

SOWELA TECHNICAL COMMUNITY COLLEGE
A COLLEGE WITHIN THE
LOUISIANA COMMUNITY AND
TECHNICAL COLLEGE SYSTEM
A COMPONENT UNIT OF THE
STATE OF LOUISIANA



FINANCIAL STATEMENT AUDIT
FOR THE YEARS ENDED
JUNE 30, 2006 AND JUNE 30, 2005
ISSUED JUNE 20, 2007

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STEVE J. THERIOT, CPA

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April 19, 2007

Independent Auditor's Report
on the Financial Statements

SOWELA TECHNICAL COMMUNITY COLLEGE
LOUISIANA COMMUNITY AND
TECHNICAL COLLEGE SYSTEM
STATE OF LOUISIANA
Lake Charles, Louisiana

We have audited the accompanying basic financial statements of SOWELA Technical Community College, a college within the Louisiana Community and Technical College System, a component unit of the State of Louisiana, as of and for the years ended June 30, 2006 and June 30, 2005, as listed in the table of contents. These financial statements are the responsibility of management of SOWELA Technical Community College. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As discussed in note 1-B, the accompanying financial statements of SOWELA Technical Community College are intended to present the financial position and the changes in financial position and cash flows, where applicable, of only that portion of the business-type activities of the Louisiana Community and Technical College System that is attributable to the transactions of SOWELA Technical Community College. They do not purport to, and do not, present fairly the financial position of the Louisiana Community and Technical College System as of June 30, 2006 and June 30, 2005, and the changes in its financial position and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the basic financial statements referred to previously present fairly, in all material respects, the financial position of SOWELA Technical Community College as of June 30, 2006 and June 30, 2005, and the changes in its financial position and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in note 1-N to the basic financial statements, SOWELA Technical Community College implemented Governmental Accounting Standards Board Statement No. 42, *Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries* for the year ended June 30, 2006.

As discussed in note 16 to the financial statements, during August and September 2005, the State of Louisiana suffered considerable damage from two major hurricanes, Katrina and Rita, resulting in the President of the United States declaring Louisiana a major disaster area. Because of the severity of these two separate events and the resulting losses sustained, it is unknown what economic impact recovery efforts will have on state and local governmental operations in Louisiana. SOWELA Technical Community College suffered major damage from Hurricane Rita. In addition, the Louisiana Community and Technical College System lost significant assets and operational functionality as a result of the hurricanes. However, the long-term effects of these events directly on SOWELA Technical Community College cannot be determined at this time.

During the fiscal year ended June 30, 2006, the Louisiana Legislative Auditor (LLA) provided certain nonaudit services for the State of Louisiana directed toward assisting the state Department of Military Affairs and the Governor's Office of Homeland Security and Emergency Preparedness (GOHSEP) relative to their administration of the Federal Emergency Management Agency's (FEMA) Public Assistance program. The LLA provided the Department of Military Affairs and GOHSEP with assistance in reviewing documents submitted by applicants and reviewing the application and payment process to provide recommendations to those agencies for meeting their responsibilities for compliance with FEMA and state regulations. To maintain independence for audit purposes while providing these nonaudit services, the LLA has met the criteria and requirements set forth in *Government Auditing Standards: Temporary Exemptions and Guidance in Response to Hurricanes Katrina and Rita*, issued by the Government Accountability Office in November 2005.

In accordance with *Government Auditing Standards*, we have also issued our report dated April 19, 2007, on our consideration of SOWELA Technical Community College's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

INDEPENDENT AUDITOR'S REPORT

Management's discussion and analysis is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. However, SOWELA management did not include this information in its financial statements for fiscal years ended June 30, 2006 and June 30, 2005.

Respectfully submitted,



Steve J. Theriot, CPA
Legislative Auditor

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**SOWELA TECHNICAL COMMUNITY COLLEGE
LOUISIANA COMMUNITY AND TECHNICAL COLLEGE SYSTEM**

**Statement of Net Assets
June 30, 2006 and June 30, 2005**

	JUNE 30,	
	<u>2006</u>	<u>2005</u>
ASSETS		
Current assets:		
Cash and cash equivalents (note 2)	\$711,654	\$546,785
Receivables, net (note 3)	4,493,110	402,513
Due from federal government	2,894	2,799
Due from Louisiana Community and Technical College System	77,532	30,834
Inventories		17,902
Deferred charges and prepaid expenses	14,655	15,591
Total current assets	<u>5,299,845</u>	<u>1,016,424</u>
Noncurrent assets - capital assets, net (note 4)	<u>2,593,471</u>	<u>3,129,354</u>
Total assets	<u>7,893,316</u>	<u>4,145,778</u>
LIABILITIES		
Current liabilities:		
Accounts payable and accruals (note 8)	346,645	291,582
Deferred revenues (note 9)	101,256	105,837
Compensated absences payable (note 10)	42,457	38,475
Amounts held in custody for others	3,370	5,607
Total current liabilities	<u>493,728</u>	<u>441,501</u>
Noncurrent liabilities - compensated absences payable (note 10)	<u>644,335</u>	<u>662,136</u>
Total liabilities	<u>1,138,063</u>	<u>1,103,637</u>
NET ASSETS		
Invested in capital assets	2,593,471	3,129,354
Restricted for expendable (note 12)	191,602	64,889
Unrestricted	3,970,180	(152,102)
TOTAL NET ASSETS	<u>\$6,755,253</u>	<u>\$3,042,141</u>

The accompanying notes are an integral part of this statement.

