

CITY OF MONROE SCHOOL BOARD



ADVISORY SERVICES REPORT
ISSUED JANUARY 21, 2009

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LOUISIANA LEGISLATIVE AUDITOR
STEVE J. THERIOT, CPA

January 21, 2009

**DR. JAMES DUPREE, SUPERINTENDENT,
AND MEMBERS OF THE CITY OF MONROE
SCHOOL BOARD**

Monroe, Louisiana

My staff applied our *Checklist of Best Practices in Government* in providing advisory services for the financial/business operations of the school board. In addition, we reviewed your resolution of the audit findings reported in the school board's June 30, 2007, audited financial statements.

Attachment I contains our findings and recommendations resulting from our assessment and Attachment II provides the status of the June 30, 2007, audit findings. Management's response is presented in Appendix A.

Our recommendations are intended to assist you in your efforts to (1) improve controls over the school board's financial operations; (2) implement good business practices; and (3) ensure the school board's compliance with state laws.

This assessment is substantially less in scope than an audit conducted in accordance with generally accepted auditing standards; therefore, we are not offering an opinion on the school board's financial statements or system of internal control nor assurance as to compliance with laws and regulations.

Respectfully submitted,

Steve J. Theriot, CPA
Legislative Auditor

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Findings and Recommendations

OVERVIEW

Our report addresses the following matters:

1. Strategic and Operational Planning (pages 1-2)
2. Master Bank Account (page 2)
3. Strengthen Existing Controls (pages 3-5)
4. Financial/Accounting Information System (page 6)
5. Management Information System (pages 7-8)
6. Internal Audit Function (pages 8-9)
7. Disposition of Audit Findings (page 11)

Management of the school district (Board and superintendent) should consider the costs of implementing our recommendations compared to the benefits they will provide. For any recommendations not implemented, management should be aware of the risks.

We reviewed this report with management to provide management an opportunity for its response. Management's response is presented in Appendix A.

Strategic and Operational Planning

There was no written strategic plan or operational plans for the school district. Management has a fiduciary responsibility to prepare and adopt such plans that provide the basic direction and objectives for operating the school district that governs all business decisions, contracts, and agreements executed.

Management has significantly improved the district's financial position in recent years (progressing from a \$2.7 million deficit in the General Fund in 2001 to a surplus of over \$8.3 million in 2007) and could benefit from developing and implementing a comprehensive strategic plan for the district. Management faces many challenges and demands (e.g., staffing, technology, building and maintenance, transportation, et cetera) on resources of the district. How, when, and in what order such issues will be addressed should be included in the strategic and operational plans.

A strategic plan establishes long-range (multi-year) goals and operational plans establish short-term (quarterly, annual) goals providing specific, measurable steps linked to strategic goals. Such plans allow management, staff, and the general public to periodically monitor goal achievement (i.e., determine the extent of progress made) and to assess the direction and priorities for the school district.

Recommendation: We suggest that management do the following:

1. Implement a process to develop written, strategic and operational plans that track whether its goals are attained.

2. Develop linked strategic and operating plans that include both long-range and short-term goals.
3. Use the plans in the decision-making process and for budgeting (e.g., projects to undertake, major purchases, contracting, et cetera).
4. Monitor and update the plans quarterly to determine if goals are met noting both accomplishments and revisions needed.
5. Document plan results in the Board's minutes.

Master Bank Account

The cash balance in the school district's master bank account at June 30, 2008, was not reconciled as of mid-September and was approximately \$183,000 less than the balance showing in the books/accounting records. Accounting department personnel assured us they were diligently working on identifying and resolving this difference.

Timely reconciling a bank account is a key component of good controls over cash. Reconciling the bank balance with the book balance is necessary to ensure that (1) all receipts and disbursements are recorded (an essential process in ensuring complete and accurate monthly financial statements); (2) checks are clearing the bank in a reasonable time; (3) reconciling items are appropriate and are being recorded; and (4) the reconciled cash balance agrees to the general ledger cash balance.

