

STATE OF LOUISIANA

OFFICE OF STATE INSPECTOR GENERAL



LOUISIANA SCHOOL EMPLOYEES' RETIREMENT SYSTEM

Date Released:

November 20, 2006

File No. 1-06-0005

STATE OF LOUISIANA

OFFICE OF STATE INSPECTOR GENERAL



LOUISIANA SCHOOL EMPLOYEES' RETIREMENT SYSTEM

**Sharon B. Robinson, CPA
State Inspector General**

A handwritten signature in blue ink, appearing to read "K. Blanco", is written over a horizontal line.

**Approved by:
Governor Kathleen Babineaux Blanco**

November 9, 2006

File No. 1-06-0005



State of Louisiana
DIVISION OF ADMINISTRATION

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KATHLEEN BABINEAUX BLANCO
GOVERNOR

JERRY LUKE LEBLANC
COMMISSIONER OF ADMINISTRATION

November 9, 2006

Honorable Kathleen Babineaux Blanco
Governor of the State of Louisiana
P.O. Box 94004
Baton Rouge, LA 70804-9004

Re: Case No. 1-06-0005

Dear Governor Blanco:

This report addresses concerns raised about payments made to the former director of the Louisiana School Employees' Retirement System. The report includes four recommendations that, if implemented, could help improve the System.

We provided a draft of the report to the system. The current director provided a response, which is included as Appendix A. We also requested a response from the former director; however, we did not receive one.

Respectfully submitted,

A handwritten signature in black ink that reads "Sharon B. Robinson".

Sharon B. Robinson, CPA
State Inspector General

SBR/LS

Enclosure

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Executive Summary

Audit Initiation

On June 20, 2006, the Office of State Inspector General began an investigation of several allegations regarding the Louisiana School Employees' Retirement System (LSERS), which is managed by a Board of Trustees (Board). The allegations are:

1. an employee is allowed to earn compensatory leave without question while other employees are not;
2. the former Director, Patrick Cosper, worked only part of the time without taking leave for the time he was off; and
3. a housing allowance was paid to the former Director for three months so the LSERS Board could retain his services while searching for a new Director.

Our audit objectives were to determine if the allegations were valid. Subsequent to the start of the investigation, we learned that Mr. Cosper was also paid a 4% annual merit increase compressed over a three-month period. We expanded our objectives to include this concern.

Summary of Findings

- We could not substantiate the allegation that LSERS allowed one employee to earn compensatory leave without question while other LSERS employees could not.
- Mr. Patrick Cosper, former Director, earned compensatory leave even though LSERS does not have a policy stating whether unclassified employees may earn compensatory leave. In addition, no one monitored or approved the annual, sick, or compensatory leave taken by Mr. Cosper.
- The Board paid Mr. Cosper additional compensation of \$4,679 in the form of an annual merit increase, but paid it out over a compressed three-month period. In addition, the board paid Mr. Cosper an additional \$5,443 as a housing allowance. Mr. Cosper received these additional benefits even though he worked only, in effect, part-time.
- LSERS did not report the housing allowance to the commissioner of administration as required by Policy and Procedure Memorandum (PPM) 73 (Taxable Compensation).

Background

Louisiana School Employees' Retirement System (LSERS) was established and provided for by Louisiana Revised Statute 11:1001. Created on July 1, 1946, LSERS has over 25,000 active and 10,000 retired members. LSERS members are comprised of non-instructional personnel of the Louisiana public school system. Its members include school bus drivers; janitors; custodians; maintenance employees; school bus aides, monitors, and attendants; and other regular school employees who actually work on school buses helping with the transportation of school children. Employees must also work 20 hours or more per week in order to be a member of this system.

LSERS is one of four state retirement systems administered by a professional staff of 44 employees. LSERS' operations are financed through member and employer contributions and investment earnings on the contributions. Retirement disbursements are made with those funds and the interest generated on those funds.

As of June 2005, LSERS' assets totaled approximately \$1.49 billion. It is the state's third largest state retirement system. LSERS is governed by an 11-member Board of Trustees. LSERS is placed organizationally within state government under the Department of the Treasury, and is domiciled in Baton Rouge.

