

RECOVERY SCHOOL DISTRICT
DEPARTMENT OF EDUCATION
STATE OF LOUISIANA



MANAGEMENT LETTER
ISSUED DECEMBER 29, 2010

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

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DARYL G. PURPERA, CPA, CFE

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Under the provisions of state law, this report is a public document. A copy of this report has been submitted to the Governor, to the Attorney General, and to other public officials as required by state law. A copy of this report has been made available for public inspection at the Baton Rouge and New Orleans offices of the Legislative Auditor.

This document is produced by the Legislative Auditor, State of Louisiana, Post Office Box 94397, Baton Rouge, Louisiana 70804-9397 in accordance with Louisiana Revised Statute 24:513. Five copies of this public document were produced at an approximate cost of \$16.45. This material was produced in accordance with the standards for state agencies established pursuant to R.S. 43:31. This report is available on the Legislative Auditor's Web site at www.la.la.gov. When contacting the office, you may refer to Agency ID No. 10202 or Report ID No. 80100070 for additional information.

In compliance with the Americans With Disabilities Act, if you need special assistance relative to this document, or any documents of the Legislative Auditor, please contact Wayne "Skip" Irwin, Administration Manager, at 225-339-3800.

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Our procedures at the Recovery School District (RSD) for the period July 1, 2009, through June 30, 2010, disclosed:

- The findings identified in our prior report on RSD, dated January 15, 2010, relating to inadequate internal control over relocation and retention incentive payments, inadequate control over coding of federal expenditures, and inaccurate annual fiscal report have been resolved by management.
- For the fourth consecutive year, RSD did not tag and report equipment as required by state equipment management regulations and did not maintain accurate information in the state's movable property system, Protégé. As reported in a Louisiana Property Assistance Agency (LPAA) report on RSD, RSD failed to enter 13,247 assets into the asset management system within 60 days of receipt and 1,262 items valued at \$2,141,347 could not be located. In our test of 10 equipment purchases and a physical check of 18 property items, we identified items that were not located, not tagged within 60 days, and tagged but not recorded in the property system. In addition, RSD reported 35 incidents involving 380 movable property items with an approximate value of \$188,600 as missing or stolen in fiscal year 2010.
- RSD does not have a capital structure that allows it to receive advance funding of reimbursement programs, such as federal programs and capital programs, to enable RSD to pay all vendors within 90 days of the invoice date as required by state law. This was the third consecutive year for this finding.
- For the fourth consecutive year, RSD identified overpayments made to employees, did not ensure that employee separation dates were accurate or timely, and did not have adequate documentation to support certain payroll charges. Payroll overpayment claims identified by RSD during fiscal year 2010 totaled \$18,206. Failure to support payroll charges with adequate documentation increases the risk that employees will be paid improperly and may result in federal disallowed cost. RSD has improved its controls in this area.
- For the third consecutive year, RSD did not ensure that certifications for payroll expenditures charged to federal programs were completed as required by federal regulations. Failure to prepare and maintain required payroll certifications increases the risk that expenditures are not fairly and accurately allocated to federal programs. RSD has improved its controls in this area.

- No significant control deficiencies or noncompliance that would require reporting under Office of Management and Budget (OMB) Circular A-133 were identified for the following federal programs for the fiscal year ended June 30, 2010:
 - Child Nutrition Cluster (CFDA 10.553, 10.555, 10.559)
 - Community Development Block Grants/State's Program (CFDA 14.228)
 - Disaster Grants - Public Assistance (Presidentially Declared Disasters) (CFDA 97.036)

We did not audit the Annual Fiscal Report of RSD. However, we did perform certain procedures in accordance with *Government Auditing Standards*, issued by the Comptroller General of the United States as part of our audit of the State of Louisiana's financial statements and certain procedures related to compliance with federal laws and regulations in accordance with OMB Circular A-133. This report is a public report and has been distributed to the appropriate state officials. We appreciate RSD's assistance in the successful completion of our work.

Mission

RSD is a special school district administered by the Louisiana Department of Education. Created by legislation passed in 2003, RSD's mission is to provide the supports and interventions necessary to put academically struggling schools on a path toward success.