We also advise management that state law [R.S. 10:4-406(d)(2)] allows the school board 30 days to examine bank statements and cancelled checks for unauthorized signatures or alterations. After 30 days, the board is precluded from asserting a claim against the bank for unauthorized signatures or alterations.

Recommendation: Management should do the following:

1. Ensure that the difference between the bank and book balances for the master bank account is properly identified and resolved.
2. Require bank reconciliations to be prepared within 10 business days (two weeks) after the monthly statements are received from the bank.
3. Require the completion of a recap sheet that documents all reconciled bank balances of the school district for distribution to management each month.

Strengthen Existing Controls

Opportunities exist to strengthen existing controls in certain areas.

1. **Payroll** - Controls over payroll need to be improved.

- The payroll clerk performs a variety of duties relating to payroll disbursements that are incompatible for a proper system of checks and balances. Good controls require that payroll duties be segregated so that no single individual controls all facets of the function.

For example, the clerk inputs the regular payroll data into the payroll system, processes changes to employee payroll data (e.g., pay rate, salary table, deductions, et cetera) and prints the checks, all without supervisory review and approval.

Recommendation: For a proper system of checks and balances, a supervisor independent of the payroll function should review the payroll data (e.g., hours, leave, et cetera) entered for accuracy each pay period and document (i.e., initial) the review and approval.

In addition, the Human Resources department should be responsible for verifying the accuracy and propriety of all changes made to payroll (e.g., salary table, deductions, adding new employees, et cetera). Before payroll is distributed each pay period, the Human Resources department should print out and review the computer-generated report (*Employee Maintenance Audit Report*) that shows all changes made in the payroll system. The Human Resources department should compare and verify all payroll changes to properly approved written authorization forms maintained in its personnel files.

- The payroll clerk was able to change employee payroll data without having the written authorization of the Human Resources department. The Human Resources department is responsible for centrally and securely maintaining complete and accurate employment records on all school district personnel. Good controls dictate that all changes to payroll/personnel data be supported by documentation and authorization of the Human Resources department.

Recommendation: Management should prohibit any changes to employee payroll data without the written authorization of the Human Resources department.

- Contrary to the school district's *Time and Attendance* policy, employees working in the central office were not completing absentee/leave slips to document their sick leave from work. The policy requires all absences to be documented on a leave slip and approved by the appropriate supervisor.

Recommendation: Management should ensure that all employees comply with the *Time and Attendance* policy. Absentee/leave slips should be completed and

signed by the employee for all leave taken, approved by a supervisor, and attached with the logs/time reports submitted to the payroll department for processing.

2. **Transportation Services and Fuel Costs** - As we understand, in addition to providing the regular bus transportation for students to and from school, bus transportation was being provided for activities after school and on weekends, including activities that were not related to the school district. We caution management that, absent a valid cooperative endeavor agreement, Article VI, Section 14 (A) of the Louisiana Constitution of 1974 prohibits property of the school district from being loaned or donated to or for any person, association, corporation, public or private.

Also, there was no analysis performed of the fuel costs incurred in providing the various transportation services. The district operates and manages over 80 buses and numerous other vehicles and spent more than \$400,000 for fuel in the 2007 fiscal year and has budgeted \$508,000 in fuel expenditures for the current fiscal year.

Recommendation: We suggest that management review and ensure that the current operation/use of school district buses and vehicles is in strict accordance with the school district's transportation policy and state law.

Also, an analysis should be performed of the fuel costs incurred for regular bus transportation, transportation provided after school and for weekend activities, including the costs incurred to transport persons/organizations to activities that are unrelated to the school district. A detailed review of these costs, especially in times of volatile fuel costs, can aid in the management and control of the district's transportation resources. The number of trips and number of passengers per trip should be included in the analysis.

3. **VISA Credit Cards** - Procedures required in the *Procurement Card* program were not always being followed. We determined that the purchasing manager was not reviewing all VISA statements, the VISA charges were not being paid every two weeks for all cardholders, and a semiannual inventory was not conducted to account for all VISA cards issued under the program.

