

MOREHOUSE PARISH SCHOOL BOARD



ADVISORY SERVICES REPORT
ISSUED SEPTEMBER 7, 2005

**LEGISLATIVE AUDITOR
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STEVE J. THERIOT, CPA

ADVISORY SERVICES DIVISION

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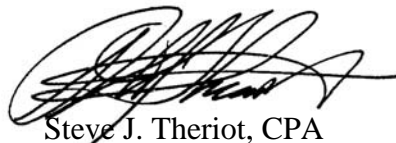
August 16, 2005

**MR. RICHARD HARTLEY, SUPERINTENDENT,
AND MEMBERS OF THE MOREHOUSE PARISH
SCHOOL BOARD**
Bastrop, Louisiana

We applied our *Checklist of Best Practices in Government* in providing advisory services for the school board's business department. In addition, we reviewed the school board's resolution of the audit findings reported in the June 30, 2004, audited financial statements. Attachment I provides our findings and recommendations resulting from our assessment of the procedures and practices of the school board's business department. The response from management of the school board is presented in Appendix A. Attachment II provides the status of the June 30, 2004, audit findings.

Our findings and recommendations are intended to improve controls over financial operations, provide advice in implementing good business practices, and ensure compliance with state laws. However, the school board should consider the costs of implementing our recommendations compared to the benefits they will provide. This assessment is substantially less in scope than an audit conducted in accordance with generally accepted auditing standards, the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, we do not express such an opinion.

Respectfully submitted,



Steve J. Theriot, CPA
Legislative Auditor

RLT:GLM:dl

MORESB05

Findings and Recommendations

The following are the findings and recommendations resulting from our advisory services. The recommendations are presented to improve the controls that safeguard, manage, and account for assets of the school board and ensure compliance with applicable state laws. However, management of the school board should consider the costs of implementing these recommendations compared to the benefits they will provide. For those recommendations not implemented, the school board should be aware of the risks of not implementing such controls.

Management's response to the findings and recommendations is included in Appendix A.

Plan for Future Operations

The school board does not have a formal plan for making both short-term and long-range spending cuts to ensure it will operate within its available funding and maintain a reasonable fund balance. For the year ended June 30, 2004, the school board's general fund reported deficit spending of \$2,037,904 and a fund deficit of \$984,137. Although current financial statements for fiscal year ending June 30, 2005, are not available, management informed us that the deficit spending for the general fund will be approximately \$650,000, which will result in a fund deficit of approximately \$1,600,000.

Recommendation: We suggest the school board:

1. Develop and adopt an operating plan that includes both short-term and long-range spending cuts
2. Monitor the plan, at least quarterly, to assess whether the school board is on target with the plan
3. Use the plan in decision-making processes and for budgeting (e.g., projects to undertake, major purchases, contracting, etc.)
4. Monitor the financial statements and budget monthly to ensure that operations are within the available funding and that a reasonable fund balance is being maintained (see finding, *Monthly Financial Statements*)

Monthly Financial Statements

The board is not provided financial statements and budget comparisons each month. Without accurate and complete financial statements, the board cannot effectively exercise its fiduciary responsibilities of managing the school board.

Recommendation: Each month, the board should be presented with accurate and complete financial statements and budget comparisons for all funds. Also, a concise summary and guide to the key issues and aspects of the operating and capital components of the financial statements and budget comparisons should be provided to the board.

Bank Statements

Bank statements and related deposits and canceled checks are not reconciled timely to the book balances.¹ When the present business manager assumed her duties on April 7, 2005, the school board's bank accounts were reconciled through June 30, 2004. Bank statements for July 2004 through March 2005 (nine months) were not reconciled. Without reconciling the bank accounts timely, the school board cannot be assured that all receipts and disbursements have been recorded which is important in preparing timely and accurate monthly financial statements. Also, the school board may be unable to recover from the bank any monies resulting from any unauthorized signatures or alterations on checks.

As of the last day of our visit (July 1, 2005), the business manager has reconciled the bank accounts through May 2005, except for the Master Account (general fund), which has been reconciled through February 2005.

Recommendation: The school board should implement procedures requiring timely preparation and supervisory review and approval of all bank reconciliations.

Dedicated Funds

R.S. 39:704 provides, in part, that the proceeds of any special tax constitutes a trust fund to be used exclusively for the objects and purposes for which the tax is levied. During October 2004, approximately \$1,554,000 of funds from the bond issue for capital improvements and \$50,000 of ad valorem taxes collected for the East Morehouse School District were spent for other purposes. However, as of June 30, 2005, the present business manager has transferred the majority of the funds back to the appropriate accounts.

