

LEGISLATIVE AUDIT ADVISORY COUNCIL

Minutes of Meeting January 25, 2010

A meeting of the Legislative Audit Advisory Council was held on Monday, January 25, 2010, in the St. Charles Club of the Louisiana Superdome in New Orleans, Louisiana.

CALL TO ORDER AND ROLL CALL

Senator Murray called the meeting to order at 10:00 a.m. A quorum was present with the following members in attendance:

Members Present

Representative Noble Ellington, Chairman
Representative Anthony Ligi
Representative Cedric Richmond
Representative Neil Abramson
Senator Nick Gautreaux
Senator Edwin Murray, Vice Chairman
Senator Ben Nevers
Senator John Smith

Members Absent

Senator Willie Mount
Representative Charles Kleckley

ELECTION OF OFFICERS

Senator Murray explained that the committee is a joint committee whereby every two years the chair rotates between the House and Senate, and Representative Ellington had been the chairman for the previous two years. Senator Gautreaux made the motion to elect Senator Murray as chairman and Representative Noble Ellington as the vice chairman, and with no objections, the motion carried.

APPROVAL OF MINUTES

Copies of the minutes for the meeting of November 4, 2009, were previously emailed to Council members for review. A motion was made by Representative Abramson that the minutes for November 4, 2009, be approved and with no objections, the motion passed.

JEFFERSON PARISH GOVERNMENT

Senator Murray explained that the Jefferson Parish Government's new interim president Steve Theriot made a request of the auditor's staff for assistance to review contracts of Jefferson Parish. He explained that Mr. Theriot had retired as Legislative Auditor a few months previously and under the statute the First Assistant becomes the Interim Auditor until the Legislature selects a permanent auditor, so Daryl Purpera fills that position and leads the office until the process to select another Auditor is complete.

Mr. Daryl Purpera, Temporary Legislative Auditor, stated there had been a lot of information regarding the contracts and insurance of Jefferson Parish in the media. He said their Compliance Division began working in Jefferson Parish regarding the insurance and other contracts as well as their Recovery Assistance Division working on contracts related to the FEMA work. Mr. Purpera stated that Mr. Theriot met with his staff and asked the auditor's office to do additional work.

Jefferson Parish Interim President Steve Theriot stated that when he left the auditor's office two months ago he expected to go into retirement. However, he appreciated the opportunity to come before the council. He said there was much publicity regarding the federal investigations relative to operations of the Jefferson Parish Government, primarily revolving around contracts and insurance deals. Mr. Theriot said since serving as Interim President for less than two weeks, he has tried to get his arms around the situation. He requested that the auditor's office review all of the contracts that are at the center of the controversy primarily to be sure that the contracts were good contracts, and secondly from the standpoint some of the contracts were used for reimbursement purposes from Katrina, Rita and Gustav and other federal reimbursable programs that are out there. He stated that he hoped to correct them so that in the future they will not have to worry about having disallowed costs on projects that are going for reimbursement which may cause citizens to pay the cost rather than be reimbursed with federal funds. The council had discussed a couple of contracts and he recommended doing away with some in an abundance of precaution and rebidding so that there is no problem as they move forward with potential contracts that might have been illegally done or perceived to be illegally done.

Mr. Theriot said they have taken initiatives to have employees disclose whatever business interests they may have or their immediate families either by ownership, or by receipt of any income from any vendor that is doing business with the parish. He is looking into posting online a list of employees, salaries, job descriptions, parish contracts, budgets and ongoing expenditures - something similar to what the state has done to make operations as transparent as possible going forward.

Mr. Theriot said to his surprise it was uncovered that the parish's internal audit function had been dismissed three to four years previously. Mr. Theriot requested the LLA Advisory Services Division evaluate the accounting function in the parish and find possibly an internal audit function from personnel or be created. He said some of these issues they are confronted with might have been handled on the front end as opposed to the back end. Mr. Theriot said as an example, a federal grant of some \$3.5 million that the parish had received with about \$2.9 million to be for administrative costs, with only \$600,000 going to the end recipient, and he stopped it to review a better way to handle that grant. He stated there are many other instances that they are beginning to uncover. With the help from recommendations from the auditor's office as well as initiatives brought to the council for their input and approval, so the people of Jefferson and the state will know that whatever business activities are going on will be made as transparent as possible. Mr. Theriot stated that three of his councilmen were also available to share more insight since they were there when this was becoming known.