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**SOWELA TECHNICAL COMMUNITY COLLEGE
LOUISIANA COMMUNITY AND TECHNICAL COLLEGE SYSTEM**

**Statement of Revenues, Expenses, and Changes in Net Assets
For the Fiscal Years Ended June 30, 2006 and June 30, 2005**

	JUNE 30,	
	2006	2005
OPERATING REVENUES		
Student tuition and fees	\$1,348,657	\$1,468,552
Less scholarship allowances	(426,309)	(372,433)
Net student tuition and fees	922,348	1,096,119
Federal grants and contracts	2,772,619	1,330,420
State and local grants and contracts	314,353	815,272
Nongovernmental grants and contracts	300,000	
Sales and services of educational departments	34,095	83,478
Other operating revenues	279,374	311,372
Total operating revenues	<u>4,622,789</u>	<u>3,636,661</u>
OPERATING EXPENSES		
Educational and general:		
Instruction	4,981,719	5,359,107
Academic support	326,196	467,649
Student services	537,973	510,572
Institutional support	1,796,428	1,822,305
Operations and maintenance of plant	667,997	655,936
Depreciation (note 4)	269,978	328,164
Scholarships and fellowships	944,660	897,716
Other operating expenses	105,874	10,870
Total operating expenses	<u>9,630,825</u>	<u>10,052,319</u>
OPERATING LOSS	<u>(5,008,036)</u>	<u>(6,415,658)</u>
NONOPERATING REVENUES (Expenses)		
State appropriations	6,268,773	6,472,896
Gifts	143,676	59,867
Net investment income	1,224	214
Nonoperating revenues - insurance recoveries	1,465,017	
Nonoperating revenues - FEMA	188,777	
Other nonoperating revenues (expenses)	(487,174)	25,557
Net nonoperating revenues	<u>7,580,293</u>	<u>6,558,534</u>
INCOME BEFORE OTHER REVENUES	2,572,257	142,876
Extraordinary gain - impairment gain after insurance recovery (note 16)	1,140,855	NONE
Increase in Net Assets	3,713,112	142,876
NET ASSETS AT BEGINNING OF YEAR, RESTATED (note 13)	<u>3,042,141</u>	<u>2,899,265</u>
NET ASSETS AT END OF YEAR	<u>\$6,755,253</u>	<u>\$3,042,141</u>

The accompanying notes are an integral part of this statement.

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**SOWELA TECHNICAL COMMUNITY COLLEGE
LOUISIANA COMMUNITY AND TECHNICAL COLLEGE SYSTEM**

**Statement of Cash Flows
For the Fiscal Years Ended June 30, 2006 and June 30, 2005**

	JUNE 30,	
	2006	2005
Cash Flows From Operating Activities:		
Tuition and fees	\$894,625	\$1,092,037
Grants and contracts	1,876,037	2,341,899
Sales and services of educational departments	34,095	83,478
Payments for employee compensation	(5,168,043)	(5,445,987)
Payments for benefits	(1,576,846)	(1,319,994)
Payments for utilities	(308,252)	(289,517)
Payments for supplies and services	(1,349,662)	(1,747,427)
Payments for scholarships and fellowships	(944,660)	(897,716)
Other receipts	264,923	308,489
Net cash (used) by operating activities	<u>(6,277,783)</u>	<u>(5,874,738)</u>
Cash Flows From Noncapital Financing Activities:		
State appropriations	6,268,773	6,742,516
Gifts and grants for other than capital purposes	143,676	59,867
TOPS receipts	50,034	33,148
TOPS disbursements	(50,034)	(33,148)
Other receipts	55,248	19,169
Net cash provided by noncapital financing sources	<u>6,467,697</u>	<u>6,821,552</u>
Cash Flows From Capital Financing Activities:		
Purchases of capital assets	(26,269)	(366,279)
Net cash used by capital financing activities	<u>(26,269)</u>	<u>(366,279)</u>
Cash Flows From Investing Activities:		
Interest received on investments	1,224	214
Net cash provided by investing activities	<u>1,224</u>	<u>214</u>
Net increase in cash and cash equivalents	164,869	580,749
Cash and cash equivalents at beginning of year	<u>546,785</u>	<u>(33,964)</u>
Cash and cash equivalents at end of year	<u><u>\$711,654</u></u>	<u><u>\$546,785</u></u>

(Continued)

The accompanying notes are an integral part of this statement.

**SOWELA TECHNICAL COMMUNITY COLLEGE
LOUISIANA COMMUNITY AND TECHNICAL COLLEGE SYSTEM
Statement of Cash Flows
For the Fiscal Years Ended June 30, 2006 and June 30, 2005**

	JUNE 30,	
	2006	2005
Reconciliation of Net Operating Loss to Net Cash Used by Operating Activities:		
Operating loss	(\$5,008,036)	(\$6,415,658)
Adjustments to reconcile operating loss to net cash used by operating activities:		
Depreciation expense	269,978	328,164
Changes in assets and liabilities:		
(Increase) decrease in accounts receivable, net	(1,548,528)	185,692
(Increase) decrease in inventories	17,902	(7,757)
(Increase) decrease in prepaid expenses	936	(3,862)
(Increase) in other assets	(46,698)	(17,743)
Increase in accounts payable	55,063	57,301
Increase (decrease) in deferred revenue	(4,581)	3,550
(Decrease) in compensated absences	(13,819)	(4,425)
	<u>(\$6,277,783)</u>	<u>(\$5,874,738)</u>
 Noncash Investing, Noncapital Financing, and Capital and Related Financing Transactions:		
Insurance recoveries	\$2,898,046	
Federal Emergency Management Agency (FEMA) recoveries	148,123	
Expenses paid directly by FEMA and the state's Office of Risk Management	(512,283)	

(Concluded)

The accompanying notes are an integral part of this statement.