Goals

- Create quality, high-performing schools that are supported by data-driven, research-based academic, school climate and management models, including superior programs that address the academic, behavioral or social needs of students.
- Develop and implement comprehensive accountability systems that ensure all schools are held to the same high standards.
- Create a system of schools that offer parents and guardians the freedom to select the RSD school of their choice, guaranteeing that access to quality school programs is equitable and attainable.
- Support alternative school management models, such as charter schools, and provide traditional schools autonomy in staffing and budget decisions. Create and maintain alternative school governance arrangements, such as advisory boards, steering committees or boards of directors.
- Manage the rebuilding of New Orleans schools and ensure that all schools in the RSD are safe, clean, and modernized for 21st Century learning.



LOUISIANA LEGISLATIVE AUDITOR
DARYL G. PURPERA, CPA, CFE

December 14, 2010

**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 State of Louisiana's financial statements for the fiscal year ended June 30, 2010, we conducted certain procedures at the Recovery School District (RSD) for the period from July 1, 2009, through June 30, 2010.

- Our auditors obtained and documented an understanding of the RSD operations and system of internal controls, including internal controls over major federal award programs administered by RSD through inquiry, observation, and review of RSD's policies and procedures documentation including a review of the related 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 of any significant variances.
- Our auditors reviewed the status of the findings identified in the prior year engagement. In our prior report on RSD, dated January 15, 2010, we reported findings relating to inadequate internal control over relocation and retention incentive payments, inadequate control over coding of federal expenditures, and inaccurate annual fiscal report, which have been resolved by management. The findings relating to inadequate controls over payroll, noncompliance with A-87 payroll certification regulations, and delinquent payments to vendors have not been resolved, and the finding relating to noncompliance with federal and state equipment management regulations has been partially resolved. These four findings are addressed again in this letter.
- Our auditors considered internal control over financial reporting, examined evidence supporting RSD's recorded operating leases and interagency receipts, and tested RSD'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, 2010, in accordance with *Government Auditing Standards*.

- Based on the documentation of RSD's controls and our understanding of related laws and regulations, procedures were performed on RSD's school activity funds, movable property, payroll expenditures, and certain non-payroll expenditures (other charges).
- Our auditors performed internal control and compliance testing in accordance with Office of Management and Budget (OMB) Circular A-133 on the following federal programs for the fiscal year ended June 30, 2010, as a part of the Single Audit for the State of Louisiana:
 - Child Nutrition Cluster (CFDA 10.553, 10.555, 10.559)
 - Community Development Block Grants/State's Program (CFDA 14.228)
 - Title I, Part A Cluster (CFDA 84.010, 84.389)
 - Disaster Grants - Public Assistance (Presidentially Declared Disasters) (CFDA 97.036)
- Our auditors prepared a Budgetary Comparison Schedule for RSD for the fiscal year ended June 30, 2010, using the Annual Fiscal Report of RSD and additional data in the Integrated Statewide Information System (ISIS), the state's accounting system. This schedule is presented as additional information but has not been subjected to auditing procedures.

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 financial statements, upon which the Louisiana Legislative Auditor expresses opinions.

Based on the application of the procedures referred to previously, all significant findings are included in this letter for management's consideration. Other than these findings, we found no significant control deficiencies, noncompliance, or errors relating to our analytical procedures or our other audit procedures including our procedures on federal programs that should be communicated to management.

The following significant findings are included in this report for management's consideration.

Noncompliance With State Equipment Management Regulations

For the fourth consecutive year, RSD did not tag and report equipment as required by state equipment management regulations and did not maintain accurate information in the state's movable property system, Protégé.

The Louisiana Administrative Code (LAC) 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 Louisiana Property Assistance Agency (LPAA) within 60 calendar days after receipt of the item. Good internal control requires that adequate procedures be in place to ensure that the locations of all movable property items are properly monitored. In addition, good internal control should ensure that movable property is properly recorded and safeguarded against loss arising from unauthorized use and misappropriation.