Senator Murray asked Mr. Purpera to tell the council the extent of the requests that Mr. Theriot had made, and how it fits in with the ability of the his office. Mr. Purpera said that all of the work that Mr. Theriot requested would be work ordinarily done, and they had made the decision previous to his request that they would review the contracts. The issue related to the FEMA contracts and whether or not all of the federal regulations were being met is done on an ordinary basis with the Recovery Assistance Division, through their work with the Governor's Office of Homeland Security.

Senator Murray asked if any members of the Jefferson Parish Council wished to add anything. Chris Roberts, of Jefferson Parish Council District 1, said he just wanted to reiterate when President Theriot said with reffection to their request of the state and also the Legislative Auditor's office. Mr. Roberts said that many of his colleagues would agree that some of the most recent revelations have been quite disturbing and they would like for the auditor's office to have unfettered access to all of the contracts, documents, anything that they would need to further review various business operations in Jefferson Parish. He said he wanted to reaffirm their commitment that they openly welcome their input and inquiries, and are hopeful to learn from this, and make sure that safeguards are put place in the future to prevent similar circumstances from happening again.

Representative Ligi told Mr. Theriot that he was not able to attend his last Audit Advisory Council meeting as the serving Legislative Auditor, so he did not get the chance to publicly thank him for all the hard work done for the state for the past five plus years. Representative Ligi thanked him for taking on a pretty tough job over the next eight months, and as Senator Smith said jumping from the frying pan into the fire was a pretty good description. He said that the people of Jefferson Parish are pretty upset and rightfully so based on the revelations of events that took place over the past several years. He stated his opinion that Mr. Theriot was the right guy to start the process rolling to get citizen confidence restored, and that he was taking a good step right out of the box. Representative Ligi welcomed Mr. Purpera to Jefferson Parish, and told him that they will be counting on him to do a real thorough job and was sure that he would.

Representative Ligi asked what else would Mr. Theriot be looking at besides FEMA related contracts. Mr. Theriot stated all of the contracts and that they will provide the compliance auditors unfettered access to everything. He said specifically whatever contracts they have in place that were dealing with reimbursable event from FEMA relative to GOHSEP that not only that state as the guarantor is responsible for, but also the Parish of Jefferson is important because those things do not normally happen when they start bringing them up to get reimbursed. Representative Ligi said so basically will be a no holds barred comprehensive audit. He asked Councilman Roberts if he had any recollection of the internal audit position.

Mr. Roberts said he did not and assumed that was a decision made by the parish administration without council input. He stated that their intention by following the Legislative Auditor's advice and using Mr. Theriot's expertise was to put internal controls back in place. Mr. Roberts stated that even though the internal auditor duties were relieved three years ago, the parish has still been in compliance with their required annual audits and that their recent audit by external auditors actually received recognition and praise for being in compliance. He said that the internal audit control is to prevent some of the policy issues that have been violated from happening because that is something which would not fall under the purview of the external auditor. Representative Ligi asked who did the external audits. Mr. Theriot stated Reebo to be the lead auditor, and two other firms that participated as a joint venture. Mr. Robert said he believed Wilson- LaGraize, and Vincent .

Senator Murray said that the auditor's office, especially since Mr. Theriot became the auditor, has tried to be proactive with helping local governments to make sure they avoid these mine fields. He said that the auditor's office stands ready to help find out what is going on today, and also make sure it does not happen again, just as they have been very helpful with local governments around the state.

Representative Ligi moved to approve the request from Jefferson Parish President for the Legislative Auditor to go in and review the contracts of Jefferson Parish, and with no objections the motion passed. Senator Murray said he would like to suggest to Mr. Purpera so people will know, and want things to proceed in the open, to give the council a timetable and to put this back on the agenda, to report back what he can publicly. Mr. Theriot said he appreciated being allowed to come and for allowing the auditor's office to assist in hopefully rebuilding back the confidence of the people of Jefferson Parish, as well as to provide those vital services that are continually looked for by the citizens.