Recommendation: In the future, the school board should strictly comply with the tax propositions and state law and use the monies for their intended purpose.

Written Procedures

The school board does not have written procedures for various business functions. Formal written procedures are necessary so that there is a clear understanding of what should be done, how it should be done, who should do it, and when it should be done and that the procedures followed meet management's expectations. Also, written procedures aid in the continuity of operations and for cross-training staff.

¹ R.S. 10:4-406(d)(2) allows the school board 30 days to examine the bank statements and canceled checks for unauthorized signatures or alterations. After 30 days, the school board is precluded from asserting a claim against the bank for unauthorized signatures or alterations.

There are no written procedures for the following:

1. Preparing, adopting, monitoring, and amending the budget
2. Processing, reviewing, and approving disbursements
3. Receiving, recording, and preparing deposits for cash receipts
4. Accounting for the business and personal use of cellular phones
5. Using credit cards
6. Using Fuelman gas cards and reviewing the monthly statements
7. Granting access to the information system, making programming changes, and identifying critical and non-critical data

Recommendation: Written procedures should be prepared for these business functions.

Budgeting Process

Budget Procedures Needed

The school board does not have written procedures for preparing, adopting, monitoring, and amending its budget.

Recommendation: We suggest that detailed written procedures be developed to include all steps required for each phase of the budget process, including monitoring and amending the budget during the fiscal year. In addition, a time schedule for preparing the budget and the person responsible for each phase of the budget should be incorporated in the detailed steps. Also, we suggest that the school board consider using the Association of School Business Officials International *Meritorious Budget Awards Program* checklist and the Government Finance Officers Association *Distinguished Budget Presentation Awards Program* checklist in preparing future budgets and developing budget procedures.

Incorporate Performance Measures

Performance measures are not incorporated into the budgeting process.

Recommendation: Although not required by law, the school board should consider incorporating performance measures into the budgeting process. Meaningful performance measures assist management by (1) identifying financial and program results; (2) evaluating past resource decisions; (3) facilitating qualitative improvements in future decisions regarding resource allocation; and (4) communicating service and program results to the taxpaying public. Performance measures should be used to report on the outputs of each program and should be related to the objectives of each department.

Financial Management

Investment of Funds

For the two month period ending February 28, 2005 (January 2005 through February 2005), the school board had an average monthly bank balance of \$4,471,160 in seven demand deposit accounts earning interest at an average rate of .15%. R.S. 33:2955(A) authorizes and directs the school board to invest monies that are determined to be available for investment in prescribed interest-bearing accounts or securities.

Recommendation: We suggest that the school board develop written procedures for determining the amounts available for the payment for short-term and long-term obligations by fund and how those obligations affect investing decisions, and determine estimated cash requirements by fund each month to determine available monies to invest in short-term and long-term securities.

Contract With Legal Counsel

There is no contract between the school board and its legal counsel. Sound business practices require written agreements/contracts for services setting forth the specific terms and conditions. This will help ensure that services received comply with the school board's expectations.

Recommendation: We suggest that all agreements for services (professional or otherwise) with third parties be in the form of a written contract. In addition, we suggest that you consider the following when contracting for legal services:

1. Establish the specific services to be provided as general counsel
2. Require that out-of-pocket expenses be itemized, if applicable
3. Monitor the contract periodically to ensure that the services received comply with the terms and conditions of the contract
4. Obtain request for proposals for legal services as a good business practice

Inventory of Supplies

Controls over the inventory of supplies can be strengthened by requiring a complete physical inventory to be taken on a regular basis, such as monthly or quarterly. Presently, a complete physical inventory of the supplies is conducted at the end of the fiscal year.

Recommendation: We suggest that a physical inventory be taken, at a minimum, quarterly and reconciled to the quantities on hand per the perpetual inventory system.

Record Retention

The school board has not prepared and submitted a records retention schedule to the state archivist for approval, as required by R.S. 44:411. Also, the Louisiana Attorney General (AG) has opined (AG No. 01-155) that if employees conduct official business through electronic means, such communications are public records and fall within the reach of the Public Records law.

Recommendation: The school board should develop and submit a formal records retention schedule, to include e-mail, to the state archivist for approval.

Payroll

A review of all changes made to the payroll system for a specific period of time is not performed.

Recommendation: We recommend that a computer-generated report of all changes made to the payroll system between pay periods be reviewed by someone independent of the payroll department.

