GRAMBLING STATE UNIVERSITY
UNIVERSITY OF LOUISIANA SYSTEM
STATE OF LOUISIANA

LOUISIANA LEGISLATIVE AUDITOR

AGREED-UPON PROCEDURES REPORT

ISSUED SEPTEMBER 12, 2007

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August 22, 2007

Independent Accountant's Report on the
Application of Agreed-Upon Procedures

DR. HORACE A. JUDSON, PRESIDENT
GRAMBLING STATE UNIVERSITY
UNIVERSITY OF LOUISIANA SYSTEM
STATE OF LOUISIANA
Grambling, Louisiana

We have performed the procedures enumerated below, which were agreed to by the Board of Regents (BOR) and the management of Grambling State University (university), solely to assist BOR and the university in evaluating whether the university is complying with the reporting requirements of the Louisiana Board of Regents, Endowed Chair and Endowed Professorship Programs, Statement of Investment Policy and Objectives (Statement), Section 2(H) regarding the university's Endowed Chair and Endowed Professorship Program Assets (Program Assets), endowment proceeds, investment earnings, and annual reports for the year ended June 30, 2006. University management is responsible for ensuring that program assets are managed in accordance with Statement requirements. This agreed-upon procedures engagement was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants. The sufficiency of these procedures is solely the responsibility of the BOR and the management of the university. Consequently, we make no representation regarding the sufficiency of the procedures described below either for the purpose for which this report has been requested or for any other purpose.

The procedures that we performed and our findings are as follows:

1. We were to verify that the long-term objective of the Program Assets had been obtained by achieving an average annual real total return of at least 5% of the assets over time in accordance with Section A of the Statement.

   We found that the long-term objective of achieving an average annual real total return of at least 5% had not been obtained. We were unable to determine the exact deficiencies since endowment earnings for nine of the 13 endowments were overstated. However, even with the overstatement for these endowments, we found that none of the endowments achieved an average real total return of at least 5%.

2. We verified that the long-term average spending is no greater than the long-term real total return of the fund in accordance with Section B of the Statement.

We found no exception as a result of this procedure.

3. We verified that the portfolio composition and asset allocation is in accordance with Section C of the Statement.

   We found no exceptions as a result of this procedure.

4. We were to verify that the investment performance of the Program Assets met the benchmarks contained in Section E of the Statement.

   We found that the benchmarks contained in Section E of the Statement had not been met by the performance of Program Assets. We were unable to determine the exact deficiencies since the university overstated its endowment earnings for nine of the 13 endowments for 2006.

5. We were to verify that the annual financial reports were prepared in accordance with the Statement using the correct information.

   We noted the following errors in the annual financial reports:

   - The report for the Larry Lundy College of Business endowment indicates the maximum spending allowed in fiscal year 2007 to be $5,097; however, the actual amount allocated for expenditures in fiscal year 2007 is $5,918, which is in excess of the maximum amount allowed for spending.
   - Four endowments are reported with blank spaces for their Inflation Adjusted Baseline therefore causing their maximum spending allowed in fiscal year 2007 to be overstated. The Eddie Robinson Health and Physical Education, Eddie Robinson Sports Administration, Cleo Fields, and Arlynne Lake Cheers endowments reported maximum spending allowed for fiscal year 2007 in amounts ranging from $5,135 to $5,231 when the amounts should have been limited by the Inflation Adjusted Baseline to amounts ranging from $2,294 to $4,341.
   - The Dallas Alumni Chapter endowment report indicated the endowment was established in 2006 when it was actually established in 2005.
   - The Dallas Alumni Chapter endowment is reported with no maximum spending allowed for fiscal year 2007 and this is correct since the reported year-end market value does not exceed the Inflation Adjusted Baseline. However, $1,041 is incorrectly reported as the actual amount allocated for expenditures in fiscal year 2007 when this amount is limited to zero.
   - The Dallas Alumni Chapter endowment incorrectly reports $4,886 as the actual amount allocated for expenditures in fiscal year 2006 from the 2005 report. This endowment was not reported in the 2005 report and in the 2006 report, it is shown with no assets during the 2005 fiscal year.
   - While we found support for the overall earnings for individual endowments, the allocations of earnings between interest earned and unrealized gains/losses are not adequately supported. Overall earnings are supported by the changes in market value of the Program Assets during

the year. However, accounting errors were found in compiling the amounts reported for the specific categories of earnings.

- We determined that the reported earnings for nine of the 13 endowments on the BOR reports for 2006 were overstated. This overstatement occurred when the university increased the earnings for the nine endowments in its general ledger during 2006 to match the market value reported by the university to the BOR on its 2005 reports.

6. We agreed the year-end amounts on the annual financial reports to the university's general ledger and supporting schedules.

   Initially, the university did not prepare the supporting schedules needed to prepare the BOR reports. Later the university did prepare the necessary supporting schedules which revealed that the amount of assets and earnings reported in the general ledger and BOR reports did not agree for the Ben Johnson and Dallas Alumni Chapter endowments.

7. We footed and cross-footed the supporting schedules used to prepare the annual financial reports for accuracy.

   The university failed to prepare the necessary supporting schedules before preparing the 2006 BOR reports. After the supporting schedules were prepared by the university, we noted the totals reported for the Ben Johnson and Dallas Alumni Chapter endowments were not on the schedules and were estimates made by the university. In addition, errors were noted on the schedules in the allocation of values between interest earnings and capital gains and losses.

8. We tested the university's computations for its seven largest endowments to verify that sufficient funds were accumulated for use as salaries or salary supplements or for other expenses related to scholarly work for eligible faculty members.

   We found no exceptions as a result of this procedure.

9. We were to use auditor judgment and select the largest expenditure transaction from any seven endowments and determine if the transaction was properly approved and spent in accordance with the Statement.

   We found that no funds were expended during the year.

10. If Program Assets were pooled, we were to test the allocation of investment earnings of the seven largest endowments to determine that the investment earnings generated from the pooled assets involving the endowments were properly allocated in accordance with the Statement and trace the amounts allocated to the general ledger or supporting schedules.

    We found that the Ben Johnson endowment participated in an investment pool with other endowments; however, this endowment did not receive its proportionate share of the pooled earnings. Instead of receiving its proportionate share of the pooled earning, the university distributed an estimated amount to the endowment.

11. We were to verify that the required Annual Reporting forms were submitted no later than October 1, 2006. In addition, we were to verify that the required audit report was submitted to the Legislative Auditor's office and to the Finance and Administration Division of the BOR by October 31, 2006. Furthermore, if there were any audit findings, we were to determine if there was a corrective action plan included in the report to address each finding.

    We found that the university submitted the required Annual Reporting forms on February 5, 2007. Furthermore, the required audit report was not submitted to the Legislative Auditor or to the Finance and Administration Division of the BOR by October 31, 2006. Management included a corrective action plan to address each finding in the report.

12. We verified that internal management fees charged, if any, did not exceed 125 basis points in total for all Program Assets as required by Section D(2) of the Statement.

    We found no exceptions as a result of this procedure.

We were not engaged to, and did not, conduct an examination, the objective of which would be the expression of an opinion on the university's annual financial reports or on its compliance with the BOR, Endowed Chair and Endowed Professorship Programs, Statement of Investment Policy and Objectives. Accordingly, we do not express such an opinion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

This report is intended solely for the information and use of the BOR and the management of the university and is not intended to be, and should not be, used by anyone other than these specified parties. By provision of state law, this is a public document, and it has been distributed to appropriate public officials.

Respectfully submitted,

Steve J. Theriot, CPA
Legislative Auditor

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GSU-BOR06