RECOVERY SCHOOL DISTRICT

Mr. Purpera informed the council that the auditor's office had performed an audit of the Recovery School District to look at the internal controls, compliance with federal programs and regulations, as well as to look at compliance with laws and regulations that affect the entity and the financial statements and the comprehensive annual financial report. This report includes seven findings that are primarily concerning the internal controls and compliance with federal programs. He stated the auditor's office would like to acknowledge that the RSD started in a disaster environment, and RSD as a newly formed entity had to hit the ground running. In addition, the RSD is functioning in a state agency environment but it is functioning much like a local school district, so sometimes they are placed into a situation of following some regulations that a school district would not have to face.

Mr. Paul Pendas, Director of Financial Audit for the Legislative Audit, said last year there were eight findings within the Department of Education and all eight were related to RSD. He pointed out that one of those findings were resolved, two were combined and therefore the rest were repeat findings. Mr. Pendas discussed the first finding regarding lack of payroll support documentation and over payments and how RSD went to positive pay to try to remedy this issue. He said the next finding was inadequate internal control over relocation and retention incentive payments. He stated that RSD may not be required by the federal program to get the money back from a teacher who does not complete the required three year of work, but the state will have to pay the feds back.

Mr. Pendas continued that the next finding was noncompliance with federal and state equipment management regulations. He explained the RSD's problems with tagging and tracking property as a state agency rather than a school board. The next finding was noncompliance with circular A87 payroll certification regulations and the lack of necessary accurate documentation. He said the next finding was inaccurate annual fiscal report, and explained where RSD had not reported certain things in their annual fiscal report as well as reported several things incorrectly, such as netting out between receivables and payables, which is not done in accounting. Mr. Pendas said also they misclassified interagency receipts which they agreed with. The next finding is inadequate control over coding federal expenditures which he stated is a dilemma for them, admittedly.

Senator Murray asked how many of these relate to the way that RSD is set up as to whether it is a state agency or a local school district. Mr. Pendas said it impacts at least a couple of the findings, maybe three - it impacts the federal equipment and the relocation assistance. He stated they do have some barriers to climb with that dichotomy of being a school board and being a state agency. Senator Murray said he remembered one issue about procurement where they changed the law to allow RSD essentially like a school district some years ago. He stated this is the year that they must decide whether RSD will continue. He asked Mr. Pendas if they were to decide that RSD should continue then should the law be changed to allow them to operate as a local school district, and if RSD should then be able to be in compliance by doing that. Mr. Pendas said he believes it would be appropriate to answer with an accurate answer and that will require some study.

Mr. Pendas said the only other comment he wanted to make was a forensic report that went public today from Postlewaite & Netterville on Langston Hughes where one of their employees stole \$673,000 over a period of time and they have caught the person. Senator Murray said it was in the paper locally about that, and members may not be familiar with that. Mr. Pendas said that is an RSD charter school.

Senator Murray stated that just one of the audit findings had been taken care of, and the rest are repeat findings. Mr. Pendas said we believe the finding last year on school activity funds was substantially resolved, and all but one of the other findings was repeated. Senator Nevers asked if RSD were aware of the findings and did nothing to correct them. Mr. Pendas said he believes based on what they saw, each of the findings is improving, but they are not resolved. Senator Nevers asked why do we have these audits if they will not resolve the problems.

Mr. Pendas said one of the problems with findings that they hear from agencies is that they work on the finding over a period of time and report at a point in time, which is into the next fiscal year, which sometimes causes a repeat finding by the nature of the timing of our audit. But when it is over three years, you would think that there would be correction, and several of these were more than one year repeats. Senator Nevers said when elected officials do not perform their duties as required, there is a term called malfeasance in office they can be charged with, are you aware of that. Mr. Pendas said, yes sir. Senator Nevers stated I guess I would have to ask Superintendent Vallas why that would not apply to him.

Senator Murray said before we get there, some other members have questions with regard to the audit. Senator Nevers said we will go on through the audit, and would defer his question. Senator Gautreaux asked the auditors regarding the recouping of payroll or overpayments, if there are journal entries done over time that can be tracked and do you know the total that they are trying to recoup. Mr. Pendas said his office found errors in both the overpayments and the recoupments in that report. Senator Gautreaux stated that most of this is just sampling, so if you actually did a full blown audit most of your numbers would actually be a lot larger than what they are. Mr. Pendas said that is correct.

