan should be incorporated into the current year budget and provided to the Board for review and adoption.

#### Incorporate Performance Measures

Performance measures are not incorporated into the budgeting process.

Recommendation: Although not required by law, the school board should consider incorporating performance measures into the budgeting process. Meaningful performance measurements assist management of the school board by (a) identifying financial and program results; (b) evaluating past resource decisions; (c) facilitating qualitative improvements in future decisions regarding resource allocation; and (d) communicating service and program results to the taxpaying public. Performance measures should be used to report on the outputs of each program and should be related to the objectives of each department.

### Improve Budget Message

The budget message accompanying the current (2004/2005) budget needs to be improved. State law [Louisiana Revised Statute 39:1305C(1)] requires a budget message signed by the budget preparer which shall include a summary description of the proposed financial plan, policies and objectives, assumptions, budgetary basis, and a discussion of the most important features. The budget message did not include all these elements.

Recommendation: In addition to the elements required by law, we suggest that an overall financial status of the school board be included in the budget message that includes the current financial status, the short-term outlook, and the long-term trends. The emphasis on this analysis should be understandability of the financial status and issues, not necessarily on exact numbers and detail. We suggest that this analysis be provided in written form, early in the budget process, so a broad financial framework is available to management of the school board.

## **Financial Management**

### Financial Reporting

Monthly financial statements including budget-to-actual comparisons are not prepared and presented to the school board. As a result, the school board cannot effectively exercise its fiduciary responsibilities of managing the school board's fiscal operations.

On our initial visit (October 7, 2004), the most recent financial statement prepared was for May 2004 (4 months previous). Without timely financial statements with budget comparisons, the Board and superintendent cannot effectively exercise their responsibilities of managing the school board's fiscal operations.

Recommendation: The business manager should immediately bring the school board's accounting records up-to-date. He should prepare and present reliable financial statements and budget comparisons for all funds each month to the Board and superintendent. Also, a concise summary and guide to the key issues and aspects of the operating and capital components of the financial statements and budget comparisons should be provided to the Board. Furthermore, we suggest that the Board adopt a written policy that outlines the nature, extent, and frequency of financial reporting.

### Cash Flow

The school board is in a severe negative cash flow position resulting in certain vendors not being paid.

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## FINDINGS AND RECOMMENDATIONS

For example, as of October 12, 2004, the school board owed the employer portion of benefit (retirement and health insurance) contributions totaling \$1,390,837, as follows:

- \$753,920 owed to Teacher's Retirement System (period from June 2004 through September 2004)
- \$636,917 owed to Office of Group Benefits (period from July 2004 through September 2004)

Recommendation: We suggest that the business manager prepare formal cash flow projections, for the short-term (1 year) and long-term (5 years), containing reasonable expectations of the amounts that should be available for the payment of all school board bills/expenses, including the repayment of loans. The business manager should also contact vendors and make the necessary arrangements for the payment of the school board's past due bills.

### Other Suggestions for the Business Department

Based on the results of our review of the procedures and practices of the school board's business department, we suggest that the following "good" business practices be implemented:

1. A contingency plan of possible future spending cuts should be prepared in the event projected funds do not become available.
2. Business department objectives should be established, prioritized, and communicated to employees. Also, consideration should be given to restructuring/reorganizing the business department to meet those objectives.
3. Although there are formal job descriptions for professional staff employees, we suggest that specific job descriptions be established for all other school board employees (e.g., bookkeepers, secretaries, assistants, clerks, et cetera). All employees should be adequately supervised to ensure that their duties are fulfilled and that they are being used efficiently and effectively.
4. The accounting system should be fully used to facilitate the various business department functions. For example, budget information should be entered in the system for comparison to actual results. Also, the system should be used to extract grant program data and to prepare the monthly *Request for Funds* forms submitted to the state Department of Education (SDE).
5. The business manager, with the input of supervisors, should revise the general ledger's chart of accounts (account codes) so that financial information can be input and retrieved at the level of detail (line item) needed for budgeting, filing grant reimbursement requests, et cetera.
6. The superintendent should assign budgetary line items to members of his administrative staff who would be held responsible for seeing that expenditures stay within budget boundaries.