LPAA performed a property audit of RSD's Property and Fleet Programs from November 1, 2009, to May 19, 2010. The audit was not performed in accordance with *Government Auditing Standards* but was conducted by LPAA to determine RSD's compliance with State Property Control Regulations as contained in LAC Title 34 Part VII and State Fleet Regulations as contained in LAC Title 34 Part XI. Because of the number of findings in the audit, LPAA did not approve RSD's annual property certification, which reported movable property items totaling \$23,593,029. The findings included, but were not limited to, the following:

- The agency failed to enter 13,247 assets into the asset management system within 60 days of receipt.
- There were 1,097 assets that had incorrect tag numbers, duplicate serial numbers, incorrect VIN and/or no manufacturer's serial number entered in the asset management system.
- A total of 1,262 of 2,844 (44%) items checked totaling \$2,141,347 could not be located. LPAA was not notified of the loss.
- Seventy-eight tagged assets were found but were not listed in the asset management system and no paperwork was available to determine the acquisition cost.
- A physical search of property determined nine trailers with an acquisition cost of \$24,750 each and 10 other assets with an apparent value of \$1,000 each or more were not tagged or entered in the asset management system.
- Daily Vehicle Logs were not properly completed or audited for completeness by the approving supervisor. In addition, the agency failed to provide proof of maintenance and failed to use the Preventative Maintenance Log.

In a letter dated October 28, 2010, RSD updated LPAA on the status of its corrective action relating to LPAA's findings and noted that periodic updates on its corrective action status will be provided to LPAA.

In our test of 10 purchases of equipment, five items were not located and three items were not tagged within 60 days. In a separate test, a physical check of 18 items was performed. Of the 13 items valued over \$1,000, five items did not appear on the agency's property listing and two items were not tagged. For the five items valued under \$1,000, which were tagged for internal tracking purposes, all items were tagged, but the information for four items was not recorded in the property system. Finally, a review of the Protégé late additions report as of June 30, 2010, disclosed 2,973 items totaling \$2,306,940 were not entered into Protégé within 60 days. The delays in entering the equipment ranged from 61 to 1,023 days late.

RSD reported 35 incidents involving 380 movable property items with an approximate value of \$188,600 as missing or stolen in fiscal year 2010. These reports were appropriately sent to the Legislative Auditor and the Orleans Parish District Attorney's Office.

RSD's movable property function is hampered by the decentralization of movable property at the various custodians (schools), lack of accountability of the 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. 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.

As a result of prior audit exceptions, in March 2010, RSD began the process of reorganizing the agency's movable property controls, including the organizational structure under which such controls operate. A portion of that reorganization is to get security personnel and school personnel more involved in, and responsible for, movable property.

Management of RSD should continue its efforts to (1) improve control over movable property; (2) make the custodians responsible and accountable for assigned RSD movable property; (3) revise human resource policy to clearly state the impact on the custodian that fails to enforce RSD movable property controls; (4) obtain a written report from security personnel on how RSD can reduce theft of state property; (5) emphasize compliance with established policies through training and guidance; and (6) continue to search for unlocated property. Management's response provided corrective measures that have been taken to address the finding (see Appendix A, pages 1-2).

Delinquent Payments to Vendors

RSD does not have a capital structure that allows it to receive advance funding of reimbursement programs, such as federal programs and capital programs, to enable RSD to pay all vendors within 90 days of the invoice date as required by state law. RSD was created by the Louisiana Legislature as a state agency, without the benefit of a capital structure that is found in most school districts. Louisiana Revised Statute (R.S.) 39:1695

requires a state agency to make any payment for goods or services within 90 days of the due date unless reasonable cause to withhold payment is established.

Although we identified eight invoices in a test of 24 transactions that were paid more than 90 days after the invoice date, RSD identifies the cause to be the lack of a capital structure to receive advance funding. In response to our prior audit findings that identify this condition, RSD has sought structural relief from the Louisiana Legislature to correct the funding structure problem. To date, these efforts have not provided RSD with the capital structure to avoid delinquent payments to vendors. For the eight of 24 (33%) transactions that were delinquent, payments ranged from one to 283 days late.

Failure to pay vendors timely results in noncompliance with state law and could result in the loss of vendors to provide needed products and services, as well as incurring interest charges on the delinquent amounts. RSD management should continue to work with the Louisiana Legislature and the Division of Administration to resolve its funding issues so RSD can pay its vendors in accordance with state law and to avoid the potential results previously mentioned. Management acknowledged the delinquent payments to vendors and noted RSD's structural problems relating to the advance funding of federal and state reimbursement programs and the capital FEMA and Community Development Block Grant funded programs. Management also noted that it will continue to explore avenues to resolve the structural issues and restrictions on RSD's cash management and capital structure (see Appendix A, pages 3-4).

