

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



FINANCIAL AUDIT SERVICES
MANAGEMENT LETTER
ISSUED NOVEMBER 26, 2014

**LOUISIANA LEGISLATIVE AUDITOR
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POST OFFICE BOX 94397
BATON ROUGE, LOUISIANA 70804-9397**

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DARYL G. PURPERA, CPA, CFE

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THOMAS H. COLE, CPA

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LOUISIANA LEGISLATIVE AUDITOR
DARYL G. PURPERA, CPA, CFE

November 26, 2014

The Honorable John A. Alario, Jr.,
President of the Senate
The Honorable Charles E. "Chuck" Kleckley,
Speaker of the House of Representatives
Dr. F. King Alexander, President
Louisiana State University System

Dear Senator Alario, Representative Kleckley, and Dr. Alexander:

This report includes the results of procedures we performed at Louisiana State University Board of Supervisors, Louisiana State University, Louisiana State University Agricultural Center, Pennington Biomedical Research Center, Paul M. Hebert Law Center, Louisiana State University at Alexandria, and Louisiana State University at Eunice, collectively referred to as LSU and Related Campuses, for the period from July 1, 2013 through June 30, 2014, to evaluate accountability over public funds. The procedures are a part of our audit of the Louisiana State University System's financial statements and the Single Audit of the State of Louisiana for the year ended June 30, 2014. I hope the information in this report will assist you in your legislative and operational decision-making processes.

We would like to express our appreciation to the management and staff of LSU and Related Campuses for their assistance during our work.

Sincerely,

Daryl G. Purpera, CPA, CFE
Legislative Auditor

CST:JPT:EFS:THC:aa

LSU AND RELATED 2014

Louisiana Legislative Auditor

Daryl G. Purpera, CPA, CFE



Audit Control # 80140078

LSU and Related Campuses

November 2014

Introduction

As a part of our audit of the Louisiana State University System's (System) financial statements and the Single Audit of the State of Louisiana (Single Audit) for the year ended June 30, 2014, we performed procedures at Louisiana State University Board of Supervisors, Louisiana State University, Louisiana State University Agricultural Center, Pennington Biomedical Research Center, Paul M. Hebert Law Center, Louisiana State University at Alexandria, and Louisiana State University at Eunice, collectively referred to as LSU and Related Campuses, to provide assurances on financial information that is significant to the System's financial statements; to evaluate the effectiveness of LSU and Related Campuses' internal controls over financial reporting and compliance; and to determine whether LSU and Related Campuses complied with applicable laws and regulations. In addition, we determined whether management has taken actions to correct the finding reported in the prior year.

LSU and Related Campuses are a part of the Louisiana State University System and reported an enrollment of more than 35,000 students for the fall 2013 semester. The System's mission is to foster first-class learning, discovery of innovations, and the development of Louisiana's human capital by applying research and scholarship in advancing intellectual, personal, and professional growth.

Results of Our Procedures

Follow-Up on Prior-Year Finding

Our auditors reviewed the status of the prior-year finding reported in a management letter dated November 20, 2013. We determined that management has resolved the prior-year finding related to inadequate controls over capital asset valuation.

Current-Year Findings

Improper Payments to Employees Based on Falsified Records

Louisiana State University (LSU) notified us of 10 instances of falsified payroll records, with eight instances resulting in improper payments to the employees.

- A student employee working in the Chemistry department falsified time sheets and forged her supervisor's signature for hours not worked, and improperly received \$9,348, which was charged to a federal Biomedical and Research Training program.
- LSU at Alexandria identified four employees within the Department of Facility Services that were paid a total of \$7,225 for overtime hours not actually worked.
- A student employee working in the Center for Computation and Technology falsified time sheets and forged his supervisor's signature for hours not worked, and improperly received \$820, which was charged to a federal Computer and Information Sciences and Engineering program.
- LSU Agricultural Center identified an employee who was overpaid \$364 for 24 hours not worked based on falsified time sheets.
- A student employee in the LSU Academic Center for Student Athletes admitted he was paid for hours not worked by signing in and leaving the work area and subsequently returning to sign out. The student's hours were charged to a federal Work-Study program. The exact amount paid based on these actions was not determined; however, the student provided \$240 in repayment.
- Two student employees in the LSU Academic Center for Student Athletes were identified as signing in and leaving the work area; however, LSU indicated that these students were identified prior to any payment based on these falsified time documents.