7. The business manager should present a monthly report to the school board's finance committee detailing the collections from sales and use taxes. Budget adjustments should be presented to the board if actual collections vary significantly.
8. Bank statements should be reconciled to book (general ledger) balances on a timely basis to ensure that (1) all receipts and disbursements are recorded; (2) checks are clearing the bank in a reasonable time; (3) reconciling items (errors, unrecorded deposits and checks, et cetera) are appropriate and being recorded; and (4) the reconciled cash balance agrees to the general ledger cash balance.
9. Because supervisors are responsible for managing the financial operations of their respective departments, they should be provided with departmental/fund financial statements, including a comparison of actual expenditures against the detailed budgets.
10. The business manager should implement checks and balances with the various departments to ensure that grant reimbursement requests (*Request for Funds*) are accurate and filed timely.
11. The business manager should inform supervisors of reimbursements/deposits received related to their programs or provide them with access to view the data on the system.

### **Disbursements**

#### Controls Over Disbursements Need Improvement

Our general observations and inquiries revealed the following:

1. The accounts payable clerk performs a variety of duties relating to cash disbursements that are incompatible for a proper system of checks and balances. The accounts payable clerk records the disbursements in the accounting system, prepares and prints the checks, uses the check-signing machine to sign the checks, and mails/distributes the checks.

Recommendation: We suggest that business department employees be cross-trained so that duties can be separated to provide an adequate system of checks and balances. Accounting responsibilities should be segregated so that no single individual controls all facets of a financial function.

2. Controls over the check-signing machine are inadequate. The machine operates with one key that is not kept under lock. The key is maintained by the accounts payable clerk who also maintains the supply of blank checks and who is solely

responsible for preparing and printing checks and using the machine to sign the checks.

Recommendation: The key to the machine should be placed under the control of two employees (dual control) that have no disbursement responsibilities/functions. Also, two people should be present when checks are signed to ensure that the number of checks signed (meter reading) are agreed/reconciled to the number of checks listed on the accounts payable check register. The reconciliation should be signed and dated by both individuals and given to the business manager for review. The business manager should ensure that all payments are appropriate, supporting documentation is available, invoices are approved, and the number of checks written agrees to those signed by the check-signing machine. The business manager should also document his approval on the accounts payable voucher and then give the signed checks with supporting documentation to the superintendent for his review and approval.

3. Contrary to state Department of Education (SDE) policy, certain federal grant program's *Request for Funds* forms (reimbursement form) were submitted to the SDE prior to the actual payment of expenditures for supplies and purchased services. The SDE's *Request for Funds* policy states, "Each recipient may request only actual expenditures for which he/she has issued a check for payment. Salaries and fringe benefits are the only exception of this policy." Therefore, reimbursements for other than salaries and fringe benefits are based on actual expenditures, not on obligations.

Recommendation: The superintendent should inform the SDE of the school board's noncompliance with policy and implement a corrective action plan. In the future, the school board should strictly comply with the SDE policy and request reimbursement of expenditures for which it has actually issued a check for payment.

4. The school board uses a manual purchase order system which does not prevent purchase orders from being issued when funds are not available.

Recommendation: We suggest that the school board consider replacing the manual purchase order system with an automated system which would ensure that purchase orders are created only when budgeted funds are available. An automated purchase order system keeps staff from overspending and enables them to know how much money is available for new commitments.

5. The superintendent receives a listing of all checks written out of the General Fund (prior to the checks being released); however, he does not review the actual checks and supporting invoices/documentation. For example, the superintendent informed us that he was unaware of \$912 paid in September 2004 for the lodgings and registration fees of a school board member and the business manager to attend the Louisiana Tech University School Law Institute seminar (See finding, Travel).

Recommendation: We suggest that, in addition to the check listing, all checks and supporting documentation be provided to the superintendent for his review and approval. The superintendent should then give the signed checks to a secretary for mailing.

6. The school board did not obtain bids or quotes on the cost of insurance for its property, liability, automobiles, errors and omissions, and workers' compensation insurance. The premiums for this coverage increased approximately \$100,000 compared to the previous year.

Recommendation: Although the bid law does not require insurance to be bid, we suggest that the business manager solicit quotes on all insurances, at least annually, to help ensure that the premium rates are competitive.

7. Although paid vendor invoices were maintained in filing cabinets, we suggest that they be organized and filed alphabetically by vendor name.

#### Travel

Our general inquiries relating to travel revealed the following control weaknesses:

1. The school board has no written policy for approving travel. For example, there was no documentation of approval for a board member and the business manager to attend a two-day (September 30, 2004 - October 1, 2004) Louisiana Tech University School Law Institute seminar held in Baton Rouge. The superintendent informed us that he verbally approved the business manager's travel but was unaware of the travel by the board member until after the trip.

