

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



MANAGEMENT LETTER
ISSUED APRIL 23, 2008

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

LEGISLATIVE AUDIT ADVISORY COUNCIL
REPRESENTATIVE NOBLE E. ELLINGTON, CHAIRMAN

SENATOR NICHOLAS “NICK” GAUTREAUX
SENATOR WILLIE L. MOUNT
SENATOR EDWIN R. MURRAY
SENATOR BEN W. NEVERS, SR.
SENATOR JOHN R. SMITH
REPRESENTATIVE NEIL C. ABRAMSON
REPRESENTATIVE CHARLES E. “CHUCK” KLECKLEY
REPRESENTATIVE ANTHONY V. LIGI, JR.
REPRESENTATIVE CEDRIC RICHMOND

LEGISLATIVE AUDITOR
STEVE J. THERIOT, CPA

DIRECTOR OF FINANCIAL AUDIT
THOMAS H. COLE, CPA

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. Seven copies of this public document were produced at an approximate cost of \$18.76. This material was produced in accordance with the standards for state agencies established pursuant to R.S. 43:31. This report is available on the Legislative Auditor’s Web site at www.la.state.la.us. When contacting the office, you may refer to Agency ID No. 7273 or Report ID No. 07301287 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
STEVE J. THERIOT, CPA

April 3, 2008

**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, 2007, 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, 2006, we reported findings relating to unlocated and stolen movable property, inadequate internal control over financial accounting operations, and inadequate control over Pell Grant. These findings 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, 2007.

Inadequate Internal Control Over Financial Accounting Operations

For the second consecutive year, the Louisiana Technical College (LTC) does not have adequate internal control over its financial accounting operations. Good internal control requires (1) supporting documentation for correcting journal entries, including the specific identification of transactions causing errors to ensure correcting entries are posted to the appropriate accounts; (2) monitoring recorded payables to ensure that prior year payables are appropriately offset in the accounting system when liquidated and to ensure adequate support for amounts reported in the financial statements; (3) reconciling recorded revenues and expenditures for Pell transactions to the source data contained in the U.S. Department of Education system to identify and investigate variances to ensure accurate financial reporting; (4) communicating adequate policies and procedures to regional accountants to ensure appropriate classification of transactions in the accounting system; (5) training and supervising regional accountants adequately to ensure accurate financial reporting; and (6) adequate compilation and review procedures to prevent and detect errors in the financial statements.

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

- LTC reported that cash per books was overstated by \$827,334 because of coding errors in the accounting system. A correcting entry was made to reduce cash and increase expenses. The adjustment to increase expenses was not supported by specific transactions to verify that the entry was posted to the appropriate accounts.
- Accounts payable appear to be overstated by \$844,877, as those amounts were not identifiable to specific transactions. Management was unable to explain this variance but is investigating further to determine the appropriate correcting entry to be made in the accounting system.
- LTC did not adequately reconcile federal Pell fund draws and returns to the revenue and expenditures recorded in the LTC financial system.

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

- Net cash used by operating activities as reported on the cash flow statement was understated by \$2,103,000 because of compilation errors.
- Technology fees totaling \$1,405,573 were incorrectly reported in net assets as restricted non-expendable, which also required a corresponding adjustment to the related footnote for restricted net assets.

- Receivables were incorrectly classified by fund rather than by account type in the disaggregation of receivables footnote, resulting in a reclassification adjustment totaling \$1,024,409.
- State and local grants and contracts revenue were incorrectly reported as federal grants and contracts revenue requiring a net adjustment of \$963,795.
- Scholarship allowances were incorrectly recorded resulting in an overstatement of tuition and fee revenue totaling \$568,015; an overstatement of tuition and fee allowances totaling \$771,473; an understatement of auxiliary allowances totaling \$59,807; and an understatement of operating expenses - scholarships and fellowships totaling \$143,651.
- A budget note compilation error resulted in an understatement of state general fund, self-generated revenues - actual on budget basis of \$530,000.
- Federal grants and contracts revenue totaling \$271,418 were incorrectly recorded as sales and services of educational departments. Also, student tuition and fees and the related scholarship allowance were understated by the related amount.
- Federal Pell revenue and expenses were understated by \$108,805 because of inadequate reconciliation of financial records to source documentation.
- Future minimum lease payments disclosed in the Operating Lease footnote were overstated by \$81,790 because of errors in compilation.
- Operating expenses and claims and litigation payable were understated by \$76,060 because of unrecorded claim settlements, which also required corresponding adjustments to the related footnotes for contingent liabilities and payables.
- Operating expenses and accounts payable were understated by \$72,390 because of recording an expense in the incorrect fiscal year, which also required a corresponding adjustment to the footnote for the disaggregation of payables.
- State and local incumbent worker grant and tech center receivables totaling \$57,972 were incorrectly reported as due from the federal government.
- Operating expenses totaling \$7,093 for the federal STEP program were incorrectly classified as scholarship and fellowships, instruction, and institutional support rather than to student services expenses.

