

STATE OF LOUISIANA LEGISLATIVE AUDITOR

St. Landry Public Charter School
Opelousas, Louisiana

January 17, 2001



Daniel G. Kyle, Ph.D., CPA, CFE
Legislative Auditor

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ST. LANDRY PUBLIC CHARTER SCHOOL
Opelousas, Louisiana

Dated December 12, 2000

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 office of the Legislative Auditor and at the office of the St. Landry Parish Clerk of Court.

January 17, 2001

ST. LANDRY PUBLIC CHARTER SCHOOL
Opelousas, Louisiana

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December 12, 2000

**MR. RICHARD LEWIS, CHAIRMAN,
AND MEMBERS OF THE BOARD OF TRUSTEES
HARVEY-STEVENS MEMORIAL FOUNDATION, INC.
D/B/A ST. LANDRY PUBLIC CHARTER SCHOOL
Opelousas, Louisiana**

We have performed a limited examination of the St. Landry Public Charter School (School). Our examination was conducted in accordance with Title 24 of the Louisiana Revised Statutes and was performed to determine the propriety of certain allegations received by this office.

The accompanying report presents our findings and recommendations as well as responses from management of the School. We will continue to monitor the findings until the School resolves them. Copies of this report have been delivered to the Louisiana State Board of Elementary and Secondary Education and other authorities as required by law.

Respectfully submitted,

A handwritten signature in black ink, reading "Daniel G. Kyle".

Daniel G. Kyle, CPA, CFE
Legislative Auditor

ESS:GLM:GCA:lnl

[SLACHART]

LEGISLATIVE AUDITOR

ST. LANDRY PUBLIC CHARTER SCHOOL

Opelousas, Louisiana

BACKGROUND

Harvey-Stevens Memorial Foundation, Inc. (Foundation) D/B/A St. Landry Public Charter School, is a nonprofit organization incorporated under Louisiana Corporation Statutes. The Foundation's nine-member board of trustees (board) governs the St. Landry Public Charter School (School) and is required to operate the School within the framework agreed to in the charter granted by the Louisiana State Board of Elementary and Secondary Education (BESE). Also, the School employs a superintendent who is the official spokesperson for the School and serves as a non-voting ex-officio member of the board.

The School is a new start-up school that was approved as a Type 2 charter school in April 1998, by BESE, under Louisiana Revised Statute 17:3991. The School began operations in August 1998, and is currently operating in the third year of its initial five-year charter granted by BESE. The School is located in Opelousas, Louisiana.

Louisiana law defines four types (Type 1, Type 2, Type 3, and Type 4) of charter schools. These categories, or types, have nothing to do with the type of instructional program that can be offered at a charter school. Instead, they have more to do with who is entering into a charter agreement; whether the school is a new start-up or conversion of an existing school; the legal status required for the entity operating the school; the source and method of funding the school; and certain other provisions which vary by type of school.

As a charter school, the School is free from many state laws and regulations governing public schools. However, in place of regulations, they are held accountable for how well they educate children in a safe and responsible environment. Charter schools are judged on how well they meet the student achievement goals established by their charter, and how well they manage the fiscal and operational responsibilities entrusted to them. Charter schools must operate lawfully and responsibly, with the highest regard for equity and excellence.

As of October 31, 2000, 376 students were enrolled in grades K (kindergarten) through 8 (eighth grade). The School has the second largest student enrollment compared to the other nine Type 2 charter schools currently operating in the State of Louisiana. The school employs 34 teachers, of which 22, or 65%, are certified.

The School is funded by state of Louisiana general fund appropriations. The School receives a per pupil amount based on its annual October 1 pupil count. The general fund appropriations flow through the Louisiana State Department of Education directly to the School. For the prior year ended June 30, 2000, the School received public funds totaling \$1,610,636 (\$134,220 average per month). During the current year, from July 1, 2000, through November 30, 2000, the School received public funds totaling \$767,160 (\$153,432 per month).

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ST. LANDRY PUBLIC CHARTER SCHOOL Opelousas, Louisiana

METHODOLOGY

The Legislative Auditor received information about certain issues relating to expenditures. We visited the School to determine the accuracy of this information.

We conducted a limited review of the School's financial records. A limited review 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.

Our procedures consisted of the following: (1) examining selected School records; (2) interviewing certain employees of the School; (3) reviewing applicable Louisiana laws and Attorney General opinions; and (4) making inquiries of other persons to the extent we considered necessary to achieve our purpose.