Senator Smith questioned if the issues covered could be reconciled through the accounting process. He asked Mr. Pendas if from 2007– 2009, the audit reflected \$654,000 in overpayments and netted \$575,000, so was the recoupment \$78,000. Mr. Pendas said the \$575,000 is still not recouped, only the \$78,000 is recouped. Senator Smith asked if there are any procedures that might give any hope of recouping the remainder from two years past. Mr. Pendas suggested that the superintendent could address that better but stated he understood the Attorney General could recoup some of the moneys. Senator Smith said it will be very difficult presuming most of those people may have departed the state. Mr. Pendas said that is often the case - they leave, the dates are put in wrong, RSD continues paying them, and then they have to try to get the money back. Senator Smith asked if an accounting procedure can be done to write it off as a bad debt. Mr. Pendas said he believed by state law they cannot write off bad debts, but must keep a record of it and continue to seek recoupment.

Representative Richmond said some of these are repeat findings, which happens several years such as the finding of inadequate control of payroll for the third consecutive year. He stated that it appears to not be a timing problem, but a competence problem. He questioned if using better payroll controls could it be resolved with some effort. Mr. Pendas said RSD's change to positive pay was a good move, but most of their problems were documentation and that is people gathering the right information to not have an overpayment. Representative Richmond wanted to review the audit's test of employee's timesheets. Mr. Pastorek told the chairman he hated to interrupt, but suggested it might be helpful for the committee to hear their response before going into detailed questions because it could help clarify some of this. Senator Murray said if the auditor cannot answer that was fine, but he wanted the members to have a chance to give the auditor some questions on this report, then they would go into his response right after that.

Representative Richmond stated that the Langston Hughes issue was a serious issue and that they had a number of charter schools now. He questioned if RSD, BESE or OPSB had adequate controls over the charters' finances such as checking their financial statements to catch something ahead of time. He also asked how often do they have audits and receives those.

Mr. Purpera said each one of those entities has an annual audit, subject to the same audit requirements as RSD. They are audited by CPA's that are approved by the Legislative Auditor's office, so certainly in those audits they are looking at controls to determine whether those are adequate to produce accurate financial statements to comply with all the same laws and rules that we are talking about here today. What we are finding here, that proper documentation and termination documents do not always make it to where it needs to be at the right time, as a result your accounting system is going to generate additional paychecks and then as Senator Smith said, you have paid individuals money that they were not entitled to and it is very hard to recover those funds after we have done that. The short answer would be to improve the process of getting the right documents to the right people.

Representative Richmond asked if audit extensions for charter schools were being approved and asked if those would also come before the council for approval. Mr. Purpera said yes, it would. Representative Richmond suggested that for any charter school audit extensions, a board member and the CEO of the charter appear before the council, verifying that their financial statements have been received and learn why they need an extension before allowing them the extension. He explained his concern that more Langston Hughes type issues or situations could exist if the boards are not meeting or catching problems in the financials.

Senator Gautreaux asked the auditor based on his experience what normally happens to the department or agency when they have consistent inadequacies, and if there are any penalties. Mr. Purpera said that through the reporting and relationship with the entity, they strive to get the issues corrected and to ensure the public dollars are taken care of. He said that his office is working very closely with Superintendent Pastorek and Superintendent Vallas to incorporate changes into the organization, but the finding for the previous year may not be rectified by the next audit year, but when it gets to three years, it indicates they are just not taking the right steps to correct the problem. Senator Gautreaux asked if they have done an audit on management to see if they are apt or inapt. Mr. Purpera said this is an audit on management per say, because it is an audit on the transactions and the processes. He said the management must continue to take a greater level of persistence at getting these documentation issues corrected. Senator Murray stated that if things do not improve at some other school district it could end up on the list audit extensions where you do not recommend that we are going to proceed anymore and then it is up to this council to decide if they should get additional time to clear up mistakes, make improvements, whatever the case might be.

Mr. Purpera said regarding charter schools, in the past this council has given the legislative auditor the authority to grant an extension for the first 90 days. He explained that the audit is required to be submitted to the auditor six months after year end, and if my office is working very closely with the CPA and closely with the entity, and we see progress being made and we see the intent to comply with the law, then we will grant that extension. Thereafter, if there is another extension needed, then that comes to this council and you have required in the past that they all come before you to ask for those extensions. Now if you recall at the last meeting because of the frequency of meetings we gave the chairman and the vice chairman the authority to grant an administrative approval of any extensions beyond 90 days, so that addresses the extensions. As far as considering an entity to not be in compliance with the law because they have not corrected a finding, that has not been the way we have interpreted the law, as long as an entity is receiving an audit regardless of what the findings are in that audit, we have always interpreted that to be meeting the statute of law and therefore would not go on the noncompliance list that you are talking about.

