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

MANAGEMENT LETTER
ISSUED MAY 5, 2010

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

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. Five copies of this public document were produced at an approximate cost of $15.80. 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.lla.la.gov. When contacting the office, you may refer to Agency ID No. 3478 or Report ID No. 80090082 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
DARYL G. PURPERA, CPA

April 15, 2010

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 part of our audit of the Louisiana State University System's financial statements for the year ended June 30, 2009, we considered the internal control over financial reporting for the LSU Board of Supervisors, LSU and A&M College (LSU), LSU Agricultural Center, Pennington Biomedical Research Center, Paul M. Hebert Law Center, LSU at Alexandria, and LSU at Eunice (hereafter referred to as LSU and Related Campuses); we examined evidence supporting certain accounts and balances material to the System's financial statements; and we tested LSU and Related Campuses' 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 LSU and Related Campuses' 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 LSU and Related Campuses' 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 financial information provided to the Louisiana State University System by LSU and Related Campuses is 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 Louisiana State University System's financial statements, upon which the Louisiana Legislative Auditor expresses opinions.

In our prior management letter on LSU and Related Campuses for the year ended June 30, 2008, we reported findings relating to energy efficiency contract contrary to law, weaknesses in the administration of Student Financial Aid at LSU at Alexandria, inadequate controls over self-insurance program, and noncompliance with state movable property regulations. The finding related to inadequate controls over self-insurance program has been resolved by management. The findings relating to energy efficiency contract contrary to law, weaknesses in the administration of Student Financial Aid at LSU at Alexandria, and noncompliance with state movable property regulations 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* have also been included in the State of Louisiana's Single Audit Report for the year ended June 30, 2009.

Energy Efficiency Contract Contrary to Law

In August 2002, Louisiana State University (LSU) entered into a 15-year performance-based energy efficiency contract for a cost of approximatley $3.5 million with Johnson Controls, Inc. (JCI) that includes stipulated savings and therefore does not comply with state laws. This is the second consecutive year for this finding. Louisiana Revised Statute (R.S.) 39:1496.1(A) provides that a state agency may enter into a performance-based energy efficiency contract for services and equipment. R.S. 39:1484(A)(14) requires the payment obligation to be either a percentage of the annual energy cost savings attributable to the services or equipment under the contract or guaranteed by the company under contract to be less than the annual energy cost savings attributable to the services or equipment under the contract. R.S. 39:1496.1(D) requires the contract to contain a guarantee of energy savings to the university. The statute further provides that the annual calculation of the energy savings must include maintenance savings that result from operational expenses eliminated and future capital replacement expenditures avoided as a result of equipment installed or services performed by the contractor.

Attorney General Opinion 07-0002 provides, ". . . for the stipulated operational savings to be included in the total guaranteed savings, those savings must actually be guaranteed. In order for the operational savings to be guaranteed, the Contract would have to provide for some type of measurement and/or verification of the operational savings. . . ." Although the Attorney General Opinion was directed to local government, the same guarantee is required in state law.

A review of the energy efficiency contract between LSU and JCI disclosed that JCI guaranteed a total of $3,427,380 in savings during the term of the contract, consisting of measurable savings of $2,614,658 and operational savings of $812,722. According to the contract, "Operational Savings are mutually agreed by the Customer and JCI . . . and shall not be additionally measured or monitored during the Term." The contract also stipulates that operational savings include avoided repair and maintenance costs achieved by the customer through the implementation of the Performance Contracting Agreement. The operational savings are not actually guaranteed because the contract does not provide for some type of measurement and/or verification of the operational savings. Therefore, excluding the operational savings, the guaranteed savings over the life of the contract are only the measurable savings of $2,614,658. The total payments due to JCI over the life of the contract are approximately $3.5 million. Therefore, the payment obligation exceeds the adjusted guaranteed annual energy cost savings.

At the signing date of the contract, management believed that the contract complied with state law. However, because the operational savings are stipulated and are not measurable and verifiable, the contract is not in compliance with state law. In addition, there is a risk of making payments specified in the contract that are greater than the energy cost savings attributable to the services or equipment under the contract.

