

RECOVERY SCHOOL DISTRICT
DEPARTMENT OF EDUCATION

STATE OF LOUISIANA



FINANCIAL AUDIT SERVICES
MANAGEMENT LETTER
ISSUED DECEMBER 18, 2017

**LOUISIANA LEGISLATIVE AUDITOR
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Louisiana Legislative Auditor

Daryl G. Purpera, CPA, CFE



Recovery School District
Department of Education

December 2017

Audit Control # 80170042

Introduction

As required by Louisiana Revised Statute 24:513, 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 has taken actions to correct the 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 19, 2016. We determined that management has resolved the prior-year finding related to Inadequate Controls over Recoupment of Payroll Overpayments. The prior-year finding related to Inadequate Controls over Movable Property has not been resolved and is addressed again in this letter.

Current-year Finding

Inadequate Controls over Movable Property

For the eleventh 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.

RSD's annual certification of property inventory, which was submitted to the Louisiana Property Assistance Agency (LPAA) on April 17, 2017, and was approved by LPAA, disclosed \$217,870 in unlocated movable property for the current period and \$5,421,629 for items reported as unlocated in the previous three years that remained unlocated in fiscal year 2017.

A test of assets purchased during fiscal year 2017 that were fully or partially funded with Disaster Grants - Public Assistance (CFDA 97.036) federal funds disclosed the following:

- Six assets with an acquisition cost totaling \$8,136 were not entered into LPAA's asset management system (AMS) as required by the Louisiana Administrative Code.
- Five assets did not have the correct unit price in AMS. The unit price for four assets was overstated by a total of \$8,236, and the unit price for one asset was understated by \$500.
- The unit prices recorded in AMS for assets for one invoice were not adjusted to reflect a vendor discount of \$1,853.

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; 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).

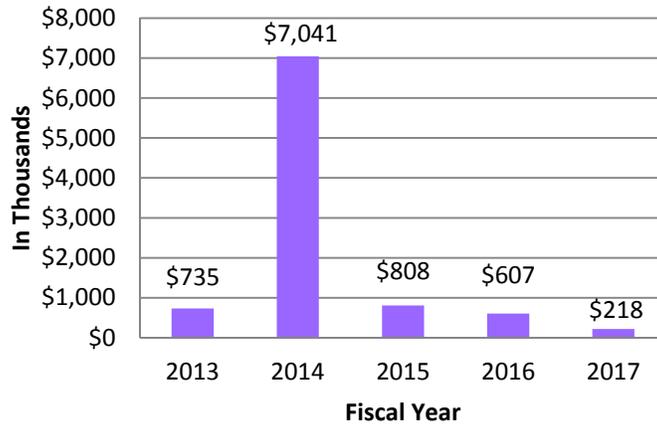
Trend Analysis

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, increasing significantly in fiscal year 2014 mainly due to RSD conducting a thorough inventory and accurately reporting unlocated items, and decreasing from fiscal year 2015 to fiscal year 2017. RSD's expenditures decreased from fiscal year 2013 to fiscal year 2014 due to

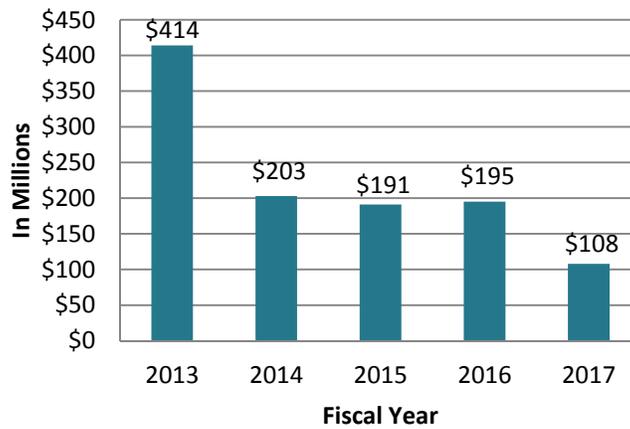
Minimum Foundation Program dollars flowing directly to charter schools rather than through RSD and decreased from fiscal year 2016 to fiscal year 2017 due to a decrease in construction expenditures.