INTRODUCTION

SOWELA Technical Community College (college) is a publicly supported institution of higher education. The college is a part of the Louisiana Community and Technical College System, which is a component unit of the State of Louisiana, within the executive branch of government. The college is under the management and supervision of the Board of Supervisors of the Louisiana Community and Technical College System; however, certain items, such as the annual budget of the college and changes to the degree programs and departments of instruction, require the approval of the Louisiana Board of Regents of Higher Education. As a state college, operations of the college's instructional programs are funded through annual lapsing appropriations made by the Louisiana Legislature.

The college is located at 3820 Senator J. Bennett Johnson Avenue, Lake Charles, Louisiana. The college offers associate of applied science degrees in the areas of accounting technology, aviation maintenance technology, commercial art, computer specialist-operations, computer technology-applications development specialist, computer technology-networking specialist, computer technology-programming specialist, criminal justice, drafting and design technology, industrial electronics technology, industrial instrumentation, occupational education, office systems technology, and process technology and an associate in general studies. The college had enrollment of 884 and 1,828 in the summer and fall of 2005, respectively, and 1,562 in the spring of 2006. The college has 98 full-time faculty and staff.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. BASIS OF PRESENTATION

The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting principles and reporting standards. These principles are found in the *Codification of Governmental Accounting and Financial Reporting Standards*, published by the GASB. The college has the option to apply all Financial Accounting Standards Board (FASB) pronouncements issued after November 30, 1989, unless FASB conflicts with GASB. The institution has elected to not apply FASB pronouncements issued after the applicable date.

B. REPORTING ENTITY

SOWELA Technical Community College is part of the Louisiana Community and Technical College System (System), which is considered a component unit of the State of Louisiana under the criteria in GASB Codification Section 2100, because the state exercises oversight responsibility and has accountability for fiscal matters as follows: (1) a majority of the members of the governing board are appointed by the governor; (2) the state has control and exercises authority over budget matters; (3) state appropriations provide the largest percentage of total revenues; (4) the state issues bonds to finance certain construction; and (5) the colleges within the System primarily serve state residents. The accompanying financial statements present information only as to the transactions of the programs of SOWELA Technical Community College.

Annually, the State of Louisiana issues a comprehensive financial report, which includes the activity contained in the accompanying financial statements within the Louisiana Community and Technical College System amounts. The Louisiana Legislative Auditor audits the basic financial statements of the System and the State of Louisiana.

C. BASIS OF ACCOUNTING

For financial reporting purposes, the college is considered a special-purpose government engaged only in business-type activities. Accordingly, the college’s financial statements have been presented using the economic resources measurement focus and the accrual basis of accounting. Under the accrual basis, revenues are recognized when earned, and expenses are recorded when an obligation has been incurred.

D. BUDGET PRACTICES

The State of Louisiana’s appropriation to the college is an annual lapsing appropriation established by legislative action and Title 39 of the Louisiana Revised Statutes. The statute requires that the budget be approved by the Board of Regents for Higher Education and certain legislative and executive agencies of state government. Budget revisions are granted by the Joint Legislative Committee on the Budget. In compliance with these legal restrictions, budgets are adopted on the accrual basis of accounting, except that (1) depreciation is not recognized; (2) leave costs are treated as budgeted expenditures to the extent that they are expected to be paid; (3) summer school tuition and fees and summer school faculty salaries and related benefits for June are not prorated but are recognized in the succeeding year; and (4) carry forward of prior year funds is recognized as revenue in the current year.

The budget amounts for fiscal years 2006 and 2005 include the original approved budget and subsequent amendments approved as follows:

	Fiscal Year	
	2006	2005
Original approved budget	\$8,998,608	\$7,877,097
Amendments:		
State General Fund decreases	(1,506,760)	(101,307)
Statutory dedications increases	1,043,006	300,000
Fees and self-generated increases (decreases)	(9,841)	324,218
	<u> </u>	<u> </u>
Total	<u>\$8,525,013</u>	<u>\$8,400,008</u>

E. CASH AND CASH EQUIVALENTS

Cash and cash equivalents include cash on hand, interest-bearing demand deposits, and a certificate of deposit. Under state law, the college may deposit funds within a fiscal agent bank organized under the laws of the State of Louisiana, the laws of any other state in the Union, or the laws of the United States. Furthermore, the college may invest in certificates of deposit of state banks organized under Louisiana law and national banks having their principal offices in Louisiana.

F. INVENTORY

Inventories are valued at the lower of cost or market on the weighted-average basis. The college accounts for its inventories using the consumption method.

G. CAPITAL ASSETS

Capital assets are reported at cost at the date of acquisition or their estimated fair value at the date of donation. For movable property (equipment), the college's capitalization policy includes all items with a unit cost of \$5,000 or more and an estimated useful life greater than one year. Buildings and improvements costing \$100,000 or more are capitalized. Renovations to buildings and land improvements that significantly increase the value or extend the useful life of the structure are also capitalized. Routine repairs and maintenance are charged to operating expense in the year in which the expense was incurred. Depreciation is computed using the straight-line method over the estimated useful life of the assets, generally 40 years for buildings and 3 to 10 years for most movable property.

H. DEFERRED REVENUES

Deferred revenues include amounts received for tuition and fees prior to the end of the fiscal year but are related to the subsequent accounting period.

I. NONCURRENT LIABILITIES

Noncurrent liabilities include estimated amounts for accrued compensated absences that will not be paid within the next fiscal year.

J. COMPENSATED ABSENCES

Employees accrue and accumulate annual and sick leave in accordance with state law and administrative regulations. The leave is accumulated without limitation; however, nine-month faculty members do not accrue annual leave but are granted faculty leave during holiday periods when students are not in classes. Employees who are considered having non-exempt status according to the guidelines contained in the Fair Labor Standards Act may be paid for compensatory leave earned.

