UNIVERSITY OF NEW ORLEANS
LOUISIANA STATE UNIVERSITY SYSTEM
STATE OF LOUISIANA

MANAGEMENT LETTER
ISSUED MARCH 24, 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 and New Orleans offices 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 $16.60. 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. 3610 or Report ID No. 80090057 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, Administration Manager, at 225-339-3800.

LOUISIANA LEGISLATIVE AUDITOR
DARYL G. PURPERA, CPA

January 15, 2010

UNIVERSITY OF NEW ORLEANS
LOUISIANA STATE UNIVERSITY SYSTEM
STATE OF LOUISIANA
New Orleans, 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 University of New Orleans' internal control over financial reporting and over compliance with requirements that could have a direct and material effect on a major federal program; we examined evidence supporting certain accounts and balances material to the System's financial statements; and we tested the university's compliance with laws and regulations that could have a direct and material effect on the System's financial statements and major federal programs as required by *Government Auditing Standards* and U.S. Office of Management and Budget Circular A-133.

The annual financial information provided to the Louisiana State University System by the University of New Orleans is not audited or reviewed by us, and, accordingly, we do not express an opinion on that financial information. The university's accounts are an integral part of the System's financial statements, upon which the Louisiana Legislative Auditor expresses opinions.

In our prior management letter on the University of New Orleans, dated February 26, 2009, we reported findings relating to unlocated movable property and energy efficiency contract contrary to law. Those findings have not been resolved and are addressed again in this report.

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, 2009.

Unlocated Movable Property

For the fourth 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 dated May 29, 2009, reported significant amounts of unlocated movable property as a result of their most recent property inventory procedures. The university's annual certification of property inventory to LPAA disclosed $77,010,560 in total movable property, which includes 84 items of movable property reported as unlocated with a total value of $155,025 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 $2,363,915. However, UNO has reduced unlocated movable property totals over the last three years.

Computer-related items of the movable property reported as unlocated in the current fiscal year totaling $104,231 consisted, in part, of:

- 27 laptops/notebook computers
- 21 desktop computers/workstations
- 5 multimedia projectors
- Various other computer-related property items

The university also reported approximately 20 items of movable property with an approximate value of $34,494 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 continue to take the necessary measures to strengthen internal control over movable property to ensure that (1) all movable property is adequately secured and monitored; (2) physical inventories are conducted accurately; and (3) additional efforts are devoted toward locating movable property previously reported as unlocated. Management disagreed with the methodology of using cumulative unlocated property amounts in the findings, noting that the university is being penalized for the same unlocated property cited after Hurricane Katrina, and described controls implemented by the university to reduce unlocated property (see Appendix A, pages 1-4).

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. This is the second consecutive year for this finding. 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 expenses 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 consists of measurable savings of $18,742,695 and operational savings of $10,830,000. A contract amendment effective July 1, 2004, increased the guaranteed savings 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.

The Louisiana State University (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 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. LSU System management responded that progress has been made in the evaluation of the contracts to determine all facts relevant to the status of the contracts and further action required (see Appendix A, pages 5-9).

Noncompliance With State Movable Property Regulations

UNO, as part of the LSU System, is not in compliance with state movable property regulations requiring all state entities to use the statewide property inventory system, Protégé, for its movable property records. UNO maintains a separate property inventory system in accordance with the instructions of the LSU System. 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 Division of Administration (DOA) granted LSU a temporary exemption from this requirement, which was subsequently extended until January 1, 2008, and has since expired.

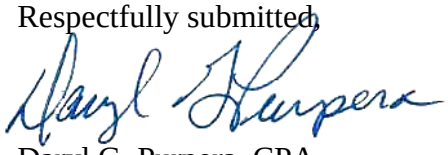
Management expressed that the state's current movable property system will not accommodate UNO's unique accounting needs. LSU has submitted a written request for a permanent exemption to the DOA, but has not received a response. Because UNO has not entered its property data into Protégé and the LSU exemption has expired, UNO 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 into Protégé. Management concurred with the finding and provided additional information regarding LSU System's unique accounting and reporting needs and its concerns with Protégé (see Appendix A, pages 10-11).

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. The findings relating to the university's compliance with applicable 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 Louisiana State University 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
Temporary Legislative Auditor

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UNO09

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

THE UNIVERSITY of NEW ORLEANS

OFFICE OF THE CHANCELLOR

September 23, 2009

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:

For the second consecutive year, 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 four 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 three years.

CONSISTENT REDUCTION IN UNLOCATED MOVEABLE PROPERTY		
2005-2006	5.28%	Hurricane Katrina
2006-2007	1.54%	
2007-2008	.4%	
2008-2009	.2%	

These reductions were the direct result of the University's aggressive measures to strengthen controls related to moveable property. For the last two years the value of current year unlocated moveable property as compared to the total inventory has been below pre-Katrina levels, which were determined to be acceptable by the Legislative Auditor's Office.

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 put into place include prompt reporting of missing/stolen items, increased staffing of University of New Orleans Police Department (UNOPD), re-keying of locks,

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and updating of UNO Administrative Polices. In addition to these steps, the University is continuing to install on all new laptop purchases, Computrace, a multi-layered security strategy software, to protect the 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 due diligence efforts are performed to follow-up on reports of missing or stolen property, the UNOPD has created the position of investigator. (While the position has been recently vacated, the University has been granted permission to fill this critical position and anticipate a hire in the near future.). 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 CARDS & SECURITY CAMERAS

As of September 21, 2009, 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. Upon its official opening, the new Athletic Center will be fortified with this same security management system, bringing the total to seven (7) buildings. 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 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.