The LSU System is in the process of conducting extensive investigations and evaluations of the agreement in preparation for litigation to remedy the situation by nullifying the agreement, forcing amendments, or recovering for breach of the agreement. In doing so, the LSU System has retained outside counsel to assist in the resolution of these issues. Counsel has requested and obtained information from JCI and has engaged, on behalf of the LSU System, an industry expert to assist in the detailed and comprehensive review of the technical materials and calculations related to the contract.

Management should revise its energy efficiency contract to ensure that each savings component is verifiable and that the guaranteed savings have been realized. In addition, management should ensure that the payments required by the contract are not greater than the energy cost savings attributable to the services or equipment under the contract. LSU System's management concurred with the finding and is in the process of extensively reviewing each contract to discover all facts relevant to the status of the contracts and further action required (see Appendix A, pages 1-2).

Weaknesses in the Administration of Student Financial Aid at Louisiana State University at Alexandria

For the third consecutive year, Louisiana State University at Alexandria (LSUA) did not ensure that the amounts reported on the Fiscal Operations Report and Application to Participate (FISAP) were accurate and supported by adequate documentation. Volume 6, Chapter 1 of the *Federal Student Aid Handbook* requires information reported on the FISAP to be accurate and verifiable.

The following discrepancies were identified in a review of the FISAP and supporting documentation:

- The total number of students for 2007-2008 reported in Part II, Section D, line 7 and Part II, Section F was understated by 54 students.
- The total tuition and fees for award year July 1, 2007 through June 30, 2008, was understated by $538 on line 22a of Part II, Section E.
- The total funds to Federal Supplemental Educational Opportunity Grants (FSEOG) recipients reported in Part IV, Section D, lines 11 and 13 were overstated by $3,100 and the administrative cost allowance claimed on line 14 was overstated by $3,443. The amounts reported on these lines are

also used to determine the FSEOG expenditures and authorization amounts reported on lines 7, 10, and 15 of the same section and the total distribution to program recipients on line 16 of Part VI, Section A column (d) as well as lines 3 and 23(b) of the administrative cost allowance worksheet at Part VI, Section B.

- The total compensation for Federal Work-Study (FWS) reported in Part V, Section C, lines 11 and 13 was understated by $4,318 and the administrative cost allowance claimed reported on line 14 of Section D was understated by $5,936. The amounts reported on these lines are also used to determine the amounts reported on lines 7, 10, and 15 of the same section and the total distribution to program recipients on line 16 of Part VI, Section A column (f) as well as lines 1 and 23(c) of the administrative cost allowance worksheet at Part VI, Section B.

Management of LSUA did not ensure that data reported in the FISAP was accurate and properly supported as required by federal regulations. Failure to maintain the supporting documentation used to complete the report reduces the accuracy of the report and may result in noncompliance with federal program regulations.

LSUA's management should strengthen controls to ensure information included in the FISAP is accurate and adequate supporting documentation is maintained. Management concurred with the finding and outlined a plan of corrective action (see Appendix A, pages 3-5).

Noncompliance With State Movable Property Regulations

For the second consecutive year, LSU is not in compliance with state movable property regulations requiring all state entities to use the statewide inventory system, Protégé, for its movable property records. Louisiana Administrative Code Title 34, Part VII, Section 307(A) states, "All items of moveable property having an original acquisition cost, when first purchased by the state of Louisiana, of $1,000 or more, all gifts and other property having a fair market value of $1,000 or more, and all weapons, regardless of cost, … must be placed on the statewide inventory system." The state's Division of Administration (DOA) granted LSU a temporary exclusion from the requirement, which was subsequently extended until January 1, 2008. As of this time, LSU has neither converted its property records to Protégé nor has it received an additional extension of its exemption from the DOA.

Management expressed that the state's current movable property system will not accommodate LSU's unique accounting and reporting needs. LSU has submitted a written request for a permanent exemption to the DOA but has not received a response. However, because LSU has not entered its property data in Protégé and its exemption has expired, LSU is in noncompliance with state movable property regulations.

Management should comply with the state's movable property laws and regulations by entering its movable property records in Protégé. Management concurred with the finding and provided additional information regarding LSU's unique accounting and reporting needs and its concerns with Protégé (see Appendix A, pages 6-7).

