



LOUISIANA LEGISLATIVE AUDITOR
DARYL G. PURPERA, CPA, CFE

August 12, 2015

Henderson Lewis, Jr., Ph.D., Superintendent
Orleans Parish School Board
3520 Gen. DeGaulle Dr.
New Orleans, LA 70114

Dear Superintendent Lewis:

At your request, my advisory staff visited the Orleans Parish School Board's (OPSB) central office to perform an assessment of internal controls over OPSB Purchasing and Payroll departments to provide you with recommendations for strengthening controls and compliance in these areas.

We applied our *Checklist of Best Practices in Government* and our procedures included inquiries, observations, and certain tests of controls which were limited in scope and not designed to identify all deficiencies in internal control. Accordingly, we do not express an opinion on the effectiveness of the school board's internal control.

Based on the results of our procedures, my staff identified areas for improvement within OPSB Purchasing and Payroll departments and has developed recommendations to assist you in your efforts to strengthen controls, implement good business practices, and ensure compliance with Louisiana laws in these two departments. Your response to this report is presented in Appendix A.

The following are our recommendations for your consideration:

Purchasing

1. Periodically review the computer access rights (read access and write access) for all employees to ensure that access to purchasing and contracting information/data, if any, is appropriate for their job duties and responsibilities. Access should be restricted to the employee's business needs only.
2. Ensure that a report is generated when there are any additions, deletions, or changes made to vendor master files, and require the purchasing director to review and document his authorization of all such changes. An independent review of these changes is necessary to ensure that the master files are accurate and include only authorized vendors.

3. Require that all new vendor registration forms received be forwarded to the Human Resources department to be reviewed and approved for compliance with the state ethics law [Louisiana Revised Statute (La. R.S.) 42:1121(B)(1)]. This law, in general, provides that public employees are prohibited, for a period of two years, from contracting to render the same service to their former public employer that they provided while employed at that agency.
4. Periodically compare all vendor addresses and telephone numbers to all OPSB employees' addresses and telephone numbers to identify possible vendor/purchasing fraud. Any matching addresses or telephone numbers should be immediately investigated and resolved.
5. Provide an option to contractors to submit bids for public contracts through a uniform and secure electronic interactive system (i.e., electronic bidding) as required by state law [La. R.S. 38:2212.1(B)(4)(a)]. For further guidance, we recommend that you consult legal counsel and review Louisiana Attorney General Opinion No. 08-0317 which addresses the applicability of this law to a parish school board.
6. Implement centralized review and oversight of all contracts to help ensure that goods and/or services received are in accordance with the terms and conditions of the contracts before payments are issued. We also recommend that a record be maintained of contractors and suppliers who have not met quality or other performance standards to help ensure quality control over vendors.
7. Ensure that proper controls are maintained in the event that one of the two employees working in the accounts payable area is not available to perform their assigned duties. No single employee should be in a position to control all facets of the accounts payable function (e.g., input invoices, prepare the checks, print the checks, and mail the checks). Cross-training other employees to perform accounts payable duties will minimize the risk of one employee being in a position to both perpetrate and conceal errors or fraud.
8. Implement supervisory oversight to ensure full compliance with the current policy and procedures for administering the Disadvantaged Business Enterprise (DBE) Program, a program that is intended to help local and small disadvantaged businesses compete for and obtain OPSB contracts. We understand that OPSB has more than a dozen ongoing projects with DBE participation. This program was to be administered by the executive director reporting to the superintendent and, according to DBE policy/procedures, the executive director was required to:
 - Establish the Staff Contract Review Committee (SCRC) and facilitate its meetings. We were informed that this committee was

never established. The role of SCRC was to review all contracts involving goods/services and professional services and make recommendations on the feasible areas of DBE participation and a suitable DBE percentage.

