

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



MANAGEMENT LETTER  
ISSUED FEBRUARY 29, 2012

**LOUISIANA 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 Louisiana Legislative Auditor.

This document is produced by the Louisiana Legislative Auditor, State of Louisiana, Post Office Box 94397, Baton Rouge, Louisiana 70804-9397 in accordance with Louisiana Revised Statute 24:513. One copy of this public document was produced at an approximate cost of \$4.16. 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](http://www.la.la.gov). When contacting the office, you may refer to Agency ID No. 3478 or Report ID No. 80110026 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 Kerry Fitzgerald, Chief Administrative Officer, at 225-339-3800.

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## EXECUTIVE SUMMARY

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Our procedures at Louisiana State University (LSU) and Related Campuses for the period July 1, 2010, through June 30, 2011, disclosed the following:

- An LSU internal audit report, dated September 20, 2011, disclosed that the LSU Student Health Center (SHC) management allowed practitioners (doctors or nurse practitioners) to get added benefits of paid time off, regardless of their leave accrual balances; allowed employees to take days off that were not deducted from any annual leave accruals that may or may not have been present; and did not accurately reflect the leave activity and correct leave balances in the employees' records.
- An LSU internal audit report, dated January 24, 2011, disclosed findings regarding the LSU Fire and Emergency Training Institute (FETI), including overbilling and underbilling customers for training classes. Additional testing of FETI expenses identified purchases that were artificially divided to bypass the competitive process required by Louisiana law and LSU policy.
- Other than the findings previously noted, no significant control deficiencies, errors, or noncompliance were identified in our procedures on various account balances and classes of transactions that would require reporting under *Government Auditing Standards*.
- No significant control deficiencies or noncompliance issues were identified that would require reporting under Office of Management and Budget Circular A-133 for the following federal programs for the fiscal year ended June 30, 2011:
  - State Fiscal Stabilization Fund - Education State Grants, Recovery Act (CFDA 84.394)
  - Research and Development Cluster (various)

This report is a public report and has been distributed to state officials. We appreciate the universities' assistance in the successful completion of our work.

### **Background**

LSU and Related Campuses are components of the LSU System. The LSU System is dedicated to advancing teaching, research, health care, and medical education with facilities and programs in each of Louisiana's 64 parishes. Each institution plays a vital role in preparing students to incorporate new knowledge and new technologies into their daily lives. LSU researchers are working on developing innovations that increase the national prominence of the university system.

As the Flagship institution of the state, the vision of LSU is to be a leading research-extensive university, challenging undergraduate and graduate students to achieve the highest levels of intellectual and personal development. Designated as a Land, Sea, and Space Grant institution, the mission of LSU is the generation, preservation, dissemination, and application of knowledge and cultivation of the arts.

In implementing its mission, LSU is committed to:

- (1) offering a broad array of undergraduate degree programs and extensive graduate research opportunities designed to attract and educate highly qualified undergraduate and graduate students;
- (2) employing faculty who are excellent teacher-scholars, nationally competitive in research and creative activities, and who contribute to a world-class knowledge base that is transferable to educational, professional, cultural, and economic enterprises; and
- (3) using its extensive resources to solve economic, environmental, and social challenges.



LOUISIANA LEGISLATIVE AUDITOR  
DARYL G. PURPERA, CPA, CFE

February 6, 2012

**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 required by Louisiana Revised Statute 24:513 and as a part of our audit of the Louisiana State University System's (System) financial statements and the Single Audit of the State of Louisiana for the fiscal year ended June 30, 2011, we conducted certain procedures at 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 for the period from July 1, 2010, through June 30, 2011.

- Our auditors obtained and documented an understanding of LSU and Related Campuses' operations and system of internal controls, including internal controls over major federal award programs administered by LSU and Related Campuses, through inquiry, observation, and review of LSU and Related Campuses' policies and procedures, including a review of the laws and regulations applicable to the university.
- Our auditors performed analytical procedures consisting of a comparison of the most current and prior year financial activity using LSU and Related Campuses' financial information provided to the LSU System and obtained explanations from management for any significant variances.
- Our auditors reviewed the status of the findings identified in the prior year engagement. The findings identified in our prior year management letter dated January 19, 2011, relating to an energy efficiency contract contrary to state law and inadequate controls over purchasing within the School of Music have been resolved by management.

