

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



MANAGEMENT LETTER
ISSUED APRIL 15, 2009

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

LEGISLATIVE AUDIT ADVISORY COUNCIL
REPRESENTATIVE NOBLE E. ELLINGTON, CHAIRMAN

SENATOR NICHOLAS "NICK" GAUTREAUX
SENATOR WILLIE L. MOUNT
SENATOR EDWIN R. MURRAY
SENATOR BEN W. NEVERS, SR.
SENATOR JOHN R. SMITH
REPRESENTATIVE NEIL C. ABRAMSON
REPRESENTATIVE CHARLES E. "CHUCK" KLECKLEY
REPRESENTATIVE ANTHONY V. LIGI, JR.
REPRESENTATIVE CEDRIC RICHMOND

LEGISLATIVE AUDITOR
STEVE J. THERIOT, CPA

DIRECTOR OF FINANCIAL AUDIT
PAUL E. PENDAS, CPA

Under the provisions of state law, this report is a public document. A copy of this report has been submitted to the Governor, to the Attorney General, and to other public officials as required by state law. A copy of this report has been made available for public inspection at the Baton Rouge office of the Legislative Auditor.

This document is produced by the Legislative Auditor, State of Louisiana, Post Office Box 94397, Baton Rouge, Louisiana 70804-9397 in accordance with Louisiana Revised Statute 24:513. Five copies of this public document were produced at an approximate cost of \$15.80. This material was produced in accordance with the standards for state agencies established pursuant to R.S. 43:31. This report is available on the Legislative Auditor's Web site at www.la.la.gov. When contacting the office, you may refer to Agency ID No. 3478 or Report ID No. 80080075 for additional information.

In compliance with the Americans With Disabilities Act, if you need special assistance relative to this document, or any documents of the Legislative Auditor, please contact Wayne "Skip" Irwin, Director of Administration, at 225-339-3800.



LOUISIANA LEGISLATIVE AUDITOR
STEVE J. THERIOT, CPA

March 25, 2009

**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, 2008, 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 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 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 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. 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, 2007, we reported findings relating to noncompliance with subrecipient monitoring requirements, weaknesses in the administration of Student Financial Aid at LSU Alexandria, and unlocated

movable property. The findings related to noncompliance with subrecipient monitoring requirements and unlocated movable property were resolved by management. The finding related to weaknesses in the administration of Student Financial Aid at LSU Alexandria is addressed again in this letter.

Based on the application of the procedures referred to previously, all significant findings are included in this letter for management's consideration. The finding included in this management letter that is required to be reported by *Government Auditing Standards* has also been included in the State of Louisiana's Single Audit Report for the year ended June 30, 2008.

Energy Efficiency Contract Contrary to Law

In August 2002, Louisiana State University (LSU) entered into a 15-year performance-based energy efficiency contract for a cost of approximately \$3.5 million with Johnson Controls, Inc. (JCI) that includes stipulated savings and therefore does not comply with state laws. Louisiana Revised Statute (R.S.) 39:1496.1(A) provides that a state agency may enter into a performance-based energy efficiency contract for services and equipment. R.S. 39:1484(A)(14) requires the payment obligation to be either a percentage of the annual energy cost savings attributable to the services or equipment under the contract; or guaranteed by the company under contract to be less than the annual energy cost savings attributable to the services or equipment under the contract. R.S. 39:1496.1(D) requires the contract to contain a guarantee of energy savings to the university. The statute further provides that the annual calculation of the energy savings must include maintenance savings that result from operational expenses eliminated and future capital replacement expenditures avoided as a result of equipment installed or services performed by the contractor.

Attorney General Opinion 07-0002 provides, “. . . for the stipulated operational savings to be included in the total guaranteed savings, those savings must actually be guaranteed. In order for the operational savings to be guaranteed, the Contract would have to provide for some type of measurement and/or verification of the operational savings. . . .” Although the Attorney General Opinion was directed to local government, the same guarantee is required in state law.