Senator Nevers stated that a few years back several current council members dealt with the issue of people receiving checks that did not even show up to pick them up. He commented that now we are still mailing checks to employees who have been terminated. Senator Nevers said he is expecting this committee to put a stop to what is going on with this RSD school district today, and stated that this is embarrassing to the whole state of Louisiana.

Senator Murray said he agreed and said that a few years ago he held a similar position and they met in New Orleans to allow citizens to attend and make statements on these things. He said there were many issues about the local administration at the time, including paying people that did not exist. This is the reason the council is here today to hear this audit, which RSD will give a response then we will open it back up to questions from the council members. Senator Murray said that as long as he is a member and the chair of this council, they are going to make sure some things happen.

Mr. Pastorek said he thought it is unfortunate to rush to judgment before hearing all sides, and he really would appreciate the consideration of the committee in that respect. He stated this is actually a document that was just released publicly today so the governor has not even had a chance to look at this document, which is very unusual actually for this committee to have a meeting on the same day. Senator Gautreaux said but the findings have been over a three year period, with all due respect. Superintendent Pastorek said he would respond to each one of these points. Senator Murray said so that you will know and the public will know this audit has been pending for several months and we asked to have this thing completed a few months ago. The information that was given to the members of this council is that RSD wanted more time to respond, so the auditor's office extended the period of time to be able to get a response from the RSD.

Superintendent Pastorek commented that it is unusual to release the audit on the same day as a committee hearing. He said that he got this audit himself the middle of last week and had an opportunity to meet with the auditors to review it. Senator Murray said he spoke to Mr. Purpera regarding this issue and his office said they were instructed by the RSD to talk to Mr. Vallas about this audit and at some point that changed to where you wanted to be consulted. Mr. Purpera directed their attention to the responses in the back of report where their response was dated back as far as November 30th, so his office did provide an adequate time for response to this report, in which they had been asking for responses all throughout the audit. Mr. Pastorek said he was not suggesting that, only simply stating a fact.

Mr. Pastorek said the issue of overpayment occurred before he and Mr. Vallas took positions to lead the Recovery School District, and the reason that it occurred was because the Recovery School District was using a negative time entry system which the Department of Education used. It is a terrible system to use for a school system, so in the first year of operation of the Recovery School District there were numerous over payments, and the problem was significant and severe. He said they were not aware of this problem when he first took over in May 2007, and Mr. Vallas actually took over July 1, 2007. When the auditors found the problem well into the first year of their involvement regarding the audit in October 2008, they agreed the answer was to put in a new positive entry time keeping system where paperwork must be filed in order to get paid.

Mr. Pastorek continued that the auditors had determined around \$91,000 in overpayments for the period that they were talking about and it is because they were in the process of training and developing the capacity of the people in our system to be able to follow these new procedures. Superintendent Pastorek pointed out that originally the finding was due to the negative entry system, but the nature of the finding is different as it is now about training our people and the magnitude of the problem is significantly reduced.

Senator Murray asked if the negative entry system had been changed department wide or just for the RSD. Superintendent Pastorek said it had only been changed for the RSD because it was not really a significant risk in the department, but when you have 70 schools out all over the district and having to monitor people coming and going in a very high state of flux it is a different situation. Senator Murray stated that this is one of those issues that will relate to the RSD operating as an independent school district as opposed to the state agency. Superintendent Pastorek said this is one of those issues

where the RSD is being impacted on by the audit findings as a result of being a school board / school system like activity and yet being a state agency.