Patrick Coper was hired as Director of LSERS on November 1, 1989 and held that position until his retirement on October 31, 2005.

Scope and Methodology

We conducted our audit in accordance with *Principles and Standards for Offices of Inspector General* as promulgated by the Association of Inspectors General.

The scope of the audit was limited to payroll records between January 1, 2005 and June 4, 2006 for the abuse of compensatory leave allegation and activities between June 20, 2005 and October 31, 2005 for allegations regarding the former Director. The procedures performed during this investigation consisted of (1) interviewing pertinent individuals at LSERS; (2) reviewing LSERS Board minutes; (3) reviewing LSERS payroll records; (4) interviewing officials at Teachers' Retirement System of Louisiana and Louisiana State Employees Retirement System; (5) reviewing LSERS compensatory leave reports; and (6) reviewing Executive Order KBB 2006-30 for guidance.

Questionable Leave Practices of Former Director

Patrick Cospers, former Director, earned compensatory leave even though LSERS does not have a policy stating whether unclassified employees may earn compensatory leave. In addition, no one monitored or approved the annual, sick, or compensatory leave taken by Mr. Cospers. As a prudent business practice LSERS should have a written policy that states whether unclassified employees may earn compensatory leave. If such leave earning is allowed, then all leave earned and taken by unclassified employees should be monitored and approved by an appropriate party. However, our review of Mr. Cospers's leave for our audit period disclosed the following:

- Mr. Cospers earned compensatory leave (hour for hour) as an unclassified employee. No one, such as the Board chairman, approved the earning of this compensatory leave. Mr. Cospers's secretary maintained a worksheet to track Mr. Cospers's compensatory leave earned and taken based on verbal information from Mr. Cospers. However, no one entered this information into LSERS' payroll system, thereby creating two sets of records. For instance, the "off book" record of compensation leave showed he used two hours of compensatory leave on August 24, 2005 according to the secretary's records. However, LSERS payroll records showed he worked a full 8 hours.
- Between June 20, 2005 and October 31, 2005, Mr. Cospers actually worked only 57% of the possible work hours. The remaining 43% of the time, he took leave as shown in the chart below.

Summary of Mr. Cospers's Leave Usage		
From June 20, 2005 through October 31, 2005		
Total Work Hours Available	724.00	100%
Absences		
Compensatory	31.5	
Sick Leave	228.0	
Annual Leave	50.325	
<i>Total Leave Taken</i>	<u>309.825</u>	43%
Total Hours Worked	414.175	57%
Source: Prepared by IG staff using LSERS payroll records		

Sick leave made up 74% of the leave taken. Mr. Cospers said he used sick leave because he did not want to lose the leave upon retirement. According to Larry Wilmer, Board Chairman, he did not realize that Mr. Cospers took so much leave, and that Mr. Cospers only worked 57% of the possible work hours during the four month period.

We note that Teachers' Retirement System of Louisiana and Louisiana State Employees Retirement System both have policies that unclassified employees do not earn compensatory leave.

Since LSERS lacks a policy that addresses its unclassified employees, they should use Executive Order KBB 2006-30 for guidance in developing its policy.

Recommendations:

1. The Board should develop a leave accrual and usage policy for its unclassified employees. This policy should address whether unclassified employees are eligible to earn compensatory leave. If the Board allows unclassified employees to earn compensatory leave, the compensatory leave hours earned and taken should be entered into LSERS payroll system, and approved by an appropriate party.
2. The Board chairman, or his designee, should approve all leave taken by the Director.

Questionable Additional Compensation Payments to Former Director

The Board authorized over \$10,000 in additional compensation over a three-month period to Mr. Cosper as an incentive to remain in his position and assist with the search for his replacement. However, as stated previously, Mr. Cosper worked only, in effect, part-time while receiving his regular salary plus this additional compensation.

This additional compensation was paid to Mr. Cosper in two parts:

1. a 4% annual merit that was paid to him in a three-month period totaling \$4,679; and
2. a housing allowance totaling \$5,443.