Recommendation: Management should fully enforce employee compliance with all procedures in the school district's *Procurement Card* program.

4. **Contracts** - The Purchasing department did not centrally maintain all vendor contracts of the school district nor was there a summary available of all contracts currently in force. Good controls over contracts require that all contracts be centrally maintained for review and oversight to ensure that services are necessary and that services received by the school district comply with the terms and conditions of the contract.

The school district has entered into a wide range of contracts (e.g., occupational therapists, workers compensation, roofing contractors, computer vendors, et cetera) for which the costs involved and the outcomes can have a significant impact on the district.

Recommendations: Management should do the following:

- Ensure that a copy of all vendor contracts is maintained in the Purchasing department.
- Require the preparation of a monthly summary of each contract to be provided to the Board which can be grouped by cost ranges (e.g., under \$50,000, \$50,000-\$100,000...over \$1,000,000). This summary should provide key contract information including the following:
 - Contractor name
 - Contract purpose
 - Contract term (begin and end dates)
 - Date of approval by legal counsel
 - Date of approval by Board
 - Total contract amount
 - Total amount paid to date
 - Employee responsible for contract monitoring
 - Current status of contract
 - Performance of contractor

5. **Grant Reimbursement Requests** - The school district was preparing and submitting requests for grant (e.g., Title I program) reimbursements on a quarterly basis.

Recommendation: We encourage management to implement procedures that would expedite the filing frequency from quarterly to monthly. The MIS department, Business/Accounting department, and the Instructional Support Services department should continue to work together to improve the timeliness of grant reimbursement requests.

6. **Written Policies and Procedures** - The school board's *Policy Manual* shows that while over 250 sections are complete there are still many sections to be added or updated.

Written policies and procedures are necessary to provide a clear understanding of what should be done, how it should be done, who should do it, and when it should be done. In addition, written policies and procedures aid in the continuity of operations and for cross-training staff or training new staff.

Recommendation: We encourage management to complete the update of the *Policy Manual* and present it to the Board for approval.

Financial/Accounting Information System

The school district's financial/accounting information system can be strengthened to ensure the efficient delivery of accurate and informative data to users to make decisions.

Recommendations:

1. **Assess Information Needs of Key Users** - We recommend that management assess how well the financial/accounting information needs of key users are being met.

We suggest reviewing the financial reporting needs of the Board, Finance Committee, superintendent, and the various departments (e.g., Business/Accounting, Human Resources, Instructional Support, et cetera), including determining if department heads or their personnel need additional information or assistance on technical computer issues. Also, the amount of time being spent by accounting personnel preparing special reports and analyzing problem reports needs to be taken into consideration.

From its assessment, management could develop a list of financial information system improvements needed and determine if additional internal or external resources are required or whether system changes may be needed.

2. **Track Information Requests and Problem Reports** - Management should consider developing and implementing a system to record and track financial/accounting information requests and accounting system problem reports. The number of requests should be summarized by user group (e.g., Board, departments, et cetera) and include the time required to respond to determine if additional resources are required or system changes are needed.

3. **Provide In-House Financial Application Support** - Management should consider reorganizing the school district's Management Information System (MIS) department to include the responsibility of providing financial applications (General Ledger, Payroll, et cetera) support to the Business/Accounting department and other departments using such software. Currently, this support is being provided by the outside vendor.

An in-house resource could support management and staff by having the capability to readily develop specialized reports and assist in analyzing computerized financial system problems and enhancement requests. In-house application support can also provide expertise in evaluating financial software packages, implementing computer security, and providing computer system planning support.

Management Information System

Controls over the school district's computer resources can be improved.

1. **Planning and Monitoring** - There was no formal planning or monitoring of the school district's computer and information technology (IT) as the Technology Committee was inactive.

The school board has developed a District Plan for Educational Technology (can be viewed on the school board's Web site) that was designed to meet federal, state, and school board requirements for the 7-year period from 2007 to 2014. An active Technology Committee would ensure the Plan is monitored and updated, and the Board and department heads would have a forum to ensure that needs of all departments are being met.

