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Control Number
ED-OIG/A06-F0002

August 4, 2005

Mr. Cecil J. Picard
State Superintendent of Education
Louisiana Department of Education
P.O. Box 94064
Baton Rouge, LA 70804-9064

Dear Mr. Picard:

This **Final Audit Report** summarizes the results of our audits of the Louisiana Department of Education (LDE), and four selected local educational agencies (LEAs) for the period July 1, 2001, through December 31, 2003. Our overall objective was to determine whether the LDE properly monitored the LEAs to ensure that they accounted for and used Elementary and Secondary Education Act of 1965, as amended[1] (ESEA), Title I, Part A (Title I), funds in accordance with applicable laws and regulations.

We provided a draft of this report to the Louisiana Department of Education. In its response to our draft report the LDE agreed with our findings and recommendations. We summarized LDE's comments in the body of the report and included the complete response as an Attachment to the report.

BACKGROUND

The Title I program is authorized under the ESEA, as amended by the Improving America's Schools Act of 1994, Public Law 103-382, and the No Child Left Behind Act of 2001 (NCLB), Public Law 107-110. Title I is the largest elementary and secondary education program, which supplements State and local funding for low-achieving children, especially in high-poverty schools. Part A of Title I provides financial assistance through State Educational Agencies to LEAs to ensure that all children have the opportunity to obtain a high-quality education and reach, at a minimum, proficiency on challenging State academic achievement standards.

Title I funds may be used by LEAs for schoolwide or for targeted assistance programs. Under a schoolwide program, an LEA may consolidate and use Title I funds with other Federal, State,

[1] The No Child Left Behind Act of 2001 reauthorized the ESEA on January 8, 2002, and the Improving America's Schools Act of 1994 reauthorized the ESEA on October 20, 1994.

and local funds in order to upgrade the entire educational program of a school if at least 40 percent of the children enrolled in the school are from low-income families. Federal funds consolidated into a schoolwide program lose their specific program identity and may be used for any costs of a schoolwide program. A school that is ineligible for a schoolwide program, or chooses not to operate a schoolwide program, may use the Title I funds only for the eligible children having the greatest need for special assistance.

In distributing funds to schools, an LEA must allocate to each participating school an amount for each low-income child. However, LEAs must initially reserve funds as needed to provide services to homeless children enrolled in non-Title I schools and children residing in local institutions for neglected children, as well as funds to meet a number of statutory set-asides, such as for parent involvement and professional development to ensure that all teachers are highly qualified. LEAs also must report expenditures that were actually disbursed for goods and services and maintain adequate documentation of those disbursements.

According to LDE's policy statement, approximately one-third of the 66 LEAs are selected each year for the entire NCLB program monitoring which includes Title I. The process for selection of the LEAs requires assigned program staff from all Federal programs to review prior year monitoring reports, single audit reports, consolidated applications, and budget revisions to compile a list by program of LEAs that will be monitored. LEA program monitoring lists for each Federal program are compared and consolidated into a single list for program monitoring that includes all LEAs identified by all Federal programs. LEAs included by multiple programs may be included on this list based on discussions of program staff and Division Directors. LEAs that are listed by only one Federal program may be visited for that program only for specific program monitoring, rather than comprehensive NCLB monitoring. Finally, depending on the number of LEAs identified for monitoring due to issues related to prior year monitoring reports, single audit reports, consolidated applications, and budget revisions, additional LEAs may be added to the program monitoring schedule to ensure representation of districts statewide with varying demographics (large/small and urban/rural).

We selected four LEAs (Orleans, Caddo, Beauregard, and East Baton Rouge) for audit. The LDE requires districts to submit reimbursement claims for funds already expended. During our 30-month audit period, July 1, 2001, through December 31, 2003, the LDE drew down just under $505 million in Title I funds, and the four-selected LEAs requested reimbursement for $131.77 million. The amounts disbursed to each LEA were—

Orleans Parish	$ 71,824,305
Caddo Parish	$ 26,472,829
Beauregard Parish	$ 1,983,549
East Baton Rouge Parish	$ 31,491,345
Total	$131,772,028

AUDIT RESULTS

The LDE did not provide sufficient monitoring of LEAs to ensure Title I funds were accounted for and used in accordance with applicable laws and regulations. Our audits at the four LEAs determined that claimed expenditure amounts were not always properly accounted for, adequately documented, or supported. During the period July 1, 2001, through December 31, 2003, the LDE made reimbursement payments to the four selected LEAs totaling $70,576,982 (Orleans -- $69,291,273, Caddo -- $488,314, Beauregard -- $649,149 and East Baton Rouge -- $148.246). However, we found that those expenditures were not properly supported at the LEAs or at the LDE. See Attachment 1 for the issues identified at these locations.

