LOUISIANA STATE UNIVERSITY AND RELATED CAMPUSES LOUISIANA STATE UNIVERSITY SYSTEM STATE OF LOUISIANA

MANAGEMENT LETTER
ISSUED MARCH 26, 2008

LEGISLATIVE AUDITOR
1600 NORTH THIRD STREET
POST OFFICE BOX 94397
BATON ROUGE, LOUISIANA 70804-9397

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LOUISIANA LEGISLATIVE AUDITOR
STEVE J. THERIOT, CPA

February 28, 2008

LOUISIANA STATE UNIVERSITY BOARD OF SUPERVISORS,
LOUISIANA STATE UNIVERSITY,
LOUISIANA STATE UNIVERSITY AGRICULTURAL CENTER,
PENNINGTON BIOMEDICAL RESEARCH CENTER,
PAUL M. HEBERT LAW CENTER,
LOUISIANA STATE UNIVERSITY AT ALEXANDRIA,
AND LOUISIANA STATE UNIVERSITY AT EUNICE
LOUISIANA STATE UNIVERSITY SYSTEM
STATE OF LOUISIANA
Baton Rouge, Louisiana

As part of our audit of the Louisiana State University System's financial statements for the year ended June 30, 2007, we considered the internal control over financial reporting for the LSU Board of Supervisors, LSU and A&M College (LSU), LSU Agricultural Center, Pennington Biomedical Research Center, Paul M. Hebert Law Center, LSU at Alexandria, and LSU at Eunice (hereafter referred to as LSU and Related Campuses); we examined evidence supporting certain accounts and balances material to the System's financial statements; and we tested the LSU and Related Campuses compliance with laws and regulations that could have a direct and material effect on the System's financial statements as required by *Government Auditing Standards*. In addition, we considered the LSU and Related Campuses internal control over compliance with requirements that could have a direct and material effect on a major federal program, as defined in the Single Audit of the State of Louisiana, and we tested the LSU and Related Campuses compliance with laws and regulations that could have a direct and material effect on the major federal programs as required by U.S. Office of Management and Budget Circular A-133.

The annual financial information provided to the Louisiana State University System by LSU and Related Campuses is not audited or reviewed by us, and, accordingly, we do not express an opinion on that financial information. The LSU and Related Campuses accounts are an integral part of the Louisiana State University System's financial statements, upon which the Louisiana Legislative Auditor expresses opinions.

In our prior management letter on LSU and Related Campuses for the year ended June 30, 2006, we reported findings relating to unlocated movable property and unsecured deposits. The unlocated movable property finding is repeated in this letter. The unsecured deposits finding was resolved by management.

Based on the application of the procedures referred to previously, all significant findings are included in this letter for management's consideration. The findings included in this management letter that are required to be reported by *Government Auditing Standards* will also be included in the State of Louisiana's Single Audit Report for the year ended June 30, 2007.

Noncompliance With Subrecipient Monitoring Requirement

Louisiana State University and Agricultural and Mechanical College (LSU) did not fully comply with the Office of Management and Budget (OMB) Circular A-133 compliance requirement for subrecipient monitoring over the Research and Development Cluster. OMB Circular A-133, Subpart D, Section 400(d) requires an entity passing funds to subrecipients to ensure that subrecipients that expend $500,000 or more in federal awards during a fiscal year obtain a single audit and meet the audit requirements of OMB Circular A-133 and require each subrecipient to permit the pass-through entity and auditors access to the records and financial statements as necessary (right to audit clause). Management did not document that all subrecipients obtained single audits and that the reports were reviewed in accordance with program requirements. Also, management did not ensure that all agreements with subrecipients included a right to audit clause.

Of 35 grants reviewed by us, two had subrecipients. LSU did not obtain evidence that a single audit was performed for one of the two grants tested for subrecipient monitoring. In addition, the grant agreements for the two subrecipients did not include language establishing LSU or other auditors' rights to access the subrecipients' records and financial statements. Failure to monitor subrecipients increases the risk of noncompliance with federal laws and regulations applicable to the Research and Development Cluster programs and increases the risk that funds may not be expended in accordance with program requirements. Of $47,869,958 in federal expenditures that LSU incurred during fiscal year 2007, $3,970,152 was passed through to subrecipients.