As of October 1, 2014, all of the employees, except two employees from LSU at Alexandria, have been terminated. LSU is attempting to recover the funds from the employees and has paid back the funds in question to the applicable federal programs. These instances occurred because employees and supervisors failed to follow established payroll policies and procedures for processing time and attendance.

Federal regulations require that costs charged to a federal program be authorized or not prohibited under state regulations. LSU's policies require student employees to clock in and out of work, report any absences from work, and require the supervisor to maintain the time sheet once it is signed. In addition, LSU's policies state that misuse of university property, including falsification or other misuse of university documents such as time sheets and payroll vouchers, could result in both disciplinary action against the employee and referral of the employee for prosecution under the criminal law.

Management should review the policies for supervision of employees and oversight of payroll functions and strengthen controls to prevent falsified time sheets from being processed for payroll. Management concurred with the finding and provided a corrective action plan (See Appendix A, pages 1-2).

Inaccurate Federal Funding Accountability and Transparency Act Reporting – Research and Development Cluster

Pennington Biomedical Research Center (PBRC) submitted Federal Funding Accountability and Transparency Act (FFATA) reports for the Biomedical Research and Research Training program (CFDA 93.859) that included inaccurate “subaward obligation/action dates” and were submitted untimely. Inaccurate and untimely reporting contradicts the purpose of FFATA, which is to enhance transparency and build public trust in government, and may also negatively impact future grant agreements.

Our procedures on FFATA reports submitted during fiscal year 2014 disclosed that the reported “subaward obligation/action date” did not represent the date that the subaward agreement/modification contract was signed for four (80%) of the five reports reviewed. In addition, based on the “report month” on the FFATA reports, PBRC submitted all five of the reports between five to seven months late.

Federal regulations require prime recipients to report the date the subaward agreement was signed as the “subaward obligation/action date” for any funds awarded to a subrecipient subject to the requirements of FFATA reporting. In addition, the prime awardee is required to report the required information related to a subaward by the end of the month following the month the subaward or obligation was made.

Management did not place sufficient emphasis on the review process to ensure that preparation errors were properly identified and corrected before the FFATA reports were submitted and to ensure that reports were submitted timely.

PBRC management should strengthen controls to ensure that FFATA reports are accurately prepared and adequately reviewed before submission. Management concurred with the finding and provided a corrective action plan (See Appendix A, page 3).

Financial Statements – Louisiana State University System

As a part of our audit of the System’s financial statements for the year ended June 30, 2014, we considered LSU and Related Campuses’ internal controls over financial reporting and examined evidence supporting certain account balances and classes of transactions as follows:

Statement of Net Position

Assets - Cash and cash equivalents, investments, due from State Treasury, capital assets

Liabilities - Accounts payable and accrued liabilities, due to State Treasury, bonds payable, other postemployment benefits payable

Net Position - Net investment in capital assets, restricted-expendable, restricted-nonexpendable, and unrestricted

Statement of Revenues, Expenses, and Changes in Net Position

Revenues - Student tuition and fees, federal grants and contracts, auxiliary enterprise revenue, state appropriations

Expenses - Education and general and auxiliary enterprise

Our audit included tests of LSU and Related Campuses' compliance with laws and regulations that could have a direct and material effect on the financial statements, as required by *Government Auditing Standards*.

Based on the results of these procedures on the financial statements, we reported a finding related to improper payments to employees based on falsified records. This finding will also be included in the Single Audit for the year ended June 30, 2014. In addition, the account balances and classes of transactions tested, as adjusted, are materially correct.

Federal Compliance - Single Audit of the State of Louisiana

As a part of the Single Audit for the year ended June 30, 2014, we performed internal control and compliance testing on LSU and Related Campuses' Student Financial Assistance and Research and Development clusters of federal programs, as required by the Office of Management and Budget (OMB) Circular A-133. Those tests included evaluating the effectiveness of LSU and Related Campuses' internal controls designed to prevent or detect material noncompliance with program requirements and tests to determine whether LSU and Related Campuses complied with applicable program requirements. In addition, we performed procedures on LSU and Related Campuses' Schedule of Disclosures for Federally Assisted Loans (Schedule 8-2), as required by the OMB Circular A-133.

Based on the results of these Single Audit procedures, we reported a finding related to inaccurate Federal Funding Accountability and Transparency Act reporting for the Research and Development cluster of federal programs that will also be included in the Single Audit for the year ended June 30, 2014. In addition, LSU and Related Campuses' Schedule 8-2 is materially correct.