Recommendation: We suggest that the school board adopt a policy for approving travel of all employees, including the superintendent and board members.

2. No documentation was available to substantiate the cost/benefit to the school system for the business manager and school board member's lodging in Baton Rouge on the night before the start of the Louisiana Tech University School Law Institute seminar.

Recommendation: As part of its travel policy, the school board should require documentation to substantiate the cost/benefit to the school system and the necessity for any early travel to seminars/workshops. The documentation should be reviewed and approved by an appropriate school official before making the travel arrangements.

## Payroll and Attendance Records

### Controls Over Payroll Transactions

Our general observations and inquiries revealed the following:

1. The payroll clerk performs a variety of duties relating to payroll disbursements that are incompatible for a proper system of checks and balances. The payroll clerk records the payroll data in the accounting system, prepares and prints the checks, uses the check-signing machine to sign the checks, and distributes the checks, all without supervisory review.

Recommendation: We suggest that business department employees be cross-trained so duties can be segregated to provide an adequate system of checks and balances. Also, the business manager should review the payroll check register for propriety each pay period and document his approval.

2. The payroll clerk is solely responsible for preparing and printing checks and using the machine to sign the pay checks. Also, the supply of blank payroll checks is not secured and is accessible to other employees.

Recommendation: See recommendation made for item 1 under the finding, Disbursements - Controls Over Disbursements Need Improvement. In addition, we suggest that the supply of blank payroll checks be secured under lock and only accessible by authorized employees.

3. A computer-generated report is available that shows all changes made to payroll for a specific period of time; however, it was not printed each pay period and reviewed for accuracy.

Recommendation: For a proper system of checks and balances, we recommend that someone independent of the payroll department review all changes made to payroll each pay period and compare to written authorization.

### Attendance Records

The school board does not have written policies or procedures relating to employee attendance records. Also, although absentee forms (*Employee Absence and Substitute Report*) are used to document employee leave, the forms were not always turned in to the payroll department (for processing) prior to the pay date.

Our inquiries and general observations at two schools (Bogalusa High School and Bogalusa Junior High School) relating to employee attendance revealed the following:

- The administrative employees do not complete time reports documenting hours worked and leave taken each pay period.

- The daily absentee listing provided by the personnel department (central office) is not compared to the daily sign-in log for accuracy.
- Employees are not required to sign their absentee forms.

Also, we reviewed the central office's sign-in logs and absentee forms for the pay period ending September 25, 2004, and found the following control deficiencies:

- Certain employees are not required to sign the daily sign-in log.
- Employees do not complete time reports documenting hours worked and leave taken each pay period.
- The daily sign-in logs are not compared to the absentee forms submitted to the payroll department. Our review revealed that, for 21 employees, fewer days of leave was reported on absentee forms compared to the sign-in logs.
- Compensatory leave earned and used by employees is not recorded in the payroll system. Rather, employees are responsible for keeping track of their own compensatory leave.

Recommendations: We suggest that the school board:

- Develop written procedures for attendance records for individual schools and the school board central office to follow. At a minimum, the procedures should include (1) using a standardized daily attendance log; (2) requiring all employees to sign-in for their attendance; (3) requiring the principal to account for all employees daily and document this process on the daily log; and (4) requiring the personnel department to compare the daily absentee lists to the absentee reports filed to verify the accuracy of leave hours used and earned.
- Require all administrative staff and other 12-month employees to complete time reports to document hours worked and leave taken. The appropriate supervisors should document their approval on the time reports.
- Require principals/supervisors to submit absentee forms on all of their employees on a timely basis. The absentee forms should be signed by the employee and attached with the logs/time reports that are processed by the payroll department.
- Require that all compensatory leave be (1) approved in advance by the superintendent or appropriate supervisor; (2) reported to the payroll department on a standardized form; and (3) recorded and tracked in the school board's payroll system.