According to the minutes of a special meeting of the Board on June 24, 2005, Mr. Cosper informed the Board that he would be resigning his position effective July 6, 2005 (within two weeks) and moving to Biloxi, Mississippi. After an executive session, Mr. Wilmer, Board Chairman, informed Mr. Cosper that the Board would like him to reconsider his retirement date and stay on until the process of hiring a new director was completed, which would take about three months.

Mr. Cosper informed the Board that he had already sold his home in Denham Springs, and no longer had a residence in the Baton Rouge area. Mr. Cosper also told the Board if they would like him to stay for an additional three months, then he would have to receive a 4% merit increase compressed into a three-month period. The Board voted unanimously to accept Mr. Cosper's offer to remain Director until September 30, 2005. The Board also requested that Mr. Cosper head up the search for a new Director. The Board granted Mr. Cosper's request for his 4% annual merit increase compressed into a three-month period and a housing allowance.

Four-percent merit increase. Mr. Cosper's annual salary was \$116,986. LSERS calculated his 4% merit at \$4,679, which is normally paid out over an entire year. This pay increase was compressed into a three-month period from June 27, 2005 to September 30, 2005. This action, in essence, gave Mr. Cosper a 16% annualized merit increase. Mr. Cosper was absent more than 40% of the time.

Housing allowance. The Board agreed to compensate Mr. Cospers with money for an apartment while he remained to assist with the search for his replacement. Those expenses totaled \$5,443 and consisted of the following:

- Rent and utilities at \$1,297 per month for the months of July through October 2005;
- Application fee: \$ 35
- Set up fees \$120
- Security Deposit \$ 99

Policy and Procedure Memorandum 73 (PPM 73) establishes the state's policy on fringe benefits paid to employees other than salary. Section 4107 of this memorandum requires all entities in the Executive branch to develop a plan delineating conditions under which an employee receives any compensation other than salary, wages, per diem for board members and those benefits provided by the State Employees' Group Benefits Program and the various retirement systems. This plan must be submitted to the commissioner of administration by February 1 each calendar year.

Recommendation:

3. The Board should ensure that any additional compensation paid to any unclassified employee (other than salary or wages) is commensurate with the work performed and hours worked.

Noncompliance with Policy and Procedure Memorandum 73

The housing allowance paid to Mr. Cospers should have been reported to the commissioner of administration in order to comply with PPM 73. LSERS did not respond to this memorandum until September 20, 2006 when they were made aware of by our investigation.

According to Policy and Procedure Memorandum (PPM) 73 all departments, agencies, offices, institutions, boards, and commissions within the Executive branch of state government are required to report all taxable and nontaxable compensation provided to employees. In addition, these entities must report a plan delineating those conditions under which an employee shall receive any compensation other than salary, wages, per diem for board members and those benefits provided by the State Employees' Group Benefits Program and the various retirement systems. This plan must be submitted to the commissioner of administration by February 1, each calendar year for the immediately preceding calendar year.

The Office of Statewide Reporting and Accounting Policy (OSRAP) sends a memorandum out every year as a reminder of this requirement and to give a format for the response. For this past year OSRAP Memorandum 06-14 dated January 30, 2006 was emailed to all departments, agencies, offices, institutions, boards, and commissions within the Executive branch of state government.

Recommendation:

4. LSERS should develop and implement procedures to comply with PPM 73.

APPENDIX A

Response



State of Louisiana
SCHOOL EMPLOYEES' RETIREMENT SYSTEM
P. O. BOX 44516
BATON ROUGE, LOUISIANA 70804-4516
Telephone: (225) 925-6484
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October 26, 2006

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State Inspector General
Office of State Inspector General
Post Office Box 94095
Baton Rouge, LA 70804-9095

Re: Case # 1-06-0005

Dear Ms. Robinson:

Please consider this to be the official response of the Louisiana School Employees' Retirement System (LSERS) to your letter dated October 17, 2006. The "Summary of Findings" outlined in your report sets forth four (4) items that require a response.

SUMMARY OF FINDINGS

We could not substantiate the allegation that LSERS allowed one employee to earn compensatory leave without question while other LSERS employees could not.