Misappropriation of Funds - Tiger Card Purchases

A Louisiana State University System (LSU System) internal audit report, dated May 15, 2009, identified transactions at Louisiana State University and A&M College (LSU) that the campus determined to be a possible misappropriation of funds for which the university identified a total of $4,060. R.S. 14:67 defines theft as the misappropriation of anything of value which belongs to another, either without the consent of the other to the misappropriation or taking, or by means of fraudulent conduct, practices, or representations. R.S. 42:1461 further states that public employees assume a personal obligation not to misappropriate, misapply, convert, misuse, or otherwise wrongfully take any funds, property or other thing of value belonging to or under the custody or control of the public entity in which they are employed.

A joint investigation by the LSU Office of Accounting Services, Internal Audit, and Campus Police alleges the Associate Vice Chancellor for University College improperly made purchases with university funds transferred to her personal Tiger Card between February 2003 and August 2008. The Tiger Card is an identification card for LSU students, faculty, and staff, which also serves as a debit card for funds deposited into personal accounts. The employee was arrested by LSU Campus Police in June 2009. The alleged misappropriation was identified by the university and management has since implemented additional policies and procedures to strengthen controls to prevent future misappropriations. In March 2010, the LSU System and the Associate Vice Chancellor for University College entered into a mutual release and agreement on this issue.

Management should continue to ensure all employees are informed of and comply with policies regarding the use of University funds via a Tiger Card. Management should also seek to minimize the need to transfer university funds to individual Tiger Cards and require that all such transfers be appropriately supported and approved by supervisors for the specific program as well as the Office of Accounting Services. Management concurred with the finding and outlined a plan of corrective action (see Appendix A, page 8).

Inadequate Controls Over the LaCarte Purchasing Program

An LSU System internal audit report, dated August 14, 2009, disclosed inadequate controls over the LaCarte Purchasing Card program used at LSU. LSU's *LaCarte User's Guide* and *Louisiana "LaCarte" Purchasing Card Policy* establish policies and procedures for the purchasing card program. Inadequate controls and monitoring of LaCarte card purchases increases the risks that errors or fraud could occur and remain undetected.

The scope of the internal audit report included LaCarte policies, procedures, and all LaCarte transactions made by LSU employees from October 2007 through March 2009, which were approximately $48.7 million. The data was stratified and analyzed by cardholder, department, approver, date, budget account, vendor, and commodity. Testing and analysis by the internal auditor disclosed the following:

- Cardholders have the ability to approve their own purchases. From October 2007 to March 2009, 262 different employees (16.5% of total cardholders) approved their own LaCarte purchases.

- LaCarte purchases are approved at inappropriate staff levels and subordinates can and do approve transactions initiated by their supervisors.

- Documentation required in support of transactions paid through Pay-Pal and other third-party processors is insufficient. Testing and analysis revealed $17,465 of self-approved purchases that were charges to Pay-Pal, an e-commerce business allowing payments, and money transfers to be made through the Internet.

- There is no unalterable "vendor" field in the LaCarte card system that could allow the user to mask the identity of the true recipient of the payment.

- Monitoring activities at both the departmental level and at Accounting Services are not sufficient to timely detect misuse of the card. An employee allegedly used a LaCarte card to make purchases at retail locations and then returned the items for store credit and gift cards. The employee was arrested for theft of $614 and was terminated for allegedly using the gift cards for personal use. The university is pursuing recoupment of the payments. R.S. 14:67 defines theft as the misappropriation of anything of value which belongs to another, either without the consent of the other to the misappropriation or taking, or by means of fraudulent conduct, practices, or representations.

The LSU System internal audit report recommended that management (1) ensure LaCarte cardholders do not approve their own purchases; (2) establish appropriate levels of approvals for LaCarte purchases; (3) require pre-approval of purchases made via Pay-Pal or other third-party processor; (4) ensure system controls prevent users from altering key purchase information; and (5) institute budget to actual analysis at the department level. Management concurred with the finding and outlined a plan of corrective action (see Appendix A, page 9).