- Our auditors considered internal control over financial reporting and examined evidence supporting certain accounts and balances material to the System's financial statements as follows:

**Statement of Net Assets** - Cash and cash equivalents, investments, capital assets, deferred revenue, bonds payable, capital lease obligations, compensated absences payable, other postemployment benefits payable, and net assets

**Statement of Revenues, Expenses, and Changes in Net Assets** - Student tuition and fee revenues, federal revenues, auxiliary revenues, state appropriations, education and general expenses, and auxiliary expenses

We also tested LSU and Related Campuses' compliance with laws and regulations that could have a direct and material effect on the System's financial statements. These procedures were performed in accordance with *Government Auditing Standards* as part of our audit of the System's financial statements for the fiscal year ended June 30, 2011.

- Our auditors performed internal control and compliance testing in accordance with *Government Auditing Standards* and Office of Management and Budget (OMB) Circular A-133 on the State Fiscal Stabilization Fund - Education State Grants, Recovery Act (CFDA 84.394) and the Research and Development Cluster (various) for the fiscal year ended June 30, 2011, as part of the Single Audit of the State of Louisiana.

The financial information provided to the System by LSU and Related Campuses was 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 System's financial statements, upon which the Louisiana Legislative Auditor expresses opinions.

Based on the application of the procedures referred to previously, all significant findings are included in this letter for management's consideration. We found no significant control deficiencies or noncompliance that would require reporting under OMB Circular A-133 for the State Fiscal Stabilization Fund - Education State Grants, Recovery Act (CFDA 84.394) and the Research and Development Cluster (various) for the fiscal year ended June 30, 2011.

#### **Noncompliance With Leave and Time and Attendance Policies Within Student Health Center**

An LSU internal audit report, dated September 20, 2011, disclosed that the LSU Student Health Center (SHC) management used improper leave management and time and attendance practices resulting in practitioners (doctors or nurse practitioners) getting added benefits of paid time off, regardless of their leave accrual balances, while ensuring that each SHC practitioner would not be placed on Leave Without Paid (LWOP) status; employees being given days off that were not deducted from any annual leave accruals that may or may not have been present; and LSU records not accurately reflecting the leave activity and correct leave balances. These practices were noncompliant with LSU policies and state regulations.

The LSU internal audit report included, but was not limited to, the following exceptions:

- Practitioners were ensured they would be given paid time off work (leave) during the semester and during semester breaks, regardless of the practitioners' accrued leave balances. The former SHC director, who began his employment in 1973, confirmed that these procedures were in place both before and during his tenure at the SHC. As days-off-work were taken, if accrued leave balances were less than what was requested on the leave request form(s), the leave system would not be updated. During subsequent months, attempts would be made to enter the hours to the degree possible as additional leave accrued. This resulted in leave being advanced to employees and, in some situations, not being accounted for in LSU's leave and payroll systems at all. In fiscal year 2011, all practitioners except the chief of staff were advanced leave at least once.
- The chief of staff acknowledged creating and controlling a set of documents to track practitioners' leave activity in the Primary Care Clinic. These documents differed from the leave activity actually reported in LSU systems that are used for calculation of employee compensation and benefits. For most practitioners, these documents reflect negative leave balances indicating leave taken exceeding accrued leave balances.
- On 70 occasions from fiscal year 2009 to fiscal year 2011, the employee responsible for entering leave into the leave system complied with the former SHC director's instructions to refrain from immediately posting leave requests that would place practitioners in LWOP status.
- As of July 21, 2011, at least 16 leave slips totaling 456 hours for seven different practitioners were not entered into the leave system.