Purchasing and Disbursements

Controls Over Purchasing and Disbursements

1. There are no written procedures or a formal approval process for adding and deleting businesses to/from the vendor list.

Recommendation: We suggest that written procedures be developed for adding and deleting vendors to/from the vendor listing and that all additions/deletions be approved by the business manager. The vendor listing should be reviewed periodically to ensure that only active vendors are included.

2. There are no written procedures for the use and care of Fuelman credit cards and the review of Fuelman statements. In addition, no documentation supports the resolution of missing and erroneous odometer readings on the statements.

Recommendation: Written procedures for the use and care of Fuelman credit cards and for the review of Fuelman statements should be prepared to ensure that the number of gallons received, miles traveled, and miles per gallon for each vehicle is reasonable. In the future, the disposition of all missing and erroneous odometer readings on Fuelman statements should be documented.

3. Documentation to substantiate the charges made on the credit cards was not always attached to the monthly credit card statements.

Recommendation: The school board should require that detailed receipts be turned in supporting the business nature of all expenditures. In addition, the business purpose for meals, the restaurant receipts of food and beverages consumed, and the names of individuals participating in the meals should be documented.

School Activity Accounts

Procedures

Schools that use the computerized bank reconciliation program that is part of the Microsoft Money software are unable to print out a copy of the reconciliation. Therefore, those schools are unable to submit a monthly bank reconciliation to the school board central office as required by the written procedures for school activity accounts.

Recommendation: We suggest that the school board modify the Microsoft Money program so the bank reconciliation report can be printed.

Audits

The audits that were performed by the central office on the school activity accounts during fiscal year 2005 covered activities that occurred during the 2003-2004 fiscal year instead of the activities for the current fiscal year.

Recommendation: We suggest that audits of the school activity funds cover the current fiscal year, so if there are any problems they can be resolved in a timely manner.

Child Nutrition Program

Current controls over the Accuseries System that is used to account for meals served and funds collected do not require a second person to verify the cash collected to the amount reported by the system, when the cafeteria manager runs the point of service computer.

Recommendation: We suggest that when the cafeteria manager runs the point of service computer, a second person should be on hand to verify the cash collected to the amount reported by the system.

Ethics

The school board has a good ethics policy that deals with nepotism, prohibited activities (related party transactions), abuse of office, and transactions after termination of public service.

However, the policy could be strengthened by requiring an annual certification letter from board members and other members of management attesting to their compliance with the ethics policy.

Computer Controls

Computer Server

Physical access to the server for the school board's computer system is not restricted to only authorized personnel. The server is located in a small unlocked room off of the main hall in the school board central office and is accessible to anyone who enters the building.

Recommendation: We suggest that either the room where the server is located be locked or the server be moved to a location where access can be restricted.

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Status of the June 30, 2004,
Audit Findings

STATUS OF THE JUNE 30, 2004, AUDIT FINDINGS

The following represents a summary of the audit findings reported in the June 30, 2004, audited financial statements and the disposition of those findings, as of the last day of our field work on July 1, 2005:

June 30, 2004, Audit Findings	Disposition as of July 1, 2005
<p>Inadequate Accounting - monthly reports were not maintained and no comparative analysis was performed.</p>	<p>When the present business manager assumed her duties on April 7, 2005, the status of the accounting records were as follows:</p> <ul style="list-style-type: none"> • July 2004 through March 2005 (nine months) bank statements were not reconciled. • Interfund receivables and payables were not recorded properly or balanced. • Monthly financial reports were not prepared for any fund. • The General Fund trial balance did not balance. • Various computer errors had not been detected (e.g., disbursements from February 24, 2005, through April 10, 2005, were not posted to the accounting records). <p>As of July 1, 2005, the following progress has been made:</p> <ul style="list-style-type: none"> • All bank reconciliations are current (through May 2005), except for the Master Account, which has been reconciled through February 2005. • All interfund receivables and payables are recorded and balanced. • Monthly reports are being prepared as the funds are balanced. • Computer errors are corrected.
<p>Capital Assets Overstated - the salvage value for assets was set at 50% of the total cost of the asset, which is not a reasonable estimate.</p>	<p>Resolved. The computer program for capital assets has been modified to properly report a reasonable estimate for salvage value.</p>
<p>Bid Advertisements - advertisement for bids was not run 25 days prior to the bid opening.</p>	<p>Resolved. All bids are advertised for 25 days prior to the bid opening, as required.</p>