The recommendations in this letter represent, in our judgment, those most likely to bring about beneficial improvements to the operations of the university. The varying nature of the recommendations, their implementation costs, and their potential impact on the operations of the university should be considered in reaching decisions on courses of action. Findings relating to the university's compliance with 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 its Board of Supervisors, 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
Legislative Auditor

NM:ES:EFS:PEP:dl

LSU&R09

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

Louisiana State University System
3810 West Lakeshore Drive
Baton Rouge, Louisiana 70808

Chief Financial Officer

225 / 578-6935
225 / 578-5524 fax

September 24, 2009

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

Re: Audit Finding - Energy Efficiency Contract Contrary to Law

Dear Mr. Theriot:

On September 1, 2009, an audit finding was received by the University Medical Center addressing the facility's performance-based energy efficiency contract with Johnson Controls, Inc. (JCI) for the fiscal year ending June 30, 2009. This finding is similar to a finding issued to University Medical Center in early 2009 for the fiscal year ending June 30, 2008. The finding states that the performance-based energy efficiency agreement with JCI includes stipulated savings and therefore does not comply with state law because the stipulated operational savings are not verified or measured. As such, the finding states that the savings truly guaranteed under the contract are less than the cost of the contract. The findings conclude that the facility "should revise its energy efficiency contract to comply with state law to ensure each savings component is verifiable and that the guaranteed savings have been realized" and that "management should ensure that the payments required by the contract are not greater than the energy cost savings attributable to the services or equipment under the contract."

University Medical Center is one of five LSU System institutions that are party to performance-based energy efficiency contracts with JCI. Specifically, the University of New Orleans, Louisiana State University Health Sciences Center Shreveport, Louisiana State University and Lallie Kemp Medical Center are also parties to such contracts. It is anticipated that each of these five facilities will receive findings similar to the finding recently issued to University Medical Center as each of these facilities also received virtually identical findings for the previous fiscal year. Therefore this response is meant to serve as the LSU System's official response to any similar findings issued to each of these facilities for the fiscal year ending June 30, 2009.

The LSU System provided a response related to the previous fiscal year findings to your office on February 19, 2009 explaining the status of the investigation into each of these contracts. See attached. In response to a letter from your office dated June 16, 2009 requesting an update as to the status of each of these contracts, the LSU System, on July 13, 2009, provided a detailed follow-up summary of the status of these contracts and its efforts to determine the most appropriate course of action to address the issues noted in your audit findings. See attached.

As explained in the July 13, 2009 letter, the LSU System has retained Taylor, Porter, Brooks & Phillips as contract counsel to assist in the resolution of the issues involved with these contracts. Counsel has been in contact with JCI's attorney to obtain information pertinent to the savings issues associated with these contracts. Counsel has also retained an industry expert, on behalf of the LSU System, to assist in the detailed and comprehensive review of the volumes of technical materials and calculations related to each of the five contracts. This expert has made significant process in the evaluation of several of the facility contracts. His evaluation has focused significantly on the evaluation of measured and stipulated savings under these contracts to determine the accuracy of previous calculations and the reasonableness of any assumptions underlying the stipulated savings under these contracts. Because many of these contracts were entered into years ago, our expert is working with facility staff to obtain historical as well as current documentation and equipment/operational information relevant to the savings calculations set forth in these contracts. Due to the highly technical and complex nature of the subject matter of these contracts and the necessity of obtaining detailed historical documentation, the process of reviewing this information has been a time consuming endeavor. However, progress has been made.

As previously indicated, once the expert has completed his review, the LSU System will work with counsel to determine the most appropriate path forward in the best interest of the University and the taxpayers to resolve the issues noted in your audit findings. Again, it is imperative that the LSU System proceed with caution to preserve any and all rights that it may have related to these contracts and the LSU System is currently taking all necessary steps to prepare for litigation to remedy the situation by nullifying the agreements, forcing amendments to the agreements or recovering for breach of the agreements. However, the appropriate path forward depends on the outcome of the ongoing extensive investigations and evaluations of the agreements. As such, the LSU System is unable to provide an anticipated completion date for these corrective actions. But, it should be recognized that these significant and precise steps are part of substantial corrective actions presently being taken.

Sincerely,

John Antolik
Chief Financial Officer

cc: General Counsel P. Raymond Lamonica

Office of the Chancellor
Tel: (318) 473-6444 • FAX: (318) 473-6480

8100 Highway 71 South
Alexandria, LA 71302-9121

November 19, 2009

Daryl G. Purpera, CPA, CFE
Temporary Legislative Auditor
P.O. Box 94397
Baton Rouge, LA 70804-9397

Dear Mr. Purpera:

RE: LSU Alexandria response to finding: **Weaknesses in the Administration of Student Financial Aid at Louisiana State University at Alexandria.**

Louisiana State University at Alexandria management concurs with the above audit finding as we were unable to provide adequate documentation to support the information requested in reference to the various line items reported on the Fiscal Operations Report and Application to Participate (FISAP) for award year 2007-2008. In response, a corrective action plan is enclosed.