A review of the energy efficiency contract between LSU and JCI disclosed that JCI guaranteed a total of \$3,427,380 in savings during the term of the contract, consisting of measurable savings of \$2,614,658 and operational savings of \$812,722. According to the contract, “Operational Savings are mutually agreed by the Customer and JCI . . . and shall not be additionally measured or monitored during the Term.” The contract also stipulates that operational savings include avoided repair and maintenance costs achieved by the Customer through the implementation of the Performance Contracting Agreement. The operational savings are not actually guaranteed because the contract does not provide for some type of measurement and/or verification of the operational savings. Therefore, excluding the operational savings, the guaranteed savings over the life of the contract are only the measurable savings of \$2,614,658. The total payments due to JCI over the life

of the contract are approximately \$3.5 million. Therefore, the payment obligation exceeds the adjusted guaranteed annual energy cost savings.

At the signing date of the contract, management believed that the contract complied with state law. However, because the operational savings are stipulated and are not measurable and verifiable, the contract is not in compliance with state law. In addition, there is a risk of making payments specified in the contract that are greater than the energy cost savings attributable to the services or equipment under the contract.

Management should revise its energy efficiency contract to ensure that each savings component is verifiable and that the guaranteed savings have been realized. In addition, management should ensure that the payments required by the contract are not greater than the energy cost savings attributable to the services or equipment under the contract. LSU System's management concurred with the finding and is in the process of extensively reviewing each contract to discover all facts relevant to the status of the contracts and further action required (see Appendix A, page 1).

Weaknesses in the Administration of Student Financial Aid at Louisiana State University at Alexandria

For the second consecutive year, LSU at Alexandria (LSUA) did not fully comply with all student financial aid reporting requirements. Audit procedures on certain compliance requirements 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) identified the following:

- Disbursement records that report Pell payment data to the federal grantor, U.S. Department of Education (USDOE), were not submitted timely. 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. LSUA did not submit all Pell Grant payment data for the fall 2007 and spring 2008 semesters to the USDOE within 30 days after making the disbursements. In a test of 12 student financial aid transactions, three were submitted from three to 123 days late.
- LSUA's management was unable to provide assurance that certain data reported in the Fiscal Operations Report and Application to Participate (FISAP) was properly calculated and supported by adequate documentation. Volume 6, Chapter 1 of the *Federal Student Aid Handbook* requires institutions to maintain financial records that reflect all campus-based program transactions and supports the school's application for campus-based funds. LSUA did not ensure that supporting documentation was maintained for Part II, line 24 of the FISAP and could not produce support that agreed to the amount reported.

LSUA's management did not ensure that data was properly supported by adequate documentation and timely submitted as required by federal regulations. Failure to timely submit Pell payment data to the USDOE results in noncompliance with federal program requirements. Failure to maintain supporting documentation reduces the accuracy of reports and may result in noncompliance with federal program regulations.

LSUA's management should establish procedures to ensure that disbursements of Pell are timely reported to the USDOE and that adequate documentation is maintained to support the accuracy of data included in all parts of the FISAP. Management concurred with the finding and outlined a plan of corrective action (see Appendix A, pages 2-3).

Inadequate Controls Over Self-Insurance Program

The LSU System does not have sufficient internal control over the LSU System Health Plan (Plan). The Plan is a self-insured and self-funded plan that provides health insurance benefits to active and retired university employees and certain other state employees and retirees. An adequate system of internal control includes procedures to ensure (1) valid participation and indemnity agreements with other participating agencies are maintained; (2) bank reconciliations are performed accurately; (3) unclaimed property regulations are followed; (4) monthly plan member rosters are compared to payroll records for accuracy and any errors are corrected timely; and (5) healthcare providers are properly verified. Furthermore, state law requires that unclaimed property must be reported to the state treasurer.

During a review of the Plan for the fiscal year ended June 30, 2008, the following control deficiencies were noted:

- The LSU System's participation and indemnity agreements with various state agencies have expired creating a risk that the LSU System is potentially liable for claims and other costs of non-LSU plan members. Eligibility for the Plan is limited to full-time employees and retirees of LSU; members, officers, employees, and retirees of the state Senate and House of Representatives (House); employees and retirees of the Legislative Budgetary Control Council (LBCC); and former employees of LSU, the Senate, the House, or the LBCC that were participating in the Plan at the time their employment ceased and subsequently transferred to another employer that participates in the Office of Group Benefits. The system executes participation and indemnity agreements with these outside agencies making each agency financially responsible for claims and other costs of its plan members. The Memorandum of Understanding between LSU and the Office of Group Benefits requires that LSU be solely and exclusively responsible for all costs and claims of the Plan unless the non-LSU employers of program participants have expressly assumed responsibility for costs and claims by executing participation or other agreements that assign costs to the participating agency. Audit procedures indicated that the agreements with the Senate, House, and

Office of the Governor have expired, which exposes the LSU System to risk of potential liability for claims and other costs for non-LSU plan members.