- Develop written procedures to ensure that DBE subcontractors are timely paid by general contractors. We did not find evidence of such required procedures.
 - Develop written procedures for the processing and payment of requests for mobilization fee assistance by DBE subcontractors. We did not find evidence of such required procedures.
 - Prepare and maintain documentation supporting conclusions as to whether or not bidders satisfied the good faith effort to locate and engage the services of DBE businesses in connection with projects. We did not find evidence of such documentation.
 - Obtain and maintain documentation supporting the executive director's review/monitoring of the contractor's DBE involvement efforts throughout contract performance. After contracts are awarded and work has begun, the executive director is required to perform specific tasks to monitor actual utilization of DBEs. For example, such tasks include attending construction progress meetings and reviewing quarterly compliance reports for instances of noncompliance. We did not find evidence of such supporting documentation.
9. Review the DBE policy and procedures in detail and amend as necessary to ensure that it is up-to-date with management's expectations, intentions, and goals including oversight and appropriate checks and balances (controls) throughout the program.
 10. Develop written procedures for filing claims against vendors and carriers for shortages and damaged materials.

Payroll

1. Periodically review the computer access rights (read access and write access) for all employees to ensure that access to payroll and personnel related information/data, if any, is appropriate for their job duties and responsibilities. Access should be restricted to the employee's business needs only.

2. Ensure that proper controls are maintained in the event that one of the two employees working in the payroll department is not available to perform their assigned duties. No single employee should be in a position to control all facets of the payroll function. Cross-training other employees to perform payroll duties will minimize the risk of one employee being in a position to both perpetrate and conceal errors or fraud.
3. Require the payroll director to implement checks and balances (controls) to ensure that:
 - Employee sign-in sheets (attendance records) contain the signature of the principal or department head as required by OPSB policy.
 - Employee payroll transmittal sheets contain the signature of the principal or department head as required by OPSB policy.
 - A computer-generated report of all changes (e.g., adding/deleting employees and increasing/decreasing pay rates) made in the payroll system between pay periods is printed and verified to the approved written authorization by someone independent of the payroll department. An independent review would ensure that only authorized changes have been made in the payroll system. These reports should be signed and dated by the independent reviewer and maintained on file.
4. Require the Human Resources director to implement checks and balances to ensure that:
 - Bi-weekly payroll registers are reviewed to confirm that improper payments are not being issued to terminated employees.
 - All employee files should be updated as needed to include:
 - Job application
 - Resume
 - Educational achievement documentation
 - Job description
 - Approved salary/pay rate documentation
 - Internal Forms PD 40 and/or PD 41, as applicable

- IRS Form I-9 (Employment Eligibility Verification)
 - Annual performance evaluations
5. Require any unclaimed payroll checks to be investigated and resolved by someone independent of the payroll department. We advise that La. R.S. 9:151, et seq. (Louisiana Uniform Unclaimed Property Act) requires that unclaimed property be reported and remitted to the state treasurer on an annual basis.

Internal Audit Function

We also recommend that management consider establishing an internal audit function in the school system. Management has a fiduciary duty to properly manage the school board's budget and operations, and hiring a qualified professional as internal auditor could support the board in its oversight role. For the year ended June 30, 2014, the school board's assets totaled \$608 million, revenues totaled \$480 million, and there were approximately 775 employees.

Management is responsible for designing internal controls and the internal auditing function could be a key resource. An internal audit function is needed to assess and evaluate the school board's operations for risks, controls, compliance, ethics, economies, efficiencies, and safeguarding of assets. An internal auditor can provide objective assessments on the state of the system's exposures and provide independent recommendations for improvement. We advise that the Institute of Internal Auditors is the internal audit profession's recognized standard-setting body and provides comprehensive guidance for the profession.

We appreciate your staff's input and cooperation, and we encourage you to continue your efforts in strengthening controls and ensuring compliance in the Purchasing and Payroll departments. If you have any questions, please contact Eric Sloan or Glenda Leblanc at (225) 339-3800.

Respectfully submitted,



Daryl G. Purpera, CPA, CFE
Legislative Auditor

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APPENDIX A

Management's Response

Orleans Parish School Board



SUPERINTENDENT'S OFFICE

3520 General DeGaulle Drive, Suite 5055 New Orleans, Louisiana 70114
(504) 304-5660 Office (504) 379-5660 Fax

Henderson Lewis, Jr., Ph.D., Superintendent

August 3, 2015

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

Dear Mr. Pupera:

We offer the following response to the recommendations in the July 15, 2015 Louisiana Legislative Audit report on the assessment of internal controls over purchasing and payroll. Our response below includes the recommendation, together with management's response to the recommendations in bold print.

