

UNIVERSITY OF LOUISIANA AT LAFAYETTE
UNIVERSITY OF LOUISIANA SYSTEM
STATE OF LOUISIANA



FINANCIAL AUDIT SERVICES
MANAGEMENT LETTER
ISSUED DECEMBER 24, 2014

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

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DARYL G. PURPERA, CPA, CFE

**FIRST ASSISTANT LEGISLATIVE AUDITOR
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PAUL E. PENDAS, CPA

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THOMAS H. COLE, CPA

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LOUISIANA LEGISLATIVE AUDITOR
DARYL G. PURPERA, CPA, CFE

December 24, 2014

The Honorable John A. Alario, Jr.,
President of the Senate
The Honorable Charles E. "Chuck" Kleckley,
Speaker of the House of Representatives
Dr. E. Joseph Savoie, President,
University of Louisiana at Lafayette
University of Louisiana System

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

This report includes the results of the procedures we performed at the University of Louisiana at Lafayette (UL Lafayette) for the period from July 1, 2013 through June 30, 2014, to evaluate its accountability of public funds. The procedures are a part of our audit of the University of Louisiana 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 process.

We would like to express our appreciation to the management and staff of UL Lafayette for their assistance during our work.

Sincerely,

Daryl G. Purpera, CPA, CFE
Legislative Auditor

KDD:BH:EFS:THC:aa

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Louisiana Legislative Auditor

Daryl G. Purpera, CPA, CFE

University of Louisiana at Lafayette

December 2014



Audit Control # 80140064

Introduction

As a part of our audit of the University of Louisiana System (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 the University of Louisiana at Lafayette (UL Lafayette) to provide assurances on financial information that is significant to the System's financial statements; to evaluate the effectiveness of UL Lafayette's internal controls over financial reporting and compliance; and to determine whether UL Lafayette complied with applicable laws and regulations. In addition, we determined whether management has taken actions to correct findings reported in the prior year.

UL Lafayette is a part of the System and reported an enrollment of more than 16,000 students for the fall 2013 semester. UL Lafayette's mission is dedicated to achieving excellence in undergraduate and graduate education, in research, and in public service.

Results of Our Procedures

Follow-Up on Prior-Year Findings

Our auditors reviewed the status of the prior-year findings reported in a management letter dated December 11, 2013. We determined that management has resolved the prior-year findings related to the untimely deposits of revenue collections, untimely reporting of student enrollment status, misappropriation of assets at New Iberia Research Center, and misappropriation of property not reported timely.

Current-Year Findings

Weaknesses in Controls over Grants

UL Lafayette had control weaknesses in its grants administration that included a lack of formal written policies and procedures, untimely or inaccurate billing of grantors, and weaknesses in identifying and monitoring closed grants.

We performed procedures on 10 grants that were “open” (still within the active period, per the grant contract) during fiscal year 2013 or 2014, as well as 10 grants that had been closed during fiscal year 2013 or 2014. Our procedures identified the following:

- UL Lafayette did not have documented policies and procedures for reconciling grant expenses and revenues for the “close-out” of grants, or for the allocation of employee compensation and fringe benefits to grants. In addition, UL Lafayette did not have written requirements and guidance on what documentation should be maintained to support UL Lafayette’s expense reimbursement requests.
- Two grants had untimely billings totaling \$137,739.
 - For one open grant, expense activity of \$59,642 that occurred from February 2013 through August 2013 was not billed until September 2013, and expense activity of \$26,889 that occurred from September 2013 through December 2013 was not billed until March 2014. In addition, we identified that UL Lafayette overbilled this grantor \$2,273.
 - A closed grant with an end date of December 31, 2013, had untimely billings totaling \$51,208. As of March 12, 2014, no invoices had been submitted since December 2012. As of July 2, 2014, no revenue has been posted for the activity during 2013.
- For two open grants, the grantors were overbilled a total of \$2,474. One grantor was overbilled by \$1,472 because an indirect cost recovery transaction was posted in error, and the other grantor was overbilled by \$1,002 as revenues exceeded expenses for the reimbursement grant.
- We identified several control weaknesses related to closed grants including: (1) UL Lafayette was unable to provide an accurate list of grants that closed during the period July 1, 2012 to December 31, 2013; (2) the expiration field date in the system does not always coincide with the actual end date of the grant; (3) UL Lafayette utilizes an override indicator field that blocks any future expenses from being posted, but there is no process for the university to identify grants with upcoming expiration dates to ensure the override indicator is placed timely; and (4) the override indicator field has no reporting tool that would allow the university to determine when the flag was placed on the grant, which could be used for monitoring.
- One closed grant with an end date of September 30, 2013, had two expense transactions totaling \$7,747 improperly posted to the grant on December 20, 2013. The accounting system indicator to block expenses from being posted was not added timely.