Management should ensure that single audit reports are obtained and reviewed from all subrecipients that expend $500,000 or more in federal awards during a fiscal year, and all contracts with subrecipients include a right to audit clause as required by OMB Circular A-133. Management concurred with the finding and recommendation and outlined a plan of corrective action (see Appendix A, page 1).

Weaknesses in the Administration of Student Financial Aid at LSU Alexandria

Louisiana State University at Alexandria (LSUA) did not fully comply with all student financial aid reporting requirements. Volume 6, Chapter 1 of the *Federal Student Aid Handbook* [U.S. Department of Education (USDOE)] requires institutions to maintain financial records that reflect all campus-based program transactions and support the school's application for campus-based funds. Volume 4, Chapter 2 of the *Federal Student Aid Handbook* requires that an institution submit Federal Pell Grant disbursement records to the USDOE no later than 30 days after making a disbursement or becoming aware of the need to adjust a student's Pell Grant. Volume 2, Chapter 10 of the *Federal Student Aid Handbook* requires that an institution report changes in enrollment to less than half time, graduated, or withdrawn within 30 days for students who received a Federal Family Education Loan or a Federal Direct Loan.

In our tests of student financial aid at LSUA (CFDA 84.007 - Federal Supplemental Educational Opportunity Grants, 84.032 - Federal Family Education Loans, 84.033 - Federal Work Study, and 84.063 - Federal Pell Grant Program), we determined the following:

- Management of LSUA was unable to provide assurance that some of the data reported in the Fiscal Operations Report and Application to Participate (FISAP) was properly calculated and supported by adequate documentation. LSUA did not ensure that supporting documentation was maintained for 15 fields for Parts II, IV, V, and VI of the FISAP. LSUA believes the dollar differences are likely timing differences because the reports that LSUA used at the time it prepared the FISAP were not located at the time of our audit tests.

- Disbursement records that report Pell payment data to the federal grantor (USDOE) were not submitted timely. LSUA did not submit the Pell Grant payment data for the fall 2006 semester to USDOE within 30 days after making the disbursements. In our test of 14 student financial aid transactions, we found that six were submitted from 15 to 42 days late.

- LSUA did not ensure that changes in student status were reported timely to the National Student Clearinghouse. LSUA did not maintain documentation to verify that changes in enrollment for students who graduated or withdrew during the fall and spring semesters of academic year 2006-2007 were reported to the National Student Clearinghouse within 30 days for two of three students tested.

As a result, management of LSUA did not ensure that data was properly calculated, supported by adequate documentation, and submitted timely as required by federal regulations. Failure to maintain supporting documentation reduces the accuracy of reports and could result in disallowed or questioned costs. Failure to timely submit Pell payment data to the USDOE and failure to timely report changes in student enrollment to the National Student Clearinghouse results in noncompliance with federal program requirements.

LSUA management should ensure that adequate documentation is maintained to support the accuracy of data included in all parts of the FISAP. LSUA management should also establish procedures to ensure that disbursements of Pell are reported timely to the USDOE and ensure that student status changes are reported timely to the National Student Clearinghouse. Management concurred with the finding and recommendation and outlined a plan of corrective action (see Appendix A, pages 2-5).

Unlocated Movable Property

For the third consecutive year, Louisiana State University and A&M College (LSU), which includes LSU, System Administration, Agricultural Center, Alexandria, and Eunice campuses, did not place sufficient emphasis on locating the items reported as unlocated items on its various movable property listings. Louisiana Administrative Code Title 34 Part VII Section 313 (A) states, in part, that efforts must be made to locate all movable property items for which there are no explanations available for their disappearance. Property unlocated after three years is permanently removed from movable property records. Good internal control provides that assets should be adequately monitored to safeguard against loss or theft and periodic counts of property inventory, as well as the search for missing items, should be thorough.

As required by state movable property regulations, the campuses conducted physical inventories and reported unlocated movable property totaling $4,978,420 for the four-year period from fiscal year 2004 to fiscal year 2007. Of that amount, items totaling $1,116,141 were removed from the property records because they had not been located for three consecutive years. Of the unlocated property reported on the physical inventory certifications, the amount of unlocated computers and computer-related equipment totaled $3,023,285. After the prior year audit finding was reported, management strengthened its internal controls and, as a result, the total unlocated value of movable property items decreased by $897,575 (15.3%) from the previous year. The certifications of property inventory disclosed $338,124,909 in total movable property administered by the campuses under the control of the department. The annual certifications of property inventory were submitted to the Louisiana Property Assistance Agency on December 20, 2007.