Response:

We concur with your findings that the allegation that LSERS allowed one employee to earn compensation without question while other LSERS employees could not, had no substance.

Mr. Patrick Cosper, former Director, earned compensatory leave even though LSERS does not have a policy stating whether unclassified employees may earn compensatory leave. In addition, no one monitored or approved the annual, sick, or compensatory leave taken by Mr. Cosper.

Recommendation:

The Board should develop a leave accrual and usage policy for its unclassified employees. This policy should address whether unclassified employees are eligible to earn compensatory leave. If the Board allows unclassified employees to earn compensatory leave, the compensatory leave hours earned and taken should be entered onto LSERS payroll system, and approved by an appropriate party.

The Board chairman, or his designee, should approve all leave taken by the Director.

Response:

We concur with your findings that Mr. Patrick Cospers, the former Director of LSERS, earned compensatory leave even though LSERS does not have a policy stating whether unclassified employees may earn compensatory leave. We also concur with your findings that no one monitored or approved the annual, sick, or compensatory leave taken by Mr. Cospers.

We do wish to point out that accurate records were kept of Mr. Cospers' annual, sick, and compensatory leave, but the procedure for approval was not followed and there was no monitoring.

Corrective Action Plan:

I will present and recommend implementation of a compensatory leave policy for all unclassified employees to the Board of Trustees of LSERS at its meeting on November 20, 2006. I will also, at this meeting, present a policy that will provide for proper approval and monitoring of annual, sick, and compensatory leave taken by the Director of LSERS.

The Board paid Mr. Cospers an additional compensation of \$4,679 in the form of an annual merit increase, but paid it out over a compressed three-month period. In addition, the board paid Mr. Cospers an additional \$5,443 as a housing allowance. Mr. Cospers received these additional benefits even though he worked only, in effect, part-time.

Recommendation:

The Board should ensure that any additional compensation paid to any unclassified employee (other than salary or wages) is commensurate with the work performed and the hours worked.

Response:

We concur in your findings that the Board paid Mr. Cospers additional compensation of \$4,679 in the form of an annual merit increase in a compressed three-month period and that the Board paid Mr. Cospers an additional \$5,443 as a housing allowance. Pursuant to the agreement at the exit conference held on October 23, 2006 we will present this item to LSERS' Board of Trustees at its meeting on November 20, 2006 for its consideration and attention.

LSERS did not report the housing allowance to the commission of administration as required by Policy and Procedure Memorandum (PPM) 73 (Taxable Compensation).

Recommendation:

LSERS should develop and implement procedures to comply with PPM 73.

Response:

We concur with your findings that LSERS did not report the housing allowance to the Commissioner of Administration. However, we do note that the housing allowance was reported as taxable income on Mr. Cospers' W-2 for the calendar year 2005.

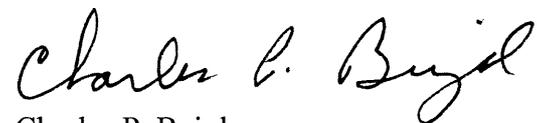
Corrective Action Plan:

LSERS shall report all future taxable compensation to the Commissioner of Administration in compliance with PPM 73.

The Louisiana School Employees' Retirement System appreciates the opportunity to respond to these findings and assures you that we will take appropriate actions to address these legitimate concerns.

Thank you for your cooperation and assistance.

Sincerely,



Charles P. Bujol
Executive Director

CPB/jlc

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A copy of this report has been made available for public inspection at the Office of State Inspector General and is posted on the Office of State Inspector General's website at www.doa.louisiana.gov/oig/inspector.htm. Reference should be made to Case No. 1-06-0005. If you need any assistance relative to this report, please contact Bruce J. Janet, CPA, State Audit Director at (225) 342-4262.

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- Complete complaint form on web site at www.doa.Louisiana.gov/oig/inspector
- Write to Office of State Inspector General, P. O. Box 94095, Baton Rouge, LA 70804-9095
- Call the Office of State Inspector General at (225) 342-4262