In 2000-2001, the LDE conducted monitoring visits at 61 of 66 districts. However, the quality assurance model it used was not effective because the reviews focused on programmatic issues and did not concentrate enough on financial issues. In 2001-2002, the LDE did not conduct monitoring visits at any of the districts because it placed emphasis on recreating the model used for selecting which LEAs to monitor. The LDE used the new model to monitor 21 of 66 districts in 2002-2003, and 21 of 66 districts in 2003-2004.

Between 2000-2004, the LDE conducted two monitoring visits each to Caddo and East Baton Rouge Parishes, one visit to Beauregard Parish, and three visits to Orleans Parish. Beauregard Parish had no findings as a result of the monitoring visit; however, Caddo, East Baton Rouge, and Orleans Parishes had findings. Orleans Parish had one Title I financial finding in January 2004 in which the LDE recommended "that all Title I personnel be paid in a pro-rated mode that satisfies the policy," and that documentation should be provided to the LDE. East Baton Rouge Parish had one Title I financial finding for one employee performing Title I duties 85 percent of the time and Title III duties the remaining percent. LDE recommended that East Baton Rouge comply with Office of Management and Budget (OMB) Circular A-87 in which time allocation records should be made available as support for payroll documentation. According to LDE officials, Orleans Parish was at the top of the high-risk list every year because of the high dollar volume.

The LDE followed up on the findings noted in their visits and indicated that the cited areas were addressed and resolved. The common finding in our audits to all four selected parishes was that the districts did not have semi-annual certifications for targeted assistance schools. The LDE monitoring visits did not address this issue and we found that the LEAs had not been provided guidance on the semi-annual certification requirements. Additional issues at Orleans Parish included unsupported expenditures for payroll, contract services, travel, supplies, and equipment, and at East Baton Rouge Parish procurement policies and procedures were not properly followed.

The LDE monitoring visits concentrated on reviewing programmatic issues, and did not involve staff members who thoroughly reviewed the financial aspects of the Title I program. For example, although the LDE made three monitoring visits to Orleans Parish from 2000-2004, none of the findings cited related to financial issues such as internal controls over the financial and payroll systems, including the lack of semi-annual certifications, and documentation to support payments for contract services, travel, supplies, and equipment.

On December 12, 2003, LDE developed a risk-based audit plan following a recommendation by the Louisiana Legislative Auditor's Office. The plan assesses risk factors, such as fiscal year funding, internal controls of financial statements, and audit findings, for each of the LEAs. As a result, LDE created another monitoring protocol for selecting LEAs for site visits and technical assistance.

As a result of our reports on the four LEAs, the LDE has revised its requirements for documentation to support reimbursement claims from one of the LEAs. Based on our review of the revised requirements, we believe that the LDE is working to improve the accountability for Title I funds.

OMB Circular A-133, Subpart D, § 400(d)(3), states, "A pass-through entity shall perform the following for the Federal awards it makes: monitor the activities of sub-recipients as necessary to ensure that Federal awards are used for authorized purposes in compliance with laws, regulations and the provisions of contracts or grant agreements and that performance goals are achieved." In addition, 34 C.F.R. § 80.40(a) requires a grantee, in carrying out its responsibility for managing the day-to-day operations of sub-grant activities, to monitor its sub-grantees to "assure compliance with applicable Federal requirements and that performance goals are being achieved. Grantee monitoring must cover each program, function or activity."

Pursuant to sections 9304 (a)(5) and 9306(a)(5) of the ESEA (20 U.S.C. §§ 7844, 7846) and 34 C.F.R. § 76.702 [page 11] a State and its sub-grantees must use fiscal control and fund accounting procedures that insure proper disbursement of and accounting for Federal funds. Under 34 C.F.R. § 80.20(a), fiscal control and accounting procedures of a State, as well as its sub-grantees and cost-type contractors, must be sufficient to permit the tracing of funds to a level of expenditures adequate to establish that such funds have not been used in violation of the restrictions and prohibitions of applicable statutes.