Failure to thoroughly secure, locate, and account for movable property increases the risk of loss arising from unauthorized use of the property and could subject the university to noncompliance with state laws and regulations. Also, the risk exists that sensitive information could be improperly retrieved from the missing computers and/or computer-related equipment, which could compromise the university's data integrity.

Management of the university should continue its efforts to strengthen internal controls over movable property, including its procedures for securing movable assets and conducting the physical inventory, and should devote additional efforts to locating movable property reported as unlocated in previous years. Management concurred with the finding and recommendation and outlined a plan of corrective action (see Appendix A, pages 6-7).

The recommendations in this letter represent, in our judgment, those most likely to bring about beneficial improvements to the operations of the university. The varying nature of the recommendations, their implementation costs, and their potential impact on the operations of the university should be considered in reaching decisions on courses of action. Findings relating to the university's compliance with laws and regulations should be addressed immediately by management.

This letter is intended for the information and use of the university and its management, others within the university, and the Louisiana Legislature and is not intended to be, and should not be, used by anyone other than these specified parties. Under Louisiana Revised Statute 24:513, this letter is a public document, and it has been distributed to appropriate public officials.

Respectfully submitted,

Steve J. Theriot, CPA
Legislative Auditor

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LSU&R07

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

LSU
LOUISIANA STATE UNIVERSITY
Finance & Administrative Services

February 19, 2008

Steve J. Theriot, CPA
Legislative Auditor
P. O. Box 94397
Baton Rouge, LA 70804-9397

Dear Mr. Theriot,

In conjunction with the legislative audit of LSU and A&M College (LSU) for the fiscal year ended June 30, 2007, we are responding to the audit finding concerning noncompliance with subrecipient monitoring requirements. We concur with your finding.

In an effort to ensure compliance with OMB Circular A-133, we include a clause in our subawards requiring subrecipients to notify LSU of the completion of the required audits and of any adverse findings that would impact a subaward. However, the necessary follow up by the University to assure the audits were actually conducted was not performed. We have subsequently revised our internal procedures such that requests for notification of compliance with OMB Circular A-133 will now be sent to all subrecipients not submitting required audit reports within seven months after the end of each fiscal year.

With respect to the two subagreements that did not include the right to audit clause, this was an inadvertent omission resulting from revisions to the subagreement template. We have subsequently adjusted our template to ensure that all subawards will now include this right to audit clause.

Please let me know if anything further is needed.

Sincerely,

Jerry J. Baudin
Vice Chancellor for Finance and Administrative Services
and Comptroller

xc: William L. Jenkins

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Office of Finance and Administrative Services
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LOUISIANA STATE UNIVERSITY ALEXANDRIA

8100 Highway 71 South
Alexandria, LA 71302-9121

January 25, 2008

Mr. Steve J. Theriot, CPA
Legislative Auditor
State of Louisiana
Post Office Box 94397
1600 North Third Street
Baton Rouge, Louisiana 70804-9397

Dear Mr. Theriot:

Louisiana State University Alexandria is providing the following response to the January 15, 2008 letter from Mr. Edward T. Martin, CPA:

"*Management of LSUA was unable to provide assurance that some of the data reported in the Fiscal Operations Report and Application to Participate (FISAP) was properly calculated and supported by adequate documentation.*"

Response: We concur with this finding. Both the cause and solution for this finding are tied to a new student administration software system that Louisiana State University Alexandria has recently implemented. The circumstances of the finding occurred because LSUA was in transition to a new student administration software system while, correspondingly, the full implementation of this new software will prevent its reoccurrence.

LSUA began the implementation of its new student information and student financial aid system in August of 2004. The systems chosen were Sungard "PowerCampus" and CollegeBoard "PowerFaids" respectively. The PowerFaids implementation did not involve converting nearly 50 years of data; therefore, it had a much faster timeline for completion. Portions of the PowerFaids software went live in March of 2005. However, due to the inability to integrate PowerFaids with LSUA's legacy software, parallel systems were run in the financial aid office until the PowerCampus implementation was complete.

