

LOUISIANA TECHNICAL COLLEGE
LOUISIANA COMMUNITY AND
TECHNICAL COLLEGE SYSTEM
STATE OF LOUISIANA



MANAGEMENT LETTER

ISSUED JUNE 6, 2007

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

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STEVE J. THERIOT, CPA

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STEVE J. THERIOT, CPA
LEGISLATIVE AUDITOR

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May 16, 2007

**LOUISIANA TECHNICAL COLLEGE
LOUISIANA COMMUNITY AND
TECHNICAL COLLEGE SYSTEM
STATE OF LOUISIANA**

Baton Rouge, Louisiana

As part of our audit of the Louisiana Community and Technical College System's financial statements for the year ended June 30, 2006, we considered the Louisiana Technical College's (LTC) internal control over financial reporting; we examined evidence supporting certain accounts and balances material to the System's financial statements; and we tested LTC's compliance with laws and regulations that could have a direct and material effect on the System's financial statements as required by *Government Auditing Standards*. In addition, we considered LTC's internal control over compliance with requirements that could have a direct and material effect on a major federal program, as defined in the Single Audit of the State of Louisiana, and we tested LTC's compliance with laws and regulations that could have a direct and material effect on the major federal programs as required by U.S. Office of Management and Budget Circular A-133.

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

In our prior management letter on LTC for the year ended June 30, 2005, we reported findings relating to inadequate control over Pell Grant, unlocated and stolen movable property, and inadequate internal control over Temporary Assistance for Needy Families. The findings relating to inadequate control over Pell Grant and unlocated and stolen movable property are 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* will also be included in the State of Louisiana's Single Audit Report for the year ended June 30, 2006.

Unlocated and Stolen Movable Property

LTC identified unlocated movable property items at the Chancellor's Office and 39 of its 40 campuses totaling \$1,420,949 as a result of its annual property inventory procedures. Of that amount, items totaling \$206,203 were removed from the property records because they had not been located for three consecutive years. Furthermore, the amount of

unlocated computers and computer-related equipment totaled \$864,716 or 61% of the total unlocated property. In addition to the unlocated property, five campuses reported thefts of movable property totaling \$13,888.

Louisiana Revised Statute 39:325 requires entities to conduct an annual inventory of movable property and report any unlocated items to the Louisiana Property Assistance Agency (LPAA). Louisiana Administrative Code 34.VII.313 states, in part, that efforts must be made to locate all movable property for which there are no explanations available for their disappearance. In addition, good internal control dictates that assets are properly monitored to safeguard against loss or theft and that thorough periodic physical counts of property inventory be conducted. During fiscal year 2006, 38 of the 40 LTC campuses and the Chancellor's Office submitted their annual certifications of property inventory to the LPAA according to their individual due dates. These certifications disclosed \$66,919,761 in total movable property administered by LTC. Two campuses were prevented from performing the annual inventory because of the destruction of Hurricane Katrina and resulting contamination.

Although LTC has policies and procedures governing movable property, management has not placed sufficient emphasis on maintaining adequate controls over the safeguarding of its movable property. Failure to maintain adequate controls over movable property increases the risk of loss arising from unauthorized use of property and subjects LTC to noncompliance with state laws and regulations. Because of the nature of the services provided by LTC, the risk exists that sensitive information could be improperly recovered from the missing computers and/or computer-related equipment.

Management of LTC should strengthen its controls over safeguarding its movable property and devote additional efforts to locating movable property reported as unlocated in previous years. Management concurred with the finding and outlined a plan of corrective action (see Appendix A, page 1).

Inadequate Internal Control Over Financial Accounting Operations

LTC does not have adequate internal control over its financial accounting operations. Good internal control requires that LTC develop and implement procedures to (1) reconcile accounting records for Pell receipts to source data contained in the U.S. Department of Education (DOE) system to ensure that receipts are properly input into the accounting system and errors are detected timely to prevent noncompliance with grant requirements or inaccurate financial reporting; (2) perform periodic monitoring of outstanding Pell checks in the system to ensure that checks not picked up by students are voided timely in the accounting system; (3) provide adequate support for adjustments to the accounting records; (4) perform adequate supervision and review to ensure that financial statements are accurately prepared and timely submitted; and (5) ensure the cash handling policies are being followed to safeguard cash and detect errors and/or fraud timely.