Matters for Legislative Consideration: The Louisiana Legislature should consider providing advance funding to RSD to allow RSD to make vendor payments timely, as required by R.S. 39:1695. Alternatively, the legislature should consider providing RSD with an exemption to the requirements of R.S. 39:1695 under the statute's reasonable cause provision.

Inadequate Controls Over Payroll

For the fourth consecutive year, RSD identified overpayments made to employees, did not ensure that employee separation dates were accurate or timely, and did not have adequate documentation to support certain payroll charges. Although RSD has implemented procedures to refine the employee separation process, which have improved the prevention of late separations and overpayments and enhanced the monitoring of overpayments and recoupments, the following issues were identified.

Payroll overpayment claims identified by RSD during fiscal year 2010 totaled \$18,206. Of the \$18,206 in overpayments identified during fiscal year 2010, \$10,269 was funded by federal programs and represents questioned costs. The Immediate Aid to Restart School Operations program (CFDA 84.938A) and Title I Grants to Local Educational Agencies (CFDA 84.010) were charged \$9,398 and \$871, respectively. The remaining amount of \$7,937 was funded by the Minimum Foundation Program.

From July, 1, 2009, to June 9, 2010, 856 employee separation dates were entered into the ISIS/Human Resource payroll system (ISIS/HR). In our test of the accuracy of those employee separation dates, the following exceptions were noted:

- For 14 of 24 (58%) employees tested, RSD did not have supporting documentation available to confirm the employees' separation dates and without this documentation we could not determine if the separation dates entered into ISIS/HR were accurate.
- For 10 remaining employees, final separation dates were not entered into ISIS/HR before the close of the employees' last pay period. Days late ranged from 76 to 119 days and resulted in overpayments to five employees totaling \$656.

In our test of employee time sheets from three pay periods, the following exceptions were noted:

- Two of 24 (8%) employees did not have a time sheet for the requested pay period.
- Two of 11 (18%) employees did not have approved leave slips on file.
- For 11 of 24 (46%) employees, RSD could not provide supporting documentation to confirm the employees' approved rates of pay.

OMB Circular A-87, Attachment A, Section C (1) (j) states that to be allowable under federal awards, costs must be adequately documented. RSD policy number 2.10 requires employees to sign in and out daily and initial the biweekly time and attendance records at the end of each pay period. Good internal controls require that employees be paid only for days worked within their employment period and that employee terminations should be entered accurately in the payroll system before the close of the employee's last pay period.

Documentation relating to payroll transactions including separation dates was not provided to RSD's Human Resource 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 and may result in federal disallowed cost.

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

newly created payroll policies and practices through training and guidance; and (5) continue to track and recoup overpayments. Management's response noted that existing controls are ensuring a substantial reduction in the overpayment claims and provided corrective action relating to separation dates and payroll documentation (see Appendix, pages 5-6).

Noncompliance With A-87 Payroll Certification Regulations

For the third consecutive year, RSD did not ensure that certifications for payroll expenditures charged to federal programs were completed as required by federal regulations. OMB Circular A-87, "Cost Principles for State and Local Governments," requires that when employees work on multiple activities or cost objectives, a distribution of their salaries must be supported by personnel activity reports or equivalent documentation reflecting an after-the-fact distribution of the actual activity. These personnel activity reports must be prepared at least monthly, signed by the employee, and based on the work performed and not on budget. If employees work solely on a single federal award or cost objective, the certifications must be prepared at least semiannually.

Audit procedures were performed on three monthly certifications and 27 semiannual certifications relating to payroll periods ending in March and May 2010. For five of the 30 certifications tested, the cost distribution report did not agree to the program and percentage charged per the certification, and no adjustments were completed to reflect the actual effort of the employee nor were additional time certifications completed to reflect the actual percentage time charged to the federal programs.

Lack of detailed policies and procedures over RSD's A-87 certification process along with insufficient communication between RSD personnel contributed to the exceptions noted above. Failure to prepare and maintain required payroll certifications increases the risk that expenditures are not fairly and accurately allocated to federal programs and results in noncompliance with OMB Circular A-87.