These conditions occurred because the LDE conducted ineffective monitoring visits which did not thoroughly review the financial aspects of the Title I program. Additionally, the LDE did not have adequate procedures to ensure that LEAs maintain adequate supporting documentation for reimbursement claims submitted for payment with Title I funds. Because it did not provide adequate monitoring to all LEAs, LDE did not have adequate assurance that Title I funds were properly accounted for and used to benefit the needs of low-achieving children, especially in high-poverty schools.

RECOMMENDATIONS

We recommend that the Assistant Secretary for Elementary and Secondary Education instruct the Louisiana Department of Education to—

1.1 Continue to develop and use the risk-based audit plan to assess and monitor all LEAs to ensure that they have systems in place to properly account for, and adequately document and support, the claims submitted for reimbursement from Title I funds.

1.2 Ensure that monitoring teams include financial personnel, as well as programmatic personnel, to look at financial issues and check for compliance with financial requirements.

LDE'S COMMENTS

LDE concurred with our finding and recommendations. LDE stated that it "…will continue to develop, update and use the Risk-based audit plan to assess and monitor all LEAs to ensure that they have systems in place to properly account for, and adequately document and support the claims submitted for reimbursement from Title I funds. The plan will be updated each year. Based on the Risk-based audit plan, the fiscal staff will continue to conduct in-depth fiscal monitoring visits and ensure all school districts are monitored over a three-year cycle. This information will continue to be shared with program staff that in turn will use it as a factor in planning the programmatic monitoring visits."

Additionally, LDE "…will begin assigning financial personnel to all coordinated federal programmatic monitoring visits. The fiscal staff will do a variety of types of reviews depending on the circumstances in the district and status of the district in the risk assessment. They will also be available while on-site to program staff for technical assistance on fiscal issues encountered as needed."

OBJECTIVES, SCOPE, AND METHODOLOGY

The overall objective was to determine whether the LDE properly monitored the LEAs to ensure that they accounted for and used ESEA, Title I funds in accordance with applicable laws and regulations.

To accomplish our objective, we—

- Reviewed the LDE's financial statements and OMB Circular A-133 audit reports for the years ended June 30, 2001, and June 30, 2002;
- Reviewed the Title I grant applications, budget narratives, and Grant Award Notifications for the four selected LEAs;

- Reviewed written policies and procedures for budgeting, accounting, procurement, payroll, and fringe benefits for the Title I grants;
- Reviewed applicable laws, regulations, and other guidance;
- Interviewed LDE officials; and
- Reviewed U.S. Department of Education's program review report.

We initially selected Orleans, Caddo, and East Baton Rouge Parishes for review because they were three of the four largest recipients of Title I funds in the State. We also judgmentally selected Beauregard Parish in order to review a small LEA.

We relied, in part, on computer-processed Title I funds request forms submitted by each LEA to the LDE. We verified the completeness of the data by comparing source records to computer-generated request forms, and verified the authenticity by comparing computer-generated request forms to source documents. However, we were unable to obtain and verify the accuracy, completeness, and reliability of computer-generated data documenting payroll charges for employees assigned to work on the Title I grant program in Orleans Parish. Based on these tests, with the exception of Orleans Parish's payroll data that we questioned at that district level and noted in the Orleans Parish Final Report A06-E0008, we concluded that the data were sufficiently reliable to use in meeting the audit's objective. Our testing disclosed instances of non-compliance with Federal regulations, grant terms, and cost principles that led us to conclude that weaknesses existed in each of the four LEAs and in the LDE's controls over Title I funds.

Our audit covered the period July 1, 2001, through December 31, 2003. We performed fieldwork from February 2004 through March 2005, and we conducted an exit conference with LDE officials on March 17, 2005.

Our audit was performed in accordance with generally accepted government auditing standards appropriate to the scope of audit described above.

ADMINISTRATIVE MATTTERS

Statements that managerial practices need improvements, as well as other conclusions and recommendations in this report represent the opinions of the Office of Inspector General. Determinations of corrective action to be taken will be made by the appropriate Department of Education officials.