Upon separation or termination of employment, both classified and nonclassified personnel or their heirs are compensated for accumulated annual leave not to exceed 300 hours. In addition, academic and nonclassified personnel or their heirs are compensated for accumulated sick leave not to exceed 25 days upon retirement or death. Act 343 of 1993 allows members of the Louisiana State Employees' Retirement System, upon application for retirement, the option of receiving an actuarially determined lump sum payment for annual and sick leave which would otherwise have been used to compute years of service for retirement. Unused annual leave in excess of 300 hours plus unused sick leave are used to compute retirement benefits.

Upon termination or transfer, a classified employee will be paid for any one and one-half hour compensatory leave earned and may or may not be paid for any straight hour-for-hour compensatory leave earned. Compensation paid will be based on the employee's hourly rate of pay at termination or transfer.

K. NET ASSETS

The college's net assets are classified as follows:

- (a) Invested in capital assets represents the college's total investment in capital assets, net of accumulated depreciation. The college does not have any outstanding debt obligations related to acquisition, construction, or improvement of these capital assets.
- (b) Restricted net assets - expendable consist of resources that the college is legally or contractually obligated to spend in accordance with restrictions imposed by external third parties.
- (c) Unrestricted net assets consist of resources derived from student tuition and fees, state appropriations, and sales and services of educational department. These resources are used for transactions relating to the educational and general operations of the college and may be used at the discretion of the governing board to meet current expenses and for any purpose.

When an expense is incurred that can be paid using either restricted or unrestricted resources, the college's policy is to first apply the expense toward unrestricted resources, then toward restricted resources.

L. CLASSIFICATION OF REVENUES AND EXPENSES

The college has classified its revenues as either operating or nonoperating according to the following criteria: (1) Operating revenue includes activities that have the characteristics of exchange transactions, such as student tuition and fees, net of scholarship discounts and allowances; and most federal, state, and local grants and contracts. (2) Nonoperating revenue includes activities that have the characteristics of

nonexchange transactions, such as gifts and contributions, state appropriations, investment income, and insurance recoveries.

The college has classified its expenses as either operating or nonoperating according to the following criteria: (1) Operating expenses generally include transactions resulting from providing goods or services, such as payments to vendors for goods or services; payments to employees for services; and payments for employee benefits. (2) Nonoperating expenses include transactions resulting from financing activities, capital acquisitions, and investing activities.

M. SCHOLARSHIP DISCOUNTS AND ALLOWANCES

Student tuition and fee revenues and certain other revenues from students are reported net of scholarship discounts and allowances in the Statement of Revenues, Expenses, and Changes in Net Assets. Scholarship discounts and allowances is the difference between the stated charge for services (tuition and fees) provided by the college and the amount that is paid by students and/or third parties making payments on the students' behalf.

N. ADOPTION OF NEW ACCOUNTING PRINCIPLES

For the year ended June 30, 2006, the college implemented GASB Statements No. 42, *Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries*; No. 46, *Net Assets Restricted by Enabling Legislation*; and No. 47, *Accounting for Termination Benefits*. Statement Nos. 46 and 47 have no impact on reporting for the college.

2. CASH AND CASH EQUIVALENTS

At June 30, 2006 and June 30, 2005, the college has cash and cash equivalents (book balances) of \$711,654 and 546,785, respectively, as follows:

	June 30, 2006	June 30, 2005
Petty cash	\$400	\$400
Interest-bearing demand deposits	670,192	506,548
Certificates of deposit	41,062	39,837
Total	\$711,654	\$546,785

Custodial credit risk is the risk that in the event of a bank failure, the college's deposits may not be recovered. Under state law, these deposits (or the resulting bank balances) must be secured by federal deposit insurance or similar federal security or the pledge of securities owned by the fiscal agent bank. The fair market value of the pledged securities plus the federal deposit insurance must at all times equal the amount on deposit with the fiscal agent. These securities are held in the name of the college or the pledging bank by a holding or custodial bank that is

mutually acceptable to both parties. At June 30, 2006 and 2005, the college has \$796,224 and \$769,253, respectively, in deposits (collected bank balances), which are secured from risk by federal deposit insurance plus pledged securities.

3. RECEIVABLES

Receivables are shown on the Statement of Net Assets, net of allowances for doubtful accounts, at June 30, 2006 and June 30, 2005. These receivables are composed of the following:

<u>June 30, 2006</u>	<u>Receivables</u>	Allowance for Doubtful Accounts	Net Receivables
Student tuition and fees	\$41,499	\$10,838	\$30,661
Federal, state, and private grants and contracts	1,865,463		1,865,463
Insurance recoveries	2,533,886		2,533,886
Other	<u>73,285</u>	<u>10,185</u>	<u>63,100</u>
Total	<u><u>\$4,514,133</u></u>	<u><u>\$21,023</u></u>	<u><u>\$4,493,110</u></u>
<u>June 30, 2005</u>	<u>Receivables</u>	Allowance for Doubtful Accounts	Net Receivables
Student tuition and fees	\$11,761	\$4,147	\$7,614
Federal, state, and private grants and contracts	346,250		346,250
Other	<u>57,783</u>	<u>9,134</u>	<u>48,649</u>
Total	<u><u>\$415,794</u></u>	<u><u>\$13,281</u></u>	<u><u>\$402,513</u></u>

There is no noncurrent portion of receivables.