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ST. LANDRY PUBLIC CHARTER SCHOOL Opelousas, Louisiana

CONCLUSIONS

The following summarizes the findings that resulted from this limited examination of the School. The Findings and Recommendations section of this report provides details for these findings. Management's responses are included in Attachment I.

1. Controls over receipts and disbursements need to be improved. There are lack of segregation of duties over receipts and disbursements, vendor payments are not approved, a budget was not adopted for the current fiscal year, fixed asset records are not maintained, and substantial payroll tax penalties and interest were paid because of delinquent filings of federal and state quarterly payroll tax returns. (See page 6.)
2. The School is not complying with certain governing structure provisions and accounting procedures contained in its charter school application approved by BESE in April 1998. (See page 8.)
3. The School did not report the employee's personal use of the school's vehicle as taxable income as required by federal tax laws. (See page 10.)

Other Issue

One of the issues that we were asked to address related to alleged excessive payments made for the lease of the School facilities. The significant increase in lease payments each year is a cause of concern. Based on the amount paid for the facilities (\$145,000) and the current market rental rate (\$15,800 each month), the present lease payments (\$22,950 each month) do not appear to be reasonable payments made between two related organizations. However, there are no state laws governing charter schools or charter school regulations that prohibit the School from paying such a large lease payment. (See page 11.)

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ST. LANDRY PUBLIC CHARTER SCHOOL Opelousas, Louisiana

FINDINGS AND RECOMMENDATIONS

Need to Improve Controls Over Receipts and Disbursements

Controls over receipts and disbursements need to be improved. The control weaknesses are as follows:

Lack of Segregation of Duties Over Receipts and Disbursements

- The board chairman has total control over School monies received through the mail. On a daily basis, the board chairman picks up the School's mail from the post office, opens and distributes the mail, and prepares the bank deposit and takes it to the bank.
- An administrative staff employee has total control over the billing and receipt records relating to the School's food (lunch, breakfast, and snack) program. The employee prepares and sends the food bills to students and teachers, collects the payments, and maintains the food receivable records. The amounts billed are not recorded in the School's general ledger; therefore, the food receivable records cannot be reconciled with the School's general ledger each month. Our review of the administrative staff's file cabinet on December 12, 2000, revealed \$627 of cash and checks (checks dated from August 28, 2000, to November 14, 2000) that had not been deposited.
- An external bookkeeping service, M&M Associates, Inc. (M&M) has total control over all School expenditures. The School pays M&M \$1,500 each month to perform all of the School's accounting functions, including the preparation and signing of School checks. All vendors send their billing statements/invoices directly to M&M for payment. M&M receives the vendor billing statements/invoices, prepares the checks, signs the checks, and mails the checks to the vendors.

The School should (1) separate the duties of opening the mail, preparing the bank deposit, and taking the bank deposit to the bank; (2) separate the billing function and the collection function for the food program; (3) record in the general ledger the amounts billed to students and teachers each month for the food program; (4) reconcile monthly the general ledger food receivable amount to the detailed food receivable records; (5) require that cash receipts are deposited intact daily; and (6) require that all checks be signed by a designated board member and the superintendent.

Vendor Payments Not Approved or Properly Maintained

- Vendor payments are not approved. The school maintains purchase orders and receiving reports; however, these are not matched with the vendor billing statements/invoices that are mailed directly to M&M for payment. M&M maintains these at its office in Crowley, Louisiana. As a result, there is no assurance that all goods/services have been received and approved before payment.
- Paid vendor billing statements/invoices maintained by M&M are not complete and are not filed in an orderly manner. Upon our request, M&M provided us with the School's paid vendor billing statements/invoices. These were "thrown" together in a box in no logical manner. We selected 43 disbursements paid from August 1, 2000, through October 26,

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Findings and Recommendations (Continued)

2000; however, 16 vendor billing statements/invoices were not available for our review. M&M provided these to us after contacting the vendors for copies.

The School should require that (1) invoices are matched with the purchase orders and receiving reports; (2) invoices are approved before payment; (3) checks are signed only after reviewing documentation to support the disbursement (invoices, purchase orders, and receiving reports); and (4) all paid and unpaid invoices and vendor billing statements are maintained at the School and filed in an orderly manner.