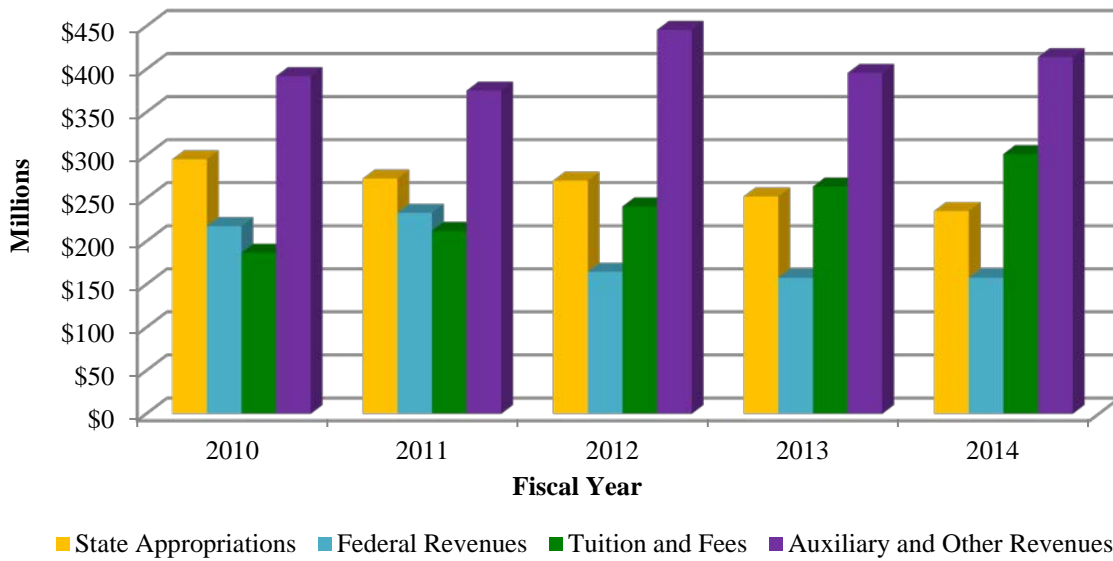
Trend Analysis

We compared the most current- and prior-year financial activity using LSU and Related Campuses' annual fiscal reports and/or system-generated reports and obtained explanations from LSU and Related Campuses management for any significant variances. We also prepared an analysis of revenues, expenses, and enrollment over the last five years.

In analyzing financial trends of LSU and Related Campuses over the past five years, expenses increased during fiscal year 2012 and have been relatively consistent over the last two years. Since 2010, tuition and fees have increased by 61% mainly because of the increases in tuition permitted by the GRAD Act (Act 741 of the 2010 Regular Session of the Louisiana Legislature).

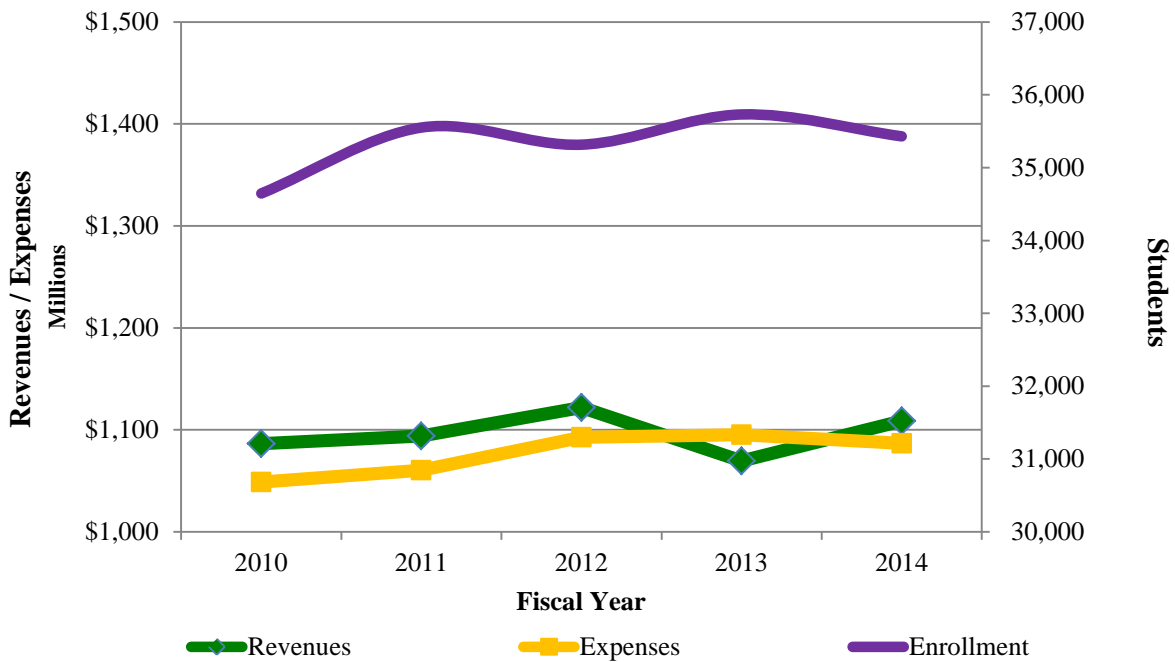
Over that same period, state appropriations have decreased 20%. As state appropriations continue to become a smaller portion of total revenues, the university’s operations are becoming more dependent on tuition and fees, auxiliary and other revenues collected by LSU and Related Campuses which are directly related to enrollment. Total enrollment for LSU and Related Campuses has remained relatively consistent over the last five years. However, LSU at Alexandria and LSU at Eunice enrollments have decreased 16.7% and 19.8%, respectively over that period.