Recommendation: We recommend that management reactivate its Technology Committee, reestablish its mission and composition, and through it ensure that the Technology Plan is monitored and that the management information system (MIS) fully supports current and future needs of the Board, superintendent, and each department. In addition, the Technology Committee should review and monitor the computerized financial/accounting system needs and security issues.

2. **Computer Security** - The school board did not have a formal security plan addressing threats to computer security and establishing how the school board will address each threat.

Recommendation: Management should develop and implement a written security plan. The plan should identify potential threats and vulnerabilities, responsibilities for addressing those, and locations of specific procedures and guidelines all departments should follow.

Also, management should require that users sign its *Acceptable Use* policy when they are granted initial system access to signify that they have read, understood, and will comply with that policy. In addition, management should require periodic vulnerability scans of its network to ensure that vulnerabilities are identified and opportunities for unauthorized access are minimized.

3. **Disaster Recovery Planning** - The school board did not have a disaster recovery/business continuity plan for the business operations and IT needs of the district.

Recommendation: We suggest that a written disaster recovery/business continuity plan be prepared and tested/revised annually. A written plan is a good business practice as it will provide the steps to be performed to continue school district operations in the event of a natural disaster, fire, or terrorist attack.

4. **Computer Room Security** - While the relocation of key computer systems to a new computer room is an improvement in security compared to their previous location, additional improvements in security are needed.

Recommendation: We suggest improving the computer room security by doing the following:

- Place fire extinguishing equipment both inside and outside the computer room.
- Eliminate potential fire hazards (e.g., paper, boxes, et cetera) in and around the computer room.
- Prohibit access to the computer room by accounting personnel and any other application (general ledger, payroll) system users.
- Maintain a written log of all computer room access, including names, dates, and times entered and exited and the purpose for such access. The log should be reviewed by the MIS director for propriety.

5. **Application Level Security** - The school board's MIS department did not have any responsibility for the security procedures of the various applications on the accounting system. Accounting department personnel and the vendor developed and implemented security procedures without input from the MIS department.

In addition, our general assessments of employees' access rights (e.g., read only access, read and write access, et cetera) to software applications revealed that some employees may have more access than is required to perform their jobs.

Recommendation: We recommend that MIS be involved in all IT security issues of the school board to ensure that security policies and procedures are consistent across all departments and that backup plans are in place, working, and an approved part of overall disaster recovery planning.

Furthermore, management should consider forming a Security Committee that would be responsible for reviewing employee access rights at the system and application level and ensuring that all system and application users have only the rights needed to perform their job functions.

Internal Audit Function

We recommend that the Board consider creating an internal audit function, a function which would report directly to the Board's audit committee. A cost/benefit analysis should be performed when considering whether to create an internal audit department.

The school district has approximately 1,400 employees and total assets of approximately \$100 million and may benefit by having an internal auditor that could independently assess and objectively evaluate the district's operations for risks, controls, compliance, ethics, economies, efficiencies, and safeguarding of assets. The scope of the internal auditor's audit work would include all operations of the school district where there is a risk of financial exposure, potential for loss, and when there are major changes in operations, programs, systems, and controls.

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Disposition of Audit Findings

The following represents a summary of the audit findings previously reported (by the town's independent auditor) in the June 30, 2007, audited financial statements and the disposition of those findings based on our inquiries and general observations as of September 25, 2008. Management's response is presented in Appendix A.

June 30, 2007, Audit Findings	Disposition as of September 25, 2008
<p>07-01 Accounting for Capital Lease - A capital lease for computer equipment totaling \$1,086,797 should have been recorded as a capital expenditure with an offsetting entry to other financing sources at the time the lease was entered into.</p>	<p><u>Resolved.</u> The appropriate correcting entries were made.</p>
<p>07-02 Accounting for E-Rate Revenues - \$1.2 million of expenditures for the E-Rate program should have been recorded as capital expenditures with the related E-Rate reimbursements to vendors recorded as revenues to the School Board.</p>	<p><u>Resolved.</u> The appropriate correcting entries were made.</p>