The absence of formal written policies increases the risk of employees not performing their duties in a consistent or proper manner which may lead to errors or noncompliance with grant requirements. Since UL Lafayette does not reconcile its expenses to requested reimbursements,

inaccurate billing could result in delayed use of cash or a loss of revenues. In addition, failure to timely identify closing grants and disable the related accounts could result in inaccurate posting.

Management should establish formal written policies and procedures and strengthen controls to ensure that documentation is maintained to properly support invoices, grant expenses are billed to the grantor timely, and grants are monitored to ensure they are closed timely and accurately. Management should also remit any overbilled amounts back to the grantor. In addition, management should reconcile grants during the closing process to ensure all allowable expenses have been billed and collected. Management did not concur with the finding. Management did not concur that the identified items reflect a weakness in controls over grants during the normal operations, but rather reflect a transition period when personnel and procedural changes occurred (see Appendix A, pages 1-3).

Additional Comments: After numerous requests (the latest in September 2014), no documented policies and procedures for billing, reconciling, closing-out, allocating payroll, or monitoring grants have been provided to the auditors. Based on management's response, policies developed by the new director of SPFAC were requested and provided to the auditors in December 2014. None of the policies put into place during fiscal year 2014 addressed the exceptions noted in the finding. Additional policies to address some of the exceptions were implemented after fiscal year-end.

All but one of the exceptions noted in the finding were brought to management's attention by the auditors and were not identified by existing controls. Although management did not concur that weaknesses in controls existed relating to untimely billings, management's response clearly indicates a lack of adequate control over cash management and a willingness to place university assets/resources at risk by continuing work on a project for more than one year without obtaining reimbursement from the grantor. The development of proper internal controls supported by written policies and procedures should assist in mitigating the complex nature of sponsored projects.

During our procedures, the university was unable to provide an accurate list of grants that closed during the period July 1, 2012 to December 31, 2013. In addition, grants also had incorrect or no expiration dates, which reduces the ability to identify and monitor those grants. The closed grant exceptions noted in the finding related to expenses that were incorrectly posted on December 20, 2013, to a grant that had ended on September 30, 2013. The errors were brought to management's attention by the auditor in February 2014 as existing controls did not identify the errors.

Error in Federal Reporting

UL Lafayette overstated the total tuition and fees amount reported on the Fiscal Operation Report and Application to Participate (FISAP) report for the award year July 1, 2012 to June 30, 2013, by \$8,058,557, which also caused other amounts to be incorrectly reported. The completion and filing of the FISAP is a U.S. Department of Education (USDOE) requirement for the university to continue receiving Title IV funding. Failure to accurately report amounts on the

FISAP report results in a noncompliance with federal requirements and could affect future student financial assistance funding.

In its fiscal year 2013 FISAP, UL Lafayette reported the tuition and fees total from the general ledger but did not properly adjust the total for items as directed by the FISAP instruction, for example, portions of unearned revenues and course fees. UL Lafayette then improperly allocated the incorrect tuition and fees total between graduates and undergraduates. In addition, there was no evidence or support that the FISAP was reviewed prior to submission to the USDOE.

Management should establish controls to ensure that the FISAP report is accurately prepared and reviewed by personnel other than the preparer prior to submission to the USDOE. Management concurred with the finding and provided a corrective action plan (see Appendix A, page 4).

