

UNIVERSITY OF NEW ORLEANS  
LOUISIANA STATE UNIVERSITY SYSTEM  
STATE OF LOUISIANA



PROCEDURAL REPORT  
ISSUED APRIL 1, 2009

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LOUISIANA LEGISLATIVE AUDITOR  
STEVE J. THERIOT, CPA

February 26, 2009

**UNIVERSITY OF NEW ORLEANS**  
**LOUISIANA STATE UNIVERSITY SYSTEM**  
**STATE OF LOUISIANA**  
New Orleans, Louisiana

As required by Louisiana Revised Statute 24:513, we conducted certain procedures at the University of New Orleans, a campus within the Louisiana State University System, for the period from July 1, 2007, through June 30, 2008. Our procedures included (1) a review of the university's internal controls; (2) tests of financial transactions; (3) tests of adherence to applicable laws, regulations, policies, and procedures governing financial activities; and (4) a review of compliance with prior year report recommendations. Our procedures were more limited than would be necessary to give an opinion on internal control and on compliance with laws, regulations, policies, and procedures governing financial activities.

Specifically, we interviewed management personnel and selected university personnel and evaluated selected documents, files, reports, systems, procedures, and policies, as we considered necessary. After analyzing the data, we developed recommendations for improvement. We then discussed our findings and recommendations with appropriate management personnel before submitting this written report.

The annual financial information of the University of New Orleans, required to be submitted to the LSU System, was not audited or reviewed by us, and, accordingly, we do not express an opinion on that information. The university's 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 the University of New Orleans, dated November 30, 2007, we reported a finding relating to unlocated movable property. That finding has not been resolved and is addressed again in this report.

Based on the application of the procedures referred to previously, all significant findings are included in this report for management's consideration.

**Unlocated Movable Property**

For the third consecutive year, the University of New Orleans (UNO) reported significant amounts of movable property that could not be located. Good internal control requires

that adequate control procedures be in place to ensure that movable property is properly safeguarded against loss arising from unauthorized use or theft. Furthermore, Louisiana Administrative Code Title 34 Part VII Section 313 (A) states, in part, that efforts must be made to locate all movable property items for which there are no explanations available for their disappearance. Property unlocated after three years is permanently deleted from movable property records.

Louisiana Revised Statutes (R.S.) 39:324 and 39:325 require entities to conduct an inventory of movable property and identify amounts of unlocated property in an annual certification submitted to the Louisiana Property Assistance Agency (LPAA). The certification of movable property submitted to LPAA by UNO reported significant amounts of unlocated movable property as a result of its most recent property inventory procedures. The university's annual certification of property inventory to LPAA disclosed \$68,257,329 in total movable property, which includes 154 items of movable property as unlocated with a total value of \$282,696 for the current fiscal year. In addition, the total movable property includes items that remain unlocated over the previous three years with a total value of \$2,415,073. However, total unlocated movable property has reduced significantly over the last three years. Computer-related items of movable property reported as unlocated in the current fiscal year totaling \$260,065 consisted, in part, of the following:

- 50 desk top computers/workstations
- 79 laptops/notebook computers
- 12 multimedia projectors
- Various other computer-related property items

UNO also reported approximately 75 items of movable property with an approximate value of \$89,968 as missing/stolen to the legislative auditor and the Orleans Parish District Attorney's Office in the current fiscal year.

Failure to adequately monitor, secure, and account for all movable property and locate those items for which there are no explanations available for their disappearance subjects the movable property of UNO to increased risk of loss and/or unauthorized use. Furthermore, because of the nature of services provided by the university, the risk exists that sensitive information could be improperly recovered from the missing computers and/or computer-related equipment.

UNO's management should take the necessary measures to strengthen internal control over movable property to ensure that all movable property is adequately secured and monitored, physical inventories are conducted accurately, and additional efforts are devoted toward locating movable property previously reported as unlocated. While management disagreed with the methodology of using cumulative unlocated property amounts in the finding, noting that the university is being penalized for the same unlocated property cited after Hurricane Katrina, management did not disagree with the

unlocated property amounts in the finding and described controls implemented by the university to reduce unlocated property (see Appendix A, pages 1-3).

### **Energy Efficiency Contract Contrary to Law**

UNO entered into a performance-based energy efficiency contract with Johnson Controls, Inc. (JCI) on October 30, 1998, that includes stipulated savings and, therefore, does not comply with state law. 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 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 entity. The statute further provides that the annual calculation of the energy savings must include maintenance savings that result from operation 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.

The energy efficiency contract, as amended, which is for 19 years and approximately \$30.7 million between UNO and JCI, stipulates the value of the operational savings in the contract. Under Schedule E of the original contract, JCI guaranteed a total of \$29,572,695 in savings during the term of the contract. The savings consist of measurable savings of \$18,742,695 and operational savings of \$10,830,000. A contract amendment effective July 1, 2004, increased the guaranteed saving by \$146,160. According to the contract, “Operational Savings” are agreed by the parties to be achieved and “will not be additionally measured or monitored during the term of the Agreement.” Exhibit 2 of Schedule E defines operational savings to include avoided repair, maintenance, service contract, and other costs and also states that the operational costs will not be additionally measured or monitored during the contract term. The operational savings are not guaranteed because the contract does not provide for measurement and/or verification of the operational savings. The total rental and service payments due to JCI over the life of the contract are approximately \$30.7 million. Therefore, the payment obligation exceeds the adjusted guaranteed annual energy cost savings.