Mr. Paul Vallas, Superintendent of the Recovery School District, said prior to the creation of the school district, there was some published numbers of overpayments approaching \$3 million in one of the newspapers stories that actually did an analysis on what had not yet been recovered. When he had first started, the initial audits identified overpayments RSD first year inherited as high as \$1.2 million, and since changing to positive time entry there has been a significant reduction. My staff has put the unpaid obligation since the introduction of positive time entry at \$67,000, that is a significant improvement. Mr. Vallas explained that they allow principals the autonomy to hire and make decisions, so the issue is in timely documentation and paperwork processing. He stated that sometimes salaries are immediately cut off but their benefits are not necessarily cut off, and there has been a number of occasions when we downsized and allowed people to keep their benefits for another two weeks, so all of those types of things will fall into this whole thing of individuals getting paid beyond their termination date. Because you have to remember we have hired well over 1,000 people in the last three years, and we have probably terminated also a large proportion so there is constantly individuals falling in and out of the 70 schools. He stated that they have made significant progress in reducing not only past liabilities but also in limiting the number of new liabilities occurring, and the progress has been impressive. Now that does not mean that we want to continue to have findings, but again we are functioning as a school district with 70 different entities.

Senator Murray told Mr. Vallas he should take this as an opportunity to provide some suggestions to try to resolve this. This upcoming session will be important in the Recovery School District issue. Senator Murray stated that he voted against forming RSD because he did not think a real plan was in place. He noted things had gotten better, and apparently there are still some issues out there and they just needed to take this time to try to figure out how to make this a much better system or systems.

Superintendent Vallas said he agreed and wanted to be forward looking. He stated that he found no fault in anything the auditors did because the auditors are following the guidelines to evaluate them. They took recommendations seriously, and work to eliminate the problem, and already had a positive impact in controlling costs. Senator Murray said pre-Katrina this same council held meetings here because that administration that was in existence had lots of issues. The council stood strong to try to make some corrections and suggested that Senator Murray take these comments to be constructive in nature to try to help improve this situation.

Superintendent Pastorek said he would like to make this point - the order of magnitude of issues on pre-Katrina OPSB is absolutely significantly higher than what we are talking about here- it does not compare. You know we had almost \$100 million issue around federal funds in pre-Katrina, we had a whole host of issues so I do not think it is fair at all to make that comparison. The issue here is the way the Recovery School District was set up at the outset, it was set up in an emergency circumstance - it was done very hastily when it was originally constructed and very candidly we are cleaning up a lot of the problems that were created by that very hastily constructed piece. And I think we are making it much better, and I think it has much greater integrity than at the beginning, and I am very proud of the work that we have done because not only have we had to take a system that was very hastily set up and a lot of problems with it right out of the box, but we are now fixing that and even more importantly we are educating children at levels which far exceed the levels of low achieving schools in our state. So we are doing two things at the same time, we are improving the financial circumstances and we are improving the academics in ways that we have not seen in the history of Louisiana

Superintendent Pastorek said now on the HEAP program, we have worked very closely with the federal government - these are federal funds and this was also an issue that was created before we came on board. This is a program to give bonuses to people who would come to work in our system because it was very hard to attract people to work for our system, and the real challenge here was documentation that was needed to be received from individuals who would assure us that they would stay for two years.

Senator Murray asked to be clear, you said before the two of actually came on board RSD, this problem that was inherited from the former RSD leadership, is that what you mean when you say that. Mr. Pastorek said this is an arrangement that was created before we actually took place, we did come on board in order to implement this. Senator Murray said when you say we, this is something you inherited when you became the superintendent of education. Mr. Pastorek said yes, this process of trying to bring on teachers who would be paid bonuses in order to come here. Senator Murray asked so this is something you inherited from the prior superintendent and the prior RSD superintendent. Mr. Pastorek said yes, and so what I want to say is then subsequently the federal government gave us funds through HEAP and we were trying to marry that funds with some of the prior actions that were taken where commitments were made but documentation was not supplied. So I think the important thing I want to say here is that we have worked with the federal government, because they have raised this issue with us and we have now worked this issue out to their satisfaction, and I do not think that this will be one which you will see it back again because it has now been resolved.

