

LOUISIANA OFFICE OF STUDENT FINANCIAL ASSISTANCE
DEPARTMENT OF EDUCATION
STATE OF LOUISIANA



MANAGEMENT LETTER
ISSUED AUGUST 20, 2008

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

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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. Eight copies of this public document were produced at an approximate cost of \$21.44. 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. 3393 or Report ID No. 80070007 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

July 24, 2008

**LOUISIANA STUDENT FINANCIAL
ASSISTANCE COMMISSION
LOUISIANA OFFICE OF STUDENT
FINANCIAL ASSISTANCE
DEPARTMENT OF EDUCATION
STATE OF LOUISIANA
Baton Rouge, Louisiana**

As part of our audit of the State of Louisiana's financial statements for the year ended June 30, 2007, we considered the Louisiana Office of Student Financial Assistance's (OSFA) internal control over financial reporting and over compliance with requirements that could have a direct and material effect on a major federal program; we examined evidence supporting certain accounts and balances material to the State of Louisiana's financial statements; and we tested OSFA's compliance with laws and regulations that could have a direct and material effect on the State of Louisiana's financial statements and major federal programs as required by *Government Auditing Standards* and U.S. Office of Management and Budget Circular A-133.

The Annual Fiscal Report of OSFA is not audited or reviewed by us, and, accordingly, we do not express an opinion on that report. OSFA's accounts are an integral part of the State of Louisiana's financial statements, upon which the Louisiana Legislative Auditor expresses opinions.

In our prior management letter on OSFA for the year ended June 30, 2006, we reported a finding relating to lack of a disaster recovery/business continuity plan. This finding has not been resolved and 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. All findings included in this management letter that are required to be reported by *Government Auditing Standards* have also been included in the State of Louisiana's Single Audit Report for the year ended June 30, 2007.

Inaccurate Annual Fiscal Report

OSFA did not submit an accurate Annual Fiscal Report (AFR) to the Division of Administration for the fiscal year ended June 30, 2007. As authorized by Louisiana Revised Statute 39:79, the commissioner of administration through the Division of

Administration's Office of Statewide Accounting and Reporting Policy (OSRAP) prescribes the content and format for the preparation of each agency AFR, which is then used in the compilation of the state's Comprehensive Annual Financial Report (CAFR) and the Office of Legislative Auditor's Single Audit Report for the State of Louisiana. Good internal control includes establishing a process to ensure that these financial statements are accurately prepared and reviewed. However, the agency's AFR submitted on August 29, 2007, included the following errors:

OSFA incorrectly reported amounts for the Federal Family Education Loan Program (CFDA 84.032 - FFEL) and the Hurricane Education Recovery Program (CFDA 84.938) on its Schedule of Expenditures of Federal Awards (SEFA) and in the note disclosures for Outstanding Guaranteed Student Loans and Loans in Default (note U.2) as follows:

SEFA:

- Net federal reinsurance was overstated by \$5,466,704.
- Collection cost allowance was understated by \$563,356.
- The amount paid to lending institutions for defaulted student loans was understated by \$739,499.
- The amount of loans guaranteed was overstated by \$8,563,602,992.
- Hurricane Education Recovery expenditures were overstated by \$100,000.

Note U.2:

- The amount paid to lending institutions for purchased claims (defaulted student loans) was understated by \$4,850,552.
- Collections on defaulted student loans were understated by \$5,561,975.
- Collections paid to the U.S. Department of Education for defaulted student loans were understated by \$3,998,716.

Management has not ensured that OSFA's AFR was properly prepared and reviewed for errors and inconsistencies. Failure to submit an accurate AFR can delay the compilation and issuance of the state's CAFR and the state's Single Audit Report. Furthermore, misstatements from errors or fraud may occur and remain undetected.

Management should ensure that its AFR is properly prepared and should review the financial information and note disclosures in its AFR to identify and correct errors before submitting it to OSRAP and to the Office of Legislative Auditor. Management concurred

with the finding and recommendations and outlined a plan of corrective action (see Appendix A, pages 1-3).

Lack of a Disaster Recovery/Business Continuity Plan

For the fourth consecutive year, OSFA does not have a disaster recovery/business continuity plan with access to an offsite disaster recovery facility. Good internal control requires that OSFA develop and test a disaster recovery/business continuity plan and obtain access to an offsite disaster recovery facility to provide timely restoration of critical operations in the event that normal data processing facilities are unavailable for an extended period of time. OSFA maintains in-house computer records for various state scholarship and grant programs, including the Tuition Opportunity Program for Students and the Student Tuition Assistance and Revenue Trust Program.