LSUA went live with the new PowerCampus software in July of 2006. Again, parallel systems were used throughout the fall semester in both PowerCampus and PowerFaids. In January of 2007 the PowerCampus implementation was complete. At this point in time, the legacy system was discontinued on the LSUA campus.

The initial dynamic and transitional nature, with parallel systems, of the PowerFaids and PowerCampus databases prevented the retrieval of the FISAP documentation that was reported. The new system is now backed up; and a snapshot is now taken at several intervals throughout the year, with one of these snapshots taken at the time the FISAP is submitted on October 1 of each year.

To have sufficient back up of the documentation the LSUA Information and Educational Technology Department will use the PowerCampus software to take a snapshot of the database at the time of submission so that the FISAP reports may be reproduced at any time.

Mr. Deron Thaxton, our Executive Director of Information and Educational Technology and Mr. Kenn Posey, Executive Director of Enrollment Management, are the individuals responsible for related follow up actions.

"*Disbursement records that report PELL payment data to the federal grantor, U.S. Department of Education (U.S. DOE), were not submitted timely. LSUA did not submit the PELL Grant payment data for the fall 2006 semester to U.S. DOE within 30 days after making the disbursement.*"

Response: We concur with this finding. Both the cause and solution for this finding are tied to a new student administration software system that Louisiana State University Alexandria has recently implemented. The circumstances of the finding occurred because LSUA was in transition to a new student administration software system while, correspondingly, the full implementation of this new software will prevent its reoccurrence.

Implementation of the university's new student administration system allowed LSUA to provide improved electronic services to students. Students can complete the payment process and never leave home or work.

PowerCampus billing and Cash Receipts System Components now provide such enhancements as:

- Batch, Group or Individual Assessment
- Payment Plan Customization
- Automated Aging of Student Receivables
- Integrated Credit Card Processing Features
- Web Access to Student Statement
- Standard Reports
- Compliant with Taxpayer Relief Act of 1997

LSUA has been extremely busy with the PowerCampus implementation. PowerCampus was chosen as the university's new administrative software in November of 2003. The agreement was made final in June of 2004, and implementation began in August/September 2004. The implementation itself was a lengthy, tedious, time-consuming process. Full implementation of this software at LSUA has now occurred.

It was found that the disbursement date that was being pulled from PowerFaids was the loan disbursement date – not the actual PELL disbursement date; so the disbursement date remained the same. In LSUA staff training with its Software Consultants the parameters were set to reflect the PELL disbursement date, not the FFELP disbursement date. This has now been corrected in the new software system. The issues related to the transition to the new software and the uses of parallel systems have now been resolved.

Mr. Deron Thaxton, our Executive Director of Information and Educational Technology and Mr. Kenn Posey, Executive Director of Enrollment Management, are the individuals responsible for related follow up actions.

"LSUA did not ensure that changes in student status were timely reported to the National Student Clearinghouse."

Response: We concur with this finding. Both the cause and solution for this finding are tied to a new student administration software system that Louisiana State University Alexandria has recently implemented. The circumstances of the finding occurred because LSUA was in transition to a new student administration software system while, correspondingly, the full implementation of this new software will prevent its reoccurrence.

A major effort at Louisiana State University Alexandria for the past three years has been directed toward implementation of the new software. "PowerCampus" and "PowerFaids" are parts of a Microsoft-based student and administrative system designed specifically for small-to-medium sized institutions of higher education. Implementation of this software has been a major project requiring significant time and effort on the part of many LSU Alexandria staff.

Full implementation of this software at LSUA has now occurred.

There was a data exchange problem between PowerCampus and the National Student Clearinghouse, since the credit hours weren't being updated with the Clearinghouse, NSLDS could not update the student standing which affected the enrolled students deferment status.

The problem with the data exchange has been corrected through the new software system, and data is now being submitted to the Student Loan Clearinghouse according to the required reporting dates.

Mr. Deron Thaxton, our Executive Director of Information and Educational Technology and Mr. Kenn Posey, Executive Director of Enrollment Management are the individuals responsible for related follow up actions.

We greatly appreciate the time and effort extended by your office to assist LSUA, and we still well remember Mr. Martin's great assistance to us in relation to our SACS review process.

