

RECOVERY SCHOOL DISTRICT
DEPARTMENT OF EDUCATION
STATE OF LOUISIANA



MANAGEMENT LETTER
ISSUED DECEMBER 18, 2013

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

LEGISLATIVE AUDITOR
DARYL G. PURPERA, CPA, CFE

FIRST ASSISTANT LEGISLATIVE AUDITOR
AND STATE AUDIT SERVICES
PAUL E. PENDAS, CPA

DIRECTOR OF FINANCIAL AUDIT
THOMAS H. COLE, CPA

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LOUISIANA LEGISLATIVE AUDITOR
DARYL G. PURPERA, CPA, CFE

December 5, 2013

**RECOVERY SCHOOL DISTRICT
DEPARTMENT OF EDUCATION
STATE OF LOUISIANA**
New Orleans, Louisiana

As required by Louisiana Revised Statute 24:513 and as a part of our audit of the Single Audit of the State of Louisiana for the fiscal year ended June 30, 2013, we conducted certain procedures at the Recovery School District (RSD) for the period from July 1, 2012, through June 30, 2013.

- Our auditors obtained and documented an understanding of the RSD operations and system of internal control, including controls over a major federal award program administered by RSD, through inquiry, observation, and review of its policies and procedures, including a review of the laws and regulations applicable to RSD.
- Our auditors performed analytical procedures consisting of a comparison of 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 scheduled the number of direct-run and charter-operated schools for the past four fiscal years for informational purposes.
- Our auditors reviewed the status of the findings identified in the prior management letter, dated February 21, 2013. The prior year findings relating to loss of movable property and inadequate controls over payroll have not been resolved and are addressed again in this letter.
- Our auditors performed internal control and compliance testing in accordance with *Government Auditing Standards* and Office of Management and Budget Circular A-133 on the School Improvement Grants Cluster (CFDA 84.377, 84.388) for the fiscal year ended June 30, 2013, as a part of the Single Audit of the State of Louisiana.
- Based on the documentation of RSD's controls and our understanding of related laws and regulations, our auditors also performed procedures on RSD's movable property and payroll expenditures.

The Annual Fiscal Report of RSD was not audited or reviewed by us, 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.

Based on the application of the procedures referred to previously, we have included the following significant findings for management's consideration.

Loss of Movable Property

For the seventh consecutive year, RSD did not ensure that movable property was safeguarded against loss resulting in unlocated property with a total acquisition cost of \$735,322 in the current year and over \$2.6 million in unlocated property over the past four years. In addition, management did not ensure that property additions were timely recorded in the asset management system. Our review of RSD's movable property activity disclosed the following:

- RSD's annual certification of property inventory, which was submitted to and conditionally approved by the Louisiana Property Assistance Agency (LPAA), disclosed \$25,451,955 in total movable property, which included 1,583 items with a total acquisition cost of \$2,673,754 that have been identified as unlocated during the past four-year period. Of the 1,583 unlocated items, 1,278 items were computers or computer-related equipment. The 2013 annual certification also identified 428 items with a total acquisition cost of \$735,322 as unlocated for the current period.
- A review of the LPAA asset management system's late additions report disclosed that RSD entered 231 items totaling \$861,785 from five to 259 days after the required 60-day period.

RSD's movable property function is hampered by (1) the decentralization of movable property at the various custodians (schools) and a lack of accountability and training of the custodians for RSD property; (2) RSD personnel not following established movable property policies; and (3) a lack of enforcement of policies by RSD management. Failure to safeguard movable property and enter new property additions into the asset management system timely increases the risk that assets may be misreported, lost, or stolen. In addition, the year-to-year cost of replacing lost or stolen movable property items could reduce the availability of funds (federal or state) for other educational objectives.

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 the 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 the LPAA.

Management should continue to improve control over movable property by increasing its efforts to make the custodians responsible and accountable for assigned RSD movable property to include holding the custodians financially liable as allowed by the movable property regulations. In addition, management should emphasize compliance with established policies through training and guidance and continue to search for unlocated property. Management concurred with the finding and outlined a plan of corrective action (see Appendix A, pages 1-2).