- Operating expenses totaling \$6,986 for the federal STEP program were incorrectly classified as student services and institutional support rather than to scholarship and fellowship expenses.
- Auxiliary revenue totaling \$3,178 was incorrectly classified as other revenue.

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 transition of financial accounting and reporting duties to the transition office and the eight regional offices.

Failure to provide support for correcting journal entries; monitoring recorded payables; reconciling accounting records to source documentation; communicating policies on classification of transactions; training and supervising regional accountants; and ensuring the accurate preparation and review of the financial statements could result in misreported financial data and undetected errors or fraud.

Management of LTC should establish policies and procedures over financial operations to ensure that accounting records are analyzed and reconciled; adequate supporting documentation is maintained; and an accurate AFR is submitted to the system office. Management partially concurred with the finding and recommendation and outlined a plan of corrective action.

Additional Comment: Management stated in the response that not all points of the finding supported the overall conclusion of LTC not having adequate control over financial accounting operations, such as making correcting entries. We would like to clarify that the problem with the correcting entries was that the entries made were not fully supported to ensure posting to the correct accounts. Adequate controls over financial accounting operations require that supporting documentation be maintained for correcting entries (see Appendix A, pages 1-2).

Unlocated and Stolen Movable Property

For the third consecutive year, LTC failed to maintain adequate controls over movable property. LTC identified unlocated movable property items at the former Chancellor's Office and 36 of its 40 campuses totaling \$1,599,399 as a result of its annual property inventory procedures. Of that amount, items totaling \$145,857 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 \$980,880 or 61.3% of the total unlocated property. In addition to the unlocated property, 10 campuses reported thefts of cash and movable property totaling \$112,388.

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 items 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 2007, 38 of the 40 LTC campuses and the former Chancellor's Office submitted their annual certifications of property inventory to the LPAA according to their individual due dates. These certifications disclosed \$65,559,230 in total movable property administered by LTC. Two campuses are closed because of the destruction of Hurricane Katrina and all property items have been written off.

Although LTC has policies and procedures governing movable property, management has not placed sufficient emphasis on maintaining adequate controls over safeguarding 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 recommendation and outlined a plan of corrective action (see Appendix A, page 3).

Inadequate Control Over Pell Grant

For the sixth 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 45 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. LTC policy requires each campus to 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 Transition Office, who then credits the Pell account and remits the funds to the U.S. Department of Education (DOE). In a review of all Pell refunds and voided Pell checks initiated during fiscal year 2007, we noted the following:

- Of 199 refunds, 35 (18%) totaling \$11,112 were not remitted to the U.S. DOE until 46 to 184 days after the reported date of determination of the students' withdrawal for an average of 87 days.
- Of 190 voided Pell checks resulting from student withdrawals, 20 (11%) totaling \$20,784 were not remitted to the U.S. DOE until 46 to 376 days after the reported date of determination of the students' withdrawal for an average of 88 days. In addition, we noted that the reported date of

determination of the students' withdrawal for 29 of these voided checks was 38 to 178 days after the check issue date for an average of 62 days.

- Of 154 Pell checks voided for campus errors and for students not picking up their checks, 87 (56%) totaling \$69,661 were not remitted to the U.S. DOE until 48 to 634 days after the checks were issued for an average of 145 days.

Failure to adequately control Pell refunds and returns of overpayments has caused 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 voided Pell checks 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, page 4).

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, others within the college, 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,



Steve J. Theriot, CPA
Legislative Auditor

AD:BQD:THC:dl

LTC07

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



LOUISIANA COMMUNITY & TECHNICAL COLLEGE SYSTEM

*Changing Lives,
Creating Futures*

March 11, 2008

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

Stephen C. Smith
First Vice Chair

Sean E. Reilly
Second Vice Chair

Members

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

Student Members

Joan McHenry
Cleo Norris

Louisiana
Community
& Technical
College System

265 South Foster Drive
Baton Rouge, LA 70806

Phone: 225-922-2800
Fax: 225-922-1185

www.lctcs.net

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

Dear Mr. Theriot:

Management of the Louisiana Technical College (LTC) partially concurs with the finding regarding inadequate control over its financial accounting operations. While the details contained in the finding are factual, not all support the overall conclusion as stated in the finding. The correcting entries, for example, occurred as a result of the execution of sound internal control of financial accounting operations, and an effort to ensure the transitioning LTC accounting operation was given a firm starting foundation.