If additional information is needed, please feel free to contact me.

Sincerely,

David P. Manuel
Chancellor

Enclosure

LSU Alexandria response to finding: **Weaknesses in the Administration of Student Financial Aid at Louisiana State University at Alexandria.**

Corrective Action Plan:

Review of our processes has revealed several opportunities for improvement in maintaining documentation and improving the reliability and accuracy of the documentation used when reporting data on the annual FISAP report. The most important process that must be completed is to pull a static snapshot of both the PowerCampus and PowerFAIDS databases on the same date.

These static databases will then be the only resource of data used for reporting or for providing auditor requested support documentation in regards to data reported. In addition to static snapshots of the two databases, General Ledger statements for appropriate accounts will also be pulled. The request for the database snapshots and appropriate General Ledger statements will be made by the Director of Financial Aid on September 1 of each year; The Executive Director of IET Services will be responsible for saving a snapshot of the PowerFAIDS and PowerCampus databases; the Director of Accounting Services will be responsible for providing General Ledger statements as of September 1st. A copy of these general ledger statements will be scanned and saved on a shared network.

Additionally, a staff training issue has to do with ensuring that all staff knows to provide requested support documentation for a prior year from the static database rather than from production in the current year.

In addition, several other matters have come to light that will allow LSU Alexandria to assure that adequate and correct documentation is maintained.

- As aid is processed and disbursed for a student within the PowerFAIDS system certain flags are coded within the table structures to indicate aid this aid as disbursed. We have learned that if aid is later cancelled or reduced, said flag is not updated within PowerFAIDS until after a PowerFAIDS built-in process called Reconciliation is run. This was not learned until June of 2009, and data pulled from PowerFAIDS prior to June of 2009 relied on this "disbursed aid" flag being set "on" in PowerFAIDS. To our knowledge, Reconciliation had never been run prior to June 2009. The Director of Financial Aid will be responsible for running this Reconciliation process on a monthly basis throughout the award year. In addition, after the static copy of the databases are saved for the purpose of completing FISAP reporting, The Director of Financial Aid will run the Reconciliation process will be run on the static copy of PowerFAIDS prior any data being pulled for reporting purposes.

- FISAP reports completed prior to October 2009 relied exclusively on PowerFAIDS data and did not utilize PowerCampus or General Ledger information. PowerFAIDS data ran completely independent of PowerCampus with no automatic data exchange. This contributed to the discrepancy in reported disbursements to recipients (i.e. The difference in PowerFaids disbursements for 2007-2008 award year reported on FISAP – prior to the

Reconciliation process being run – is exactly $3100 different than what was shown in PowerCampus.)

During Fall 2009, the Executive Director of IET Services and the Director of Financial Aid worked to develop a method of data integration between the two systems to ensure that updated information from PowerCampus is consistently provided within the PowerFAIDS system. Now that information is being shared between the two systems we are in the process of developing the proper reports that will alert financial aid staff of errors, corrections, or aid adjustments that are needed. The Director of Financial Aid is responsible for the development, implementation, and scheduled running of such reports by February 1, 2010.

- In addition to static copies of the databases and general ledger information being saved and used for the purposes of completing the FISAP report narrative explanations shall be recorded to provide detailed information for how data reported was obtained. The Director of Financial Aid is responsible for completing the FISAP report each year and will generate this narrative description upon completing the report annually. For the FISAP that was prepared by the October 1, 2009 reporting deadline, electronic copies of the documentation used, as well a narrative explanation of how each number reported was derived was saved both on a shared network drive and printed copies of all information was provided to the Office of Finance and Administrative Services, Academic Affairs, and to the Office of Institutional Research.

  Institutional Research will then conduct a review of the FISAP report and documentation to assure that the appropriate and correct information was reported and that adequate documentation was maintained to support all reported information. This review will be completed one month prior to the deadline to submit edits or corrections for the FISAP award year being reported.