4. CHANGES IN CAPITAL ASSETS

A summary of changes in capital assets for the year ended June 30, 2006, follows:

	Balance June 30, 2005	Additions	Retirements	Balance June 30, 2006
Capital assets not being depreciated - land	\$76,625	NONE	NONE	\$76,625
Other capital assets:				
Buildings	\$6,243,320		(\$292,174)	\$5,951,146
Less accumulated depreciation	(3,869,903)	(\$130,559)		(4,000,462)
Total buildings	2,373,417	(130,559)	(292,174)	1,950,684
Equipment	2,558,697	\$26,269	(98,310)	2,486,656
Less accumulated depreciation	(1,879,385)	(139,419)	98,310	(1,920,494)
Total equipment	679,312	(113,150)	NONE	566,162
Total other capital assets	\$3,052,729	(\$243,709)	(\$292,174)	\$2,516,846
Capital asset summary:				
Capital assets not being depreciated	\$76,625			\$76,625
Other capital assets, at cost	8,802,017	\$26,269	(\$390,484)	8,437,802
Total cost of capital assets	8,878,642	26,269	(390,484)	8,514,427
Less accumulated depreciation	(5,749,288)	(269,978)	98,310	(5,920,956)
Capital assets, net	\$3,129,354	(\$243,709)	(\$292,174)	\$2,593,471

A summary of changes in capital assets for the year ended June 30, 2005, follows:

	Balance June 30, 2004	Additions	Retirements	Balance June 30, 2005
Capital assets not being depreciated - land	\$76,625	NONE	NONE	\$76,625
Other capital assets:				
Buildings	\$6,243,320			\$6,243,320
Less accumulated depreciation	(3,717,439)	(\$152,464)		(3,869,903)
Total buildings	2,525,881	(152,464)	NONE	2,373,417
Equipment	2,451,667	\$366,279	(259,249)	2,558,697
Less accumulated depreciation	(1,962,934)	(175,700)	259,249	(1,879,385)
Total equipment	488,733	190,579	NONE	679,312
Total other capital assets	\$3,014,614	\$38,115	NONE	\$3,052,729
Capital asset summary:				
Capital assets not being depreciated	\$76,625			\$76,625
Other capital assets, at cost	8,694,987	\$366,279	(\$259,249)	8,802,017
Total cost of capital assets	8,771,612	366,279	(259,249)	8,878,642
Less accumulated depreciation	(5,680,373)	(328,164)	259,249	(5,749,288)
Capital assets, net	\$3,091,239	\$38,115	NONE	\$3,129,354

5. PENSION PLANS

Plan Description. Substantially all employees of the college are members of two statewide, public employee retirement systems. Academic employees are generally members of the Louisiana Teachers Retirement System (TRS), and classified/unclassified state employees are generally members of the Louisiana State Employees Retirement System (LASERS). TRS is a cost-sharing, multiple-employer defined benefit pension plan and LASERS is considered a single-employer plan because the material portion of its activity is with one employer--the State of Louisiana. TRS and LASERS provide retirement, disability, and survivors' benefits to plan members and beneficiaries and are administered by separate boards of trustees. Benefits granted by the retirement systems are guaranteed by the State of Louisiana by provisions of the Louisiana Constitution of 1974. Generally, all full-time employees are eligible to participate in the systems, with employee benefits vesting after 5 and 10 years of service in the TRS and LASERS, respectively. Article 10, Section 29 of the Louisiana Constitution of 1974 assigns the authority to establish and amend benefit provisions to the state legislature. The retirement systems issue annual publicly available financial reports that include financial statements and required supplementary information for the retirement systems. The reports may be obtained by writing to the Teachers Retirement System of Louisiana, Post Office Box 94123, Baton Rouge, Louisiana 70804-9123, or by calling (225) 925-6446 and/or the Louisiana State Employees Retirement System, Post Office Box 44213, Baton Rouge, Louisiana 70804-4213, or by calling (225) 922-0600.

Funding Policy. The contribution requirements of plan members and the college are established and may be amended by the state legislature. The legislature annually sets the required employer contribution rate equal to the actuarially required employer contribution as set forth in R.S. 11:102. For fiscal years 2006 and 2005, employees contributed 8% (TRS) and 7.5% (LASERS) of covered salaries. The state is required to contribute 15.9% of covered salaries to TRS and 19.1% of covered salaries to LASERS for fiscal year 2006 and 15.5% of covered salaries to TRS and 17.8% of covered salaries to LASERS for fiscal year 2005. The college's employer contribution is funded by the State of Louisiana through the annual appropriation to the college. The college's employer contributions to TRS for the years ended June 30, 2006, 2005, 2004, and 2003 were \$567,285; \$545,458; \$481,155; and \$432,057, respectively, and to LASERS for the years ended June 30, 2006, 2005, 2004, and 2003 were \$172,184; \$158,874; \$143,315; and \$109,910, respectively, equal to the required contributions for each year.

6. OPTIONAL RETIREMENT SYSTEM

R.S. 11:921 created an optional retirement plan for academic and administrative employees of public institutions of higher education. This program, which is administered by TRS, was designed to aid colleges in recruiting employees who may not be expected to remain in TRS for 10 or more years. The purpose of the optional retirement plan is to provide retirement and death benefits to the participants while affording the maximum portability of these benefits to the participants.

The optional retirement plan is a defined contribution plan that provides for full and immediate vesting of all contributions remitted to the participating companies on behalf of the participants. Eligible employees make an irrevocable election to participate in the optional retirement plan rather than the TRS and purchase retirement and death benefits through contracts provided by designated companies.

Total contributions by the college were 15.9% of the covered payroll for fiscal year 2006 and 15.5% for fiscal year 2005. The participant's contribution, which was 8% for fiscal years 2006 and 2005, less any monthly fee required to cover the cost of administration and maintenance of the optional retirement plan, is remitted to the designated company or companies. Upon receipt of the employer's contribution, the TRS pays over to the appropriate company or companies, on behalf of the participant, an amount equal to the employer's portion of the normal cost contribution as determined annually by an actuarial committee. The TRS retains the balance of the employer contribution for application to the unfunded accrued liability of the system. Benefits payable to participants are not the obligation of the State of Louisiana or the TRS. Such benefits and other rights of the optional retirement plan are the liability and responsibility solely of the designated company or companies to whom contributions have been made. Employer and employee contributions to the optional retirement plan totaled \$20,368 and \$11,633, respectively, for the year ended June 30, 2006, and \$13,861 and \$8,639, respectively, for the year ended June 30, 2005.