According to management, OSFA has developed a written disaster recovery/business continuity plan but has not implemented and tested the plan because of system compatibility issues and limited staffing resources. Failure to implement a disaster recovery/business continuity plan increases the risk that untimely or excessive delays in processing critical data, including information required for students applying for financial assistance, may occur and that critical information may be lost.

OSFA management should implement a disaster recovery/business continuity plan, obtain access to an offsite disaster recovery facility, test the plan periodically, and update the plan as needed to ensure the plan continues to meet the needs of the agency. Management concurred with the finding and recommendations and outlined a plan of corrective action (see Appendix A, pages 4-5).

The recommendations in this letter represent, in our judgment, those most likely to bring about beneficial improvements to the operations of OSFA. The nature of the recommendations, their implementation costs, and their potential impact on the operations of OSFA should be considered in reaching decisions on courses of action.

This letter is intended solely for the information and use of the department and its management, 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

CGEW:THC:sr

OSFA07

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



State of Louisiana
Office of Student Financial Assistance

February 12, 2008
08-29

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

Dear Mr. Theriot:

The audit report dated January 16, 2008, for the Louisiana Office of Student Financial Assistance (LOSFA) has been received and reviewed. In response to the audit finding "Inaccurate Annual Fiscal Report", we do concur with the finding and have taken corrective actions. Please refer to the attached internal memorandum, which details the corrective actions taken. The responsible staff member for this procedure is Jack Hart, Assistant Executive Director for Fiscal and Administrative Affairs.

If additional information is required, please do not hesitate to contact me.

Sincerely,

A handwritten signature in black ink, appearing to read "Melanie Amrhein".

Melanie Amrhein
Executive Director

MA/csm

Enclosure

c: Charles Wendt
Jack Hart
Mary Jane Lange



State of Louisiana
Office of Student Financial Assistance

February 8, 2008
INTERNAL MEMORANDUM

To: Melanie Amrhein
Executive Director

From: Jack Hart
Assistant Executive Director for Fiscal and Administrative Affairs

The following notes are offered as explanation for the Legislative Auditor's finding of Inaccurate Annual Fiscal Report (AFR) for the Louisiana Office of Student Financial Assistance. Please note that these errors were the result of procedures that were established prior to current staff and had not been noted in previous audits. The staff welcomes the clarifications brought to our attention through the current audit. It should also be noted that these errors in the AFR were not the result, nor did it result in any fiscal mismanagement.

SEFA (Schedule 8)

1) *Net federal reinsurance was overstated by \$5,466,704*

In prior years, the amount reported for regular borrower and administrative wage garnishment payments was multiplied by the average federal reinsurance rate to approximate this amount. Current staff was not aware that collections for rehabilitation, FFELP and direct lending consolidation payments should have also been included. This year the Legislative Auditor advised us that the correct amount should include **ALL** of these amounts. Collections for rehabilitation and direct lending consolidations have increased in recent years, whereas in the past these amounts were insignificant.

We have implemented additional review procedures for all work performed by staff including reviews by two Supervisors on a monthly basis of this spreadsheet and have modified the annual financial report schedules to include links to the underlying schedules so that any revisions are reflected.

2) *Collection cost allowance was understated by \$563,356*

A spreadsheet is used to calculate what our agency may retain from our collections for its Agency Operating Fund. After the submission of the state's annual financial report, our staff realized that superseded reports had been used for the amounts on this spreadsheet for four months resulting in errors in the amounts retained. This spreadsheet was corrected but we inadvertently failed to correct the amount on the annual financial report (Schedule 8.) Once again, our newly implemented review procedures and spreadsheet linking methodology should minimize if not eliminate such errors.

- 3) *Amount paid to lending institutions for defaulted student loans was understated by \$739,499 and did not agree with the amount reported on note U.2.*

July 2006 claim payments were included on the agency's 2006 annual financial report. The Legislative Auditor has advised us that this amount should have been reported in the 2007 fiscal year.

- 4) *Amount of loans guaranteed was overstated by \$8,563,602,992 and did not agree with the amount reported on U.2.*

An OSFA employee incorrectly changed a formula on the supporting Excel schedule which resulted in the calculation summing the beginning and the ending loan balances instead of correctly computing the difference. We've subsequently modified the schedule to recognize and identify an erroneous result and have added supervisory review procedures.

- 5) *Hurricane Education Recovery expenditures were overstated by \$100,000.*

LOSFA incorrectly reported amounts paid to private institutions when only payments to public institutions should have been included.

Note U.2.