- The LSU System has not properly reconciled the claims bank account for the Plan. An LSU employee prepares reconciliations of the account; however, the reconciliations do not accurately reconcile the bank balance to the book balance. The reconciliations also include reconciling items for unsupported amounts, unreconciled differences, and mathematical errors. Although the reconciliations are signed by a supervisor, these errors have gone undetected. Audit procedures performed on the claims bank account reconciliations for each month of the fiscal year indicated that the unreconciled difference is approximately \$660,000. The LSU System Internal Audit is investigating this difference.
- The LSU System does not have procedures established to ensure compliance with the state's unclaimed property regulations for the Plan. The system has not filed any unclaimed property reports since the Plan's inception in 2002. R.S. 9:159 provides that a holder (the Plan) of property presumed abandoned shall make a report to the administrator (State Treasurer) concerning the property and send written notice to the apparent owner not more than 120 days or less than 60 days before filing the report. The report shall be filed before November 1 of each year and cover the period preceding July 1 of that year. Audit procedures performed on the outstanding check report prepared by the bank indicates approximately 4,465 checks totaling \$253,318 issued from August 2, 2002, to June 30, 2006, which were still outstanding as of June 30, 2008, and not reported to the State Treasurer as required by state law.
- The payroll department for LSU and Related Campuses does not review the monthly member roster provided by the LSU System to ensure the claims administrator's records are accurate. As a result, an employee who terminated coverage through the Plan on June 30, 2007, and subsequently terminated employment on September 10, 2007, remained on the active member roster through June 2008. Because the error was not detected timely, the claims administrator paid claims on behalf of the terminated employee totaling \$39,117 for services provided between July 1, 2007, and April 30, 2008. LSU did not recover these monies.
- The claims administrator does not have adequate procedures for verification of healthcare providers. As a result, the claims administrator paid \$6,267 in fraudulent claims submitted by an individual posing as a healthcare provider. The individual submitted six fraudulent claims totaling \$17,806; however, the LSU System was able to stop payment on two checks totaling \$11,539. The LSU System became aware of the fraudulent claims after two plan members reported claims on their records that they had not incurred. The LSU System has filed a police report and

has reported the fraud to the Louisiana Legislative Auditor and the Office of Attorney General, as required by state law. The individual has been arrested.

Failure to provide an effective system of internal control increases the Plan's exposure to potential liabilities; increases the risk that the Plan's cash is not accurately recorded; and increases the risk that errors and/or fraud could occur and not be detected in a timely manner. In addition, the lack of unclaimed property procedures results in noncompliance with state laws and regulations.

Management should strengthen its procedures to ensure (1) valid participation and indemnity agreements with other participating agencies are maintained and updated timely; (2) bank reconciliations are performed accurately and reviewed by a supervisor; (3) unclaimed property regulations are followed; (4) monthly plan member rosters are compared to payroll records for accuracy and any errors are corrected timely; and (5) healthcare providers are properly verified. LSU should seek to recover all unsupported claims paid to former participants and fraudulent providers. Management concurred in part with the finding and outlined plans of corrective action (see Appendix A, pages 4-6).

Noncompliance With State Movable Property Regulations

LSU is not in compliance with state movable property regulations requiring all state entities to use the statewide inventory system, Protégé, for its movable property records. Louisiana Administrative Code Title 34 Part VII Section 307(A) states, "All items of moveable property having an original acquisition cost, when first purchased by the state of Louisiana, of \$1,000 or more, all gifts and other property having a fair market value of \$1,000 or more, and all weapons, regardless of cost, . . . must be placed on the statewide inventory system." The state's Division of Administration (DOA) granted LSU a temporary exclusion from the requirement, which was subsequently extended until January 1, 2008. As of this time, LSU has neither converted its property records to Protégé nor has it received an additional extension of its exemption from the DOA.