In addition to security camera systems located in Bienville Hall and Pontchartrain Hall North and South, the University has installed security cameras which allows for remote monitoring, at select parking lots, the new Athletic Center, and the Bicentennial Education building. The University is currently investigating the feasibility of installing additional security cameras, given current budget restrictions.

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.

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. 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

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.

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

In conclusion, the University does not concur with the fourth 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
3810 West Lakeshore Drive
Baton Rouge, Louisiana 70808

Office of the Senior Executive Vice President
and Chief Operating 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.

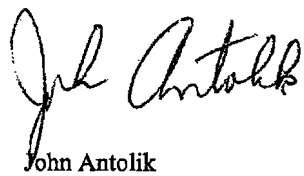
The LSU System provided a response related to the previous fiscal year findings to your office on February 19, 2009 explaining the status of the investigation into each of these contracts. See attached. In response to a letter from your office dated June 16, 2009 requesting an update as to the status 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

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

Office of the Senior Executive Vice President
and Chief Operating Officer

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July 13, 2009

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

Re: Request from Legislative Auditor's Office regarding energy efficiency contracts

Dear Mr. Theriot:

I am writing in response to your letter of June 16, 2009 in follow-up to 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.

You have requested that I provide you with information related to the status of each of these contracts. You have specifically requested the following information:

- That status of the performance-based energy efficiency contract (current, amended and/or terminated).
- If the contract is current, the type of savings provided for in the contract (stipulated or guaranteed).
- If the savings are stipulated, whether the contract has been amended or other corrective action taken to provide for guaranteed savings.
- If no corrective action has been taken, the corrective action planned; the name of the person responsible for corrective action, and the date by which the corrective action is expected to be completed.

At this point in time, each of the five performance-based energy efficiency contracts is current and has not been amended or terminated since your 2008 audit. As noted in your audit findings for each contract, there are both stipulated and guaranteed (calculated) savings provided for in each of these contracts.

The LSU System has too placed a high priority on the resolution of the issues involved with these performance-based energy efficiency contracts. With regard to corrective actions, the LSU System has retained Taylor, Porter, Brooks & Phillips to assist in the resolution of the issues related to these contracts. In February, Taylor Porter, on behalf of the LSU System sent requests to JCI regarding each of these contracts, requesting a response within 15 days. JCI was asked to provide specific detailed data/information pertaining to both the stipulated and guaranteed savings and the calculation of each under these contracts. Taylor Porter was contacted by JCI's attorney, Tracy Walker, who indicated that JCI realized the importance of the issues noted by the Legislative Auditor but requested an extension of time to respond to these inquiries due to the extensive nature of the data review involved. An extension was granted until April 6, 2009 to provide a response to the inquiries for each of the five contracts. Ms. Walker submitted a letter on

April 6, 2009 responding to the request related to the University Medical Center contract only. In this letter, Ms. Walker indicated that JCI was unable to gather information related to all five contracts, but that the information would be supplemented by the end of that week (presumably April 10, 2009). The information related to the University Medical Center savings was reviewed and found to be incomplete. On April 13, 2009, Taylor Porter sent a letter to Ms. Walker requesting additional information related to the stipulated savings and requesting responses related to the other four contracts. On April 16, 2009 Ms. Walker provided a response related to the Lallie Kemp contract and indicated that a response to the other three contracts would be forthcoming. Taylor Porter sent another request for the information related to the remaining three contracts and supplemental information related to the Lallie Kemp and University Medical Center contracts to Ms. Walker on May 13, 2009. Finally, on June 26, 2009 Taylor Porter received the requested documentation from JCI and is now in the process of reviewing the information to determine its relevance to the energy savings issues under these contracts.

In addition undertaking efforts to obtain information from JCI related to each of these contracts in an effort to perform a more comprehensive evaluation, Taylor Porter has also, on behalf of the LSU System, undertaken to gather and review the volumes of materials related to each of these contracts and the savings thereunder. An expert has also been retained due to the highly technical nature of these agreements and the calculations contained therein, to assist in the evaluation of each of these contracts. This expert is currently assisting in the evaluation of the 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.

Once our expert has completed his review, the LSU System will determine the appropriate course of action to resolve the issues noted by your office under each of these contracts. The LSU System must carefully evaluate all potential options available to determine the path forward that is in the best interest of the University and the taxpayers. The LSU System must proceed with caution to preserve all rights that it may have related to these contracts. The LSU System is 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 should this be determined to be the appropriate course of action. Due to the nature of the ongoing preparations, the LSU System is unable at this time to provide an anticipated completion date for these corrective actions.

Sincerely,

John Antolik
Assistant Vice President

cc: General Counsel P. Raymond Lamonica

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

Office of the Executive Vice President

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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

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

Chief Financial Officer

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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.

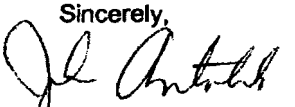
LSU has reported that its survey further indicated that the Protégé system's query capabilities are severely limited. Other institutions reported difficulty in obtaining necessary reports and identified this weakness as the primary reason for having to maintain a dual system. LSU alone currently produces 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