Financial Statements - University of Louisiana System

As part of our audit of the System's financial statements for the year ended June 30, 2014, we considered UL Lafayette's 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, receivables, due from State Treasury, capital assets

Liabilities - Accounts payable and accrued liabilities, unearned revenue resulting from tuition and fees, bonds 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, state and local grants and contracts, nongovernmental grants and contracts, auxiliary enterprise revenue, state appropriations, federal non-operating revenues

Expenses - Education and general and auxiliary enterprise

Our audit included tests of UL Lafayette's 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 did not report any internal control deficiencies or noncompliance with laws or regulations. 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 UL Lafayette's Student Financial Assistance Cluster of federal programs, as required by the Office of Management and Budget (OMB) Circular A-133. Those tests included evaluating the effectiveness of UL Lafayette's internal controls designed to prevent or detect material noncompliance with program requirements and tests to determine whether UL Lafayette complied with applicable program requirements. In addition, we performed procedures on UL Lafayette's Schedule of Disclosures for Federally Assisted Loans (Schedule 8-2) and UL Lafayette's Summary Schedule of Prior Federal Audit Findings (Schedule 8-3), as required by OMB Circular A-133.

Based on the results of these Single Audit procedures, we reported a finding related to errors in federal reporting that will also be included in the Single Audit for the year ended June 30, 2014. In addition, UL Lafayette's Schedule 8-2 and Schedule 8-3 are materially correct.

Other Procedures

We conducted additional procedures on UL Lafayette's grants and contracts administration based on the results of our risk assessment. The purpose of these procedures was to determine if there are adequate controls in place and operating effectively related to grants and contracts financial administration and compliance. Our procedures included discussions with management, review of grant files, analytical procedures, and reconciliation procedures. Based on the results of these procedures, we reported a finding related to weaknesses in controls over grants.

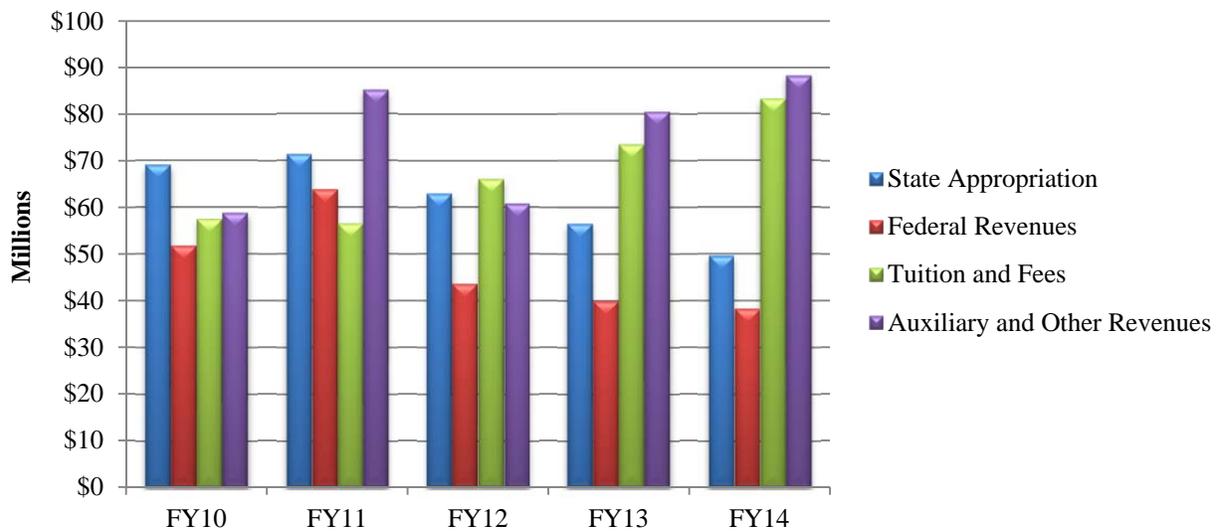
We conducted additional procedures on UL Lafayette's contracts administration based on the results of our risk assessment. The purpose of these procedures was to identify contracts maintained by centers and departments throughout the university, determine if the contracts were approved in accordance with the UL Lafayette Delegation of Signing Authority, and determine if the contracts were properly included in the financial statements and related notes. Our procedures included issuing a questionnaire to departments and centers within the university, reviewing responses, and conducting interviews with management. Based on the results of these procedures, we noted some immaterial contracts that had not previously been included in the financial statements and related note disclosures. The exceptions were corrected during the current-year reporting process.