Management expressed that the state's current movable property system will not accommodate LSU's unique accounting and reporting needs. LSU has submitted a written request for a permanent exemption to the DOA, but has not received a response. However, because LSU has not entered its property data on Protégé and its exemption has expired, LSU is in noncompliance with state movable property regulations.

Management should comply with the state's movable property laws and regulations by entering its movable property records on Protégé. Management concurred with the finding and provided additional information regarding LSU's unique accounting and reporting needs and its concerns with Protégé (see Appendix A, pages 7-8).

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, the LSU Board of Supervisors, others within the entity, 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

NM:ES:EFS:PEP:sr

LSU&R08

This page is intentionally blank.

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



Louisiana State University System

3810 West Lakeshore Drive
Baton Rouge, Louisiana 70808

Office of the Executive Vice President

225 / 578-6935

225 / 578-5524 fax

February 19, 2009

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

Re: Audit Finding - Energy Efficiency Contract Contrary to State Law

Dear Mr. Theriot:

On Tuesday, February 17, 2009 the LSU System received final audit findings from your office relative to performance-based energy efficiency contracts that several LSU System Institutions have entered into with Johnson Controls, Inc. (JCI). Specifically, the University of New Orleans, Louisiana State University, Louisiana State University Health Sciences Center Shreveport, University Medical Center and Lallie Kemp Medical Center received audit findings related to contracts with JCI.

The findings state that the agreements "include stipulated savings and therefore do not comply with state laws" because the operational savings are not verified or measured, and, as such, the savings truly guaranteed under the contract are less than the cost of the contract.

In the findings for these facilities, it is stated that "management should revise its energy efficiency contracts to ensure that savings components are verifiable and that the guaranteed savings have been realized."

Your office has requested an official response to the audit findings. Based upon a review of available contract documents, the LSU System concurs with these findings in that it appears that the savings under these contracts are not truly guaranteed as required by Louisiana law. In response to these findings, the LSU System is fully investigating this matter. The LSU System institutions are unable to unilaterally revise or amend the contracts to comply with state law. As such, the LSU System is in the process of extensively reviewing each contract, discovering all facts relevant to the status of the contracts and preparing for litigation to remedy the situation by nullifying the agreements, forcing amendments to the agreements or recovering for breach of the agreements should this be determined to be the appropriate course of action.

We are unable to provide an anticipated completion date for the estimated resolution of these findings at this time as we are currently performing extensive reviews of the contracts and focusing ongoing efforts on determining the appropriate course of action.

Sincerely,

A handwritten signature in black ink, appearing to read "John Antolik".

John Antolik
Assistant Vice President

cc: General Counsel P. Raymond Lamonica



Office of the Chancellor
Tel: (318) 473-6444 • FAX: (318) 473-6480

8100 Highway 71 South
Alexandria, LA 71302-9121

January 27, 2009

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:

Enclosed you will find Louisiana State University Alexandria's response to the findings indicated in the January 16, 2009 letter from Nicole Martin.

If you have any questions or need additional information please feel free to contact me.

Sincerely,

A handwritten signature in cursive script that reads "David P. Manuel".

David P. Manuel
Chancellor

Enclosure

cc: Mr. David Wesse
Ms. Teresa Seymour

LSUA Management Response to Legislative Audit from letter of January 16, 2009.

Finding Title: Weaknesses in the Administration of Student Financial Aid at LSU at Alexandria

Recommendation: *LSUA's management should establish procedures to ensure that disbursements of Pell are timely reported to the U.S. DOE and should ensure that adequate documentation is maintained to support the accuracy of data included in all parts of the FISAP.*

LSUA concurs with the finding and recommendations. Pell reporting was previously handled by the executive director of enrollment management. This individual was in a newly created role (07-08) with additional duties. In late Spring, 2008, this individual resigned.

