

DEPARTMENT OF EDUCATION
STATE OF LOUISIANA



MANAGEMENT LETTER
ISSUED DECEMBER 4, 2013

**LOUISIANA LEGISLATIVE AUDITOR
1600 NORTH THIRD STREET
POST OFFICE BOX 94397
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LOUISIANA LEGISLATIVE AUDITOR
DARYL G. PURPERA, CPA, CFE

November 20, 2013

**DEPARTMENT OF EDUCATION
STATE OF LOUISIANA**

Baton Rouge, Louisiana

As required by Louisiana Revised Statute 24:513 and as a part of our audit of the State of Louisiana's financial statements and the Single Audit of the State of Louisiana for the fiscal year ended June 30, 2013, we conducted certain procedures at the Department of Education (DOE) for the period from July 1, 2012, through June 30, 2013.

- Our auditors obtained and documented an understanding of DOE's operations and system of internal control, including controls over major federal award programs administered by DOE, through inquiry, observation, and review of its policies and procedures, including a review of the laws and regulations applicable to DOE.
- Our auditors performed analytical procedures consisting of a comparison of the most current and prior year financial activity using DOE's annual fiscal reports and/or system-generated reports and obtained explanations from DOE management for any significant variances. We also scheduled the split of expenditures between the various programs of DOE for the fiscal year ended June 30, 2013, for informational purposes.
- Our auditors reviewed the status of the finding identified in the prior management letter, dated February 27, 2013. The prior year finding relating to noncompliance with Office of Management and Budget Circular A-87 cost principles has not been resolved and is addressed again in this letter.
- Our auditors considered internal control over financial reporting and examined evidence supporting DOE's nonpayroll expenditures and federal revenue. We also tested DOE's compliance with laws and regulations that could have a direct and material effect on the State of Louisiana's financial statements, as part of our audit of the state's Comprehensive Annual Financial Report for the fiscal year ended June 30, 2013, in accordance with *Government Auditing Standards*.
- 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 following federal programs for the fiscal year ended June 30, 2013, as part of the Single Audit of the State of Louisiana:

- Child Nutrition Cluster (CFDA 10.553, 10.555, 10.556, 10.559)
- Child and Adult Care Food Program (CFDA 10.558)
- Title I, Part A Cluster (CFDA 84.010, 84.389)
- Special Education Cluster (CFDA 84.027, 84.173)
- Improving Teacher Quality State Grants (CFDA 84.367)
- School Improvement Grants Cluster (CFDA 84.377, 84.388)
- Temporary Assistance for Needy Families Cluster (CFDA 93.558, 93.714, 93.716)

The Annual Fiscal Reports of DOE were not audited or reviewed by us, and, accordingly, we do not express an opinion on those reports. DOE'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 finding for management's consideration. This finding will also be included in the State of Louisiana's Single Audit Report for the year ended June 30, 2013.

**Noncompliance with Office of Management
and Budget Circular A-87 Cost Principles**

For the second consecutive year, DOE did not properly allocate federal payroll expenditures to the correct federal programs in accordance with the completed employee certifications. This resulted in \$96,183 in overcharges to the programs which may have to be returned to the federal government.

In a test of payroll certifications for 36 employees, the cost distribution report for eight (22%) did not agree to the federal program and percentage charged per the certifications, resulting in overcharges to the programs totaling \$96,183. The Title I Grants to Local Educational Agencies (CFDA 84.010) and Special Education - Preschool Grants (CFDA 84.173) programs and the Elementary and Secondary Education Act (ESEA) Consolidated Administrative Funds (various ESEA programs) were charged \$23,436; \$227; and \$72,520, respectively, for payroll expenditures that did not match the employees' documented work effort.

Also, in a test of 19 employees with system coding changes during the year, DOE did not maintain a properly completed payroll coding change form to support the cost distribution changes made for any of the 19 (100%) employees tested.

The exceptions noted resulted from insufficient communication of system coding changes between DOE personnel and not properly monitoring to ensure that the allocations made in the system agreed with the certifications on file. Failure to properly distribute federal payroll expenditures results in noncompliance with the Office of Management and Budget (OMB) Circular A-87 and questioned costs which could be disallowed by the federal government.

OMB Circular A-87, "Cost Principles for State, Local, and Indian Tribal Governments," states that where employees work on multiple cost objectives, a distribution of their salaries or wages must be supported by personnel activity reports that account for the total activity for which an employee is actually compensated. DOE policies and procedures require that (1) supervisors routinely monitor employees' actual effort; (2) payroll coding change request forms are completed when necessary (3) human resources personnel adjust the coding in the payroll system when an employee's cost distribution changes; and (4) administrative personnel update payroll certifications based upon the cost distribution changes.

Management should ensure that (1) payroll expenditures are accurately distributed as certified by the employee; (2) any coding changes are properly communicated to applicable DOE personnel; and (3) payroll coding change forms are properly completed and maintained. Management concurred with \$94,326 in questioned costs, but did not concur with the remaining \$1,857 in questioned costs (see Appendix A).

Additional Comments: Based on our audit documentation, we continue to question these costs of \$1,857.

