

LOUISIANA STATE UNIVERSITY
AND RELATED CAMPUSES

LOUISIANA STATE UNIVERSITY SYSTEM
STATE OF LOUISIANA



FINANCIAL AUDIT SERVICES
MANAGEMENT LETTER
ISSUED MARCH 19, 2020

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Louisiana Legislative Auditor

Daryl G. Purpera, CPA, CFE



LSU and Related Campuses

March 2020

Audit Control # 80190083

Introduction

As a part of our audit of Louisiana State University (System) and the Single Audit Report of the State of Louisiana (Single Audit) for the fiscal year ended June 30, 2019, we performed procedures at Louisiana State University, Louisiana State University Agricultural Center, Pennington Biomedical Research Center, Louisiana State University of Alexandria, Louisiana State University at Eunice, and Louisiana State University Shreveport, collectively referred to as LSU and Related Campuses, to provide assurances on financial information that is significant to the System's financial statements; evaluate the effectiveness of LSU and Related Campuses internal controls over financial reporting and compliance; and determine whether LSU and Related Campuses complied with applicable laws and regulations. In addition, we determined whether management has taken actions to correct the findings reported in the prior year.

Results of Our Procedures

Follow-up on Prior-year Findings

Our auditors reviewed the status of the prior-year findings reported in the management letter dated March 13, 2019. We determined that management has resolved the prior-year findings related to Noncompliance with Federal Equipment Management Regulations at the Pennington Biomedical Research Center, Noncompliance and Weakness in Controls over Federal Reporting Requirements at the LSU Agricultural Center and the Pennington Biomedical Research Center, Weakness in Controls over Federal Research & Development Cluster Expenses at the LSU AgCenter, Failure to Fulfill Employment Obligations, and Internal Audit Findings at University Laboratory School. The prior-year findings related to Noncompliance with and Inadequate Controls over Federal Special Tests and Provisions Requirements has not been resolved and is addressed again in this letter.

Current-year Findings

Noncompliance with and Inadequate Controls over Federal Special Tests and Provisions Requirements

Louisiana State University (LSU) A&M, for the second consecutive year, did not have adequate controls in place to ensure compliance with Special Tests and Provisions requirements. In a test

of 21 LSU A&M federal Research and Development (R&D) Cluster awards subject to Special Tests and Provisions, LSU A&M records for one (5%) of the awards tested did not contain evidence that the key personnel requirements applicable were met during fiscal year (FY) 2019. In addition, for the third consecutive year, the LSU Agricultural Center (AgCenter) did not have adequate controls over Special Tests and Provisions.

Federal regulations state that for federal awards, recipients must request prior approvals from federal awarding agencies for changes in the scope or the objective of the project or program; changes in a key person associated with the award; disengagement from the project for more than three months, or a 25 percent reduction in time devoted to the project, by the approved project director or principal investigator.

In FY 2019, LSU A&M and the AgCenter, in following their corrective action plan from FY 2018, began the process of establishing a system-based control over key personnel requirements that went live in April 2019. This control allows analysts to track key personnel time and effort by budget period under the award. Since the control was implemented late in FY 2019, LSU A&M and the AgCenter were unable to input time and effort information for all awards. According to the FY 2018 corrective action plan for LSU A&M and the AgCenter, the new control will be fully implemented by June 30, 2020. Failure to fully implement controls over key personnel requirements could result in noncompliance with Special Tests and Provisions requirements.

LSU A&M and the AgCenter should ensure the new control over key personnel requirements is fully implemented and that it effectively determines if they follow key personnel requirements and ensures they obtain any required federal awarding agency approval for changes. Management concurred with the finding and provided an update on its corrective action (see Appendix A, page 1).

Noncompliance with Federal Procurement Standards

LSU and Related Campuses, which includes LSU A&M, the AgCenter, and Pennington Biomedical Research Center (PBRC), did not ensure they were in compliance with Federal Procurement requirements for FY 2019.

Beginning on July 1, 2018, LSU was required to be in compliance with Uniform Guidance Procurement standards set out in 2 CFR sections 200.318 through 200.326. LSU implemented a new internal federal procurement policy on July 1, 2018, to be in accordance with Uniform Guidance; however, the policy contained several exemptions to competitive solicitation allowed under the State University Pilot Procurement Code (UPPC) that are not considered exemptions per Uniform Guidance. This caused LSU A&M, AgCenter, and PBRC to be noncompliant with Federal Procurement requirements.

The following exceptions were noted and resulted in total known questioned costs of \$137,317:

- In a test of 39 LSU A&M federal R&D Cluster procurement transactions, four transactions (10%) tested were not in compliance with Federal Procurement

requirements during fiscal year 2019 and resulted in \$54,875 of known questioned costs.

- In a test of 38 AgCenter federal R&D Cluster procurement transactions, two transactions (5%) tested were not in compliance with Federal Procurement requirements during fiscal year 2019 and resulted in \$32,442 of known questioned costs.
- In a test of 40 PBRC federal R&D Cluster procurement transactions, one transaction (3%) tested was not in compliance with Federal Procurement requirements during fiscal year 2019 and resulted in \$50,000 in known questioned costs.

LSU should ensure its Federal Procurement Policies adhere to the Federal Procurement Standards per 2 CFR 200.318 through 200.326 and that exemption letters are requested and obtained prior to following policies that do not comply with federal requirements. LSU has since obtained an exemption dated September 25, 2019, that allows it to increase the micropurchase threshold to \$50,000 in order to be consistent with state law and the UPPC. However, it should request exemptions for any other areas of conflict that may exist between 2 CFR 200.318 through 200.326 and its internal federal procurement policy. Management concurred with the finding and provided a corrective action plan (see Appendix A, page 2).