Trend Analysis

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

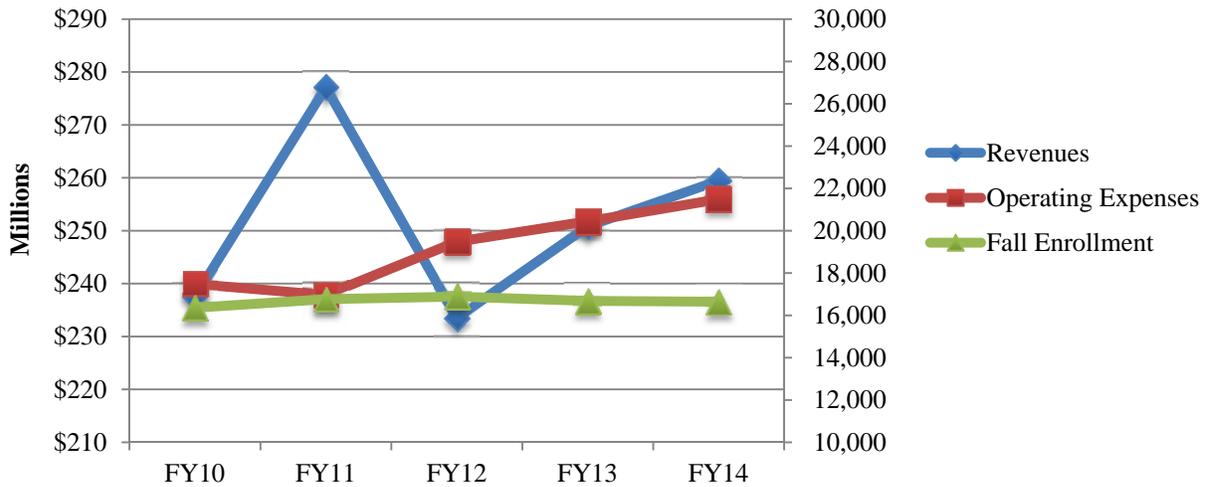
In analyzing the financial trend of UL Lafayette over the past five years, tuition and fee revenues have steadily increased because of the increases in tuition permitted by the GRAD Act (Act 741 of the 2010 regular Session of the Louisiana Legislature), and auxiliary and other revenues have increased over the past three years because of bond proceeds for construction; new permanent endowments; new dormitories, and increased dormitory and meal rates; and a gain on trade of property. State appropriations and federal revenues have decreased since fiscal year 2011. The decline in federal revenues is attributed to the State Fiscal Stabilization funds ending in fiscal year 2011 and a decrease in federal funding of various grants. Enrollment has stayed relatively the same at UL Lafayette over the past five years. If state appropriations and federal revenues continue to decline, the university’s operations may become more dependent on tuition and fees, and auxiliary and other revenues.

Exhibit 1
Five-Year Revenue Trend, by Fiscal Year (FY)



Source: Fiscal Year 2010-2013 System Audit Reports; Fiscal Year 2014 UL Lafayette Annual Fiscal Report

Exhibit 2
Fall Enrollment Trend Analysis, by Fiscal Year (FY)



Source: Fiscal Year 2010-2013 System Audit Reports; Fiscal Year 2014 UL Lafayette Annual Fiscal Report

The recommendations in this letter represent, in our judgment, those most likely to bring about beneficial improvements to the operations of UL Lafayette. The nature of the recommendations, their implementation costs, and their potential impact on the operations of the UL Lafayette should be considered in reaching decisions on courses of action. The finding relating to UL Lafayette’s 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 RESPONSES



November 13, 2014

Daryl G. Purpera
Louisiana Legislative Auditor
1600 North Third Street
P.O. Box 94397
Baton Rouge, LA 70804

Université des Acadiens

Dear Mr. Purpera:

The University of Louisiana at Lafayette respectfully submits the following response to your notice, emailed on Friday, October 24, 2014, citing weaknesses in controls over grants:

The University of Louisiana at Lafayette does not concur with the above referenced finding.