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. As part of this reorganization, many of the functions associated with the former Central Office are transitioning to the regional technical education centers. A great deal of focus has been placed on providing the support and training necessary to ensure the regional accounting function is conducted in a manner reflective of proper financial stewardship.

During the first fiscal year of the transition of LTC financial operations, 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.

- Bank reconciliations are now performed at the regional level and verified by LCTCS Internal Audit.
- 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 has concluded correcting problems such as the reconciliation of the grants that have accumulated over many years.
- Staff has worked with the regions to obtain professional consultative and technical assistance in the preparation of the annual financial report.

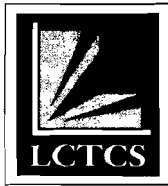
Staff has been working diligently to correct weaknesses in the financial operation of the LTC that have accumulated over a period of time. The person responsible for corrective action is Shannon Sedberry, LCTCS Director of Fiscal Affairs.

Sincerely,



Jim Henderson
Senior Vice President for Workforce Training and Development

cc: Dr. Joe D. May
Ms. Jan Jackson
Ms. Shannon Sedberry



LOUISIANA COMMUNITY & TECHNICAL COLLEGE SYSTEM

January 21, 2008

*Changing Lives,
Creating Futures*

Joe May
System President

Officers:

Brett J. Mellington
Chair

Stephen C. Smith
First Vice Chair

Carl H. Franklin
Second Vice Chair

Members:

E. Edwards Barham
Helen Bridges Carter
Tommy Clark
Keith Gamble
Leon Giorgio, Jr.
Kathy Sellers Johnson
Michael Murphy
Dan Packer
Vincent J. St. Blanc, III
F. "Mike" Stone
Geraldine Grissette Taylor
Stephen Toups

Student Members:

Kayla M. Adams
Cedric Hampton, Jr.

Louisiana
Community
& Technical
College System

265 South Foster Drive
Baton Rouge, LA 70806

Phone: 225-922-2800
Fax: 225-922-1185

www.lctcs.edu

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

Re: Unlocated and Stolen Movable Property

Dear Mr. Theriot:

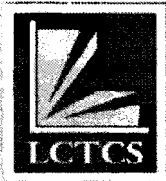
The Louisiana Technical College (LTC) concurs with the finding and recommendation related to unlocated and stolen movable property.

The corrective action undertaken last year as part of the broader retooling of LTC operations has improved internal control over unlocated property. Effective internal control associated with safeguarding movable property, including the execution of all related procedures, was incorporated in the annual performance review of each Regional Director. As a result, several regions saw marked improvement in the effectiveness of their internal control efforts. In addition, areas of challenge have been clearly identified, and further, more intensive focus will be given accordingly. Also, efforts are underway to locate all property currently listed as unlocated.

Vice President of Technical Education Jimmy Sawtelle will continue to 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

February 15, 2008

Changing Lives,
Creating Futures

Joe May
System President

Officers:

Brett J. Mellington
Chair

Stephen C. Smith
First Vice Chair

Carl H. Franklin
Second Vice Chair

Members:

- E. Edwards Barham
Helen Bridges Carter
Tommy Clark
Keith Gamble
Leon Giorgio, Jr.
Kathy Sellers Johnson
Michael Murphy
Dan Packer
Vincent J. St. Blanc, III
F. "Mike" Stone
Geraldine Grissette Taylor
Stephen Toups

Student Members:

- Kayla M. Adams
Cedric Hampton, Jr.

Louisiana
Community
& Technical
College System

265 South Foster Drive
Baton Rouge, LA 70806

Phone: 225-922-2800
Fax: 225-922-1185

www.lctcs.edu

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

Re: LTC Official Response "Inadequate Control over Pell Grant"

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 laws and guidelines. Actions have been implemented to correct the above stated finding. These actions did result in improvements of our past years in this area. However, management of LTC will continue to invest time and effort into policy and procedure development and professional development for financial aid staff and fiscal office staff throughout the college.

To make certain Pell grant funds are managed (obtained, disbursed and returned) according to federal guidelines, the following actions have been taken and implemented:

- (1) Each campus within Louisiana Technical College has procedures for handling Title IV funds at the campus level, including standards of mandatory communication between the Financial Aid Office and Accounting Office.
(2) The College's Office of Student Financial Assistance has procedures in place to closely monitor and verify accuracy of information submitted for Title IV fund return processing.
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 to get 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 a training resource for campus financial aid officers and campus accountants (optional) will be updated to address 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 held on an annual basis to reinforce the federal requirements and college procedures so that the college will continue to work toward improvement and remain in compliance with federal guidelines.

Sincerely,

Jim Henderson,
Senior Vice President for Career and Technical Education