7. POSTRETIREMENT HEALTH CARE AND LIFE INSURANCE BENEFITS

The college provides certain continuing health care and life insurance benefits for its retired employees. Substantially all of the college's employees become eligible for these benefits if they reach normal retirement age while working for the college. These benefits for retirees and similar benefits for active employees are provided through a state-operated group insurance program and various insurance companies whose monthly premiums are paid jointly by the employee and the college. The college recognizes the cost of providing these benefits to retirees (college's portion of premiums) as an expense when paid during the year. The cost of providing benefits for the 49 retirees totaled \$219,409 for the year ended June 30, 2006, and the cost of providing benefits for the 46 retirees totaled \$174,101 for the year ended June 30, 2005.

8. ACCOUNTS PAYABLE AND ACCRUALS

The following is a summary of accounts payable and accrued expenses at June 30, 2006 and June 30, 2005:

SOWELA TECHNICAL COMMUNITY COLLEGE

	<u>June 30, 2006</u>	<u>June 30, 2005</u>
Vendors	\$78,533	\$80,642
Salaries and benefits	266,801	210,940
Other	<u>1,311</u>	<u> </u>
Total	<u>\$346,645</u>	<u>\$291,582</u>

9. DEFERRED REVENUES

For the years ended June 30, 2006 and June 30, 2005, the amount of tuition and fees received prior to the end of the fiscal year but related to the subsequent accounting period is \$101,256 and \$105,837, respectively.

10. COMPENSATED ABSENCES

Employees of the college have accumulated and vested annual, sick, and compensatory leave at June 30, 2006 and June 30, 2005, as follows:

	<u>June 30, 2006</u>	<u>June 30, 2005</u>
Compensated absences payable:		
Annual	\$440,296	\$446,796
Sick	243,947	253,528
Compensatory	<u>2,549</u>	<u>287</u>
Total	<u>\$686,792</u>	<u>\$700,611</u>

The following is a schedule of changes in the liability associated with compensated absences for the year ended June 30, 2006 and June 30, 2005:

	<u>2006</u>	<u>2005</u>
Balance at beginning of year	\$700,611	\$631,855
Adjustment		<u>73,181</u>
Balance at beginning of year, restated	<u>700,611</u>	<u>705,036</u>
Additions	39,756	43,706
Reductions	<u>(53,575)</u>	<u>(48,131)</u>
Balance at end of year	<u>\$686,792</u>	<u>\$700,611</u>
Amounts due within one year	<u>\$42,457</u>	<u>\$38,475</u>

11. LEASE OBLIGATIONS

For the years ended June 30, 2006 and June 30, 2005, total rental expense for office equipment is \$56,297 and \$55,003, respectively. The college does not have any capital or revenue leases.

12. RESTRICTED NET ASSETS

At June 30, 2006 and June 30, 2005, the college has \$191,602 and \$64,889, respectively, in restricted expendable net assets as follows:

	June 30, 2006	June 30, 2005
Student fees	\$18,222	\$11,408
Scholarships	173,380	53,481
Total expendable	\$191,602	\$64,889

Of the total restricted net assets at June 30, 2006, none are restricted by enabling legislation.

13. RESTATEMENT OF NET ASSETS

At June 30, 2005, the following adjustments were made to restate beginning net assets as reflected on the Statement of Revenues, Expenses, and Changes in Net Assets:

Net Assets, July 1, 2005, previously reported	\$2,792,446
Revenue adjustment	180,000
Compensated absence adjustment	(73,181)
Beginning Net Assets, July 1, 2005, as restated	\$2,899,265

14. CONTINGENT LIABILITIES AND RISK MANAGEMENT

The college is not involved in any lawsuits at June 30, 2006. Any losses arising from judgments, claims, and similar contingencies would be paid through the state's self-insurance fund operated by the Office of Risk Management, the agency responsible for the state's risk management program, or by appropriation from the state's General Fund. During fiscal years 2006 and 2005, no direct claims or litigation costs were incurred by the college.

15. FOUNDATION

The accompanying financial statements do not include the accounts of the SOWELA Technical Community College Foundation, Incorporated. This foundation is not included because it does not meet criteria established by the Division of Administration, Office of Statewide Reporting and Accounting Policy, for determining component units included in the college system's financial statement in accordance with GASB Statement 14, as amended by GASB Statement 39.

This foundation is a separate corporation whose financial statements are subject to audit by independent certified public accountants.

16. IMPAIRMENT OF CAPITAL ASSETS

During August and September 2005, the State of Louisiana suffered considerable damage from two major hurricanes, Katrina and Rita, resulting in the President of the United States declaring Louisiana a major disaster area.

On September 24, 2005, the college was struck by Hurricane Rita. The hurricane caused considerable damage to building roofs, which allowed rain water to enter into the buildings resulting in water and mold damage to the buildings' interiors. The college cancelled the fall 2005 semester, but reopened for the spring 2006 semester using 44 temporary classrooms. Three academic buildings remain closed for repair. These facilities as well as other partially damaged facilities are being repaired based upon a state Office of Facility Planning and Control priority schedule. The time of completion of the repairs is not certain.