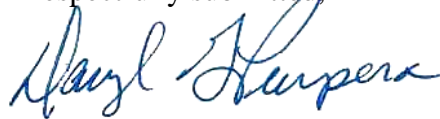
RSD has made improvements in the documentation and accuracy of payroll certifications during fiscal year 2010. To further improve its A-87 certification process, RSD has empowered its Human Resources department to reject any charge to a federal program that is not supported by an appropriate A-87 certification.

Management should formally document its policies and practices for A-87 certifications, provide employees with written notification on the completion and processing of A-87 certifications, and provide training on the A-87 certification process. In addition, management should continue to emphasize the necessity of an adequate review process to supervisory personnel. Management concurred with the finding and outlined a plan of corrective action (see Appendix A, pages 7-8).

The recommendations in this letter represent, in our judgment, those most likely to bring about beneficial improvements to the operations of RSD. The varying 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.

This letter is intended for the information and use of RSD and its management, management of the Department of Education, the Board of Elementary and Secondary Education, others within the entity, and the Louisiana Legislature and is not intended to be, and should not be, used by anyone other than these specified parties. 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

JMJ:JR:EFS:THC:dl

RSD 2010

_____ BUDGETARY COMPARISON SCHEDULE (UNAUDITED)

Page

Agency 682 - Recovery School District15

UNAUDITED

**DEPARTMENT OF EDUCATION
AGENCY 682 - RECOVERY SCHOOL DISTRICT**

**Budgetary Comparison Schedule
For the Fiscal Year Ended June 30, 2010**

APPROPRIATED REVENUES:

	TOTAL BEFORE ADJUSTMENTS	AGENCY ADJUSTMENTS	ADJUSTED TOTAL	REVISED BUDGET	VARIANCE FAVORABLE (UNFAVORABLE)
State General Revenue	\$19,710,184		\$19,710,184	\$19,710,184	
General Fund:					
Self-generated	9,086,626		9,086,626	3,489,610	\$5,597,016
Interagency transfers	414,933,221		414,933,221	463,167,476	(48,234,255)
Federal Aid	729,424		729,424	548,777	180,647
Academic Improvement Fund	4,931,298		4,931,298	6,000,000	(1,068,702)
 Total Appropriated Revenues	<u>\$449,390,753</u>	<u>NONE</u>	<u>\$449,390,753</u>	<u>\$492,916,047</u>	<u>(\$43,525,294)</u>

APPROPRIATED EXPENDITURES:

	RECOVERY SCHOOL INSTRUCTIONAL
Salaries	\$4,003
Other compensation	81,655,120
Related benefits	20,229,355
Travel and training	519,008
Operating services	8,001,233
Supplies	10,454,131
Professional services	38,881,978
Other charges	151,662,285
Capital outlay	5,854,528
Major repairs	80,099,203
Interagency transfer	14,144,193
Auxiliary program	70
Total appropriated expenditures before adjustments	411,505,107
System adjustments	(2,197,905)
 Total Appropriated Expenditures	409,307,202
 Revised Budget	<u>492,916,047</u>
 Variance Favorable (Unfavorable)	<u>\$83,608,845</u>

NOTE: This schedule was prepared using information from the Integrated Statewide Information System (ISIS), the state's accounting system.

Additional detail is available on request.

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



STATE OF LOUISIANA
DEPARTMENT OF EDUCATION
RECOVERY SCHOOL DISTRICT
1641 POLAND AVE., NEW ORLEANS, LA 70117
(504) 373-6200 • www.rsdl.net



November 29, 2010

Mr. Daryl Purpera
Legislative Auditor
1600 North Third Street
PO Box 97347
Baton Rouge, LA 70804-9397

Dear Mr. Purpera:

The Recovery School District sincerely appreciates the opportunity to respond to audit findings indicating that the district failed to adhere to the Louisiana Administrative Code as it pertains to moveable property.

Your finding references the Louisiana Property Assistance Association (LPAA) administrative compliance audit performed on the RSD between November 1, 2009 and May 19, 2010. Based on the LPAA audit results, the RSD has made the following corrections:

- Of the 1,097 assets that were identified as having incorrect property tag numbers, duplicate serial numbers, incorrect Vehicle Identification Numbers (VINs), and/or no manufacturer's serial number entered in the asset management system, 787 of these items have now been located and properly documented.
- Of the 78 assets that were not listed in the asset management system, with no paperwork available to determine acquisition cost, 69 have been corrected.
- All nine trailers referenced in the audit report have now been tagged and entered into the asset management system.
- Of the ten assets with an apparent value of \$1,000 that were not properly tagged, seven are now tagged and entered into the asset management system.
- All daily vehicle logs have properly been completed and audited by the approving supervisor.
- All proof of maintenance and Preventative Maintenance Logs have been completed.