Exhibit 1: Unlocated Property - Initial Year Reported



Source: Fiscal Year 2013-2017 Annual Property Certifications

Exhibit 2: Expenditures



Source: Fiscal Year 2013-2017 Annual Fiscal Reports

The recommendation in this letter represents, in our judgment, that which will most likely bring about beneficial improvements to the operations of RSD. The nature of the recommendation, its implementation costs, and its 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

JP:CRV:WDG:EFS:aa

RSD 2017

APPENDIX A: MANAGEMENT'S RESPONSE

RECOVERY



School District

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October 30, 2017

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

Dear Mr. Purpera,

Please accept this correspondence as our official response to the Recovery School District 2017 Controls of Moveable Property.

The RSD has made tremendous progress in addressing previous audit findings related to unlocated property. In the past four years, the RSD has reduced the one-year total of unlocated property from \$7M to \$217,870. Over 96% of the unlocated value from this year's finding has been previously reported in past audits. For the current year and for the past four years, 95% of the unlocated items were electronics purchased prior to 2010 and are beyond their useful life. These items would be fully depreciated for accounting purposes to a value of \$0.

The RSD's continued improvement is a result of increased oversight and accountability for charter schools under the governance of the RSD. Additionally, since 2015 the RSD has removed approximately \$8 Million worth of outdated assets to reduce the potential of future unlocated assets.

LLA Finding 1: RSD's annual certification of property inventory, which was submitted to the Louisiana Property Assistance Agency (LPAA) on April 17, 2017, was approved by LPAA and disclosed \$217,870 in unlocated movable property for the current period and \$5,421,629 for items reported as unlocated in the previous three years that remained unlocated in fiscal year 2017.

RSD Response: We concur with this finding.

- Over 96% of the unlocated value from this year's findings have been previously reported in past audits.
- The overwhelming majority, 95%, 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.

LLA Finding 2: A test of assets purchased during fiscal year 2017 that were fully or partially funded with Disaster Grants - Public Assistance (CFDA 97.036) federal funds disclosed the following:

- Six assets with an acquisition cost totaling \$8,136 were not entered into LPAA's asset management system (AMS) as required by the Louisiana Administrative Code.

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- RSD Response: We concur with this finding. In FY 2017, the RSD recorded 368 assets with a value of \$1.46M in newly purchased assets. Three assets were late additions to previously completed facilities and data errors have been corrected. These errors represent 0.6% of the total value of assets newly purchased in FY 2017.
- Five assets did not have the correct unit price in AMS. The unit price for four assets were overstated by \$8,236, and the unit price for one asset was understated by \$500.
 - RSD Response: We concur with this finding. In FY 2017, the RSD recorded 368 assets with a value of \$1.46M in newly purchased assets. The data errors that led to the overstatement and understatement of assets have been corrected. These errors represent 0.6% of the total value of assets newly purchased in FY 2017.
- The unit price in AMS for assets for one invoice were not adjusted to reflect a vendor discount of \$1,853.
 - RSD Response: We concur with this finding. In FY 2017, the RSD recorded 368 assets with a value of \$1.46M in newly purchased assets. At the time of the audit the RSD was waiting for final documentation for how the discount would be allocated. Final documentation was recently received and the unit price has been updated. This error represents 0.1% of the total value of assets newly purchased in FY 2017.

We thank you for the opportunity to respond to the findings regarding the RSD 2017 Controls of Moveable Property.

Sincerely,



Kunjan Narechania

Recovery School District, Chief Executive Officer

APPENDIX B: SCOPE AND METHODOLOGY

We performed certain procedures at the Recovery School District (RSD) for the period from July 1, 2016, through June 30, 2017, 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.

- 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 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. We also prepared an analysis of unlocated property and expenditures over the last five fiscal years.

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 Comprehensive Annual Financial Report, upon which the Louisiana Legislative Auditor expresses opinions.