GASB Statement No. 42 established accounting and financial reporting standards for impairment of capital assets. Governments are required to evaluate prominent events or changes in circumstances affecting capital assets to determine whether the impairment of a capital asset has occurred. A capital asset generally should be considered the impaired if both the decline in service utility of the capital asset is large in magnitude and the event or change in circumstance is outside the normal life cycle of the capital asset. The state's Office of Statewide Reporting and Accounting Policy (OSRAP) provided guidance on impairment test criteria by stating that the greater of the capitalization threshold, \$100,000, or 20% of the capitalized cost of the building impaired by physical damage be used as the test of whether the magnitude in the decline was significant. OSRAP also provided guidance that the impairment gain/loss should be reported as an extraordinary item. The college used the current restoration cost method to determine the amount of impairment loss before insurance recovery. Based on this method, college buildings that were physically damaged by Hurricane Rita and considered impaired had an impairment loss (before insurance recoveries) of \$292,174.

The carrying amount of impaired capital assets that are idle at year-end should be disclosed, regardless of whether the impairment is considered permanent or temporary. Buildings with a carrying value of \$996,334 were idle at the end of the fiscal year.

In proprietary fund financial statements, the impairment loss should be reported net of the associated insurance recovery when the recovery and loss occur in the same year. Insurance recoveries should be recognized only when realized or realizable. The Office of Risk Management has acknowledged coverage totaling \$3,999,339 relating to the college. Of this amount, \$1,465,453 represented expenses that were offset by insurance recoveries and are not shown in the financial statements. The remaining \$2,533,886 was recorded as an accounts receivable. The accounts receivable for insurance recoveries on impaired buildings totaled \$1,433,029 and with the impairment loss before insurance recovery of \$292,174, resulted in an extraordinary gain of \$1,140,855. Accounts receivable for insurance recoveries not associated with impaired buildings totaled \$1,100,857 and was reported as nonoperating revenue.

17. DEFERRED COMPENSATION PLAN

Certain employees of SOWELA Technical Community College participate in the Louisiana Public Employees Deferred Compensation Plan adopted under the provisions of the Internal Revenue Code Section 457. Complete disclosures relating to the Plan are included in the separately issued audit report for the Plan, available from the Louisiana Legislative Auditor, Post Office Box 94397, Baton Rouge, Louisiana 70804-9397.

18. SUBSEQUENT EVENTS

In July 2006, the SOWELA Foundation, Inc., received a \$2,000,000 gift from Conoco Phillips for the construction of a technology campus to house process technology, instrumentation technology, and other allied fields.

On January 1, 2007, Mr. Stanley Leger retired as chancellor of SOWLEA Technical Community College and was replaced by Dr. Andrea Lewis Miller effective March 1, 2007.

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OTHER REPORT REQUIRED BY
GOVERNMENT AUDITING STANDARDS

The following pages contain a report on internal control and on compliance with laws, regulations, and other matters as required by *Government Auditing Standards*, issued by the Comptroller General of the United States. This report is based solely on the audit of the financial statements and includes, where appropriate, any reportable conditions and/or material weaknesses in internal control or compliance and other matters that would be material to the presented financial statements.



STEVE J. THERIOT, CPA
LEGISLATIVE AUDITOR

OFFICE OF
LEGISLATIVE AUDITOR
STATE OF LOUISIANA
BATON ROUGE, LOUISIANA 70804-9397

1600 NORTH THIRD STREET
POST OFFICE BOX 94397
TELEPHONE: (225) 339-3800
FACSIMILE: (225) 339-3870

April 19, 2007

Report on Internal Control Over Financial Reporting and on
Compliance and Other Matters Based on an Audit of Financial Statements
Performed in Accordance With *Government Auditing Standards*

**SOWELA TECHNICAL COMMUNITY COLLEGE
LOUISIANA COMMUNITY AND
TECHNICAL COLLEGE SYSTEM
STATE OF LOUISIANA**
Lake Charles, Louisiana

We have audited the basic financial statements of SOWELA Technical Community College, a college within the Louisiana Community and Technical College System, a component unit of the State of Louisiana, as of and for the years ended June 30, 2006 and June 30, 2005, and have issued our report thereon dated April 19, 2007. Our report was modified to include an explanatory paragraph for the implementation of a new reporting standard, an emphasis of a matter regarding the impact of hurricanes Katrina and Rita, and an emphasis of a matter regarding nonaudit services. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered SOWELA Technical Community College's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. However, we noted a certain matter described below involving the internal control over financial reporting and its operation that we consider to be a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the designing or operation of internal control over financial reporting that, in our judgment, could adversely affect SOWELA Technical Community College's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements.

Inadequate Compilation Process

SOWELA Technical Community College (college) does not have adequate internal control over its financial accounting operations. Good internal controls include performing reconciliations between supporting accounting ledgers and the general ledger in a timely manner; maintaining proper oversight of financial statement accounts; providing adequate support for adjustments to the accounting records; and performing adequate supervision and review to ensure that the financial statements are accurately prepared.

Audit procedures performed on the college's financial accounting operations for the years ended June 30, 2006 and June 30, 2005, identified the following weaknesses:

- Bank reconciliations were not performed accurately or on a timely basis. Any corrections that were noted in the reconciliation process were not entered into the general ledger until year-end. These year-end entries to the cash accounts were made in an attempt to correct the cash balance but were not supported and posted to a specific fund. Because the college maintains cash balances by fund (i.e., general fund, grant fund, scholarship fund, et cetera), it was difficult to determine the proper cash balance by fund, which affects the proper classification of net assets. Furthermore, these year-end entries did not accurately correct cash.
- Supporting documentation/schedules did not exist for certain general ledger account balances. For example, the receivable account balance was not supported by a subsidiary ledger detailing who owed the college and the basis for the receivables. This information is necessary to properly monitor the receivable account and provide for a proper aging of receivable balances to calculate an allowance for doubtful accounts. No supporting schedules by vendor existed for accounts payable balances. Because supporting documentation/schedules did not exist, erroneous entries that were made during the year were not detected or corrected in a timely manner.
- In addition to entries to cash, entries were made to various other account balances without a specific fund designation and without supporting documentation.
- Accounting transactions generated during fiscal years 2006 and 2005 were not posted to the ledgers for up to 14 months after they were generated. The untimely posting of accounting transactions prevents management from properly monitoring the college's financial position.
- The college's method of reporting scholarship allowances was inaccurate and resulted in the overstatement of the scholarship and fellowship amount in operating expenses and tuition and fees revenues.