**Exhibit 1
Five-Year Revenue Trend**



Source: Fiscal year 2010-2013 LSU System Audit Reports;
Fiscal year 2014 LSU and Related Campuses Annual Fiscal Reports

Exhibit 2
Fall Enrollment Trend Analysis



Source: Fiscal year 2010-2013 LSU System Audit Reports;
Fiscal year 2014 LSU and Related Campuses Annual Fiscal Reports

The recommendations in this letter represent, in our judgment, those most likely to bring about beneficial improvements to the operations of LSU and Related Campuses. The nature of the recommendations, their implementation costs, and their potential impact on the operations of LSU and Related Campuses should be considered in reaching decisions on courses of action. The findings relating to LSU and Related Campuses’ compliance with applicable laws and regulations should be addressed immediately by management.

Under Louisiana Revised Statute 24:513, this letter is a public document and it has been distributed to appropriate public officials.

APPENDIX A: MANAGEMENT'S RESPONSE



Office of the President

October 24, 2014

Mr. Daryl G. Purpera, CPA
Legislative Auditor
1600 North Third Street
P.O. Box 94397
Baton Rouge, Louisiana 70804-9397

Dear Mr. Purpera,

We wish to respond to the legislative audit finding related to improper payments to employees based on falsified records for LSU and related campuses. We concur with the finding addressed in the letter dated October 6, 2014.

Finding:

LSU and related campuses identified ten instances of falsified payroll records with eight instances resulting in improper payments to employees.

Response to Finding:

Anticipated Completion Date: January 31, 2015

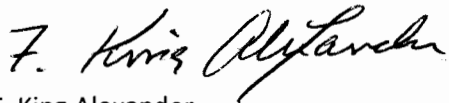
- Permanent Memorandum 76 – Detection, Reporting, and Investigation of Incidents of Financial Irregularity was adopted August 1, 2014.
- Internal Audit launched an Ethics & Integrity Hotline to provide a mechanism for individuals to report possible issues of financial irregularities, fraud, abuse, misconduct, and other violations.
- A Business Managers' Meeting was conducted on March 11, 2014 to discuss student employment processes and best practices.
- LSU will formulate and adopt a Finance and Administrative Services Operating Procedure (FASOP) that will establish procedures and define best business practices for student employment. This new FASOP will communicate to all Business Managers across campus.
- LSU Agricultural Center will develop additional oversight relative to employee attendance as volunteers at field conferences. This will include communication to the supervisor of a request for an employee to participate and communication to the supervisor of any changes in participation. Current procedural requirements for itineraries (maintenance of daily written schedules) will be reinforced.
- LSU Alexandria now requires overtime to be approved in advance on a per-employee, per-instance basis. In addition, employees working overtime are required to sign a statement acknowledging they understand the policies, rules, and regulations as they relate to working overtime and recording time worked. Managing supervisors are responsible for confirming time worked through periodic on-site, in-person verifications.

Contact Person(s): Donna Torres, Associate Vice Chancellor for Accounting & Financial Services
Deron Thaxton, LSU Alexandria, Interim Vice Chancellor for Finance and Administration

Kevin Brady, LSU Agricultural Center, Director of Human Resource Management

If you have any questions or need any additional information, please feel free to contact me.