**School Activity Accounts**

Noncompliance With Policy

School principals are responsible for ensuring adherence to the School Activity Policy (policy). Our inquiries and general observations at Bogalusa High School and Bogalusa Junior High School (on October 26, 2004) relating to school activity accounts revealed instances of noncompliance with the policy as follows:

Bogalusa High School

1. Seven activity accounts had deficit balances totaling \$9,826.
2. Monies borrowed by activity accounts were not supported by written permission of the principal and the club(s)/activity group(s) that raised the monies that were borrowed. School activity records did not identify the club(s)/activity group(s) that money was borrowed from or the amounts borrowed.
3. The blank/unissued checks were not safeguarded (under lock) during working hours.
4. The principal signs checks without reviewing the supporting evidence (vendor invoices) for the disbursement.
5. The use of manual signature stamps on checks is not authorized by the policy.
6. Petty cash was not reconciled on a monthly basis.
7. Teachers did not keep a log to record daily collections of money.
8. At the conclusion of an event, a receipt was not issued to each ticket seller that reflects the cash being remitted, total number of tickets issued, and total number of tickets returned unsold.
9. Unsold tickets were not retained for audit purposes.

Bogalusa Junior High School

1. The blank/unissued checks were not safeguarded (under lock) during working hours.
2. Although receipts were issued for collections, the receipts were not pre-numbered.
3. Money maintained on-hand during working hours was not kept under lock.
4. Teachers did not keep a log to record daily collections of money.
5. At the conclusion of an event, a receipt was not issued to each ticket seller that reflects the cash being remitted, total number of tickets issued, and total number of tickets returned unsold.

6. A summary ticket reconciliation form was prepared for events; however, separate ticket reconciliations were not prepared for each ticket seller.
7. Unsold tickets were not retained for audit purposes.

We suggest that the business manager provide in-service training to principals to review the procedures and reinforce the importance of strict compliance with the School Activity Policy.

### **Other Observations**

During our review, the following matters came to our attention where the school board could improve its operations:

#### Computer Back-up Contingency and Recovery Plan

There is no written contingency and recovery plan in the event of a disaster. Without a plan, there is a high risk that the school board may not be able to continue operations in the event of a disaster.

Also, although the school board is backing up files daily and storing these files offsite, there are no written procedures for this process.

#### Written Policies and Procedures

There are no written policies and/or detailed procedures for the following areas:

1. Code of Ethics, including annual certification letters from board members and employees attesting to their compliance
2. Retention of public records
3. Monitoring security pledged to ensure that school board deposits are fully secured
4. Reviewing and approving payroll, including stipends and extra pay
5. Processing, reviewing, and approving disbursements
6. Using credit cards and filing expense reports supporting credit card charges
7. Accounting for the business and personal use of cellular telephones
8. Information systems, including who can update internal files on a server and what are critical data and non-critical data.

We encourage developing, adopting, and implementing policies and procedures for these matters.







Doneen McCullough, President

S. Gregory Genco, Superintendent

**Board Members**

Mike Applewhite, Vice President  
Darren Reeves  
Eleanor Duke

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# *Bogalusa City Schools*

**Board Members**

Howard Stewart  
Paul Kates  
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December 10, 2004


Mr. Steve J. Theriot, CPA  
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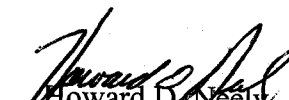
Dear Mr. Theriot;

The Bogalusa City School system has received a copy of your legislative audit team finding and recommendation resulting from your review. We have addressed the issues including your recommendations with my business manager, and my president and vice president of the school board. We realize that Bogalusa City Schools must write and revise a budget policy and procedures for our school system. The staff is already starting to put some of your procedural recommendations in place. A joint study and review of recommendations will be immediately held in January 2005. I am presently retiring as Superintendent. The new Superintendent, Gerald O. Payne, will take the position on January 3, 2005. I have plans to meet with him so that he can continue to follow and aggressively plan a review of your findings and carry out your recommendations. Included, are our first steps in addressing these issues.

On behalf of the Bogalusa City Schools I would like to thank you and your staff for giving us your time and attention. This review process will help to follow the "CHECK LIST OF BEST PRACTICES IN GOVERNMENT" for the school system.

Sincerely,

  
S. Gregory Genco  
Superintendent

  
Howard D. Neely  
Business Manager

### Budget Policy and Procedures Needed

The Bogalusa City School Board follows R.S. 17:88 in completing and submitting a balanced budget. The policies of the School Board are currently under review and updated as necessary. A budgeting policy will be written and included in the complete policy manual adoption.

### Incorporate Prior Year Deficit Into Current Year Budget

The adoption of the budget for FY 2004-2005 includes a long term loan to eliminate the deficit. We are currently working on the process to include a long term loan. A comprehensive management plan is being developed by the superintendent and school board to preclude a recurrence of a deficit. The corrective action will be included in the budget revision for the current year.