Mr. Paul Vallas, Superintendent for Recovery School District stated that he has the ultimate management responsibility and will be the one that will take the heat for this. We created an incentive program a half year before HEAP was even enacted. That incentive program, which incidentally I inherited and I am not suggesting was not a sound incentive program, but we had literally 500-600 teachers that we hired in 90 days as we were opening up two dozen schools and believe me there was a question whether or not we were even going to be able to staff. That program was going to be funded through an MFP, the HEAP program is enacted 6 months later and we say, let's try to secure HEAP funding to cover that program. Well the HEAP pools are a little different than the incentive rules set down by the initial program. Now, despite that we have secured \$7 million in HEAP money, that is \$7 million less in MFP that we are paying on incentives to bring the teachers into the system, so there are going to be some informational issues because yes, the incentive program was not created after the HEAP program was enacted. This was us trying to align, like we have tried to do on Medicaid, trying to get more permission to bill more for Medicaid so we can take advantage of the millions of dollars that are out there, that is us trying to fit an MFP funded program under a new federal program and that has been enacted after the fact. Now the reason the federal government when they went in and secured, or allowed us to take \$7 million was not because our program was perfectly aligned with HEAP, but because the spirit of the program, the spirit of our incentive program reflected the spirit of the HEAP program. So they have been neutral on this whole issue of payback, they said yes, it is not in alliance, but no, we are not going to ask you to pay us back. But the bottom line of this is this is us taking advantage of the federal program after the fact and securing \$7 million in federal money saving us \$7 million in MFP. So when I look at this, I view this as much more of a positive than a negative.

Bob Fulton, recently appointed Chief Financial Officer of the Recovery School District, stated that this particular issue of HEAP, the incentive program was developed and the incentive were paid over a two year period, however, you will that these individual employees were asked to sign a three year commitment. What the biggest reconciliation issue here was that after receiving all of these incentives for over a two year period, these people were to have worked for three years, but a lot of them left the RSD to go work at charters and other schools here in the state of Louisiana. So while we were not losing these teachers, it became a reconciliation issue between this relocation incentive package and the HEAP requirements of the three year commitments, so after about two years somebody would leave and then they were no longer eligible for HEAP, but they had received all of their HEAP money, and a lot of it was for relocation and for rent and housing rentals and very difficult to go back to these people who had spent this money for relocation and housing.

Representative Richmond asked Mr. Fulton regarding his January 13th letter where he mentioned about the seven employees who received HEAP funding. You have in there that the RSD cannot force employees to abide by the three year commitment, and that you all are not required to recoup the funds. He asked if the money is given to relocate and with the understanding they would stay here for three years, we paid them the incentive over two years, so after they receive the incentive, there is no requirement that they finish the program and if they do not finish their commitment, no one has a responsibility to get that money back.

Mr. Pastorek said so that we can be clear, most of the incentive money was to get them to come here, so it paid transportation, relocation cost, and it was to pay some bonus money for the time that they served. The amount of money that would relate to them not staying is not relatively small by comparison, the point I want to make is this, many of these folks are working elsewhere in the city or the metropolitan area, that is why when we talk to the federal government about it, their response was that the purposes had been served largely for the \$7 million that we had put into effect. We still would have no real way of recouping the money, even if they had signed an agreement, it was really a documentation issue as I understand it, that we did not have a document from them saying that they would go through this problem, but you still have the recoupment issue no matter what

Mr. Vallas said we would have been requiring that they do this after the fact, remember the program was created, which we inherited and it did not have all the documentation, all this mandated guarantee three year requirement, that is part of the HEAP program. The program gets enacted, we filled teacher vacancies, we actually generate surpluses. Within two year some of those teachers actually moved on to the charter system. We cannot count them because the charters are their own individual LEA's (Local Educational Agencies) so technically they do not get counted in our count, but when you consider 38 of our 68 schools are charters, I would submit to you that a lot of these teachers have stayed for third, or fourth or fifth year. HEAP comes out, we try to maximize our federal reimbursements under HEAP, we get most of the money approved, and a small amount of the money denied. HEAP basically though takes the position that there are going to be kind of agnostic on the whole payback requirement because we implemented the program within the spirit of HEAP, so we score one, we save \$7 million of MFP money, we get more teachers than we need, we are able to staff our schools effectively, and reduce our need to use MFP money to incent teachers to come. What I have designed, the original program definitely, absolutely, but hindsight being 20/20, the program was being highly successful, and what was not anticipated when the program was enacted was that there would be a federal program that we be able to secure \$7 million in replacement money for.

Senator Murray asked Mr. Vallas if he has a letter from the Federal Department of Education that says you do not have to pay the money back. Mr. Fulton said due to the various issues that occurred in the beginning there was this CAROI (Cooperative Audit Resolution Oversight Initiative)

agreement that was executed with the federal government which requests us to return \$1.2 million, we are in the process of totally reconciling this and we will be reporting back to the auditors but the initial indications on this reconciliation that we are performing was that there were errors made both by the feds and by the RSD and others and we may not have to owe them \$1.2 million. Senator Murray said once again you still owe the \$1.2 million.