Our audit procedures revealed the following internal control weaknesses over financial accounting:

- LTC did not reconcile federal Pell fund draws and returns to the revenue and expenditures recorded in the LTC financial system.
- Pell checks not picked up by the students are voided in the financial system and returned to U.S. DOE. A total of 112 of 394 students (28.4%) had voided Pell checks totaling \$125,305 that were not voided in the financial system until 46 to 259 days after the checks were issued for an average of 105 days after the date of issuance.
- LTC was unable to provide supporting documentation for year-end adjustments made in the accounting system to Pell revenues, expenses, cash, and receivables totaling (\$1,111,803); \$685,027; (\$152,733); and \$579,509, respectively.

The following errors in financial reporting required adjustments to the LTC annual fiscal report (AFR):

- Receivables, net were overstated by \$829,440 for the Office of Risk Management receivable related to Hurricane Katrina insurance recoveries, which also caused an understatement of the recorded impairment loss.
- Restricted net assets for technology fees totaling \$829,375 were incorrectly reported as unrestricted net assets, which also required corresponding adjustments to the related footnotes for net assets and net assets restricted by enabling legislation.
- Federal receivables were overstated by \$634,252 for Federal Emergency Management Agency (FEMA) project worksheet estimates with no related expenditures.
- Other nonoperating (FEMA) revenues totaling \$76,444 were incorrectly reported as operating revenues.
- State and local incumbent worker grant receivables totaling \$884,568 were incorrectly reported as federal receivables.
- Future minimum lease payments disclosed in the Operating Lease footnote were overstated by \$1,242,377 because of errors in compilation.

In addition, an LCTCS Internal Audit report (re: LTC, River Parishes Campus - Missing Funds, dated July 6, 2006) disclosed that \$13,713 in receipts were received and not deposited into the River Parishes campus bank account.

Management has not placed sufficient emphasis on establishing and maintaining good internal control over its financial operations. In addition, the LTC central office was eliminated on July 1, 2006, resulting in the loss of experienced personnel that were needed to perform reconciliations, compilation, and review of the financial data for the LTC AFR. The LTC AFR was due to the system office on August 28, 2006; a one-week extension was granted until September 5, 2006, but the AFR was not submitted to the system office until September 22, 2006.

Failure to reconcile accounting records to source documentation; lack of proper monitoring of financial system accounts; failure to provide support for adjustments; and inadequate preparation, review, and untimely submission of the AFR could result in misreported financial data and undetected errors or fraud. In addition, the failure to properly enforce Cash Handling policies increases the risk that assets could be misappropriated and that errors and/or fraud could occur and not be detected or corrected in a timely manner.

Management of LTC should establish policies and procedures over financial operations to ensure accounting records are analyzed and reconciled periodically; adequate supporting documentation is maintained; an accurate AFR is submitted to the system office timely; and campuses are following the Cash Handling policy. Management concurred with the finding and recommendation and outlined a plan of corrective action (see Appendix A, pages 2-3).

Inadequate Control Over Pell Grant

For the fifth consecutive year, LTC has inadequate internal control over refunds and returns of overpayments of the Federal Pell Grant program (CFDA 84.063). The Code of Federal Regulations (34 CFR 668.22) requires that a refund of Pell funds be made as soon as possible but no later than 30 days after the date of the institution's determination that the student withdrew. Furthermore, 34 CFR 668.21 requires that an institution return overpayments resulting from Pell checks issued but not picked up by students who subsequently withdrew, dropped out, or were expelled before the first day of class (void transactions). Although the regulations do not give a specific time for returning overpayments resulting from these void transactions, LTC's policy states that the campus should submit a void form and the original check to be voided for each student that does not pick up his/her Pell check within 30 days of the check date.

Pell refunds and returns of overpayments are initiated at the individual LTC campuses and sent to the LTC central office, which then credits the Pell account and remits the funds to the U.S. DOE. In a test of 70 Pell refunds and void transactions initiated during fiscal year 2006, we noted the following:

- Thirteen of 35 refunds (37%) totaling \$5,039 were not remitted to the U.S. DOE until 36 to 197 days after the date of determination of the students' withdrawal for an average of 98 days.

- Two of 35 void transactions (6%) totaling \$2,612 were not remitted to the U.S. DOE until 44 days after the checks were issued.

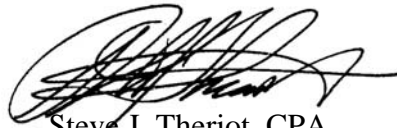
Failure to adequately control Pell refunds and returns of overpayments has caused the LTC to be in noncompliance with federal program requirements.