The recommendation in this letter represents, in our judgment, that most likely to bring about beneficial improvements to the operations of DOE. The nature of the recommendation, its implementation costs, and its potential impact on the operations of DOE should be considered in reaching decisions on courses of action. This finding relating to DOE'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 DOE and not to provide an opinion on the effectiveness of DOE'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, prominent initial "D".

Daryl G. Purpera, CPA, CFE
Legislative Auditor

KS:CRV:BQD:THC:ch

DOE 2013

APPENDIX A

Management's Corrective Action Plan and Response to the Finding and Recommendation



LOUISIANA DEPARTMENT OF EDUCATION

November 18, 2013

Mr. Daryl Purpera, CPA, CPE
Legislative Auditor
1600 North Third Street
Baton Rouge, LA 70804-9397

Dear Mr. Purpera,

RE: Noncompliance with OMB Circular A-87 Cost Principles

The Louisiana Department of Education (LDE) concurs in part with the audit finding entitled Noncompliance with OMB Circular A-87 Cost Principles.

During the time period of the audit, the Department was undergoing a re-organization in an effort to better align the work of Department staff with the needs of teachers, students, and parents across the state. The reorganization of the Department resulted in some confusion as to how time and effort was going to be coded for individuals whose job location or job function and duties was shifting.

TITLE I GRANTS - \$23,436

The Department concurs with \$21,806 of the questioned costs for Title I Grants. These costs are applicable to two employees. The employees should have been recoded to Consolidated Administration to reflect Title I activities. However, when the coding for this employee was revised, the code within this office for Title I School Improvement was inadvertently used rather than the coding assigned to this section for consolidated administration. Since this grant year is still open, the Department will make the necessary journal entries to reverse these charges and correct the coding to reflect charges to consolidated administration. Additionally, amended certifications will be processed to align the certifications with the corrected coding.

The Department does not concur with the remaining \$1,630 of questioned costs for Title I Grants. These costs are applicable to one employee whose job duties changed as a result of the reorganization. The updated coding reflects the transfer of duties for this individual at that time and is correctly charged to Title I Grants. Amended certifications will be processed to align the certifications with the coding as reflected in the payroll system.

SPECIAL EDUCATION PRESCHOOL GRANTS - \$227

The Department does not concur with the \$227 of questioned costs for Special Education - Preschool. These costs are applicable to one employee. Coding for his employee was changed to reflect job duties. Amended certifications will be processed to align the certifications with the coding as reflected in the payroll system.

Louisiana Believes.

CONSOLIDATED ADMINISTRATION - \$96,183

The Department concurs with the questioned costs of \$72,520 related to Consolidated Administrative Funds. These charges are applicable to one employee who was transferred from an office that was no longer functional under the reorganization to the Office of Student Programs in a section called OSP/IDEA Services. This section has oversight over both the NCLB and IDEA programs. The employee has always performed duties funded by IDEA. When the coding for this employee was revised, the codes for consolidated administration were inadvertently used rather than the coding assigned to this section for IDEA administration. Since this grant year is still open, the Department will make the necessary journal entries to reverse these charges and correct the coding to reflect charges to IDEA administration. Additionally, amended certifications will be processed to align the certifications with the corrected coding.

PAYROLL CHANGE FORMS

Payroll change forms were requested for 19 employees with system coding changes. At the time that these changes implemented, changes were made based on discussions with program staff through verbal and email conversations. A need to have documentation of these changes was recognized and subsequently, a payroll coding change form was adopted. The Department will provide the available email documentation to the audit staff.

CORRECTIVE ACTIONS

Audit of Current Coding

As noted earlier, the Department has recently undergone a reorganization resulting in movement of individuals across the agency as well as reassignment of job duties. In order to ensure compliance with A-87 certifications, at the end of last fiscal year, the Department began meetings with management within each office to discuss compliance requirements and subsequently began reviewing employee coding to confirm that the current coding aligns with the employee job duties.

Amended Certifications

Amended certifications will be processed to align with payroll coding changes.

Staff Training

The Department recognizes that the reorganization has resulted in both new staff as well as staff with new job duties. The Department will conduct training for staff in several ways.

- The Department will provide training for supervisors regarding the timekeeping and certification process including responsibilities relative to ensuring that the assigned coding aligns with the work performed.
- The Department will provide expert training in A-87 cost certification principles to ensure compliance by Department staff.
- The Department will incorporate in the new hire process training on A-87 certification processes.

Payroll Change Forms

As noted earlier, the use of a payroll change form has been instituted. This form has been enhanced to include certification by the employee, the timekeeper, human resource staff and an audit function. This form facilitates the communication among the parties involved in the coding change process. The audit function serves to assure that the time certification, the payroll change form and the payroll system are all in alignment. The finding to which this response is addressed occurred prior to the use of the amended form.

Louisiana Believes.

Mr. Daryl Pupera
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November 18, 2013

These corrective actions will be complete by April 1, 2014. The contact person for this corrective action is Charlotte Stevens. She may be contacted at charlotte.stevens@la.gov or by phone at 225-342-4989.

Sincerely,



John White
State Superintendent of Education

Louisiana Believes.