Purchasing

1. Periodically review the computer access rights (read access and write access) for all employees to ensure that access to purchasing and contracting information/data, if any, is appropriate for their job duties and responsibilities. Access should be restricted to the employee's business needs only.

Administration agrees with the recommendation and will incorporate into our procedures for a semiannual review of computer access to purchasing and contracting information.

2. Ensure that a report is generated when there are any additions, deletions, or changes made to vendor master files, and require the Purchasing Director to review and document his authorization of all such changes. An independent review of these changes is necessary to ensure that the master files are accurate and include only authorized vendors.

Administration agrees with the recommendation and will incorporate into our procedures a quarterly review of changes to vendor master files.

3. Require that all new vendor registration forms received be forwarded to the Human Resources Department to be reviewed and approved for compliance with the state ethics law [Louisiana Revised Statute (La. R.S.) 42:1121(B)(1)]. This law, in general, provides that public employees are prohibited, for a period of two years, from contracting to render the same service to their former public employer that they provided while employed at that agency.

Administration concurs and will adopt the process immediately.

4. Periodically compare all vendor addresses and telephone numbers to all OPSB employees' addresses and telephone numbers to identify possible vendor/purchasing fraud. Any matching addresses or telephone numbers should be immediately investigated and resolved.

Administration concurs and will incorporate into procedures for a semiannual review.

5. Provide an option to contractors to submit bids for public contracts through a uniform and secure electronic interactive system (i.e., electronic bidding) as required by state law [La. R.S. 38:2212.1(B)(4)(a)]. For further guidance, we recommend that you consult legal counsel and review Louisiana Attorney General Opinion No. 08-0317 which addresses the applicability of this law to a parish school board.

Administration concurs and is working with our software system provider (MUNIS) to implement electronic bidding by December 31, 2015.

6. Implement centralized review and oversight of all contracts to help ensure that goods and/or services received are in accordance with the terms and conditions of the contracts before payments are issued. We also recommend that a record be maintained of contractors and suppliers who have not met quality or other performance standards to help ensure quality control over vendors.

Administration concurs and will put in place in the first quarter of fiscal year 2016.

7. Ensure that proper controls are maintained in the event that one of the two employees working in the accounts payable area is not available to perform their assigned duties. No single employee should be in a position to control all facets of the accounts payable function (e.g., input invoices, prepare the checks, print the checks, and mail the checks). Cross-training other employees to perform accounts payable duties will minimize the risk of one employee being in a position to both perpetrate and conceal errors or fraud.

Administration concurs and will put in place in the first quarter of fiscal year 2016

8. Implement supervisory oversight to ensure full compliance with the current policy and procedures for administering the Disadvantaged Business Enterprise (DBE) Program, a program that is intended to help local and small disadvantaged businesses compete in and obtain OPSB contracts. We understand that OPSB has more than a dozen ongoing projects with DBE participation. This program was to be administered by the Executive Director reporting to the Superintendent and, according to the DBE policy/procedures, the Executive Director was required to:
 - Establish the Staff Contract Review Committee (SCRC) and facilitate its meetings. We were informed that this committee was never established. The role of the SCRC was to review all contracts involving goods/services and professional services and make recommendations on the feasible areas of DBE participation and a suitable DBE percentage.

- Develop written procedures to ensure that DBE subcontractors are timely paid by general contractors. We did not find evidence of such required procedures.
- Develop written procedures for the processing and payment of requests for mobilization fee assistance by DBE subcontractors. We did not find evidence of such required procedures.
- Prepare and maintain documentation supporting conclusions as to whether or not bidders satisfied the good faith effort to locate and engage the services of DBE businesses in connection with projects. We did not find evidence of such documentation.
- Obtain and maintain documentation supporting the Executive Director's review/monitoring of the contractor's DBE involvement efforts throughout contract performance. After contracts are awarded and work has begun, the executive director is required to perform specific tasks to monitor actual utilization of DBEs. For example, such tasks include attending construction progress meetings and reviewing quarterly compliance reports for instances of non-compliance. We did not find evidence of such supporting documentation.

Administration agrees with the recommendation and has temporarily put in place measures to ensure continuance of the DBE program. Given the issues surrounding OPSB's DBE program, administration has elected to totally restructure and rebrand the program to one that is more representative of an educational institution. An Executive Director of Administration & Disadvantaged Business Enterprises will report to work August 3, 2015 to lead this effort.