Sincerely,

A handwritten signature in black ink, appearing to read "F. King Alexander". The signature is written in a cursive style with a large, stylized "F" and "A".

F. King Alexander
LSU President and Chancellor

Cc: Daniel T. Layzell, Vice President for Finance and Administration/CFO
Donna K. Torres, Associate Vice Chancellor for Accounting and Financial Services
Deron L. Thaxton, Interim Vice Chancellor for Finance and Administration
Ann C. Coulon, Associate Vice Chancellor for Administration




October 15, 2014

Mr. Daryl G. Purpera, CPA, CFE
Louisiana Legislative Auditor
Post Office Box 94397
Baton Rouge, LA 70804-9397

Dear Mr. Purpera,

We have carefully reviewed the report contained in your letter dated October 1, 2014, and we concur with the findings contained in the report. We have prepared the Management Responses below to address each item. Please let me know if you have any questions, or if you require more information.

Sincerely,


Guy LaVergne
Associate Executive Director for Operations

1. **Finding:** Inaccurate federal Funding Accountability and Transparency Act Reporting – Research and Development Cluster.

Management Response/Corrective Action Plan: *We concur with the finding. The Fiscal Operations department has revised their SOP on FFATA reporting to emphasize the subsequent reporting requirements on all new obligations on subawards once they are reportable. We will identify training opportunities on FFATA rules and requirements, and we will make the training mandatory for those personnel who are primarily responsible for FFATA reporting. Training will also be provided to the Director of Fiscal Operations and another Fiscal Operations staff member, who will serve as a backup reporter.*

We have revised the processes related to subawards so that Sponsored Project Services personnel will send electronic copies of all Subcontract awards on Federal funds and amendments to Fiscal Operations as fully-executed so that the primary FFATA reporting staff will have timely knowledge of subcontracts and amendments that require FFATA reporting, thus ensuring that reporting is done by the appropriate due date.

Responsible Personnel:

*Guy LaVergne, Associate Executive Director for Operations
Monica Mougeot, Director of Fiscal Operations*

Anticipated Completion Date: *June 30, 2015*

- c: William T. Cefalu, MD, Executive Director, Pennington Biomedical Research Center

APPENDIX B: SCOPE AND METHODOLOGY

We performed certain procedures at Louisiana State University Board of Supervisors, Louisiana State University, Louisiana State University Agricultural Center, Pennington Biomedical Research Center, Paul M. Hebert Law Center, Louisiana State University at Alexandria, and Louisiana State University at Eunice, collectively referred to as LSU and Related Campuses, for the period from July 1, 2013 through June 30, 2014, to provide assurances on financial information significant to the Louisiana State University System (System) and to evaluate relevant systems of internal control in accordance with *Government Auditing Standards* issued by the Comptroller General of the United States. The procedures included inquiry, observation, and review of policies and procedures, and a review of relevant laws and regulations. Our procedures, summarized below, are a part of the audit of the System's financial statements and the Single Audit of the State of Louisiana (Single Audit) for the year ended June 30, 2014.

- We evaluated LSU and Related Campuses' operations and system of internal controls through inquiry, observation, and review of its policies and procedures, including a review of the laws and regulations applicable to LSU and Related Campuses.
- Based on the documentation of LSU and Related Campuses' controls and our understanding of related laws and regulations, we performed procedures to provide assurances on LSU and Related Campuses' account balances and classes of transactions to support the opinion on the System's financial statements.
- We performed procedures on the Student Financial Assistance and Research and Development clusters of federal programs and the Schedule of Disclosures for Federally-Assisted Loans (Schedule 8-2) for the year ended June 30, 2014, to support the 2014 Single Audit.
- We compared the most current- and prior-year financial activity using LSU and Related Campuses' annual fiscal reports and/or system-generated reports to identify trends and obtained explanations from LSU and Related Campuses management for significant variances.

The purpose of this report is solely to describe the scope of our work at LSU and Related Campuses and not to provide an opinion on the effectiveness of LSU and Related Campuses' internal control over financial reporting or on compliance. Accordingly, this report is not intended to be, and should not be, used for any other purposes.

We did not audit or review LSU and Related Campuses' Annual Fiscal Report and, accordingly, we do not express an opinion on that report. LSU and Related Campuses' accounts are an integral part of the System's financial statements, upon which the Louisiana Legislative Auditor expresses opinions.