

DEPARTMENT OF EDUCATION
STATE OF LOUISIANA



FINANCIAL AUDIT SERVICES
MANAGEMENT LETTER
ISSUED NOVEMBER 26, 2014

**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

November 26, 2014

The Honorable John A. Alario, Jr.,
President of the Senate
The Honorable Charles E. "Chuck" Kleckley,
Speaker of the House of Representatives
Mr. John White, Superintendent,
Department of Education

Dear Senator Alario, Representative Kleckley, and Mr. White:

This report includes the results of the procedures we performed at the Department of Education (DOE) for the period from July 1, 2013 through June 30, 2014, to evaluate its accountability over public funds. The procedures are a part of our audit of the state of Louisiana's financial statements and the Single Audit of the State of Louisiana for the year ended June 30, 2014. I hope the information in this report will assist you in your legislative and operational decision-making processes.

We would like to express our appreciation to the management and staff of DOE for their assistance during our work.

Sincerely,

Daryl G. Purpera, CPA, CFE
Legislative Auditor

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DOE 2014

Louisiana Legislative Auditor

Daryl G. Purpera, CPA, CFE



Audit Control # 80140055

Department of Education

November 2014

Introduction

As a part of our audit of the state of Louisiana's financial statements and the Single Audit of the State of Louisiana (Single Audit) for the fiscal year ended June 30, 2014, we performed procedures at the Department of Education (DOE) to provide assurances on financial information that is significant to the state's financial statements; evaluate the effectiveness of DOE's internal controls over financial reporting and compliance; and to determine whether DOE complied with applicable laws and regulations. In addition, we determined whether management has taken actions to correct findings reported in the prior year.

DOE is a component of the state of Louisiana created within the executive branch of government. DOE is responsible for overseeing Louisiana's public school system for grades Pre-Kindergarten through 12th. DOE's mission is to ensure that every Louisiana student is on track to attain a college degree or a professional career.

Results of Our Procedures

Follow-Up on Prior-Year Findings

Our auditors reviewed the status of the prior-year finding reported in the DOE management letter dated November 20, 2013. We determined that management has resolved the prior-year finding related to noncompliance with Office of Management and Budget (OMB) Circular A-87 cost principles.

Current-Year Findings

Ineffective Internal Audit Function

During fiscal year 2014, DOE did not have an effective internal audit function, increasing the risk that errors and/or fraud could occur and remain undetected.

Although the DOE maintains a Bureau of Internal Audit (BIA) section consisting of a director, a staff auditor, and a student worker, our procedures disclosed that no internal audit reports were issued during fiscal year 2014. Although the BIA had an approved audit plan, they were not able to provide any documentation to evidence that projects had been started during the year but not

yet issued. The last risk assessment by the BIA to identify priorities was issued in 2006 and effective through 2011; and the last external quality assurance assessment performed on the BIA was in 2006.

An agency with an appropriation level of \$30 million or more is required by Act 14 of the 2013 Regular Session of the Louisiana Legislature to have an internal audit function. Considering the DOE reported assets of approximately \$362 million and revenues of approximately \$5.1 billion, an effective internal audit function is important to ensure that DOE's assets are safeguarded and that management's policies and procedures are uniformly applied.

DOE management did not provide sufficient oversight of the BIA to ensure that a risk assessment was prepared and that adequate internal audit activities were performed and documented. DOE management should ensure that a risk assessment is prepared by the BIA to prioritize activities and to assist in the preparation of the annual audit plan. In addition, DOE management should ensure that internal audit activities are performed in accordance with the established audit plan in efforts to improve the effectiveness and efficiency of DOE operations. Management partially concurred with the finding, stating that, "The Louisiana Legislative Auditor's annual financial audits cover the majority of high risk areas" of the department, concluding that the BIA risk assessment would only address areas of much less significance, so the BIA can perform other types of internal audit work (see Appendix A).

Additional Comments: Our audit procedures are not a part of DOE's system of internal control and do not relieve the BIA of its responsibilities as the internal audit function of the department to evaluate the adequacy and effectiveness of DOE's internal controls and to determine whether its programs have operated in compliance with applicable state and federal laws and regulations.

Financial Statements - State of Louisiana

As a part of our audit of the state of Louisiana's financial statements for the year ended June 30, 2014, we considered internal control over financial reporting and examined evidence supporting certain account balances and classes of transactions, as follows:

Agency 681- Subgrantee Assistance:

- Federal revenues
- Non-payroll expenditures
- Accounts payable

Agency 695 - Minimum Foundation Program (MFP):

- Non-payroll expenditures

Our audit included tests of DOE's compliance with laws and regulations that could have a direct and material effect on the financial statements, as required by *Government Auditing Standards*.

Based on the results of these procedures on the financial statements, we reported a finding related to an ineffective internal audit function. In addition, the account balances and classes of transactions tested are materially correct.