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Management's Response



MONROE CITY SCHOOLS

Office of the Superintendent

January 14, 2009

Steve J. Theriot, CPA
Legislative Auditor
State of Louisiana
1600 North Third Street
P. O. Box 94397
Baton Rouge, LA 70804-9397

James A. Dupree, Ed. D.
Superintendent

Mrs. Victoria "Vickie" Dayton
President

Mrs. Brenda Shelling
Vice President

BOARD MEMBERS

Mrs. Victoria "Vickie" Dayton
District 1

Mrs. Victoria "Vickie" Krutzer
District 2

Mr. James Mickey Traweek
District 3

Mr. Jessie L. Handy
District 4

Rev. Rodney McFarland
District 5

Mrs. Stephanie S. Smith
District 6

Mrs. Brenda M. Shelling
District 7

L. Douglas Lawrence
Board Attorney

Dear Mr. Theriot:

On behalf of the City of Monroe School Board, we would like to thank you for the professionalism exhibited by your staff as they provided advisory services to our school district. Please be assured that we are committed to continually improving district operations. Our responses to your recommendations are as follows:

STRATEGIC AND OPERATIONAL PLANNING

The school board will develop a strategic plan that will be used to guide both the decision making and budgeting process. This plan will establish both short term and long term goals.

MASTER BANK ACCOUNT

The district has reconciled all bank accounts and will continue to do so in a timely manner. The end of the year reconciliation for June 30th of each year is delayed because of payroll accruals that are paid at the end of August. As a part of our year end procedures, we must verify that all corrections for the August payroll are recorded properly.

STRENGTHEN EXISTING CONTROLS

Payroll

The school district continues to work on segregating duties between the Business Department and Human Resources, including reviewing of payroll data, proper authorization of personnel changes, and documentation of sick leave.

Transportation Services & Fuel Costs

The district will continue to monitor the use of district buses and the cost of fuel to ensure that resources are used to provide maximum impact for the students served.

Visa Credit Cards

The procedures for the Procurement Card will be revised to allow a monthly payment of statements to coincide with the billing cycle. The district will continue to maintain proper controls of credit card use.

Contracts

The district will strengthen internal controls by centrally maintaining a copy of all contracts. The purchasing manager has developed a report for distribution to the board that will reveal the status of each contract.

Grant Reimbursement Requests

The district will continue to work on improving the frequency of requesting reimbursements for grants.

Written Policies and Procedures

The district will complete and adopt the updated policies and procedures manual.

FINANCIAL/ACCOUNTING INFORMATION SYSTEM

Assess Information Needs of Key Users

The district will continue to work cooperatively to ensure that all interested parties are provided the information necessary to perform their duties and make informed decisions.

Track information Requests and Problem Reports

Where time permits, the district will track and summarize request for information, noting the ability and difficulty of completing the report.

Provide In-House Financial Application Support

The district will assess the need for and the cost of In-House application support.

MANAGEMENT INFORMATIONS SYSTEM

Planning and Monitoring

The district will use a Technology Committee to provide oversight for all needs and initiatives in relations to computers and technology.

Computer Security

The district will develop and implement a written security plan that identifies threats, responsibilities for security and guidelines for the entire district. The district will also assess the need for having users sign the Acceptable Use Policy.

Disaster Recovery Planning

The district will take the steps necessary to develop, implement and test a disaster recovery/business continuity plan.

Computer Room Security

The district will improve the safety and security of the computer room by placing fire extinguishers, eliminating potential hazards, and controlling access.

Application Level Security

MIS will work cooperatively with other departments to ensure that security procedures are in place and are appropriate for the performance of job duties and the security of the district.

INTERNAL AUDIT FUNCTION

The district will assess the feasibility of creating an internal audit function.

Should additional information be needed, please do not hesitate to contact my office.

Sincerely,

A handwritten signature in cursive script that reads "James C. Dupree". The signature is written in black ink and is positioned above the typed name and title.

Dr. James Dupree, Superintendent
City of Monroe School Board