If you have any additional comments or information that you believe may have a bearing on the resolution of this audit, you should send them directly to the following Education Department official, who will consider them before taking final Departmental action on the audit:

Raymond J. Simon
Assistant Secretary
Office of Elementary and Secondary Education
U.S. Department of Education
400 Maryland Avenue, SW
FB6-3W315
Washington, DC 20202

It is the policy of the U.S. Department of Education to expedite the resolution of audits by initiating timely action on the findings and recommendations contained therein. Therefore, receipt of your comments within 30 days would be greatly appreciated.

In accordance with the Freedom of Information Act (5 U.S.C § 552), reports issued by the Office of Inspector General are available to members of the press and general public to the extent information contained therein is not subject to exemptions in the Act.

If you have any questions or wish to discuss the contents of this report, please contact me at 214-661-9530.

Sincerely,

/s/
Sherri L. Demmel
Regional Inspector General
for Audit

Attachments

The following is a brief summary of our audits at four local education agencies.

Orleans Parish (ACN A06-E0008)

Orleans Parish did not properly account for and use approximately $69.3 million of Title I funds in accordance with applicable regulations. Specifically, Orleans Parish received reimbursement from Title I funds for $51,884,155 in unsupported expenditures for payroll ($39,880,892), fringe benefits ($9,219,059), contract services ($62,130), travel ($35,397), supplies ($233,878), and equipment ($2,452,799). Orleans Parish did not provide adequate documentation such as periodic certifications for salary and fringe benefits, and did not provide documentation such as purchase orders, receiving reports, and receipts for tested expenditures. Also, we questioned an additional $17,407,118 in Title I expenditures due to a scope limitation in the management representation letter from the Superintendent, which acknowledged that irregularities involving management or employees might have existed.

On May 25, 2004, we issued Interim Audit Memorandum State and Local No. 04-03 to the U.S. Department of Education's (Department) Chief Financial Officer and the Assistant Secretary for the Office of Elementary and Secondary Education. In the Memorandum we advised the Department of the need to designate Orleans Parish as a high-risk grantee and to impose special conditions on all current and future awards to Orleans Parish. We also recommended that the Department advise the LDE to consider placing special conditions on grants it makes to Orleans Parish that include Federal funds.

On July 16, 2004, the LDE notified the Department that, beginning July 1, 2004, the Orleans Parish School District was considered to be in a “high risk” status for all Federal grant programs. The LDE cited 34 C.F.R. § 80.12, which states that a sub-grantee may be considered high risk if an awarding agency determines that the sub-grantee: “(3) has a management system which does not meet the management standards set forth in this part . . . .” The LDE also noted that, “[a]ccording to this law, an acceptable financial management system must provide adequate financial reporting, recordkeeping, internal controls, budget control, allowable costs, and cash management.”

The LDE required Orleans Parish to meet certain conditions before the State would allocate Federal funds for fiscal year 2004-2005. These conditions included requiring Orleans Parish to:

1. Submit specific documentation to substantiate all expenditures for future requests for funds for all Federal programs.

2. Engage an independent certified public accountant to conduct a performance audit in which the efficiency and effectiveness of all fiscal operations, including but not limited to payroll, budget, contracts, procurement, and grants management, are examined.

3. Submit a detailed corrective action plan to specifically address all findings identified in the performance audit.

4. Provide a report on the benefits of outsourcing all or a portion of the district's fiscal processes and duties, including payroll, budget, contracts, and grant management.

5. Develop a structured system improvement plan containing timetables, measurable goals and priorities for, among other things, organizational and budgetary changes.

In response, the Orleans Parish Superintendent stated that he understood the seriousness of the high-risk status and intended to adhere totally and completely to all conditions, procedures and performances imposed by the LDE. LDE officials provided additional support, not previously provided during the audit, and we reduced the amount of unsupported costs to $51,884,155.

Caddo Parish (ACN A06-E0012)

Caddo Parish generally accounted for and used Title I, Part A funds in accordance with applicable laws and regulations. Specifically, most Title I expenditures were allowable, approved, and properly documented, and funds were properly allocated to Title I schools. However, Caddo Parish did not properly account for $488,314 of Title I funds expended by all of its six targeted assistance schools. Specifically, Caddo Parish did not have the semi-annual certifications for the targeted assistance Title I employees for the fall term of the 2001-2002 school year.[2] The unsupported amount consisted of $385,379 for payroll costs and an estimated $102,935 for fringe benefits costs. In its response, the LDE disagreed with our finding.