As your report recognizes, in March 2010, the RSD began the process of reorganizing the agency's movable property controls, including the organizational structure and personnel under which such controls operate. Since this reorganization has occurred, the district has made significant improvements in the agency's movable property controls. This improvement is evidenced by the small sample conducted by your office. Please note that those items with an acquisition date after March 2010 met all property control regulations. Since our reorganization we have also successfully recognized a reduction in theft of acquisitions.

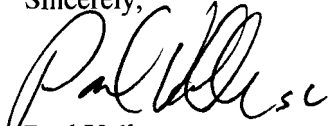
We will work to continue to improve our systems as needed to ensure compliance with property control regulations. We also noted that 4 of the items you indicated as findings were of a value less than \$1,000. We feel these items should have been exempt from the audit findings as they had a value of less than \$1,000 and were not weapons. We do list certain items below \$1,000 for our own purposes. We have purchased software and are implementing the process of tracking items of below \$1,000 without listing such items in Protégé to avoid such findings on items of a value of less than \$1,000 in the future.

For your information:

"Rebuilding New Orleans Through Education"

- 1) The RSD has inputted into the State Reporting system 17,260 items with a total value of \$50,340,947.77.
- 2) The RSD is the only school district in the state which has to tag and input into a system items of \$1,000 and above. All other school systems in the state are only required to do this for items of \$5,000 and above. If the RSD would be treated under such guidelines none of the LLA reported items indicated would be relevant and very few of the LPAA items would have been reported. We have in the State Reporting System 204 assets with a value of \$1,614,913 that have an asset value of \$5,000 or greater.
- 3) We reported in our state AFR required of all state agencies that we had continued property issues and provided this report to you which you reviewed.

Sincerely,

A handwritten signature in black ink, appearing to read "Paul Vallas", written in a cursive style.

Paul Vallas
Superintendent
Recovery School District



STATE OF LOUISIANA
DEPARTMENT OF EDUCATION
RECOVERY SCHOOL DISTRICT
1641 POLAND AVE., NEW ORLEANS, LA 70117
(504) 373-6200 • www.rsdlia.net



Mr. Daryl Purpera
Legislative Auditor
1600 North Third Street
PO Box 97347
Baton Rouge, LA 70804-9397

November 19, 2010

Dear Sir:

The Recovery School District sincerely appreciates the opportunity to respond to the audit findings relating to the Recovery School District failing to pay vendors within 90 days of the invoice date as required by state law.

As you did not note in your finding the Recovery School District disclosed this situation in our Annual Financial Report.

As we discussed with you, the RSD was created by the Louisiana Legislature without the benefit of a capital structure that is found in most school districts and most charter schools. As a result, the RSD has struggled with the advanced funding of reimbursement programs, such as all of the federal and state grant programs, and the capital FEMA and CDBG funded programs. In our prior audit responses, as this has been a finding for last three audits, we have pointed out in detail that such structural problems cause the RSD to violate Louisiana Revised Statute 39:1695, which requires state agencies to pay vendors within 90 days after the invoice date. In response to those findings, the RSD has applied to the Louisiana Legislature for legislative relief for the structural restrictions on cash flow and capital structure. To date these efforts have not been successful. However, the RSD continues to explore all avenues available to resolve the structural issues and restrictions on the RSD's cash management and capital structure.

We also point out that the situation in which we paid vendors 90 days late was disclosed in our AFR sent to you on or about September 15, 2010 (see Footnote HH of our FY 2010 AFR which we copy below for your benefit.

It is also the case that while vendors did complain about late payment, we lost no vendors due to the late payments. We no longer use Laidlaw as a vendor for school bus service as they were not the low bidder in the FY 2010 RFP for bus services for FY 2011 and were replaced by Durham Bus Services. We no longer use SODEXHO as our food service provider as they were not the bidder who was awarded the Food Service Contract for FY 2011 in the FY 2010 RFP for food services. SODEXHO does continue to be the vendor for custodial, grounds upkeep, and maintenance for the RSD.