Mr. Pastorek said regarding the movable equipment, this is another one where because we are a state agency, we are operating under different rules than local districts I think the auditor pointed out that. Part of the challenge for us we have so many, we use laptops in a very large way, in fact we have laptops all the way down to first graders in our schools. This movable equipment is some of what the issue was and this movable equipment would fall under the \$5,000 threshold. The point I want to try to make here is that we insure these computers, we insure against theft and loss and damage, and so we have a process which we believe is the process which adequately protects the district from doing this. Other districts have similar approaches, so this is one Mr. Chairman, where we say should we do something differently, and I would ask you to consider doing this.

Senator Murray asked Mr. Pastorek to make a list of those things where you think that would help to treat you differently other than the state agency versus a local school district to be able to make decisions, and forward to our staff so we could have a chance to consider them. Not saying that we will buy off on all, but so we can just have an idea, for discussion purposes going forth.

Mr. Vallas said I appreciate your indulgence in allowing me to respond to these things, but this is an open forum and things are put out and statements are put out, and then you know, it may create the wrong impression that does not exist. Like the HEAP, when we say we have lost \$1.2, we have not lost \$1.2, we gained \$7 million where the incentive program could have cost us \$8-9 million. Senator Murray said Mr. Vallas, I think we really have that point, I just wanted to get to the point to say, I have been on this committee for a very long time and I did not want it to get out here that the auditors had a report that said this money was still at issue if you had a letter saying it was not. They just do not do those kinds of things, and I understand you are working to resolve and it may end up going away.

Mr. Vallas said I am just making the point that we picked up \$7 million that we did not anticipate, you can view it as a \$2.1 million bill, or an \$8.2 million bill. Let me say one thing about property, we have 68 different schools when you include our alternative schools and transition schools. All of our teachers have laptops and we have retrofitted all of our high school laptops that were retired and distributed 3500 to primary grade children, so we have like 1.2 laptops for every child in the district. Because all of these schools are responsible for property accountability, sometimes there is going to be property moving around, there is going to be property that is going to be in possession of a teacher that was not turned in at the end of the year. We take steps to ensure and what I call lo-jack our computers, because there is going to be property that is damaged, and property that is lost, but the bottom line is we are not like one single state agency, we are an agency of 70 schools and all of our charters operate as their own LEA's some someone could say that we are not holding the charters accountable for their own property, but yet state law says charters are their own LEA's.

Senator Murray said let me just say this, Mr. Richmond and I probably are the most familiar with this and have lived with this for the longest period of time and I know that my other colleagues have become very familiar with this and RSD issues that are out there. We would like to do something to try to resolve this stuff because these audits come out, it does not make any of us look good to say there is this money out here that cannot be accounted for. All I want to do is try to get to those things to try to resolve this stuff because the findings need to stop happening - that is just the bottom line.

Mr. Pastorek said on this business of the inaccurate financial fiscal report, this is the product of trying to work out the result of local taxes and whether or not they are to be distributed to the RSD and whether or not there are moneys due back to the Orleans Parish School Board, and we have been in extensive and extended negotiations over the last two years. This issue has been existing for more than just this audit period. This is the first time this audit period has picked this up as an issue, which I am puzzled by because this has been a problem for some time. And I think we all understand exactly what the issue is, the issue is there is an amount of money that is due the Orleans Parish School Board, and there is an amount of money that is due the Recovery School District, and mostly we have been able to determine what the numbers are and we have an agreement on that, but we are down to just a few things at this point. So I am a little perplexed at why this becomes an issue at this particular moment of time, when we pretty much resolved the whole issue, and could be in a position to restate it. I think the good news is that this really does not result in a financial impact one way or another to the RSD.

Mr. Pastorek said the coding issues regarding the Restart money - this is a problem that will be with us for some time, and all the good management in the world is not going to be able to resolve this particular issue. This has to do with how the money was originally spent at the outset of the Recovery School District formation and the way that RSD handled the expenditures of Restart monies. Now we originally coded the monies that were being spent under the RSD at the outset to Restart, which was a federal fund to restart the school systems all over the southern part of Louisiana, but because of the magnitude of the restart effort in New Orleans, a lot of money was used to restart and what has happened we have now had to go back as we have begun to figure out where all these moneys were