

Legislative Audit Cites Fiscal Mismanagement of Recovery School District

Dr. Raynard Sanders

The Center for Action Research on New Orleans School Reforms

See www.researchonreforms.org

The ills of New Orleans Public Schools (NOPS) mismanagement still linger years after Hurricane Katrina, with articles recently appearing in the local newspapers about former NOPS employees and consultants receiving prison sentences. All of the corruption and mismanagement that happened before Hurricane Katrina, along with the poor academic achievement, led NOPS to being labeled as one of the worst school districts in the country. After Hurricane Katrina, the opportunity was there to rebuild the public school district into a learning oasis for all children.

Almost four years later, with the majority of the schools under the jurisdiction of the Recovery School District (RSD), many are still struggling academically. Many operate without the necessary supplies and without library and internet services. Additionally, the Louisiana Legislative Auditor Management Letter, released June 4, 2008, raises serious concerns about the fiscal management of the Department of Education (DOE) and its oversight of the RSD. Unfortunately, these findings are reminiscent of the mismanagement strangely familiar to NOPS pre-Hurricane Katrina.

Louisiana Legislative Audit Management Letter

The Recovery School District (RSD) is the state-takeover entity responsible for correcting the fiscal mismanagement and the failing schools of pre-Katrina New Orleans public schools. But, the 2008 Legislative Audit Management Letter identifies the RSD as having many of the same problems as the pre-Katrina Orleans Parish School Board.

The Legislative Audit Management Letter to the Department of Education, issued on June 4, 2008, was for the year ended June 30, 2007. The Department of Education's Annual Fiscal Report is not audited or reviewed by the state legislative auditor. However, the state legislative auditor can examine the department's financial matters that have a direct effect on major federal programs and on Louisiana's financial statements.

Recovery School District -- Fiscal Mismanagement

In the letter, the Legislative Auditor cited the Department of Education for twelve (12) fiscal and management problems. Of these twelve, six were directly related to the Recovery School District. In their response to the audit findings, State Superintendent Paul Pastorek concurred with each of the Legislative Auditor's findings. For the finding related to "Inadequate Controls over Payroll," Superintendent Pastorek concurred that **"former RSD employees had been overpaid a total of \$427,695 as of September 30, 2007."**

Some of RSD's negative audit problems, as cited in the 2008 Louisiana Legislative Audit Management Letter, are the following:

1. The Recovery School District (RSD) did not maintain adequate internal control over movable property and did not comply with state and federal laws and regulations.

- * RSD management did not conduct an annual inventory of movable property and submit a report as required.
- * RSD did not tag and report movable property items as required, did not maintain accurate information in Protégé, and did not follow proper receiving and reporting procedures.
- * RSD also did not properly value donated property to determine if tagging and reporting were required.

2. RSD failed to properly insure warehouse contents.

- * RSD began moving school equipment and supplies into a leased warehouse on February 6, 2007. The Office of Risk Management could not provide insurance on this equipment and supplies for six months because RSD failed to provide a valuation of the warehouse contents.

The delay occurred because RSD did not implement a warehouse inventory system that would identify the value of each item in the warehouse.

3. RSD failed to maintain adequate control over movable property, resulting in the loss of 34 laptop computers.

* RSD management did not notify the district attorney and legislative auditor of thefts as required by law.

* A New Orleans Police Department report shows that on May 31, 2007, Wicker Elementary School, operated by the RSD, reported 34 laptop computers stolen from a storage container. A broken key was noted in the storage container lock. The employee reporting the theft said that his keys had been stolen in a separate theft at this location. Police reported that no alarms came in from the school.

* As of October 4, 2007, RSD had not notified the district attorney or the legislative auditor in writing about this theft. These computers were purchased at a cost of \$56,128 with the federal Hurricane Education Recovery - Immediate Aid to Restart School Operations program.

4. RSD failed to provide adequate oversight of school activity accounts.

* RSD did not adequately monitor the monthly financial reports submitted by school principals. Files of the monthly reports were unorganized and inconsistent. There was no record of which principals had failed to submit the required monthly financial reports.