University administration recognized the need for a stand-alone post award department and created a new Office of Sponsored Programs Finance, Administration and Compliance (SPFAC). The Director of SPFAC was hired in May 2013 and while there have been significant personnel changes over the past two years; the Director currently manages a staff of six (6), comprised of two (2) financial analysts, one (1) accounts receivable/cash handling accountant, two (2) post award specialists, and one (1) office coordinator. As of the commencement of this audit, the Director had placed into operation revised policies and procedures which strengthened controls over grant administration. With adequate staffing in place and the implementation of these changes, the University does not concur that the identified items reflect a weakness in controls over grants during normal operations, but rather reflect this transition period.

The following is the University's response to the individual items that were noted from the procedures performed on the grants examined from the prior audit period and before the current policies and procedures were placed into operation.

- The University recognizes that documented policies and procedures, where appropriate and beneficial, are necessary. The University does not concur with the finding of the auditor that all actions that occur within an organization or office require such systematic detail (e.g. system programs for the posting of payroll and benefits) and that such documented policies and procedures as identified by the audit reflect a weakness in controls over grants.
- The University does not concur that the items identified for untimely billings reflect a weakness in controls over grants as the auditors failed to take into account the complex nature of sponsored projects. It is also important to note that all unbilled costs were properly recorded for financial statement purposes.
 - The first award identified was flow-through funding from a local, non-profit organization that was unfamiliar with the administrative processes required to manage a large sponsored project with multiple collaborators and/or subawardees. The contract states

“Invoice format will be determined at a later time & Grantee agrees to submit invoices in the format developed by [Sponsor].” The University was unable to submit an invoice until we received guidance from the agency. The agency then relied on administrative assistance from the University to combine invoices received from the various collaborators into a single invoice for submission to the PRIME. Based on feedback from the PRIME, the invoice format was again adjusted. This, combined with University/agency conversations to potentially adjust the budget based on reductions in force that occurred at the University, resulted in the second delay.

The University does not concur with the finding that the “University overbilled this grantor \$2,273” as it is inaccurate and unsupported. The University billed the grant for work performed by undergraduate students not specifically identified in the original proposal. The contract did not require prior grantor approval for budgetary changes and such restrictions when present are generally at the macro, categorical level (e.g. salary) and not the micro level (e.g. faculty salary, graduate salary, and undergraduate salary). The University invoiced for the work performed consistent with the terms and conditions in the grant and the invoice was paid by, the grantor.

- The second award identified was not invoiced beyond December of 2012 due to ongoing data security concerns under discussion between the grantor and University that were unresolved. An institutional decision was made that work would continue on the project on an “at-risk basis” and invoices would be held pending the formalization of a revised scope of work for the project. The data concerns were later formalized in a MOU and resulted in a modification to the original award, which was fully executed on May 2, 2014. Material changes identified in the modification were 1) project period extended through June 30, 2014, 2) original scope of work reduced, and 3) alteration of the payment terms as follows:

<u>Payment Schedule</u>	<u>Date</u>	<u>Amount</u>
Invoice 1	March 2012	\$12,802
Invoice 2	June 2012	\$12,802
Invoice 3	September 2012	\$12,802
Invoice 4	December 2012	\$12,802
Invoice 5	June 2014	\$28,000

- The University acknowledges that two accounts were overbilled a total of \$2,474. Grantor refunds have been issued in both cases resulting in no impact to the financial statements. The University does not concur that the finding reflects a weakness in control over grants for it is not uncommon for sponsored project expenditures to increase and decrease based on necessary adjustments during the life of the project.
- At the commencement of the audit, the University informed the auditors that it had begun actively reviewing and implementing a more formal closeout procedure. While the University does not dispute the factual statements in the audit relative to these items, the University contends that they fail to demonstrate a closeout control weakness in the University’s current procedures.