Management of LTC should ensure that its policies are followed and that Pell refunds and returns of overpayments from void transactions are remitted timely to the U.S. DOE. Management concurred with the finding and recommendation 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 LTC. The varying nature of the recommendations, their implementation costs, and their potential impact on the operations of LTC should be considered in reaching decisions on courses of action. Findings relating to LTC's compliance with applicable laws and regulations should be addressed immediately by management.

This letter is intended for the information and use of LTC 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 letter 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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LTC06

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



Louisiana Community & Technical College System

*Changing Lives,
Creating Futures*

January 26, 2007

Steve J. Theriot, CPA
Legislative Auditor
1600 North Third Street
P.O. Box 94397
Baton Rouge, LA 70804-9397

System President:

Walter G. Bumphus, Ph.D.

Re: Unlocated and Stolen Movable Property

Officers:

Brett J. Mellington
Chair

Stephen C. Smith
First Vice Chair

Sean E. Reilly
Second Vice Chair

Members:

E. Edwards Barham
Ava Dejoie
John E. DeLaney
Carl H. Franklin
Kathy Sellers Johnson
Alvin Kimble
Ann H. Knapp
Dan Packer
Vincent J. St. Blanc, III
F. Mike Stone

Student Members:

Joan McHenry
Cleo Norris

Dear Mr. Theriot:

The Louisiana Technical College (LTC) concurs with the finding and recommendation related to unlocated and stolen movable property.

The issue of safeguarding movable property has been discussed with the Regional Directors of the newly reconfigured LTC. Effective internal control associated with safeguarding movable property, including the execution of all related procedures, will be incorporated in the annual performance review of each Regional Director. In addition, efforts are underway to locate all property currently listed as dislocated.

Vice President of Technical Education Jimmy Sawtelle will oversee the corrective actions associated with this finding. He can be reached at 225-922-1412.

Sincerely,



Jim Henderson

Senior Vice President, Workforce Training and Development

Louisiana
Community
& Technical
College System

265 South Foster Drive
Baton Rouge, LA 70806

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www.lctcs.edu



LOUISIANA COMMUNITY & TECHNICAL COLLEGE SYSTEM

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March 22, 2007

Joe May
System President

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

Officers:

Brett J. Mellington
Chair

RE: LTC audit finding entitled "Inadequate Internal Control over Financial Accounting Operations"

Stephen C. Smith
First Vice Chair

Dear Mr. Theriot:

Sean E. Reilly
Second Vice Chair

Management of the Louisiana Technical College (LTC) concurs with the finding regarding inadequate control over its financial accounting operations.

Members:

Following Act 506 of the 2005 legislature, the LCTCS Board authorized reorganization of the Louisiana Technical College. In August 2006, management transferred the LTC central business functions to the LCTCS Office staff until the newly formed Regions are able to assume these responsibilities. Due to the imminent reorganization, the LTC accounting office lost most of its lower and mid-level personnel in the latter part of FY 2006. LCTCS staff later noted that this resulted in incomplete preparatory work for the Annual Financial Report and failure to complete reconciliations.

E. Edwards Barham
Helen Bridges Carter
Ava Dejoie
John E. DeLaney
Carl H. Franklin
Kathy Sellers Johnson
Michael Murphy
Dan Packer
Vincent J. St. Blanc, III
F. Mike Stone
Geraldine Grissette Taylor

With the transfer of the business function, management also transferred the LTC Vice Chancellor for Finance and Administration to the LCTCS, with three of the remaining accounting personnel, for the purpose of completing the Annual Financial Report. Upon resignation of the Vice Chancellor in fall 2006 after she completed the AFR, the LCTCS assumed all AFR follow-up work and responsibility for the 2007 report. Staff is taking the proper steps to insure deficiencies mentioned in the finding regarding the LTC AFR will not be repeated in the 2007 AFR.

Student Members:

Joan McHenry
Cleo Norris

Since August, the LCTCS Finance Office has been involved in correcting past weaknesses, reversing incorrect entries, locating support documentation and introducing proper internal controls. The following actions by the staff address a majority of the problems mentioned in the finding.

Louisiana
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- Bank reconciliations are now timely and result in no unidentified differences.
- The outstanding Pell checks are monitored on an on-going basis.
- The Pell program is now reconciled monthly.
- All system adjusting entries are supported by attached documentation.
- Staff is in the process of correcting problems such as the reconciliation of the grants that have accumulated over many years.