In addition to the above exceptions, the LSU internal audit report also disclosed the following:

- Annually, SHC management granted paid time off to all SHC employees without requiring the use of leave. These days were designated as "shopping days" and were described as days off for staffers to conduct personal business during November, December, or January. An analysis of leave data for all classified staff over the past three fiscal years revealed that 33 employees in 2009, 34 employees in 2010, and 33 employees in 2011 took a day of leave that was classified as "other" and no documentation was provided to demonstrate that these days were something other than a "shopping day." There was no documentation that showed when the first "shopping days" began at the SHC, but an administrator of the SHC confirmed that they had been in place when he began his employment 20 years ago.
- SHC management granted nurses two-hour lunch breaks during semester breaks. Nurses are classified employees and, according to policy, are only allowed a 30-minute lunch and two 15-minute breaks. Nurses were not required to clock

out if an extended lunch was taken. The nurse manager confirmed that these procedures were approved by the former director and had been in place at least since 2005.

LSU policies, through Permanent Memoranda 20 and Policy Statement 12, state that employees should not be advanced leave and that if paid leave is neither available nor appropriate, leave without pay shall be charged. Louisiana Civil Service Rule 15.2 states that “agencies should have established systems for recording time worked, leave taken, and the fact that actual service was rendered during work times.”

Management should follow the recommendations outlined in the LSU internal audit report that included (1) ensuring that practitioners’ work schedules and leave practices comply with LSU policy and state regulations; (2) establishing work schedules and leave practices for classified employees which comply with applicable policy and Civil Service regulations; (3) reinforcing with managers and supervisors their responsibilities related to compliance with relevant LSU policies and Civil Service regulations; and (4) evaluating whether key SHC administrative functions are properly managed and staffed. Management concurred with the finding and outlined a plan of corrective action (see Appendix A, page 1).

#### **Noncompliance With Billing and Procurement Processes Within the LSU Fire and Emergency Training Institute**

An LSU internal audit report, dated January 24, 2011, disclosed the following findings regarding the LSU Fire and Emergency Training Institute (FETI):

- In a review of the “Cost Plus” billing process for 45 invoices to students and/or company employees during July 2009 to June 30, 2010, class costs were underbilled \$106,685. In addition, consumables were incorrectly billed for 38 of 65 invoices. There were 32 instances of overbilling for consumables totaling \$5,086 and six instances of underbilling totaling \$2,884.
- In a review of the “Student Rate” billing process for the selected 54 classes, students were underbilled by \$2,516.

FETI invoices are based on established billing rates for two types of billing categories. The “Cost Plus” billing type consists of a price assigned by the FETI manager using a preapproved scale based on the number of students and length of classes plus the cost of consumables used in the course. In the “Student Rates” category, each student is charged a preapproved fixed price per class and the price list is detailed on FETI’s Web site. Employees within FETI did not adhere to the established billing rates and did not bill for the correct amount of consumables used in the course. Noncompliance with established billing rates and procedures has resulted in incorrect billing and loss of revenues.

As a result of the deficiencies noted in the internal audit report, we performed audit procedures on certain revenue and expense transactions at FETI. Testing of FETI expenses identified purchases that were divided to bypass the competitive process required by Louisiana law and LSU policy. FETI paid a total of \$4,143 to a vendor for a camera system installed at FETI's Baton Rouge facility. The total was divided into five separate payments of under \$1,000 per payment. Documentation obtained from LSU indicated that the former FETI director was related to the vendor's owner.

Executive Order BJ 08-67 (effective through August 26, 2010) requires that price quotations shall be solicited from three or more qualified vendors for purchases exceeding \$1,000 but not exceeding \$5,000. The executive order further states that "In the absence of a good faith business basis, no purchase or procurement shall be artificially divided within a cost center, or its equivalent, to avoid the competitive process or the solicitation of competitive sealed bids."

Management should follow the recommendations outlined in the LSU internal audit report, which included that FETI management should exercise appropriate central oversight of all invoicing to include a review of each invoice for compliance with approved price list and that FETI management should address the staff noncompliance with preapproved price lists when preparing invoices. In addition, management should monitor procurement activity and periodically perform tests to determine if staff is complying with internal policies and state law. Management concurred with the finding and outlined a plan of corrective action (see Appendix A, pages 2-3).