Corrective Action: Pell Reporting. Since that time, the department has been re-organized, duties for reporting have been reassigned, and checks are being put in place to ensure timely reporting of Pell disbursements and adjustments. Ms. Gwen Andress, Compliance Coordinator, is now the staff member responsible for reporting Pell disbursements. Pell reports are submitted at least weekly. In the event that Ms. Andress is absent from work for more than one week, Mr. Paul Monteleone will conduct Pell reporting until her return or another staff member is trained and assigned that task. Ms. Andress took over Pell reporting April 2008. We are in the process of conducting a self-review of Pell reporting to identify late transmissions and corrective actions. Of the cases reviewed thus far from Summer 2008 – Fall 2008, all initial Pell reporting was transmitted to DOE through COD within 30 days. Software setup changes are being made to improve accuracy and efficiency with Pell reporting. It is expected these improvements will be complete by April 1, 2009. Mr. Deron Thaxton, Executive Director Information and Educational Technology, and Mr. Paul Monteleone, Interim Director Financial Aid and Scholarships, are responsible for implementing these setup changes.

Processes are being reviewed to appropriately handle Pell disbursements and reporting where modifications have been made based on ISIR corrections, comment flags, etc. These processes will be implemented by April 1, 2009. Mr. Monteleone will be responsible for implementing these processes.

Documentation. LSUA administration has reviewed all documentation related to the FISAP for the audited year. LSUA has taken steps to ensure that data and reports are appropriately documented. A snapshot of the PowerFaid and PowerCampus is taken on October 1 of each year at the time the FISAP is submitted. Although that information was available, management was unable to reproduce the amount reported on the FISAP. Given that all documentation is correct except the reported amount for line 24, we submit this was an error in submission rather than poor documentation. The information submitted for IPEDs matched the documentation on file. The individual reporting the information for FISAP is no longer employed at LSUA and documentation could not be located that would explain the reported amount. To prevent this in the future, not only will databases have snapshots at the time of the report, but the actual FISAP report from PowerFaid will be printed and approved by review prior to online submission of the report. The Office of Institutional Research will create reports from the PowerCampus system to compare to the PowerFaid system and review the reports prior to submission. The approved reports will be scanned and stored on the shared drive, as well as in the Office of Financial and Administrative Services. Mr. Monteleone will be responsible for reporting FISAP and will secure approval from the Office of Institutional Research prior to submitting.



Louisiana State University System
3810 West Lakeshore Drive
Baton Rouge, Louisiana 70808

Office of the Executive Vice President

225 / 578-6935
225 / 578-5524 fax

February 18, 2009

Mr. Steve J. Theriot, CPA
Legislative Auditor
Post Office Box 94397
Baton Rouge, Louisiana 70804-9397

Dear Mr. Theriot:

In conjunction with your audit of the LSU System Office for FY 2007-08 you issued a finding for inadequate controls over the LSU System Health Plan (Plan), a self-insured and self-funded plan that provides health insurance benefits to active and retired university employees and certain other state employees and retirees. Specifically, five control deficiencies were noted. A response to each is provided below.

1. Participation and indemnity agreement (Agreement) with various state agencies have expired. Under the Memorandum of Understanding (MOU) with the Office of Group Benefits, the LSU System will be solely and exclusively responsible for all costs and claims of the Plan unless the non-LSU employers of program participants have signed and executed a participation and indemnity agreement that assigns costs to the participating agency. You state that several such Agreements with a number of other agencies have expired thereby creating a risk that the LSU System is potentially liable for the claims and other costs of non-LSU plan members. We agree that extension documents were not timely executed; however, we do not believe that the LSU System bears any additional liability for non-LSU participants as a result. All parties continued to act in accordance with and with reliance on the Agreements.

However, the LSU System is taking steps to ensure that non-LSU employers' continuing responsibility for costs and claims of their respective participants is clear and agreed to by the appropriate parties. In this regard, the System has submitted to all applicable state agencies documents that establish, renew and/or extend any respective Agreement to run concurrent with the Memorandum of Understanding executed by and between the Division of Administration, the Office of Group Benefits, and LSU, effective March 1, 2007. The intent of the parties is that term of the current MOU is perpetual, only subject to cancellation under certain circumstances. Therefore, following receipt of the duly executed Agreements, this should not be a recurring issue.