265 South Foster Drive
Baton Rouge, LA 70806

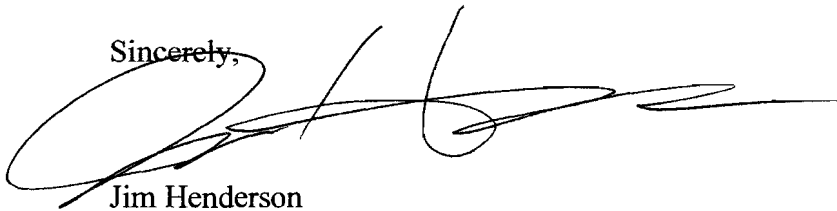
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- Staff has begun preparatory work for the AFR to ensure proper review and timely submission and to prevent misreported financial data.
- At LTC River Parishes, the Regional Office immediately put new management in place upon discovery of the internal control problem and additional procedures were implemented to ensure proper cash handling.

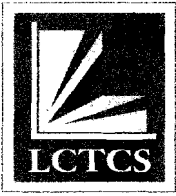
Staff has been working diligently to correct weaknesses in the financial operation of the LTC that have accumulated over a period of time. Given the time lapse of several months of the fiscal year before assuming the operation, the LCTCS Financial Staff has made significant progress. The person responsible for corrective action is F. Howard Karlton, LCTCS Director of Fiscal Affairs.

Sincerely,

A handwritten signature in black ink, appearing to read "Jim Henderson", with a long horizontal flourish extending to the right.

Jim Henderson
Senior Vice President for Workforce Training and Development

cc: Dr. Joe D. May
Ms. Jan Jackson
Mr. Howard Karlton



LOUISIANA COMMUNITY & TECHNICAL COLLEGE SYSTEM

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March 22, 2007

Joe May
System President

Officers:

Brett J. Mellington
Chair

Stephen C. Smith
First Vice Chair

Sean E. Reilly
Second Vice Chair

Members:

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

Re: LTC audit finding titled "Inadequate control over Pell grant"

Dear Mr. Theriot:

Management of Louisiana Technical College concurs with the finding related to inadequate control over Pell grant funds.

The management of Louisiana Technical College recognizes its responsibility to manage Pell funds in accordance with the applicable federal guidelines. For this reason, actions were taken last year to correct the above stated finding. Although these actions resulted in improvements in this area, management of LTC is committed to continue efforts toward policy and procedure development and professional development for financial aid staff and fiscal office staff throughout the college.

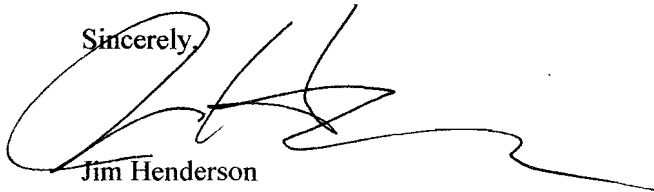
To ensure that Pell grant funds are managed (obtained, disbursed and returned) according to federal guidelines, the following procedures were implemented:

- (1) Each campus within Louisiana Technical College has worked with the Office of the Chancellor, prior to its dissolution, to develop procedures for administering Title IV funds at the campus level. The procedures mandate communication between the Financial Aid Office and Accounting Office.
- (2) The College's Office of Student Financial Assistance issued procedures to closely monitor and verify accuracy of information submitted for Title IV fund return processing to include the following provisions:
 - a. The College Director of Student Financial Assistance reviews each form received for Title IV return processing at LCTCS.
 - b. For those forms that are not in compliance with federal regulations based on the information stated, the College Director of Student Financial Assistance contacts the campus Financial Aid Officers, campus Accountant, and/or campus Dean for clarification and a written explanation that will be placed with the return forms for processing by the LCTCS – Accounting Department.
- (3) The Louisiana Technical College Office of Student Financial Assistance Policies and Procedures Manual, which is used as a training resource for campus financial aid officers and campus accountants, has been updated to address deficiencies mentioned in this finding. Also, specific training on this section has been conducted to ensure understanding by the Financial Aid Personnel throughout the college.

This procedure has produced positive results; therefore, we will continue to implement this process along with additional training for all LTC financial aid personnel and accounting personnel that will be specific to the management of Title IV funds. This training will be conducted on an annual basis to reinforce the federal requirements and college procedures for continued improvement in performance and compliance with federal guidelines.

The individual responsible for corrective action is F. Howard Karlton, LCTCS Director of Fiscal Affairs.

Sincerely,

A handwritten signature in black ink, appearing to read 'Jim Henderson', is written over the word 'Sincerely,'.

Jim Henderson
Senior Vice President for Workforce Training and Development

cc: Dr. Joe May
Ms. Jan Jackson
Mr. Howard Karlton