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

This letter is intended for the information and use of the university and its management, others within the university, the LSU System, 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,



Daryl G. Purpera, CPA, CFE  
Legislative Auditor

JPT:NMW:EFS:THC:ch

## APPENDIX A

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



LOUISIANA STATE UNIVERSITY

Finance & Administrative Services

Mr. Daryl G. Purpera, CPA  
Legislative Auditor  
1600 North Third Street  
P.O. Box 94397  
Baton Rouge, Louisiana 70804-9397

January 12, 2012

Dear Mr. Purpera:

In conjunction with the legislative audit of LSU, we wish to respond to the audit finding concerning non-compliance with leave and time and attendance policies within the LSU Student Health Center (SHC). We concur with the finding addressed in the letter dated January 3, 2012. As requested in the letter, the following response is issued for the finding:

**Finding:**

Leave management practices and time and attendance practices implemented and administered by management at the Student Health Center were not in compliance with PM-20, PS-12, PS-61 and Civil Service Rule 15.2

**Response to Finding:**

**Anticipated Completion Date: 03/31/2012**

- Management will ensure compliance with PM-20, PS-12, PS-61 and Civil Service Rule 15.2.
- Effective May 16, 2011, the Student Health Center came under the leadership of a new Director who has implemented work schedules and leave practices that comply with LSU policy.
- An SHC Overtime Policy is being created to address overtime procedures.
- The SHC Director will also ensure the following:
  - SHC employees are trained and made aware of University policies and Civil Service Regulations regarding work schedules and leave.
  - Managers and supervisors are trained and made aware of their responsibilities related to employee compliance with University and Civil Service work schedules and leave.
  - Evaluation of the management and staff of key administrative functions is undertaken and established as an ongoing process.

Contact Person(s): Donna K. Torres, Associate Vice Chancellor for Accounting and Financial Services  
Leah Arnett, Director, Student Health Center

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

A handwritten signature in black ink, appearing to read "Eric Monday", is written over a horizontal line.

Eric Monday  
Vice Chancellor for Finance & Administrative Services and CFO

Mr. Daryl G. Purpera, CPA  
Legislative Auditor  
1600 North Third Street  
P.O. Box 94397  
Baton Rouge, Louisiana 70804-9397

January 12, 2012

Dear Mr. Purpera:

In conjunction with the legislative audit of LSU, we wish to respond to the audit findings concerning non-compliance with billing and procurement processes within the LSU Fire and Emergency Training Institute. We concur with the findings addressed in the letter dated January 3, 2012. As requested in the letter, the following responses are issued for each finding:

**Findings:**

In a review of the "Cost Plus" billing process for 45 invoices during the period of July 2009 to June 30, 2010, class costs were under billed \$106,685. In addition, consumables were incorrectly billed for 38 of 65 invoices. There were 32 instances of overbilling for consumables totaling \$5,086 and 6 instances of under billing totaling \$2,884.

In a review of the "Student Rate" billing process for the selected 54 classes, customers were under billed by \$2,516

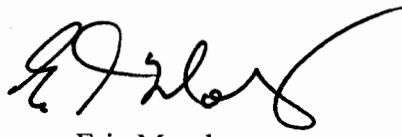
**Response to Findings:**

**Anticipated Completion Date: 03/31/2012**

- The job descriptions and job requirements of the Manager will be verified to the duties being performed and the skill set of the incumbent employee. Appropriate action will be taken to provide training to the incumbent employee and to monitor their progress in the position.
- Billings for FY 10 will be reviewed and discrepancies will be investigated and corrected, if appropriate.
- Management will develop an operating policy that will define the procedures required from the initial quote to the collection of the accounts receivable, including, but not limited to:
  - For a quote to a client
  - Action necessary once a quote is accepted
  - Preparation of consumable inventory for a class
  - Invoicing the client once the class is complete
  - Collection of accounts receivable

Contact Person(s): Donna K. Torres, Associate Vice Chancellor for Accounting and Financial Services  
Michael Donahue, Director, Fire & Emergency Training Institute

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

A handwritten signature in black ink, appearing to read 'Eric Monday', with a long, sweeping flourish extending to the right.

Eric Monday  
Vice Chancellor for Finance & Administrative Services and CFO