2. The LSU System has not properly reconciled the claims bank account for the Plan. Reconciliations for the claims bank account do not accurately reconcile the bank balance to the book balance. We concur with this finding. We agree that the Plan's claims account was not reconciled to the University's general ledger, and after reviewing relevant information for this account, it appears that the

unreconciled amount is approximately \$660,000 as stated in your finding. It should also be noted, however, that this is a zero balance account used only to pay claims. As checks are presented to the bank for payment on the account, transfers are made from the Plan's premium account into the claims account so as to maintain a "zero" balance in the claims account. The bank routinely reconciles claims account activity with information provided by the previous claims administrator, Definity Health. Although the claims account activity was not reconciled to the general ledger account, the premium account, from which all claims-account funds were received, has been reconciled to the general ledger on a regular basis.

The LSU System Office of Internal Audit is working with us to investigate the cause of the unreconciled difference. Thus far, a number of accounting errors have been identified; however, it has not yet determined the extent to which these may affect the unreconciled balance. We intend to continue this process to determine such impact and make adjusting entries as necessary.

The LSU Office of Accounting Services assumed administration of the premium and claims bank accounts effective July 1, 2008, concurrent with the implementation of CIGNA as the current claims administrator for the LSU System Health Plan. Bank reconciliations are prepared on a monthly basis, a copy of such reconciliation will be provided to the LSU System within 60 days after the end of the month.

3. The LSU System doesn't have procedures established to ensure compliance by the Plan with the state's unclaimed property regulations. The Plan has not filed any unclaimed property reports since its inception in 2002. We concur with this finding.

Plan officials met with the Director of the Unclaimed Property Division of the Department of Treasury to discuss remedying this finding. A plan has been developed to transmit all outstanding checks covered by the unclaimed property regulations to the Department of Treasury after following required notification procedures to those individuals that have an outstanding check from the LSU System Health Plan. Effective July 1, 2008, the Office of Accounting Services at the LSU main campus has been given responsibility for all accounting required by the LSU System Health Plan. LSU's accounting services department has a clearly defined system in place to report unclaimed property on a timely basis in the future.

4. The payroll department for LSU and Related Campuses does not review the monthly member roster provided by the Plan to ensure the claims administrator's records are accurate. We concur in part with the finding by the Legislative Auditor. For the case in question, the established procedure of the campus would have been for one employee to enter the information provided on the enrollment form and for another to verify that the coverage for the Plan member was in fact canceled on the Definity Health System. This procedure was indeed followed by LSU campus employees. However, during the open enrollment rollover process, it appears Definity reinstated coverage on this employee without any interaction from LSU. Since this transaction was not initiated by LSU, its existing procedure did not detect the error made by Definity Health.

To lessen this happening again in the future, the LSU System is working with the current claims administrator, CIGNA, and the several campus payroll offices to implement an electronic process that will compare CIGNA'S eligibility information to each campus' payroll information. This process will enable each campus, on a monthly basis, to take an electronic data file from CIGNA and compare it against their payroll records for the purpose of identifying discrepancies. It is anticipated this process will be formalized by July 2009, and that electronic eligibility files from January 2009 going forward will be reconciled back to CIGNA'S eligibility system.

5. The claims administrator does not have adequate procedures for verification of healthcare providers. \$6,267 in fraudulent claims was paid to an individual posing as a healthcare provider. The individual submitted six

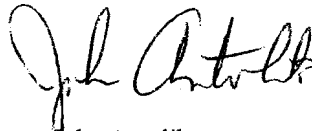
fraudulent claims totaling \$17,806; however, the System was able to stop payment on two checks totaling \$11,539. As required by state law, the LSU System filed a police report and reported the fraud to both the Legislative Auditor and the Office of the Attorney General.

While we concur that adequate procedures were not in place at the time of the fraudulent claim through our previous claims administrator, Definity Health, it should be pointed out that our current claims administrator, CIGNA, has very strong procedures in place designed to reduce the risk of fraud.

For example, CIGNA HealthCare is a founding member of the National Health Care Anti-Fraud Association (NHCAA), comprised of health care fraud experts from the public and private sectors. NHCAA has developed and implemented many specialized training programs and other important initiatives to address health care fraud.

CIGNA'S Special Investigations staff has actively participated in these initiatives and is responsible for conducting investigations of suspected fraud and analyzing cases to determine the scope of the potential fraud; mitigating the financial impact of potential fraud by "flagging" providers or members in its claim systems to alert claim processors of an investigation; developing evidence of potential fraud for referral to law enforcement, regulatory bodies and industry associations; pursuing civil recovery against those who have submitted false claims; coordinating and compiling information on savings and recovery; and identifying new and enhanced controls to prevent or detect fraud.