Please let me know if you have any questions related to this response.

Sincerely,

David Wesse
Vice Chancellor
Finance and Administrative Services

xc: H. Rouse Caffey, Interim Chancellor

LSU
LOUISIANA STATE UNIVERSITY
Finance & Administrative Services

January 29, 2008

Steve J. Theriot, CPA
Legislative Auditor
P. O. Box 94397
Baton Rouge, LA 70804-9397

Dear Mr. Theriot,

In conjunction with the legislative audit of LSU and A&M College (LSU) for the fiscal year ended June 30, 2007, we are responding to the audit finding concerning unlocated moveable property. We concur with your finding in general. It should be noted that LSU serves other campuses within the overall LSU System, and the inventories of the following campuses are included in this finding: LSU, the LSU Agricultural Center, LSU at Alexandria, LSU at Eunice, and the LSU System Office.

This certification of our annual property inventory was submitted on December 20, 2007, approximately six months after the end of the fiscal year under audit. Typically, inventory certifications submitted during the fiscal year under audit are reviewed by the Legislative Auditor, and any resulting findings are presented to the University nine to twelve months after the inventory was originally submitted. Historically, LSU has always located much of the unaccounted for property during this interval between the certification and the audit. The Legislative Auditor changed this practice last year when the inventory certified in December, 2006 was included in the audit review for the year ended June 30, 2006, and this new audit practice has been continued during the current audit review. Thus, due to the timing of this review, we are again unable to determine how much of the unlocated property will ultimately be properly accounted for.

As required by state regulations, after conducting a physical inventory, LSU did report four years of unlocated property items originally costing $4,978,420. In accordance with state regulations, and with the approval of the Louisiana Property Assistance Agency (LPAA), the University then removed items originally costing $1,116,141 from its property records. These items had been held in a "suspense" file for three years, while attempts were on-going to locate or properly account for them. The original cost of the remaining unlocated items was $3,862,279. With respect to these remaining items, a current analysis of the moveable property detail records produces the following results:

- The remaining unlocated balance includes certain equipment items originally costing $5,000 or more individually that, in accordance with state-issued guidelines, had been appropriately capitalized and depreciated subsequent to their purchase. The original cost of these items was $811,939, and the book value net of depreciation was only $54,765.

- The remaining unlocated balance also includes items costing under $5,000 individually that were expensed for accounting purposes as required by state guidelines, for which a book value does not exist. The original cost of these items was $3,050,340. However, $1,226,110 of these items had been purchased in 1998 or earlier.

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- The total inventory value reported by the University, net of the oldest suspense file items removed with the approval of the LPAA, was $337,008,768. Excluding the depreciation taken on capitalized items as well as the expensed items purchased in 1998 or prior, the remaining unlocated items amount to $1,878,995. This is only slightly more than one-half of one percent of the total moveable property inventory managed by LSU.

- The audit finding also indicates that $3,023,285 of computers and computer-related equipment was reported as unlocated. However, after removal of the oldest suspense file items from the property records, the balance of computers and related equipment amounted to $2,402,766. Of this amount, $472,119 was more than 10 years old, $584,287 was 8-10 years old, and $575,301 was 6-7 years old. Only $771,059 of the unlocated computer and related items were aged 5 years or less. Moreover, the total book value was only $4,004 for all capitalized computers and related equipment reported as unlocated.

We believe this analysis supports the conclusion that LSU is appropriately managing its inventory of moveable equipment having remaining useful value. However, we also recognize and accept our responsibility to properly account for all equipment owned by the University, including items having little or no remaining value. We believe many unlocated items result from useless equipment being discarded or several old items being cannibalized by departmental staff to produce one working item, without the proper reporting to our administrative offices.

As noted in the audit finding, after changes were made that focused on improving our internal controls, the total value of LSU's unlocated moveable property decreased by more than 15% from the prior year. We will continue to regularly review our inventory taking and record keeping procedures, and make changes as appropriate to enhance the results of our inventory reporting in the future.

Please let me know if anything further is needed.

Sincerely,

Jerry J. Baudin

Jerry J. Baudin
Vice Chancellor for Finance and Administrative Services
and Comptroller

xc: William L. Jenkins