Inadequate Controls over Payroll

During fiscal year 2013, RSD did not ensure that employee separation dates were accurately or timely recorded, resulting in known overpayments to one employee totaling \$2,691. This is the seventh consecutive year that we have cited RSD for inadequate controls over its payroll process.

From July 1, 2012 to June 30, 2013, 796 employee separation dates were entered in the ISIS/Human Capital Management payroll system (ISIS/HCM). Our test disclosed the following exceptions:

- For five of 20 (25%) employees tested, final separation dates were not entered into ISIS/HCM before the close of the employees' last pay periods. Days late ranged from 10 to 80 days and resulted in overpayments to one employee totaling \$2,691. Failure to record employees' separation dates inhibits RSD's ability to prevent future overpayments.
- For four of 20 (20%) employees 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 ISIS/HCM were accurate and, therefore, overpayments may have been made and not detected.

Documentation relating to payroll transactions including separation dates was not provided to RSD's Human Resources section in a timely manner. Lack of detailed policies and procedures relating to the notification of terminations and a lack of accountability at the RSD sites hamper the timely transfer of information. In addition, since RSD's personnel are decentralized, the large volume of documentation that is required to be transferred from the various RSD sites to the central office increases the risk of lost documentation. Failure to support payroll charges with adequate documentation increases the risk that employees will be paid improperly. 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.

Management of RSD should (1) improve control over payroll; (2) ensure payroll policies and practices clearly communicate and instruct RSD personnel to report termination immediately; (3) consider storing and transmitting supporting documentation electronically; and (4) place stronger emphasis on compliance with payroll policies and

practices through training and guidance. Management concurred with the finding and outlined a plan of corrective action (see Appendix A, pages 3-4).

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. The findings relating to RSD's compliance with applicable laws and regulations should be addressed immediately by management.

The purpose of this letter 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 letter is not intended to be and should not be used for any other purpose. Under Louisiana Revised Statute 24:513, this letter is a public document, and it has been distributed to appropriate public officials.

Respectfully submitted,

A handwritten signature in blue ink that reads "Daryl G. Purpera". The signature is written in a cursive style with a large initial "D".

Daryl G. Purpera, CPA, CFE
Legislative Auditor

JMJ:CRV:BQD:THC:mk

RSD 2013

APPENDIX A

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

Excellence.Equity.Community. Recovery School District

November 29, 2013

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 the Recovery School District's official response to the RSD property audit.

As you know, the RSD is a unique school district that manages schools in a decentralized fashion. The RSD has decreased the current year of discrepancies for this year's property certification by over half and additional processes have been put in place to ensure a continued reduction. The RSD also manages one of the largest school construction programs in the nation. New assets purchased for these newly constructed or renovated facilities are no longer delivered to a central warehouse in order to reduce cost. These assets are delivered on site and the timeline of the delivery and the documentation is not always conducive to meeting the sixty day timeframe. The RSD has improved communications with the contractor to ensure that items are not delivered to the school until the school is ready to be operated thus reducing the timeframe between items being delivered and being tagged. The RSD looks forward to continuing to improve the processes for property management going forward.

Finding:

In its annual certification, RSD identified 1,583 items with a total acquisition cost of \$2,673,754 that have been identified as unlocated during the past four year period. Of the 1,583 unlocated items, 1,278 items were computers or computer-related equipment. In addition, the certification disclosed 428 items with a total acquisition cost of \$735,322 were unlocated for the current period.

Response:

The RSD has improved the methods for tracking state tagged inventory in the following ways:

- Clearer communication and accountability systems for non-direct run schools that are the custodians of RSD property.
 - Refined instructions and guidance for non-direct runs schools that perform annual inventories.
 - RSD performed audits of non-direct run school provided inventories.
- Stronger communication and guidance on reporting and tracking practices for RSD's Information Technology vendor on process for transporting RSD tagged property such as

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computers to other locations and reporting property available for surplus or disposal approval.