Federal Compliance - Single Audit of the State of Louisiana

As a part of the Single Audit for the year ended June 30, 2014, we performed internal control and compliance testing as required by OMB Circular A-133 on DOE's major federal programs, as follows:

- Community Development Block Grants (CFDA 14.228)
- Title I Grants to Local Educational Agencies (CFDA 84.010)
- Special Education Cluster (IDEA) (CFDA 84.027, 84.173)
- Improving Teacher Quality State Grants (CFDA 84.367)
- Striving Readers (CFDA 84.371)
- School Improvement Grants Cluster (CFDA 84.377, 84.388)
- Temporary Assistance for Needy Families (CFDA 93.558)

Those tests included evaluating the effectiveness of DOE's internal controls designed to prevent or detect material noncompliance with program requirements and determining whether DOE complied with applicable program requirements.

We also performed procedures on DOE's Schedule of Expenditures of Federal Awards (Schedule 8), Summary Schedule of Prior Federal Audit Findings (Schedule 8-3), and Schedule of Non-State Subrecipients of Major Federal Programs (Schedule 8-4), as required by OMB Circular A-133.

Based on the results of these Single Audit procedures, we did not report any internal control deficiencies or non-compliance with program requirements; however as further explained in the "Other Reports" section below, a report was issued by the Legislative Auditor's Investigative Audit Services on June 4, 2014, regarding a misappropriation of public funds. This issue will be reported in the Single Audit for the year ended June 30, 2014. In addition, DOE's Schedule 8, Schedule 8-3, and Schedule 8-4, as adjusted, are materially correct.

Other Reports

Misappropriation of Public Funds

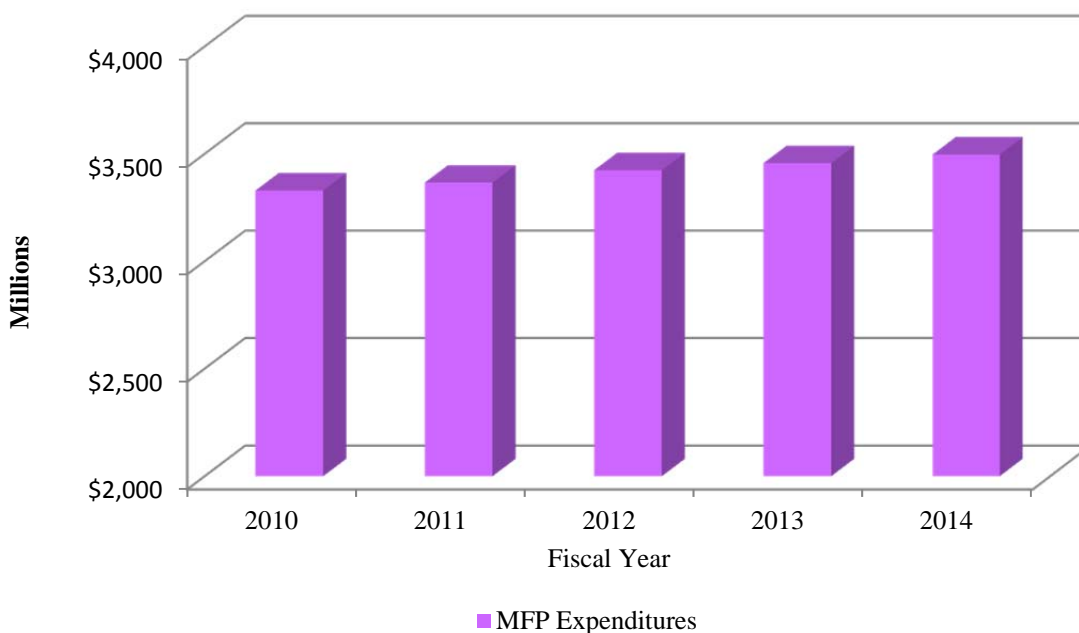
The Legislative Auditor’s Investigative Audit Services issued a report on June 4, 2014, identifying \$307,520 of public funds that were improperly used by Open World Family Services, Inc. (Open World), a non-profit corporation that received federal grant funds from the DOE for the 21st Century Community Learning Centers Program. In September 2014, the former executive director of Open World was arrested on counts of theft, filing false public records, and illegally participating in certain transactions. The full investigative report is available in the Audit Report Library on the Legislative Auditor’s website at www.lla.la.gov.

Trend Analysis

We compared the most current- and prior-year financial activity using DOE’s annual fiscal reports and/or system-generated reports and obtained explanations from DOE’s management for any significant variances. We also prepared an analysis of the Minimum Foundation Program (MFP) expenditures and the total students funded by the MFP over the last five years.