"Rebuilding New Orleans Through Education"

HH LATE PAYMENTS TO VENDORS

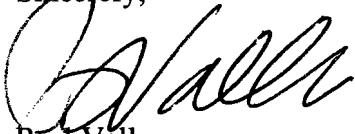
During fiscal year 2010 the Recovery School District did not pay vendors within 90 days of the invoice date as required by state law. As a State Agency the Recovery School District was created without a fund balance or the ability to borrow from third party sources thus not having a working capital balance to fund reimbursable grant programs. As a result it must delay payments to vendors who are funded through MFP to pay vendors funded under reimbursable grants. As the reimbursements are collected, the Recovery School District can then pay MFP funded vendors.

The Recovery School District during the beginning of the school year found that while its MFP covered its payroll costs, the State delayed the award of major Title related grants until mid October, 2009. This represented approximately \$30 million dollars which the Recovery School district could not access. Additionally another \$5 million of grants were not approved until late November 2009. With over 1500 employees, and approximately 434 of such employees funded under a grant, this in itself caused cash shortfalls. In addition, from MFP the Recovery School district had to pay out over \$9 million in vendor payments and payroll costs relating to prior fiscal years, causing further pressure on cash flows. Finally the Recovery School District Approved Budget for fiscal year 2010 included the collection of over \$9 million of E Rate reimbursements from vendors accumulated over 3 years. These funds have only now been approved by the Federal Government and collection from the vendors is anticipated in December, 2010. (Please see Footnote T Subsequent Events).

Finally the Recovery School District shares services with over 26 charter schools. The Recovery School District bills the charters for these services. Unfortunately, the Recovery School district had over \$1.5 million of receivables from the charters at 6/30/10, of which \$0.6 million was chronically past due.

In August 2010 the Recovery School District received a SEED from the State of Louisiana Treasury Department. It secured this SEED through a pledge of its E Rate vendor payments and charter school receivables. Through these funds the Recovery School district did manage to pay all vendors to a current basis except one with whom we are still negotiating as of September 15, 2010 the final amount due. We will strive to keep all vendors paid within 90 days.

Sincerely,



Paul Vallas

Superintendent

Recovery School District



STATE OF LOUISIANA
DEPARTMENT OF EDUCATION
RECOVERY SCHOOL DISTRICT
1641 POLAND AVE., NEW ORLEANS, LA 70117
(504) 373-6200 • www.rsdl.a.net



Mr. Daryl Purpera
Legislative Auditor
1600 North Third Street
PO Box 97347
Baton Rouge, LA 70804-9397

December 20, 2010

Dear Sir:

The Recovery School District sincerely appreciates the opportunity to respond to the audit findings relating to the Recovery School District failing to ensure that employee separation dates were accurate or timely, employees were paid correctly, and payroll charges were supported by adequate documentation.

OVERPAYMENTS TO EMPLOYEES

What seems to get lost in your recant of history is that the Recovery School District has an effective internal control system over payroll. The numbers quoted in your finding are the result of the Recovery School District's identification and recovery of overpayments in past years, not new overpayments. As your finding states, for the fiscal year 2010, the Recovery School District identified \$18,206 in overpayment claims of which \$17,550 related to years prior to FY 2010 and \$656 in over payments related to FY 2010 within a payroll processing system of \$103.7 million annually.

SEPARATION DATES

As you pointed out we had 856 separations in FY 2010. This is a result of :

- Conversion of schools to charters which resulted in the termination from the RSD of the staff at these schools and the reduction of staff at the central office, plus
- Turn over amongst our school and central office staff as individuals obtained job opportunities elsewhere.

For each separation you noted in your observations we provided an explanation. The RSD has procedures and processes in place to handle separations. The listing of the 24 tested for the above attributes shows the challenges we encounter with separating individuals in the ISIS system versus the dates when we ceased paying them. We do not separate an individual officially until we receive documentation from either the individual themselves or their supervisor. In certain instances this is further complicated by the summer "spreads" we pay teachers and other partial year employees versus their TRSL retirement dates and the use of interns (5 in your list) where no resignation letter is expected as these are part time employees who we separated in large groups as their services were no longer needed.