### Incorporate Performance Measures

Each supervisor will be asked to assess the specific program as its performance measures in relation to student achievement and performance based measures along with financial responsibility of the local system.

### Improve Budget Message

The budget message is signed by the preparer and included in the minute book of school board meetings. Copies of the budget not signed were made for other uses within the office. We will use the signed copy to make additional copies in the future. The budget message will include an overall outlook (short and long term) on the financial status of the school board for the board and public.

### Financial Reporting

The business office is as of this writing working on November 2004 financial statements. Current monthly financial statements are important to the overall management of the district. A written policy to remain current will be incorporated in the overall policies of the district that are currently under review. A current monthly financial statement will be presented on a monthly basis.

### Other Suggestions for the Business Department

1. The superintendent and school board are developing a management plan for eliminating the causes of the current deficit. Budget amendments will be done as changes in approved funding levels or expenses are made.
2. The business office is in the process of reorganizing, restructuring and delegating different jobs to their employees. Job descriptions and responsibilities will need to be re-written for each employee.
3. The business office along with all other supervisors will submit to the superintendent and school board specific job descriptions for each employee under each supervisor in the school

board office. In upgrading and following all recommendations all employees will now be observed and evaluated to assure duties are fulfilled efficiently and effectively.

4 – 6, 9,10. These five recommendations will greatly improve the control of expenditures within the district. It is anticipated, as a minimum, to implement these suggestions. This will be time consuming but necessary. We need to determine those features contained within the accounting software that can be utilized to achieve these objectives. This will be done in the near future.

7. This information will be included in the financial statements as a separate revenue line item and will be turned in on a monthly basis.

8. Bank statements are reconciled during the completion of financial statements and or done in a timely fashion.

11. Electronic fund transfers are copied and sent to all department supervisors as of this writing.

#### Controls Over Disbursements Need Improvement

1. There will be a review of accounting responsibilities improve internal controls to include cross training and no one person controls all facets of a financial function.

2. The business manager keeps the key to the check signing machine in his office as of this writing. The office is locked when he is away from the building.

3. There is a "cushion" in special revenue funds to pay invoices except payroll. We will review the level within each special revenue fund to insure the amount is sufficient and requests for reimbursement are submitted timely. The review will be done with each supervisor of a fund. Upon recommendation of the SDE legislative committee we have contacted Ms. Kitty Littlejohn to inform her of our future compliance with the procedure concerning the SDE policy & request for reimbursement of expenditures.

4. This recommendation along with No. 4 in the previous section will be discussed with the company providing the accounting software to determine what features are available and not in use.

5. See travel below.

6. The business manager has been requested to obtain bids in April 2005 which is prior to the expiration date of current policies.

7. Invoices are filed alphabetically by vendor name by fund.

#### Travel

1 – 2, & 5 above. An updated travel policy will be reviewed and included in the complete policy manual adoption which will include these suggestions. With respect to the school law conference meeting there were four individuals from the school district who attended. The Supervisor of Child Welfare and Attendance, Supervisor of Special Education, Business

Manager and a Board Member. The board member repaid the school district the cost of registration and hotel. He indicated he attended to comply with R.S 17:53 (53A).

### Controls Over Payroll Transactions

1. The business manager will review each payroll check register and document his approval. It is anticipated that cross training will begin soon in payroll processing. Two people will be assigned to work with the payroll clerk approximately 5 working days prior to a payroll to learn and assist with payroll completion.
2. Payroll checks will be placed in a locked cabinet.
3. Payroll changes will be reviewed and documented.

### Attendance Records

The Bogalusa City School District will develop a written policy and procedure relating to employee attendance records. The absentee form will be included in the policy and must be turned in to payroll prior to a certain cut off date. The administrative employees according to the new policy will have to complete time report documents for hours worked and leaves taken during each pay period. As policy, these must be signed by each supervisor and superintendent.

### School Activity Accounts

The school business manager will provide in-service to each principal and bookkeeper on an as needed basis.

### Other Observations

#### Computer Back-up Contingency and Recovery Plan

This will be included in the overall policy manual currently under review. Critical data files are backed up daily and stored offsite. A policy concerning recovery plan in case of disaster is also being developed.

### Written Policies and Procedures

1 - 8. To be included in the overall policy manual. It is apparent the Bogalusa City School District should have a written policy and procedure approved in these areas. We are in the process of reviewing these 8 recommendations and will address them both in written form and carried out according to the new policies.