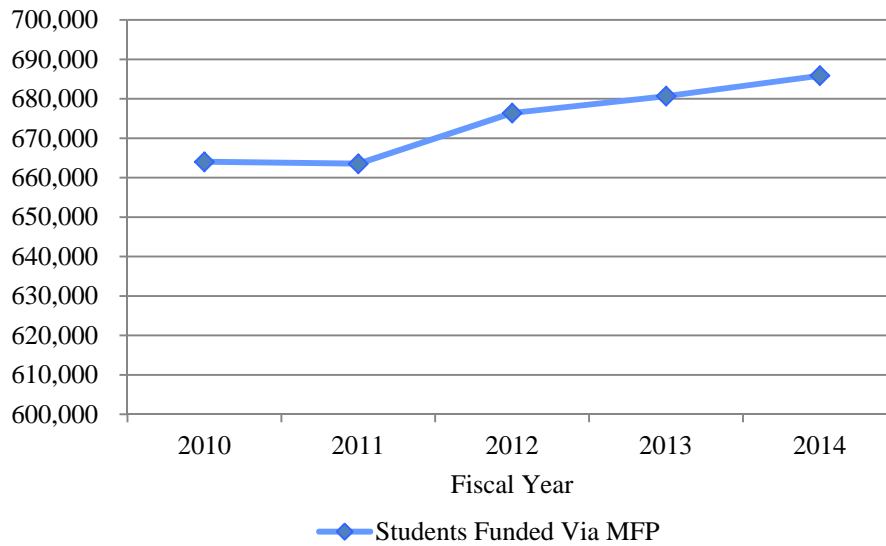
In analyzing financial trends of DOE over the past five years, MFP expenditures have increased by 5% and the student enrollment has grown by 3%. As student enrollment increases in the public school systems, additional state dollars are needed to fund the MFP.

Exhibit 1
MFP Formula Expenditures



Source: Fiscal year 2010-2014 Annual Financial Reports

**Exhibit 2
MFP Student Count**



Source: Department of Education

The recommendations in this report represent, in our judgment, those most likely to bring about beneficial improvements to the operations of DOE. The nature of the recommendations, their implementation costs, and their potential impact on the operations of DOE 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.

APPENDIX A: MANAGEMENT'S RESPONSE



LOUISIANA DEPARTMENT OF EDUCATION

October 28, 2014

Mr. Daryl G. Purpera, Legislative Auditor
PO Box 94397
Baton Rouge, LA 70804-9397

Dear Mr. Purpera:

The Louisiana Department of Education (LDE) sincerely appreciates the opportunity to respond to the reportable finding "Ineffective Internal Audit Function" related to the LDE Bureau of Internal Audit (BIA). The LDE partially concurs with this finding.

Act 14 of 2013 as referenced in the finding specifies an internal audit function must exist. The language of the Act neither prescribes how the internal audit function must operate nor which duties should be performed. The Act does not dictate specific activities for the internal audit function. Conducting a risk assessment to identify areas that should be audited is only one of the duties the internal audit function performs. The staff resources of the BIA are utilized in a variety of ways to ensure compliance and quality assurance measures are integrated into processes across a variety of LDE activities. Projects of the BIA include work such as a review of the single audits of the school districts, charter schools, or other pass-through entities to identify audit findings and track the resolution of these matters. In addition, the BIA provides periodic reports on RSD construction activities funded with federal FEMA funds. The LDE's audit team has completed all of these activities.

The Louisiana Legislative Auditor's annual financial audits cover the majority of high risk areas of the LDE. These audits focus on the vast majority of federal and state funds received by the agency on behalf of the school districts and the processes utilized to administer these dollars. The BIA risk assessment is then left to address areas that are much less significant in dollar value and exposure. This frees the time of the BIA to dedicate towards other types of internal audit work therefore not duplicating effort.

The LDE acknowledges there was a delay in completing the risk assessment, and I appreciate that you have brought this to our Department's attention. The risk assessment and audit plan for the upcoming cycle have been completed and submitted to the Board of Elementary and Secondary Education at the October 2014 meeting. The work associated with the first project will now begin. In addition, the Department will be examining the staffing of the internal audit team and the internal audit processes.

Sincerely,

John White
Superintendent of Education

Louisiana Believes

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APPENDIX B: SCOPE AND METHODOLOGY

We performed certain procedures at the Department of Education (DOE) for the period from July 1, 2013 through June 30, 2014, to provide assurances on financial information significant to the state of Louisiana and 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, and review of policies and procedures, and a review of relevant laws and regulations. Our procedures, summarized below, are a part of the audit of the state of Louisiana's financial statements and the Single Audit of the State of Louisiana (Single Audit) for the year ended June 30, 2014.

- We evaluated DOE'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 DOE.
- Based on the documentation of DOE's controls and our understanding of related laws and regulations, we performed procedures to provide assurances on DOE's account balances and classes of transactions to support the opinion on the state of Louisiana's financial statements.
- We performed procedures on the following federal programs for the year ended June 30, 2014, to support the 2014 Single Audit:
 - Community Development Block Grants (CFDA 14.228)
 - Title I Grants to Local Educational Agencies (CFDA 84.010)
 - Special Education Cluster (IDEA) (CFDA 84.027, 84.173)
 - Improving Teacher Quality State Grants (CFDA 84.367)
 - Striving Readers (CFDA 84.371)
 - School Improvement Grants Cluster (CFDA 84.377, 84.388)
 - Temporary Assistance for Needy Families (CFDA 93.558)
- We compared the most current- and prior-year financial activity using DOE's annual fiscal reports and/or system-generated reports to identify trends and obtained explanations from DOE management for significant variances.

The purpose of this report 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 report is not intended to be, and should not be, used for any other purposes.

We did not audit or review DOE's Annual Fiscal Reports 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.