Sincerely,

A handwritten signature in black ink, appearing to read "John Antolik". The signature is fluid and cursive, with the first name "John" being more prominent than the last name "Antolik".

John Antolik

Assistant Vice President

cc: President John V. Lombardi
Mr. Chad Brackin
Mr. L. Kenneth Krogstad



February 17, 2009

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, 2008, we are responding to the audit finding concerning noncompliance with state movable property regulations. We concur with your finding.

Prior to the end of fiscal 2007-08, LSU formally requested approval from the Commissioner of Administration of a permanent exception to the mandate from the Louisiana Property Assistance Agency that all LSU movable property be converted to the State's Protégé system. This request is still pending. Such exception is allowed under the State Property Control regulations. This mandate has created serious concerns for the University, as there are certain requirements not provided in the Protégé system that must be accommodated by the movable property system used by LSU.

As part of an analysis of a potential conversion to the Protégé system, LSU surveyed other institutions of higher education in Louisiana. The survey results indicated that while several of those institutions were currently using the State system, they were also maintaining their own in-house systems due to reporting issues and other limitations of the Protégé system. Duplication of data entry and reconciliation of two inventory systems may be feasible for institutions having a relatively limited number of inventory items. However, LSU is currently responsible for managing over 64,000 inventory items, with an average of 994 inventory transactions per week. From a business perspective, dual data entry and multiple system reconciliation in this environment are not feasible.

LSU is a major public research institution, the largest in the State, and as such must accurately determine reasonable indirect costs to be recovered from restricted grants. LSU's indirect cost rate (also known as the "F&A" rate) is determined by means of very complex calculations included in a formal F&A proposal submitted to the Department of Health and Human Services. A major component of this most critical proposal includes the capitalized moveable equipment owned by the University. Our analysis revealed that the Protégé system does not allow multiple accounting records (i.e., account numbers and amounts) per inventory item, and cannot maintain the original accounting separate from the current accounting. However, this equipment accounting data is critical to LSU's F&A proposal.

Most state agencies are not required to calculate separate indirect cost rates, as this analysis is done on their behalf at the State level. Thus, limitations of the Protégé system do not directly impact their operations or their operating revenues. Moreover, smaller public higher

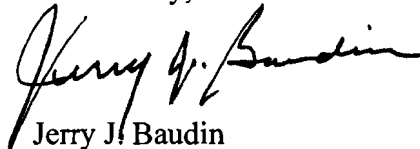
education institutions in Louisiana are allowed to use the "short-form" method for calculating their F&A rates, a method not requiring the detail equipment accounting data indicated above. Thus, the limitations of Protégé do not impact recovery of their indirect costs. However, due to the scope of our research activities, LSU must use a much more sophisticated process, and access to a much higher detail level of equipment accounting data is required to maximize our F&A rate. LSU's total research expenditures were \$122.6 million for the fiscal year ended June 30, 2008, and the total indirect costs recovered from grants for fiscal 2007-08 was \$20.5 million. It is critical for LSU to maintain access to detailed equipment accounting records to continue recovering all allowable indirect costs.

Our survey further indicated that the Protégé system's query capabilities are severely limited. Other institutions reported difficulty obtaining necessary reports, and identified this limitation as their primary reason for maintaining dual systems. LSU currently produces over 100 daily, monthly and annual reports needed by its various users. In addition, ad hoc requests for information linking our equipment inventory to other financial systems are frequently generated by our analyst staff.

State Property Control regulations stipulate in Chapter 7 that exceptions can be allowed for certain agencies who utilize their own data processing facility to be able to monitor and use their system for inventory control. LSU was granted this exception in May, 1996, and our current request for a permanent exception resulted from the issues and concerns outlined above. It is our intention to continue to fully comply with all State Property Control regulations, including the stipulation to provide regular electronic updates to the State's system.

Please let me know if anything further is needed.

Sincerely,

A handwritten signature in black ink, appearing to read "Jerry J. Baudin". The signature is fluid and cursive, written over a horizontal line.

Jerry J. Baudin

Vice Chancellor for Finance and Administrative Services
and Comptroller

xc: Chancellor Michael V. Martin