Beauregard Parish (ACN A06-E0018)

Beauregard Parish generally accounted for and used Title I funds in accordance with applicable laws and regulations. However, Beauregard Parish did not properly account for $649,149 of Title I funds. Specifically, Beauregard Parish did not have the semi-annual certifications for the targeted assistance Title I employees for both terms of the 2001-2002 school year ($531,626); did not properly allocate funds to Title I schools during the 2003-2004 school year ($108,706); requested payment in 2002-2003 school year for $8,817 in salary and benefits for an employee they believed worked 100 percent of the time for Title I, but the employee only worked 50 percent; and requested a duplicate equipment payment for $16,908. In its response, the LDE disagreed with two of our findings and concurred with two other findings.

[2]Schoolwide programs are exempt from certification procedures.

East Baton Rouge Parish (ACN A06-E0017)

East Baton Rouge Parish generally accounted for and used Title I, Part A funds in accordance with applicable laws and regulations. However, East Baton Rouge Parish did not properly account for $148,246 of Title I funds. Specifically, East Baton Rouge Parish did not have the semi-annual certifications for one targeted assistance Title I employee and did not have personnel activity reports for three district employees ($120,059), and did not properly account for and use $28,187 in Title I funds in accordance with applicable purchasing regulations, grant terms, and cost principles.

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July 15, 2005

Sherri L. Demmel
Regional Inspector General for Audit
U.S. Department of Education
Office of Inspector General
1999 Bryan Street, Suite 2630
Dallas, Texas 75201-6817

Dear Ms. Demmel:

On June 17, 2005, the Louisiana Department of Education (LDE) received Draft Audit Reports, ED-OIG/A06-F0002. The Louisiana Department of Education appreciates the opportunity to respond to the Office of Inspector General's (OIG) findings outlined in its draft audit report. We concur with the findings and recommendations.

Attached is a copy of the Louisiana Department of Education's response to the findings. If you have questions, please contact Dr. Robin Jarvis, Assistant Superintendent of the Office of Student and School Performance, at 225-342-3513 or use the toll-free number listed above.

Thank you for your cooperation.

Sincerely,

Cecil J. Picard

Cecil J. Picard
State Superintendent of Education

CJP:LAC:lc

Enclosures

c: Robin Jarvis, Ph.D.
Beth Scioneaux
Susan Aysenne

Louisiana Department of Education
Response to Final Audit Report: ED-OIG/A06-F0002

Presented to:
Sherri L. Demmel
Regional Inspector General for Audit
U.S. Department of Education
Office of Inspector General
1999 Bryan Street, Suite 2630
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1.1 As recommended in the letter from Sherri L. Demmel of June 14, 2005, the Louisiana Department of Education will continue to develop, update and use the Risk-based audit plan to assess and monitor all LEA's to ensure that they have systems in place to properly account for, and adequately document and support the claims submitted for reimbursement from Title I funds. The plan will be updated each year. Based on the Risk-based audit plan, the fiscal staff will continue to conduct in-depth fiscal monitoring visits and ensure that all school districts are monitored over a three-year cycle. This information will continue to be shared with program staff that in turn will use it as a factor in planning the programmatic monitoring visits.

1.2 The Louisiana Department of Education will begin assigning financial personnel to all coordinated federal programmatic monitoring visits. The fiscal staff will do a variety of types of reviews depending on the circumstances in the district and status of the district in the risk assessment. They will also be available while on-site to program staff for technical assistance on fiscal issues encountered as needed. The depth of the fiscal review procedures performed on the visits will vary depending on how the fiscal monitoring schedule and the programmatic monitoring schedule intersect. For as many visits as the two schedules can be combined, financial staff will conduct the in-depth fiscal monitoring at the same time the program monitoring visits occur. For visits that cannot be coordinated, the fiscal staff will conduct in-depth fiscal monitoring visits at a different time from the program-monitoring visit. For the remainder of the coordinated visits to those districts that were not identified via the risk assessment as needing an in-depth review in the current year, fiscal staff will conduct an evaluation of the use of best fiscal practices and existence of internal controls. From this analysis, a determination will be made regarding the compliance of the fiscal practices of the school system with these criteria. Based on the results, further appropriate fiscal monitoring activities will be conducted in that school system at a later date.