Louisiana State University System
3810 West Lakeshore Drive
Baton Rouge, Louisiana 70808

Chief Financial Officer

225 / 578-6935
225 / 578-5524 fax

February 8, 2010

Mr. Daryl G. Purpera, CPA, CFE
Temporary Legislative Auditor
P.O. Box 94397
Baton Rouge, LA 70804-9397

Dear Mr. Purpera:

In conjunction with the legislative audit of the LSU System for the fiscal year ending June 30, 2009, a finding was issued relating to LSU, the LSU Health Sciences Center New Orleans, the LSU Health Sciences Center Shreveport, and the University of New Orleans (UNO) for not being in compliance with state moveable property regulations. Specifically, it was determined that the above mentioned campuses do not utilize the Louisiana Property Assistance Agency's (LPAA) moveable property Protégé system. We concur with your finding as it relates to LSU, the LSU Health Sciences Center Shreveport, and UNO. The LSU Health Sciences Center New Orleans respectfully disagrees with the finding and will submit a separate response.

The mandate to use the LPAA Protégé system has created serious concerns for System campuses that compete for and are awarded significant federal research grants. Such campuses must be able to accurately determine reasonable indirect costs to be recovered from such grants. Each campus' indirect cost rate (also known as the "F&A" rate) is determined by means of very complex calculations included in a formal F&A proposal that is submitted to the Department of Health and Human Services. A major component of this most critical submission includes details on the capitalized moveable equipment owned by the campus.

An analysis by LSU determined that the Protégé system does not allow for multiple accounting records (account numbers and amounts) per inventory item and can't maintain the original accounting separate from the current accounting. This major weakness would cause LSU to have to maintain a second, separate inventory listing for its grant activity purposes. In fact, it's been determined that while several other institutions of higher education in the state are using the Protégé system, they are also having to maintain their own in-house systems due to the reporting issues and other limitations of the Protégé system.

For most state agencies the Protégé system works well as they are not required to calculate separate indirect cost rates, as this analysis is done on their behalf at the State level. Thus, limitations of the Protégé system do not directly impact their operations or their operating revenues. Moreover, smaller public higher education institutions in Louisiana are allowed to use the "short-form" method for calculating their F&A rates, a method not requiring the detailed equipment accounting data indicated above. Use of the Protégé system, therefore, does not negatively impact recovery of their indirect costs.

However, due to the significant research activities of the above mentioned LSU System campuses, a much more sophisticated process and access to a much higher detailed level of equipment accounting data is required to get the maximum return from the indirect cost recovery process. For example, total research expenditures for the LSU main campus for the year ended June 30, 2009 were $133.4 million and the total indirect costs recovered for fiscal year 2008-09 was $21.8 million. It's critical for LSU and the other research intensive campuses to maintain access to detailed equipment accounting records to continuing recovering all allowable indirect costs.

LSU has reported that its survey further indicated that the Protégé system's query capabilities are severely limited. Other institutions reported difficulty in obtaining necessary reports and identified this weakness as the primary reason for having to maintain a dual system. LSU alone currently produces over 100 daily, monthly, and annual; reports needed by its various users. Moreover, LSU's IT staff routinely generates ad hoc reports linking its equipment inventory to other financial systems.

It should be noted that UNO utilizes a fully integrated enterprise wide data processing system, PeopleSoft/Oracle. This includes general ledger, purchasing, accounts payable, and asset management modules which are tightly interconnected. The purchasing module feeds asset information to the accounts payable module which then forwards combined asset information to the asset management module. This information is then converted into moveable equipment assets by UNO's Property Control department through the asset management module. All of the physical and financial information pertaining to the assets are stored in PeopleSoft. The PeopleSoft system allows for the day to day tracking of asset locations, values and functions as well as the performance of complex calculations for depreciation and F&A rates

Because of the complexity and total integration of UNO's system, it would not be able to integrate Protégé in place of PeopleSoft's asset management module. Therefore, UNO would have to provide for the duplication of data entry and perform a regular reconciliation of the two systems if it participated in the Protégé system. While this may be feasible for institutions having a relatively limited number of inventory items, UNO has 13,100 inventory items, valued at $74,000,000 with an average of 164 transactions per week. Entering all transactions a second time into Protégé and keeping the two systems in balance would require a significant increase in labor time. It should be noted that the Health Sciences Center in Shreveport also uses the PeopleSoft/Oracle enterprise wide data processing system including the asset management module and would face a similar situation.