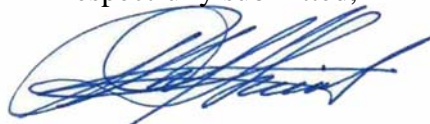
At the signing date, management felt that the contract complied with state law. However, because the operational savings are stipulated and are not measurable and verifiable, the contract is contrary to law. In addition, there is a risk of making payments specified in the contract that are greater than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

Management should reconstruct its energy efficiency contract to comply with state law to ensure 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. Louisiana State University System 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, page 4).

The recommendations in this report 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 noncompliance with applicable laws and regulations should be addressed immediately by management.

This report is intended solely for the information and use of the university and its management, others within the university, the Louisiana State University 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 report is distributed by the Legislative Auditor as a public document.

Respectfully submitted,



Steve J. Theriot, CPA  
Legislative Auditor

JMJ:JR:EFS:PEP:dl

UNO08

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





THE UNIVERSITY of  
NEW ORLEANS

TIMOTHY P. RYAN, CHANCELLOR

December 8, 2008

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

Dear Mr. Theriot:

Re: Unlocated Moveable Property

In response to the recent audit regarding unlocated moveable property, The University of New Orleans provides the following response:

The University respectfully disagrees with the methodology applied by the Legislative Auditors to arrive at a reportable finding for unlocated moveable property. By using the cumulative three-year-total of unlocated moveable property, the University is being penalized for the same unlocated property cited after Hurricane Katrina which was due to extraordinary losses occurring during the aftermath and recovery of one of the worst catastrophes in U.S. history.

Over the past three years post-Katrina, the University of New Orleans has successfully increased accountability and enhanced security measures related to moveable property. However, the addition of these internal controls was not taken into consideration during the calculation of this finding despite the University's consistent reduction in the total amount of unlocated moveable property each year for the past two years. Specifically, unlocated moveable property decreased each year since Hurricane Katrina, from 5.28% in the initial audit year 2005, to 1.54% in 2006 and .4% in the current year. These reductions were the direct result of the University's aggressive measures to strengthen controls related to moveable property.

The University will continue its aggressive steps to ensure compliance with Louisiana Revised Statute (R.S.) 24:523 and Louisiana Administrative Code Title 34 Part VII Section 313 (A). Examples of internal controls in place include prompt reporting of missing/stolen items, increased staffing of University of New Orleans Police Department (UNOPD), re-keying of locks, and updating of UNO Administrative Polices. In addition to these steps, the University is installing Computrace, a multi-layered security strategy software, to protect computer hardware and the data on it.

The following are controls implemented by the University:

#### MISAPPROPRIATION OF PROPERTY REPORTING

The University has dutifully reported, both to the Legislative Auditor's office and the Orleans Parish District Attorney, all incidences of misappropriation of property in an exceptionally timely

manner, as the result of the December 19, 2007 audit report citing the University for non-compliance to Revised Statute (R.S.) 24:523, "An agency head of an auditee who has actual knowledge of any misappropriation of public funds or assets of his agency shall immediately notify, in writing, the Legislative Auditor and the District Attorney of the parish in which the agency is domiciled of such misappropriation". This timely reporting is the result of heightened communication between the UNO Community, Property Control and UNOPD. While it may appear at a glance that the University has an increase in thefts, a more accurate analysis would be that the University is diligent in initially reporting all missing items, and following up as needed with supplemental reports, if and when the item in question is found. This aggressive approach ensures timely reporting of all misappropriations of property.

#### UNOPD INVESTIGATOR

In an effort to ensure that due diligence efforts are performed to follow-up on reports of missing or stolen property, the UNOPD hired an experienced investigator. This individual ensures compliance with Louisiana Administrative Code Title 34, Part VII Section 313 (A) which states, in part, that efforts must be made to locate all moveable property items for which there are no explanations available for their disappearance.

#### RE-KEYING OF LOCKS

Facility Services has upgraded the locks on all exterior and interior doors in the Administration Building, Administration Annex Building and the Bicentennial Education Building. The re-keying of these buildings strengthens the University's physical controls to ensure that moveable property within those buildings are properly safeguarded against loss arising from theft.

#### ACCESS CONTROL

As of December 4, 2008, there are six (6) buildings that are controlled by card readers and managed through the C-Cure Security Management System software: Bienville Hall, Performing Arts Center, University Computing and Communications, Fine Arts, and Pontchartrain Hall North and South. The security system is designed to be flexible by allowing the system to interact with industry standard databases (PeopleSoft), video recording and cameras as well as network devices. The security software enables the campus to better manage the card reader system and its infrastructure implemented on the buildings listed above. The University has installed a camera system located in Bienville Hall and Pontchartrain Hall North and South which allows for remote event monitoring. The Department of Instructional Media and Technology, with the approval of appropriate department heads, encodes all access cards with specific approved access clearances for buildings with card readers.