The following errors in financial reporting required adjustments to the college's annual financial report to the System:

- Total assets were overstated by \$262,286 and understated by \$3,662,365 for fiscal years 2005 and 2006, respectively. The majority of the misstatements related to the cash and receivable accounts with a significant portion of the 2006 misstatement resulting from the Office of Risk Management receivable related to Hurricane Rita insurance recoveries.
- Total liabilities were overstated by \$146,013 and understated by \$112,626 for fiscal years 2005 and 2006, respectively.
- Total net assets were overstated by \$116,273 and understated by \$3,549,739 for fiscal years 2005 and 2006, respectively. A significant portion of the 2006 misstatement involved the Office of Risk Management receivable related to Hurricane Rita insurance recoveries.
- Operating revenues were overstated by \$610,009 and understated by \$97,654 for fiscal years 2005 and 2006, respectively.
- Operating expenses were overstated by \$322,422 and understated by \$357,970 for fiscal years 2005 and 2006, respectively, with the largest adjustments relating to scholarships and fellowships expenses.

Management of the college did not establish adequate control procedures over its financial accounting operations to ensure financial data was adequately supported and accurately reported. The failure to reconcile accounting records to source documentation; lack of proper monitoring of financial system accounts; the failure to provide support for adjustments; and inadequate preparation of the annual financial report could result in misreported financial data and undetected errors or fraud and could result in financial misstatements at the System level.

Management of the college should establish policies and procedures over financial operations to ensure accounting records are analyzed and reconciled periodically; adequate supporting documentation is maintained for all transactions and account balances; transactions are posted to ledgers on a timely basis; and the ledgers should include all necessary information for proper fund accounting. Management concurred, in part, with the finding and provided a corrective action plan (see Appendix A). Management objected that by following OSRAP's instructions, certain misstatements resulted.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over

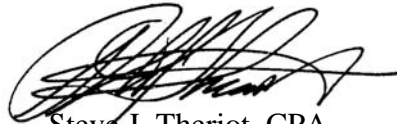
financial reporting would not necessarily disclose all matters in internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we do consider the reportable condition described previously to be a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether SOWELA Technical Community College's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of SOWELA Technical Community College and its management 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 report is distributed by the Legislative Auditor as a public document.

Respectfully submitted,



Steve J. Theriot, CPA
Legislative Auditor

DLC:EFS:PEP:dl

STCC06

Management's Corrective Action
Plan and Response to the
Finding and Recommendation



SOWELA
TECHNICAL COMMUNITY COLLEGE

Andrea Lewis Miller, Ph.D.
Chancellor

April 11, 2007

Mr. Steve J. Theriot, CPA
Legislative Auditor
Office of the Legislative Auditor
P. O. Box 94397
Baton Rouge, Louisiana 70804-9397

RE: SOWELA audit finding entitled "Inadequate Compilation Process"

Dear Mr. Theriot:

Management of the SOWELA Technical Community College concurs with the finding regarding inadequate compilation process.

As you know, Hurricane Rita affected operations at SOWELA and the ability of management to adequately focus on staff shortages in the financial area. Recovery from the hurricane is slowly progressing and the college has increased the financial staff from four to the current six. With the addition of staff, most of the noted problems have been corrected as discussed below.

The mentioned staff increase included the Assistant Director of Finance in June of 2006, who, since that time, has provided accurate and timely bank reconciliations. The staff also currently provides prompt entry into the financial system with proper documentation. Other improvements include the ability to properly monitor ledger accounts, such as accounts receivable and payable, as well as aging. In addition, staff reviews all journal entries for fund designation and supporting documentation.

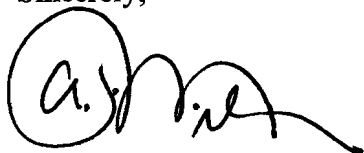
The financial staff has also corrected the reporting methodology for scholarship allowances; however, it should be noted that this was a reporting issue only, and no scholarship was awarded in error. Staff is also running the journal generator weekly, at a minimum, reviewing entries to ensure that they are not stalled in the system.

Finally, we must object to your reference to the overstatement of total assets and total net assets as errors. I understand that the college was reporting the insurance recovery information as directed by the Office of Statewide Reporting and Accounting Policy (OSRAP). Later, after meeting with the Legislative Auditor, the staff revised the statements to reflect estimates based upon professional sources; upon advice that the estimates from OSRAP would not be sufficient. As mentioned above, the original amount was included on the financial statements at the express direction of OSRAP and later revised in response to communication from the Legislative Auditor.

In summary, I assumed the role of Chancellor of SOWELA Technical Community College on March 1, 2007. I am in the process of reviewing the staffing structure of the college and making appropriate changes, particularly strengthening the financial management area. My plans to restructure the financial staff and to consider a contract with an accounting firm to assist with the fiscal year 2007 Annual Financial Report will result in continued improvement of controls and reporting as noted above.

The person responsible for corrective action is Ms. Sonya LaCasse, Director of Finance who can be reached at 337-491-2134.

Sincerely,

A handwritten signature in black ink, appearing to read 'A. Miller', enclosed within a circular scribble.

Dr. Andrea Miller
Chancellor