9. Review the DBE policy and procedures in detail and amend as necessary to ensure that it is up-to-date with management's expectations, intentions, and goals including oversight and appropriate checks and balances (controls) throughout the program.

Refer to the comments above with respect to the DBE program.

10. Develop written procedures for filing claims against vendors and carriers for shortages and damaged materials.

Administration concurs and will put in place in the first quarter of fiscal 2016.

Payroll

1. Periodically review the computer access rights (read access and write access) for all employees to ensure that access to payroll and personnel related information/data, if any, is appropriate for their job duties and responsibilities. Access should be restricted to the employee's business needs only.

Administration concurs and will incorporate procedures for a semiannual review of computer access rights.

2. Ensure that proper controls are maintained in the event that one of the two employees working in the payroll department is not available to perform their assigned duties. No single employee should be in a position to control all facets of the payroll function. Cross-training other employees to perform payroll duties will minimize the risk of one employee being in a position to both perpetrate and conceal errors or fraud.

Administration concurs and will put in place in the first quarter of fiscal 2016.

3. Require the Payroll Director to implement checks and balances (controls) to ensure that:
 - Employee sign-in sheets (attendance records) contain the signature of the principal or department head as required by OPSB policy.
 - Employee payroll transmittal sheets contain the signature of the principal or department head as required by OPSB policy.
 - A computer-generated report of all changes (e.g., adding/deleting employees and increasing/decreasing pay rates) made in the payroll system between pay periods is printed and verified to the approved written authorization by someone independent of the payroll department. An independent review would ensure that only authorized changes have been made in the payroll system. These reports should be signed and dated by the independent reviewer and maintained on file.

Administration concurs and will put in place in the first quarter of fiscal 2016.

4. Require the Human Resources Director to implement checks and balances to ensure that:
 - Bi-weekly payroll registers are reviewed to confirm that improper payments are not being issued to terminated employees.
 - All employee files should be updated as needed to include:
 - Job application
 - Resume
 - Educational achievement documentation
 - Job description
 - Approved salary/pay rate documentation
 - Internal Forms PD 40 and/or PD 41, as applicable
 - IRS Form I-9 (Employment Eligibility Verification)
 - Annual performance evaluations

Administration concurs and will put in place in the first quarter of fiscal 2016.

5. Require any unclaimed payroll checks to be investigated and resolved by someone independent of the payroll department. We advise that La. R.S. 9:151, et seq. (Louisiana Uniform Unclaimed Property Act) requires that unclaimed property be reported and remitted to the state treasurer on an annual basis.

Administration concurs and will put in place in the first quarter of fiscal 2016. OPSB mandates the employee use of direct deposit to reduce and/or eliminate the potential for unclaimed checks.

Internal Audit Function

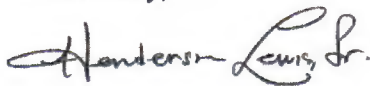
We also recommend that management consider establishing an internal audit function in the school system. Management has a fiduciary duty to properly manage the school board's budget and operations, and hiring a qualified professional as internal auditor could support the board in its oversight role. For the year ended June 30, 2014, the school board's assets totaled \$608 million, revenues totaled \$480 million, and there were approximately 775 employees.

Management is responsible for designing internal controls and the internal auditing function could be a key resource. An internal audit function is needed to assess and evaluate the school board's operations for risks, controls, compliance, ethics, economies, efficiencies, and safeguarding of assets. An internal auditor can provide objective assessments on the state of the system's exposures and provide independent recommendations for improvement. We advise that the Institute of Internal Auditors (IIA) is the internal audit profession's recognized standard setting body and provides comprehensive guidance for the profession.

Administration agrees in principle with the recommendation with respect to current operations. Also, the potential for the return of charter schools to the governance of OPSB requires OPSB to revisit how we will manage the oversight of these schools. We would like to continue a dialog with the Legislative Auditors regarding this recommendation.

OPSB management and staff appreciate the efforts of you and your staff and your recommendations and takes it as an opportunity to further our long standing goal of continuous improvement.

Sincerely,



Henderson Lewis, Jr., Ph.D.
Superintendent of Schools