Budget Not Prepared and Financial Statements Do Not Contain Budget Amounts

- As of December 12, 2000, the School has not prepared an operating budget for the current fiscal year ending June 30, 2001.
- The School's monthly financial statements, prepared by M&M, do not report the operations of the School compared to the budgeted amounts.

All action necessary to adopt and finalize the fiscal year 2001 budget should be completed immediately. All future School budgets should be adopted before the start of the fiscal year. The superintendent should present to the board monthly financial statements that report the operations of the School compared to the budgeted amounts.

Fixed Asset Records Not Maintained

- The School does not maintain a current listing of fixed assets (e.g., buildings, improvements, equipment, etc.) which were purchased or otherwise acquired. In addition, all School assets are not tagged, and physical inventories of School fixed assets are not conducted annually.

The School should (1) define assets that will be inventoried, including the minimum value for inclusion on the list of fixed assets; (2) prepare a detailed list of fixed assets (the list should include the date of purchase and the initial cost); (3) take a physical inventory at least annually and follow up on items not found during the physical inventory; and (4) identify [tag] assets that belong to the School and include the tag number on the listing of fixed assets.

Payroll Tax Penalties and Interest Paid

- During the period from June 30, 2000, through November 13, 2000, the School paid \$8,532 in penalties and interest relating to delinquent filings of federal and state quarterly payroll tax returns. The penalties (\$7,580) and interest (\$952) were assessed on delinquent quarterly payroll tax returns covering the period from July 1, 1999 (third quarter of 1999) through June 30, 2000 (second quarter of 2000). M&M was responsible for preparing and submitting the School's quarterly payroll tax returns for this time period.

The School should seek recovery from M&M for all penalties and interest paid resulting from M&M's failure of filing timely payroll tax returns.

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ST. LANDRY PUBLIC CHARTER SCHOOL

Opelousas, Louisiana

Findings and Recommendations (Continued)

Noncompliance With Charter Provisions

The School is not complying with certain governing structure provisions and accounting procedures contained in its charter school application (charter) approved by BESE in April 1998. The BESE charter school administrator informed us that noncompliance with the charter provisions/procedures are considered violations of the School's contract with BESE.

The School is violating certain *governing structure* provisions of its approved charter as follows:

	Charter Provision	Deviation
1.	The bulk of the board of trustees will consist of parents of St. Landry Public Charter School.	The nine-member board of trustees include only one parent of St. Landry Public Charter School children.
2	Of the total number of board trustees, two nonvoting ex-officio trustee positions will be held by staff of the School, other than the superintendent.	School staff do not hold a nonvoting ex-officio trustee position.
3	After the first full year of the School's operation, two student representatives will serve on the board in an advisory capacity as nonvoting adjuncts for one-year terms.	Student representatives do not serve on the board in any capacity.
4.	The officers, of the board of trustees, are elected at the annual July meeting and serve for staggered terms of one year.	No formal election is conducted. Also, terms are not documented.
5	The board of trustees will be served by an advisory board of community members, experts, and specialists who will play a central role in implementing the School's mission.	The advisory board has not been established.
6	The School Review Committee (committee) will play a major role in school governance. This committee is the primary authority for all matters relating to curriculum and educational policy and practice. The committee provides a structural mechanism for ensuring teachers and professional staff an equal voice in governing the School.	The School Review Committee has not been established.

LEGISLATIVE AUDITOR

ST. LANDRY PUBLIC CHARTER SCHOOL

Opelousas, Louisiana

Findings and Recommendations (Continued)

The School is violating certain *accounting procedures* contained in its approved charter as follows:

	Charter Provision	Deviation
1.	The School will hire a CPA to establish a computer-based accounting/financial reporting system (system), and afterwards, to routinely monitor the system to ensure its overall integrity. Also, the School will employ a full-time bookkeeper to manage its system.	The School has not established a computer-based accounting/financial reporting system. As a result, the School does not employ an in-house bookkeeper. As previously mentioned, all accounting/financial services are performed off-site by M&M.
2.	The <i>Louisiana Accounting and Uniform Governmental Handbook</i> will serve as a vehicle for the School's program cost accounting.	Program cost accounting is not used.
3.	The School's financial reports will be used to compare actual financial results with the legally adopted budget.	The monthly financial reports, prepared by M&M, do not contain budgeted amounts for comparison purposes. As previously mentioned, the School has not prepared a budget for the school year July 1, 2000 – June 30, 2001.
4.	Incoming mail will be opened by the secretary. Receipts will be listed in detail with one copy sent to the principal who also compares the checks with the deposit ticket before depositing.	Incoming mail is opened by the board chairman. Receipts are not listed and sent to the principal for comparison purposes.
5.	The bookkeeper will review and match copies of the purchase order with the vendor's invoice before mailing the check to the vendor.	M&M does not review and match copies of purchase orders (maintained at School) with the vendor's invoice before payment.
6.	The board will establish a policy setting the amount above which checks must have two signatures. The board may, in its sole discretion, choose to name a trustee as a substitute signatory for checks.	No formal check signature policy was found. Although the School's checks are designed for two signatures, only one signature is obtained (regardless of the amount). The owner of M&M, Willie Maynard, signs all School checks. Willie Maynard is not a board trustee.
7.	Detailed information concerning the School's assets (property, plant, and equipment) will be kept in a subsidiary ledger. Information on each asset's description, identification number, location, acquisition date, and cost will be recorded.	As mentioned previously, detailed information concerning the School's fixed assets is not maintained.