The University's Access Control Committee, which includes representatives from Campus Services, University Police, University Computing and Communications, Facilities Services, Instructional Media and Technology and the Environmental Health and Safety Office, are evaluating access control conditions, discussing the security and safety of the students, staff and faculty and suggesting technological upgrades as needed. Based on their recommendation, the University will expand the card reader system on selected building entrance doors, as well as certain high risk areas. (High risk areas are defined as areas containing expensive equipment, sensitive records, areas where money is stored and areas containing hazardous chemicals.) These high risk areas will contain card readers that use both a swipe card and a "digit pin" number that will have to

be used together in order to gain access into the secured room. The Access Control Committee will determine the priority for the implementation of card readers for the buildings on campus. An estimated completion date is February, 2010 contingent upon available funding.

#### AP 5.05 ACQUISITION, TRACKING AND SECURITY OF NOTEBOOK COMPUTERS

In December 2007, the University implemented AP 5.05 which required all notebook computers acquired with University funds after December 14, 2007, to either have Computrace Complete pre-installed or the Computrace Complete software must be purchased and installed on the notebook. (Minor updates have been made since then, with a final revision date of February 6, 2008). Computrace Complete software provides a robust, multi-layered security solution to enable the University to address issues of data protection, computer theft recovery and asset tracking. It allows University Computing Center and Property Control departments to centrally manage University assets by monitoring computer movement and call history, and software license compliance. [http://www.uno.edu/chancellor/ap/PDF/AP-05.05-Acquisition Tracking and Security of Notebook Computers.pdf](http://www.uno.edu/chancellor/ap/PDF/AP-05.05-Acquisition%20Tracking%20and%20Security%20of%20Notebook%20Computers.pdf)

#### COMPUTRACE INSTALLATION ON ALL 2007 NOTEBOOK COMPUTERS

In addition to installing Computrace on new laptop computers purchased after December 14, 2007, the University purchased and installed Computrace Plus on laptop computers purchased during 2007.

#### AP 37.03 ACCESS CONTROL POLICY

On March 24, 2008, the University implemented AP 37.03 which ensures strong internal controls surrounding the distribution of key/access cards and tracking of lost or stolen keys/access. In addition, this policy assigns specific responsibilities pertaining to key/access card control at both the individual and departmental levels. The implementation of the access control policy will promote the safety and security of University buildings and their occupants by providing guidelines for the issuance and accountability of all key and access cards which control access to buildings and their contents. [http://www.uno.edu/chancellor/ap/PDF/AP-37.03-Access Control Policy.pdf](http://www.uno.edu/chancellor/ap/PDF/AP-37.03-Access%20Control%20Policy.pdf)

In conclusion, the University does not concur with the third consecutive year finding that significant amounts of moveable property could not be located. Through our aggressive actions and the addition of the strong internal controls detailed above, the University has ensured that adequate control procedures are in place and will continue to vigorously comply with Louisiana Revised Statute (R.S.) 24:523 and Louisiana Administrative Code Title 34 Part VII Section 313 (A).

Please let me know if I can provide additional information.

Sincerely,



Timothy P. Ryan  
Chancellor



Louisiana State University System

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February 19, 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 State Law

Dear Mr. Theriot:

On Tuesday, February 17, 2009 the LSU System received final audit findings from your office relative to performance-based energy efficiency contracts that several LSU System Institutions have entered into with Johnson Controls, Inc. (JCI). Specifically, the University of New Orleans, Louisiana State University, Louisiana State University Health Sciences Center Shreveport, University Medical Center and Lallie Kemp Medical Center received audit findings related to contracts with JCI.

The findings state that the agreements "include stipulated savings and therefore do not comply with state laws" because the operational savings are not verified or measured, and, as such, the savings truly guaranteed under the contract are less than the cost of the contract.

In the findings for these facilities, it is stated that "management should revise its energy efficiency contracts to ensure that savings components are verifiable and that the guaranteed savings have been realized."

Your office has requested an official response to the audit findings. Based upon a review of available contract documents, the LSU System concurs with these findings in that it appears that the savings under these contracts are not truly guaranteed as required by Louisiana law. In response to these findings, the LSU System is fully investigating this matter. The LSU System institutions are unable to unilaterally revise or amend the contracts to comply with state law. As such, the LSU System is in the process of extensively reviewing each contract, discovering all facts relevant to the status of the contracts and preparing for litigation to remedy the situation by nullifying the agreements, forcing amendments to the agreements or recovering for breach of the agreements should this be determined to be the appropriate course of action.

We are unable to provide an anticipated completion date for the estimated resolution of these findings at this time as we are currently performing extensive reviews of the contracts and focusing ongoing efforts on determining the appropriate course of action.

Sincerely,

John Antolik  
Assistant Vice President

cc: General Counsel P. Raymond Lamonica