- In response to the four specific control weaknesses, the University provides the following:
 1. The time period requested for closed grants was before the implementation of the closeout process in effect at the end of the period under audit. An extract containing all accounts with an expiration date between July 2012 and December 2013 was provided to the auditor and while it is recognized that the expiration date and the actual closeout of a grant are not one in the same, it provided an adequate point of reference to prompt the process.
 2. In response to discrepancies between the expiration dates in the system and the actual award file, the University views this as an outlying data entry anomaly as opposed to a systematic deficiency or control weakness.
 3. The override indicator is one of many tools used to assist with closeout and award end dates are routinely reviewed as part of normal financial monitoring and invoicing. The use of the indicator blocked expenses as well as income from posting, and prior to Fall 2013, all revenue posted on a cash basis. This is necessary to understand the timeline of events and helps put in context the use of “timeliness.”
 4. The University recognizes that the “no override” field in ISIS does not have a date/time stamp. While this may assist the auditor for testing purposes, its absence does not impact the University’s grants management.
- The audit identified a single instance in which the above items resulted in improper expenses posting to an account. This finding evidences an incomplete understanding of the closeout process. The award at issue expired on September 30, 2013 and the final invoice was not generated until November 27, 2013, as additional charges relevant to the award period posted in October. The normal review and approval time resulted in the journal voucher to record revenue posting in December 2014, the same month as the identified transactions. The transactions were generated as a result of an employee separation and the payout of accrued vacation time. Because this award had expired, the University reached out to the grantor to determine if the charges would be considered as an allowable, reimbursable expense. This award was funded from two separate sources and thus had two companion accounts that were used to incur costs related to the project. Once grantor approval was obtained, the charges were removed from the expired account and transferred to the active account used for the remaining portion of the project.

The University appreciates the opportunity to respond to this finding and welcomes the Legislative Auditor’s recommendations. SPFAC will continue to analyze processes and implement procedures relevant to the University’s financial grants management.

Sincerely,



Jerry Luke LeBlanc

Vice President for Administration and Finance



UNIVERSITY
OF
LOUISIANA
L a f a y e t t e .

Financial Aid Office

P.O. Box 41206
Lafayette, LA 70504-1206
Office: (337) 482-6506

Université des Acadiens

December 4, 2014

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

Dear Mr. Purpera:

Please find below our management response to the FY 2013-2014 audit finding of "Error in Federal Reporting".

The University concurs with the finding.

The Corrective Action Plan created by the University is as follows:

We have a plan in place to correct this finding. Any section(s) of the FISAP requiring data from a University department or division outside of the Enrollment Management Division will now require review and approval by the reporting department or division before it is submitted to the US Department of Education. The plan is currently in effect.

Cindy Perez, Financial Aid Director is responsible to verify the implementation of action plan.

Sincerely,

Cindy S. Perez
Financial Aid Director

E. Joseph Savoie
President

APPENDIX B: SCOPE AND METHODOLOGY

We performed certain procedures at University of Louisiana at Lafayette (UL Lafayette) for the period from July 1, 2013 through June 30, 2014, to provide assurances on financial information significant to the University of Louisiana 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 UL Lafayette's 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 UL Lafayette.
- Based on the documentation of UL Lafayette's controls and our understanding of related laws and regulations, we performed procedures to provide assurances on UL Lafayette's account balances and classes of transactions to support our opinions on the System financial statements.
- We performed planned procedures on the Student Financial Assistance Cluster of federal programs, the Schedule of Disclosures for Federally Assisted Loans (Schedule 8-2), and the Summary Schedule of Prior Federal Audit Findings (Schedule 8-3) for the year ended June 30, 2014, to support the Single Audit.
- We compared the most current and prior-year financial activity using UL Lafayette's annual fiscal reports and/or system generated reports to identify trends and obtained explanations from UL Lafayette management for significant variances.

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

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