We will continue to follow our procedures and emphasize training of the principals and time administrators to inform Human Resources Department when:

- Job abandonment occurs.
- Verbal resignations of individuals
- Retirements of individuals.

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- Individuals who are employed but refuse reassignment.
- Any other form of separation or termination.

TIME SHEETS

You observed that the RSD did not have adequate documentation on file to determine an individual's starting salary which is then compounded over the years with annual step increases (small 1% increases in pay per year of experience). The years of experience were developed largely from the step level data the RSD received from OPSB in 2006 for the 14 people you observed as having insufficient documentation in their file. They were all hired in FY 2006. Human Resources will document in each file the current salary and step level for each employee as they are at this year (FY 2010) but utilizing the Master Data sheet generated by ISIS and updating subsequent records accordingly.

RSD recognizes that appropriate timesheet documentation is required; however, our previous process required all timesheets and all relevant data be sent to the Central Office. Because items are sometimes lost during the transfer of information from school site to the Central office, time administrators were asked in August 2010 to keep all time data at the school site due to possible loss of documents. HR has been conducting on school site audits since September 2010 to ensure accuracy.

Your audit indicated that we were missing two of timesheets amongst the 24 time sheets you tested. Of those employees who took leave during the time periods tested two leave slips could not be found. This is not acceptable.

We have determined that maintaining all the documentation in paper form and the transformation of the schools to charters is not the best solution to the storage issues resulting from our time keeping paper requirements. A representative from HR will pick up the timesheet documentation once a month for archiving at the Central Office. This will be implemented by January 22, 2011. We believe this will enable us to maintain the time sheets and leave slips in a secure and permanent data depot.

Sincerely,



Paul Vallas
Superintendent
Recovery School District



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Mr. Daryl Purpera
Legislative Auditor
1600 North Third Street
PO Box 97347
Baton Rouge, LA 70804-9397

December 2, 2010

Dear Sir:

The Recovery School District sincerely appreciates the opportunity to respond to the audit findings relating to the Recovery School District failing to prepare A-87 certifications for employees accurately for 5 of 30 individuals tested. As your finding points out, these can be prepared after the fact. Your finding also states that the Recovery School District did make progress from prior years in ensuring accurate A-87 certifications for its employees.

Your testing found 5 individuals who were found to be coded to federal grants and did not have accurate A-87 certifications on file.

The Recovery School District integrated its A-87 Certifications into its time sheet so that on a biweekly basis the employee would both sign the time sheet signifying their time worked and also signify their A-87 certification as each time sheet reflects the individual's source of funding. The correct coding of the time sheets occurred in December 2009 and were distributed to all employees. During the year modifications were made to our personnel roster as individuals were separated, were reassigned job duties and were moved amongst the schools. Also at year end major reconciliation efforts were performed on all of the grants particularly the IDEA ARRA grant which was used to fund additional paraprofessional support for special education. We should point out that our special education population grows throughout the year as learning and physical disabilities are found amongst our population of students and new students are enrolled. The demand for special education teachers and paraprofessional increases throughout the year.

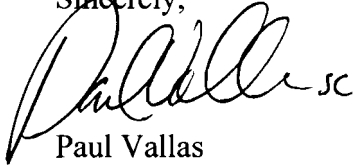
Your statistics demonstrate that all 5 individuals source of funding were changed during the year. Of the 5 found in error, 4 were IDEA related. Three of these people were changed in September, 2010, as the major reconciliations were performed. The other 2 were changed earlier in the year.

RSD should have required that each of these 5 employees prepare an alternate A-87 to document the change. However, our procedure failed to take this requirement into account. Consequently, we concur in your finding.

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To avoid this issue, we will endeavor to reconcile our grants sooner in the year and when an individual's funding source is changed a new time sheet is issued demonstrating the change and the individual will be required to issue a A-87 to document the time period they were funded by the Federal grant. We have also empowered Human Resources Department to reject any changes to a federal program that is not supported by an appropriate A-87 certification. We will also follow your recommendation that the Recovery School District formally document its policies and practices for A-87 certifications, provide employees with written notification on the completion and processing of A-87 certifications, and provide annual training on the A-87 certification process.

Sincerely,

A handwritten signature in black ink, appearing to read "Paul Vallas SC". The signature is fluid and cursive, with the initials "SC" at the end.

Paul Vallas
Superintendent
Recovery School District