- 6) *Amount paid to lending institutions for defaulted student loans (purchased claims) was understated by \$4,850,552.*

We inadvertently excluded Hurricane discharge payments reimbursed by the Federal government to the Agency. If a similar situation occurs in the future, we will create the necessary accounting structure to capture this information and ensure that it is properly reported.

- 7) *Collections on defaulted student loans were understated by \$5,561,975.*

In prior years, the amount reported included *only* regular borrower and administrative wage garnishment collections. Our staff was unaware that rehabilitation, FFELP and direct lending consolidation collections should have also been included. This year the Legislative Auditor advised us that the correct amount should include *ALL* collections. Rehabilitation and direct lending consolidations have increased in recent years and will be included in the future. Once again, our newly implemented review procedures and spreadsheet linking methodology should minimize if not eliminate such errors.

- 8) *Collections paid to USDE for defaulted student loans were understated by \$3,998,716.*

In prior years, the amount reported included *only* regular borrower and administrative wage garnishment payments. Our staff was unaware that rehabilitation, FFELP and direct lending consolidation payments should have also been included. This year the Legislative Auditor advised us that the correct amount should include *ALL* payments. Rehabilitation and direct lending consolidations have increased in recent years and will be included in the future. Once again, our newly implemented review procedures and spreadsheet linking methodology should minimize if not eliminate such errors.



State of Louisiana
Office of Student Financial Assistance

February 18, 2008
08-36

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

Dear Mr. Theriot:

The audit report dated January 16, 2008 for the Louisiana Office of Student Financial Assistance (LOSFA) has been received and reviewed. In response to the audit finding "Lack of a Disaster Recovery/Business Continuity Plan", we do concur with the finding and have made a diligent and serious effort to establish the plan over the past two years with significant steps taken that will culminate in a complete, comprehensive Disaster Recovery and Business Continuity Plan by June 2008. Please refer to the attached internal memorandum, which details the actions taken to date and what steps are left to complete the plan. The staff member responsible for this project is Alice Thibodeaux, Director of Information Technology.

If additional information is required, please do not hesitate to contact me.

Sincerely,

A handwritten signature in black ink, appearing to read "Melanie Amrhein".

Melanie Amrhein
Executive Director

MA/csm

Enclosure

c: Charles Wendt
Sujuan Boutte



State of Louisiana
Office of Student Financial Assistance

February 18, 2008

TO: Melanie Amrhein
Executive Director

THRU: Sujuan Boutté
Assistant Executive Director

FROM: Alice Thibodeaux
Information Technology Division Director

As requested, the following is my response to the Legislative Audit state fiscal year 2006-2007 finding.

Finding: Lack of Disaster Recovery/Business Continuity Plan

We concur with your finding and have made significant progress toward the implementation and on going testing of our Disaster Recovery/Business Continuity Plan (DR/BCP).

During state fiscal year 2006-2007, LOSFA entered into a contract with International Business Machines Corporation (IBM) to assist in performing the first phase of testing its DR/BCP. The first phase of testing required an analysis of data provided by each section with the agency. Such information included the primary processes of the section; policies, procedures and guidelines applicable to that section; information technology systems for that section; legal/regulatory implications if that section is unable to perform certain functions; and revenues produced by that section. IBM also assisted LOSFA with the input of this information into the Louisiana Department of Administration (LDOA) shared database.

LOSFA, with assistance from IBM, determined that maintaining secondary equipment at a remote site and producing and storing daily back-up files at an offsite location would be feasible to resume operations in the event of a disaster. With this direction, LOSFA identified a remote site that would provide the agency with backup and recovery options for all of its mission critical data. During SFY 2006-2007, LOSFA secured backup equipment that would replicate its existing infrastructure.

Although the remote site had been identified and the equipment procured, an agreement could not be reached between LOSFA and the other party to host the equipment.

During SFY 2007-2008, LOSFA experienced a security breach when the courier vendor misplaced a container of media. With this mishap, LOSFA contracted with Truistic Solutions to provide the agency with a means to provide electronic data backup storage and disaster recovery/business continuity compliance.

As of the date of this correspondence, we have worked with Truistic Solutions to backup our mission critical data to an offsite disaster recovery facility in Dallas, Texas and we have tested the recovery of the backup information to our local systems. We are also working with the vendor to configure our disaster recovery equipment and store the equipment at their location to be used as our "hot-site" in the event of a disaster. We are planning to have our equipment shipped within SFY 2007-2008. Additionally, our on going disaster recovery tests will include the periodic loading of our backup data to our disaster recovery equipment with continuous updates to the DR/BCP plan that is stored at LDOA.