These methods have yielded a decrease of the total yearly discrepancies from \$1,482,060 recorded in the 2012 property certification to \$735,322 for the 2013 property certification.

Finding:

The asset management system disclosed RSD had 231 items totaling \$861,785 created during the fiscal year that were not reported to the Louisiana Property Assistance Agency within 60 days of receipt.

Response:

The RSD has improved the communication process between the Capital Construction Program, Procurement Office, and Property Management Office to ensure that Property Management Office is made aware of any items being newly purchased in a timely manner. As a result the following process has been put in place:

- Newly purchased items are no longer delivered to a central warehouse and distributed to schools but contents are delivered directly to the newly constructed school once a secure location has been created and system wide security systems are online.
- To reduce the timeframe between the items being purchase and tagged, the RSD is coordinating closely with the contractor to ensure that items are delivered closer to the opening of the school.
- Capital Construction team sends all Purchase Orders (PO) for contents purchased for New Construction directly to both the RSD Procurement Office and the RSD Property Management Office.
- Each PO is reviewed by property management to ensure that all items over \$1,000.00 are identified and all needed information and documentation to create new tagged assets has been provided.
- The items delivered to a school over \$1,000.00 are then tagged on site to ensure timely tagging.

The RSD concurs with finding of the Louisiana Legislative Auditors.

Sincerely,



Patrick Dobard
Superintendent

RECOVERY

School District

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December 2, 2013

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

Dear Sir:

The Recovery School District is a unique state school district administered by the Louisiana Department of Education. Launched in 2003, the Recovery School District transforms some of the state's lowest performing schools by identifying top school leaders and teachers to operate the schools, giving those staff members the freedom to educate children as they know best, and giving parents the power to choose the schools that are best for their children. The Recovery District mission is to locate high performing charter schools to operate our direct run schools and in the process we are continuously closing schools, as they transition to high quality charter operators. For the Fiscal year 2013, we transformed 7 schools to charter operators and separated 796 employees that were working at those schools.

Please accept this correspondence as the Recovery School District's official response to the Reportable Audit Finding –Inadequate Controls over Payroll for Fiscal Year ended June 30, 2013. The Recovery School District concurs with the findings listed below.

Findings: For five of 20 (25%) employees tested, final separation dates were not entered into ISIS/HCM before the close of the employee's last pay periods. Days late ranged from ten to 80 days and resulted in overpayments to one employee totaling \$2,691.

For four of 20 (20%) of employees tested, RSD did not have supporting documentation available to confirm the employee's separation dates.

- The Recovery School District moved payroll under Finance Department supervision effective September 1, 2012. With that transition, internal controls were tightened, and the implementation of an analytical review of each payroll was created. The overpayment to the one employee was caused by payroll previously being on negative time for the summer period in 2012. With negative time, an employee was paid each payroll until an action was done to separate the employee. One of the first changes implemented by Finance was that all employees were put on positive time. With positive time, employees are required to fill out timesheet documentation for days worked to receive a paycheck. With that Internal Control in place, future over payments of this type will be prevented. The current balance of the overpayment is \$2,441, as we have recouped \$250 of the claim.
- The Recovery School District did issue reduction in force letters to notify employees of schools that were transforming to Charters. The finding above occurred because documentation to support the letters being sent out to the four employees could not be located. We are now requiring all reduction in force letters to be kept electronically.

RECOVERY

School District

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The individuals responsible to ensure timely separation of employees are:

Kristin Barker, Chief of Staff, Achievement

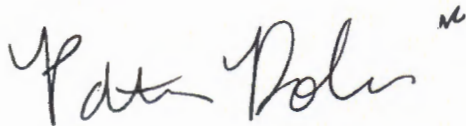
Ivan Illidge, Human Resource Director

Ting-Ting Liang, Executive Director of Finance

Sherry Pagano, Payroll Specialist

Jonathan Tebelev, Deputy Director of Finance

Sincerely,



Patrick Dobard
Superintendent
Recovery School District