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Opelousas, Louisiana

Findings and Recommendations (Continued)

The School should strictly adhere to the provisions/procedures contained in its approved charter. The School should promptly inform BESE of any conditions that have caused the School to vary from the terms of its approved charter or from state law requirements.

Personal Use of Vehicles Not Reported as Taxable Income

The School did not report the employee's personal use of the school's vehicle as taxable income as required by federal tax laws. An employer-provided vehicle is considered a fringe benefit under the federal employment tax laws. Employees are generally required to maintain adequate records substantiating their business use of the vehicle.

The School owns one vehicle (1999 Dodge Ram Truck) that is used by the superintendent for personal use. The superintendent does not maintain records substantiating the business use of the vehicle. For the year ended December 31, 1999, the School did not determine the value of the personal use and include it in the superintendent's wages.

The School should (1) comply with appropriate employment tax laws and record-keeping requirements and (2) amend the applicable payroll tax reporting forms and submit these to the appropriate federal and state taxing authorities.

LEGISLATIVE AUDITOR

ST. LANDRY PUBLIC CHARTER SCHOOL Opelousas, Louisiana

OTHER ISSUE

One of the issues that we were asked to address related to alleged excessive payments made for the lease of the School facilities. The School leases its school facilities and campus from the St. Paul Baptist Church (Opelousas, Louisiana). St. Paul Baptist Church (Church) acquired the school facilities and campus from St. Landry Private Schools, Inc., on June 28, 1996, for \$145,000. The following is a schedule of lease payments made or to be made by the School to the Church:

<u>Fiscal Year Ending</u>	<u>Monthly Lease Payment</u>	<u>Total Annual Lease Expenditures</u>
June 30, 1999	\$4,000	\$ 48,000
June 30, 2000	\$13,000	156,000
June 30, 2001	\$22,950	<u>275,400</u>
Total		<u>\$479,400</u>

Lease payments are based on a percentage of monies received from the state, rather than on square footage of property leased. The School and Church entered into a ten-year lease agreement, dated July 1, 2000, that provides annual rental payments of 15% of gross income received by the School. However, the board chairman informed us that the lease is based on payments received from the state and not gross income. Fifteen percent of the initial allocations from the Louisiana State Department of Education for school fiscal year 2000-2001 is \$276,178 or \$23,014 each month (a difference of \$64 monthly from the actual lease payment).

We obtained a current (July 27, 2000) market rental appraisal from the School's appointed appraiser. The appraisal included only the main school building (administration and classrooms) with a market rental rate of \$5.50 per square foot or \$8,067 each month. There was no appraisal on the other property (gymnasium and three mobile classroom buildings) leased from the Church, but the appraiser informed us that it would be less than \$5.50 per square foot. To be conservative, we calculated the rental value of the other property using \$5.50 per square foot. Using this approach, the monthly market rental for all facilities leased from the Church total \$15,800 or \$7,150 less than the present monthly lease payment (\$22,950).

The significant increase in lease payments each year is a cause of concern. Based on the amount paid for the facilities (\$145,000) and the current market rental rate (\$15,800 each month), the present lease payments (\$22,950 each month) do not appear to be reasonable payments made between two related organizations. However, there are no state laws governing charter schools or charter school regulations that prohibit the School from paying such a large lease payment.

The School submitted budgets to BESE for fiscal years 1999 and 2000, that included lease payments of \$48,000 and \$156,000, respectively. As mentioned previously, the fiscal year 2001 budget has not been prepared. BESE took no concern or action for the lease payments included in the School's budget.