MOREHOUSE PARISH SCHOOL BOARD

June 30, 2004, Audit Findings	Disposition as of July 1, 2005
<p>Loans Made to Other Funds From Dedicated Tax Funds - funds were loaned from the sales tax and capital improvement funds to the general fund.</p>	<p>Partially resolved. All loans have been properly recorded in the accounting records and the majority of the funds have been transferred back to the appropriate accounts.</p>
<p>Late Submission of the Audit Report - the audit report for fiscal year 2003-2004 was submitted to the Legislative Auditor's office more than two months after the deadline.</p>	<p>The fiscal year 2004-05 audit report is due December 31, 2005. The school board has engaged Allen, Green & Williamson, Certified Public Accountants, to conduct the audit. They plan to begin the audit by August 31, 2005, and complete the audit by December 31, 2005, as required.</p>
<p>Budget Overruns - actual expenses exceeded budgeted expenses in the General Fund by approximately 24%.</p>	<p>Unable to monitor the 2004-05 budget because of the inadequate accounting records as mentioned previously. However, management plans to monitor the 2005-06 financial statements and budget monthly to ensure that operations are within the available funding and amend the budget when necessary.</p>
<p>Semiannual Certification Not Completed for Title 1 - there were no certifications for the seven Title 1 employees reviewed.</p>	<p>Resolved. Employees have completed the appropriate certifications.</p>

Management's Response



MOREHOUSE PARISH SCHOOL BOARD

"Obtaining Excellence in Education Through Quality Teaching"

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Kris McKoin, Vice President
District 5
Terry Pullin
District 1
Mrs. Sylvia Reese
District 2
Louis Warner
District 3
Mrs. Susie Cox
District 4
Mrs. Loe Dunn
District 7

August 26, 2005

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

Dear Mr. Theriot,

On behalf of the Morehouse Parish School Board I would like to say thank you for the review of the school board's business operations that was conducted by your office. Your staff was very professional as they conducted the *Checklist of Best Practices in Government*. This is a very helpful advisory service that your office provides.

As your letter stated the findings and recommendations are intended to improve controls over financial operations, provide advice in implementing good business practices, and insure compliance with state laws. As also suggested the school board will consider the costs of implementing the recommendations compared to the benefits they provide.

As discussed in the exit conference, we would be more than happy to share with other school systems the procedures we have in place which separate duties for the purpose of internal control.

The responses to your recommendations are as follows:

Plan for Future Operations

The school board is developing a short term and long term strategic plan. This is very important as the paper mill in Bastrop may reduce in size or possibly close and they provide a significant part of our local taxes. The plan will be used to guide the decision-making process.

Monthly Financial Statements

Financial statements with budget comparisons are reviewed and presented to the finance committee and the board on a monthly basis.

Bank Statements

Reconciliation of the bank statements is being prepared on a monthly basis by the business manager.

Dedicated Funds

Money from tax propositions is being used only for its intended purpose.

Written Procedures

Written procedures will be prepared for business functions cited as time and costs permit.

Budgeting Process

The budgeting process is being refined as department heads and supervisors meet with the business manager and superintendent for the development of the budget. As time permits written procedures and performance measures will be developed and considered for implementation by the board.

Investment of Funds

The business manager will investigate ways to invest available cash that will pay a higher rate of return.

Contract with Legal Counsel

A resolution by the board and a contract will be implemented for the services of general counsel.

Inventory of Supplies

An inventory procedures manual has been developed and adopted by the school board.

Records Retention

The school board will develop and submit a formal records retention schedule to the state archivist.

Payroll

Someone independent of the payroll department will review a computer-generated report of all changes made to the payroll system between pay periods.

Purchasing and Disbursements

Written procedures will be developed for adding and deleting vendors to-from the vending list and for use and care of Fuelman credit cards and for review of Fuelman statements. Detailed receipts which support business expenditures are turned in to the business department.

School Activity Accounts

Schools will provide monthly bank reconciliations to the business department and school audits of activity funds will cover the current fiscal year.

Child Nutrition Program

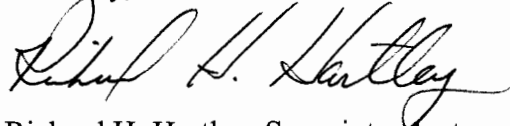
A second person will verify the cash collected at point of sales on a periodic basis.

Computer Server

The room where the computer server is located will be secured.

Again, thank you for your assistance as we work to make the Morehouse Parish School System business department more efficient and effective. As evidenced by our improved accountability scores and facilities, we are working hard to make a difference for our students and an improved business department will help us do so.

Sincerely,



Richard H. Hartley, Superintendent
Morehouse Parish School Board

RHH/vcb