* RSD did not verify whether certain schools had accounts that were not interest-bearing. There was no evidence of a review of account withdrawals made without the required two signatures.

* In addition, no internal audit plan was developed for reviewing detailed documentation of school fund transactions on file at schools.

* At fiscal year-end, RSD management reported that it was still training new school accountants and had not started requiring schools to comply with certain policies.

5. RSD failed to correctly pay employees and failed to support payroll charges with adequate documentation.

* RSD management did not identify improper payments and recoup funds.

* RSD management did not emphasize compliance with established internal control policies and procedures relating to processing personnel transactions and documentation of payroll charges.

* In addition, Report ZF65 from the ISIS/HR payroll system showed that the system calculated that former employees had been overpaid a total of \$427,695 as of September 30, 2007.

6. RSD charged the federal School Breakfast Program and the National School Lunch Program for certain ineligible student meals.

* In the verification process, RSD could not confirm eligibility for 51 approved applications for free or reduced price meals for 70 students but did not reduce or terminate program benefits for these students.

* The employee who performed the verifications reported that he was not adequately trained to evaluate the compliance requirements.

Audit Findings Concerning the Department of Education

In addition to the findings on the RSD, the Legislative Auditor noted that, for the second consecutive year, the Department of Education (DOE) did not perform adequate fiscal monitoring of federal awards. As of June 30, 2007, the department had not performed any monitoring for the Hurricane Education Recovery - Immediate Aid to Restart School Operations (CFDA 84.938A) program since its inception in fiscal year 2006.

In its response to the Legislative Audit Management letter, Superintendent Paul Pastorek concurred that the Department of Education was in noncompliance. Specifically with regard to the Department of Education, Superintendent Pastorek concurred with the Legislative Auditor's findings regarding inaccurate and incomplete annual fiscal reports, and with all other findings.

Conclusion

The state takeover of 102 public schools in 2005 gave New Orleans citizens hope that the failing school system would improve. Most thought that, with the State Department of Education in charge, schools would be better managed and academic performance would improve. The New Orleans community was encouraged by a state report promoting the takeover. The report

identified the mission of the state-run Recovery School District (RSD), which was to create a "world-class" school system in which "every decision focuses on the best interests of all children."

The Legislative Auditor Management Letter imposes an obligation on the State Legislature to conduct a full audit of the operations of the Recovery School District. The Legislative Audit Management Letter indicates that there are serious problems with the operation of the schools by the Recovery School District.

A full audit of the operations of the Recovery School District is needed at this time. This is quite appropriate because of RSD's legislative mandate, and because hundreds of millions of dollars are managed by the RSD to improve the public schools. Without an audit, it would appear that, once again, *the real victims of this so-called "school reform" are the public school children of New Orleans.*

Endnotes

Legislative Audit Management Letter, Dated April 1, 2008 and Issued June 4, 2008:

The Legislative Audit Management letter reports on the DOE internal controls over financial reporting, on its compliance with major federal programs, and on evidence supporting certain accounts and balances material to the financial statements. The auditors tested and reported on the DOE's compliance with laws and regulations as required by Government Auditing standards and the U.S. Office of Management and Budget Circular A-133.

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

Attached to the Legislative Audit Management Letter, above, are the responses from Superintendent Paul Pastorek, Louisiana State Department of Education.

Rebuilding Louisiana Through Education: Recovery School District

New OrleansTimes Picayune:

"Two Sentenced to Prison in New Orleans Public School Bribery Scheme," October, 29, 2008.
"Haydel Paid Bribes to School Official," April 16, 2008,

The Center for Action Research on New Orleans School Reforms sent the above article to several hundred people through our email distribution list, which was modified so that the name of each recipient is not displayed. If you would like to comment on the article, please send your comment to bferguson@researchonreforms.org. Dr. Barbara Ferguson, Dr. Raynard Sanders, and Charles Hatfield will review the comments and post several on our website at www.researchonreforms.org. **The Center for Action Research on New Orleans School Reforms is a non-profit foundation dedicated to improving New Orleans public schools through action research.**