Finally, the State Property Control regulations do provide for exceptions to the Protégé system for certain agencies who utilize their own data processing capability to monitor and use their system for inventory control. LSU was granted this exception in May, 1996, and on March 25, 2008 made a request for a permanent exception to the mandate to use the Protégé system. It remains the position of the LSU System that it will continue to fully comply with all State Property regulations, including the stipulation that allows agencies to provide regular electronic updates to the State's system.

Sincerely,

John Antolik
Chief Financial Officer
Assistant Vice President and Comptroller

LSU
LOUISIANA STATE UNIVERSITY
Finance & Administrative Services

January 8, 2010

Daryl G. Purpera, CPA
Temporary Legislative Auditor
P. O. Box 94397
Baton Rouge, LA 70804-9397

Dear Mr. Purpera,

In conjunction with the legislative audit of LSU and A&M College (LSU) for the fiscal year ended June 30, 2009, we are responding to the audit finding concerning misappropriation of funds related to the Tiger Card. We concur with the finding and have modified our procedures to appropriately address the breach of internal controls uncovered by the University.

LSU has drafted and expects to issue soon FASOP AS-14, "Providing Declining Balance Cards to University Program Participants." This operating procedure outlines the purpose for providing declining balance cards to program participants, provides procedures for requesting and distribution of the cards, and documents the final accounting for the funds used and funds remaining on the cards at the close of the program. Copies of FASOP AS-14 and the related forms are attached for your information.

Please let me know if anything further is needed.

Sincerely,

Eric Monday
Interim Vice Chancellor for Finance
and Administrative Services

xc: Chancellor Michael V. Martin
Attachments

330 Thomas Boyd Hall • Baton Rouge, LA • 70803 • 225-578-3386 • Fax 225-578-5403 • www.fas.lsu.edu

LOUISIANA STATE UNIVERSITY
Finance & Administrative Services

January 8, 2010

Daryl G. Purpera, CPA
Temporary Legislative Auditor
P. O. Box 94397
Baton Rouge, LA 70804-9397

Dear Mr. Purpera,

In conjunction with the legislative audit of LSU and A&M College (LSU) for the fiscal year ended June 30, 2009, we are responding to the audit finding concerning inadequate controls over the LaCarte purchasing program. The University concurs with the finding, and we have agreed to the recommendations of the LSU System Internal Auditors in a memo dated August 14, 2009 (copy attached). The current status of the implementation of these recommendations is summarized below.

Approval of LaCarte Purchases by Appropriate Staff Level

In a University memo dated September 17, 2009 (copy attached), Deans, Directors and Department Heads were notified that cardholders must approve their LaCarte purchases as legitimate business expenses and that such purchases must be approved by a supervisor.

Documentation Supporting PayPal transactions or Other Third Party Processors

The Deans, Directors and Department Heads were also informed in the September 17th memo that purchases paid via PayPal will now require approval by a supervisor in advance of an actual purchase. Form AS1500 ("PayPal Transaction Documentation and Approval") has been implemented to document the required supervisory approval.

Unalterable Vendor Field in the LaCarte Card System

This finding resulted from a system error that was corrected as soon as it was identified. The initial coding to the system programs had appropriately prevented the altering of vendor names but during various system modifications, this control was inadvertently removed. The system has subsequently been modified to prevent modification of the vendor description.

Monitoring Activities at the Departmental Level and in Accounting Services

The University has replaced monthly paper ledgers with an on-line application providing budget units with up-to-date accounting data that includes budgets, revenues, expenditures, encumbrances, and tentative transactions summarized by expenditure objects. A budget to actual comparison report has also been developed and is currently available on-line. Deans, Directors, and Department Heads were formally informed of the requirement to monitor budgets by object of expenditure both at a meeting on October 15, 2009, and also in a memo dated November 2, 2009 (copy attached). Budget units must regularly investigate overdrafts and either process budget adjustments to clear such overdrafts or document and maintain explanations for why budget adjustments are deemed unnecessary. Budget heads will be reminded quarterly to review accounts with overdrafts.

Please let me know if anything further is needed.

Sincerely,

Eric Monday
Interim Vice Chancellor for Finance
and Administrative Services

xc: Chancellor Michael V. Martin
Attachments

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