Attachment I

Management's Responses



ST. LANDRY PUBLIC CHARTER SCHOOL

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January 12, 2001

Daniel G. Kyle, CPA CFE
Legislative Auditor
Office of Legislative Auditor
1600 North Third Street
Post Office Box 94397
Baton Rouge, Louisiana 70804-9397

Dear Mr. Kyle:

Please find enclosed the St. Landry Parish Charter School Board's response to your audit report dated January 3, 2001.

The response is as follows:

I. Controls over receipts and disbursements need to be improved. (Page 6)

Response :

1. The Secretarial Staff, supervised by Ms. Renee Semien, will pick up and open the mail, the principal will prepare bank deposits and a designee from the secretarial staff shall make the deposit.
2. The food supervisor will do the billing for the food program; teachers will be responsible for collecting food monies from students in their respective classes and deliver those funds to the principal for deposit.
3. The food supervisor responsible for billing will record the amounts billed to students and teachers each month for the food program.
4. The office staff will provide the detailed food receivable records to the food supervisor or her designee and the supervisor will reconcile the monthly general ledger food receivable amount to the detailed food receivable record.
5. Office staff shall make daily cash deposits.
6. All checks will require 2 signatures, the Board Chairman and another Board member.

II. Vendor Payments (Page 7)

Response:

1. Invoices shall be matched with purchase orders and receiving reports.

2. Invoices will be approved before payment.
3. Checks will be signed only after receiving documentation to support the disbursements.
4. All paid and unpaid invoices and vendor billing statements will be maintained at the school and filed in an orderly fashion.

III. Budget Not Prepared (Page 7)

Response:

1. The budget for fiscal year 2001 has been submitted as of the date of this writing and all future school budgets shall be adopted before the commencement of the fiscal year.
2. The principal shall present to the St. Landry Public Charter School Board monthly financial statements that report the operations of the school as compared to the budgeted amounts.

IV. Fixed Assets Records Not Maintained (Page 7)

Response:

1. Assets will be defined and inventoried and will include the minimum value that will be placed on the list of fixed assets. A detailed list of fixed assets shall be prepared, which shall include data of purchase and initial cost. An annual physical inventory of all assets will be taken whereas all assets will be tagged and identified.

V. Payroll Taxes (Page 7)

Response:

1. Payroll taxes will be performed in a timely manner.

VI. Non Compliance with Charter Provisions

Response:

1. St. Landry Public Charter School Board will make every effort to operate according to the Charter School Proposal which will be inclusive of items 1-6 on page 8 and items 1-7 on page 9.

VII. Personal Use of Vehicles

Response:

1. The 1999 Dodge Ram truck, owned by the school has been removed from the possession of the superintendent, Mr. Shaw. The truck will only be utilized for school related matters. The school has at the time of this writing, amended the applicable payroll tax reporting forms and submitted these to the appropriate federal and state taxing authorities.

VIII. Leave of School Facilities (Page 11)

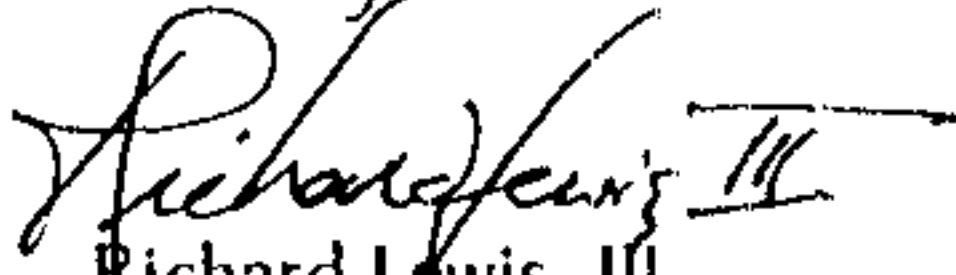
Response:

1. The St. Landry Public Charter School Board will assess the lease agreement, do a comparative analysis of the Charter School site (i.e. land and all buildings) with that of other state owned agencies and come up with a lease agreement indicative of those figures.

The St. Landry Public Charter School Board appreciates your office allowing us an opportunity to respond to your findings. The Board hopes that this response is suitable and that we can move forward with our program more efficiently and professionally as a result of your audit.

Thank you and with kind regards I remain

Sincerely,


Richard Lewis, III
Board Chairman

cc: Eric Sloan