Lack of Policy Related to Administrative Allowances

LSU and Related Campuses did not have formal written policies in place over administrative allowances totaling approximately \$4.9 million as of January 1, 2019. According to LSU's Office of Human Resource Management, administrative allowances are given as additional salary to employees for additional job duties outside the scope of the employees' normal job duties. In a review of 30 employees out of 439 receiving administrative allowances as of January 1, 2019, the following was noted:

- Three employees (10%) lacked appropriate documented approvals in the Workday system.
- One employee (3.3%) lacked supporting documentation over the administrative allowance that included the reason for the allowance and support regarding the calculated amount of the administrative allowance.

Overall, there was inconsistent application of the administrative allowances across departments and campuses. LSU has not maintained adequate policies and procedures regarding administrative allowances. Policy Statement 43, which briefly mentions the administrative allowance, was not updated when LSU transferred to its new IT system, Workday, in FY 2017. Also, this policy has not been revised since 1995.

LSU currently has policies in place for additional compensation and supplemental pay, which according to LSU, are separate from the administrative allowances. However, it has not implemented such policies for administrative allowances. Without formal policy or procedures in

place, administrative allowances could be given for additional duties that do not qualify, without appropriate approvals, past expiration dates, or in excess of set limits.

LSU management should establish policies and procedures related to administrative allowances that include details on the required documentation, appropriate approvals, criteria for receiving the administrative allowances, exclusions, and any limits on the amounts of the administrative allowances. Management concurred with the finding and provided a corrective action plan (see Appendix A, pages 3-4).

Financial Statements – Louisiana State University System

As a part of our audit of the System’s financial statements for the year ended June 30, 2019, we considered LSU and Related Campuses’ internal control 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, and Capital Assets

Liabilities – Bonds Payable, Capital Lease Obligations, Total Other Postemployment Benefits Liability, and Net Pension Liability

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 net of Scholarship Allowances, Federal Grants and Contracts, Auxiliary Enterprise Revenue, State Appropriations, and Gifts

Expenses – Educational and General, and Auxiliary Enterprise

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, 2019, we performed internal control and compliance testing as required by Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance) on LSU and Related Campuses’ major federal program, Research and Development Cluster.

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 loan information submitted by LSU and Related Campuses to the Division of Administration’s Office of Statewide Reporting and

Accounting Policy for the preparation of the state's Schedule of Expenditures of Federal Awards and the status of the prior-year findings for the preparation of the state's Summary Schedule of Prior Audit Findings, as required by Uniform Guidance.

Based on the results of these Single Audit procedures, we reported findings related to Noncompliance with and Inadequate Controls over Federal Special Tests and Provisions Requirements and Noncompliance with Federal Procurement Standards. These findings will also be included in the Single Audit for the year ended June 30, 2019. In addition, LSU and Related Campuses' loan information submitted for the preparation of the state's SEFA and the state's Summary Schedule of Prior Audit Findings is materially correct.

Other Procedures

In addition to the System and Single Audit procedures noted above, we performed certain procedures that included obtaining, documenting, and reviewing LSU and Related Campuses internal control and compliance with related laws and regulations over travel expenses, administrative allowance compensation, and affiliated organizations.

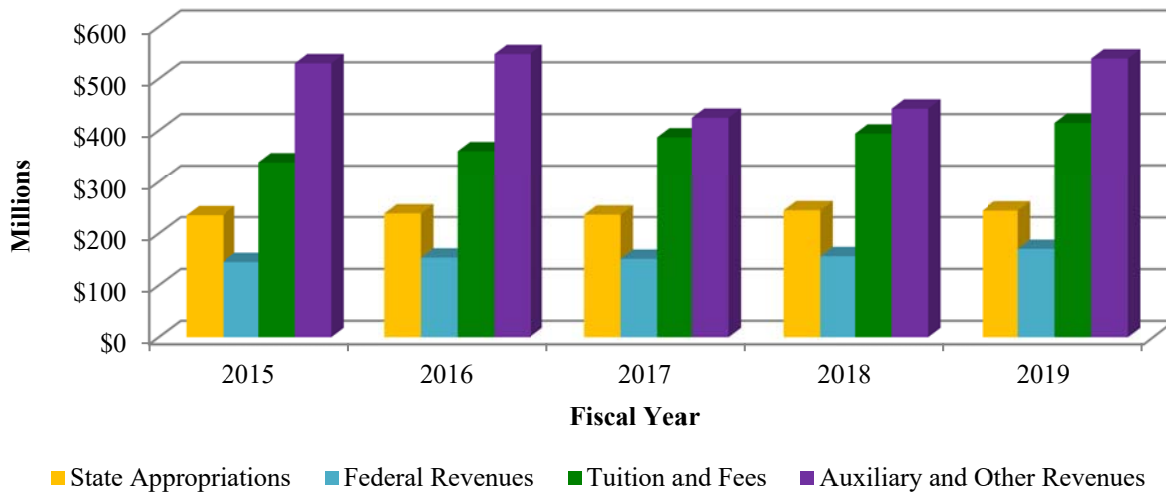
Based on the results of these procedures, we reported a finding related to Lack of Policy Related to Administrative Allowances, as described previously.

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 past five fiscal years, as shown in Exhibits 1 and 2.

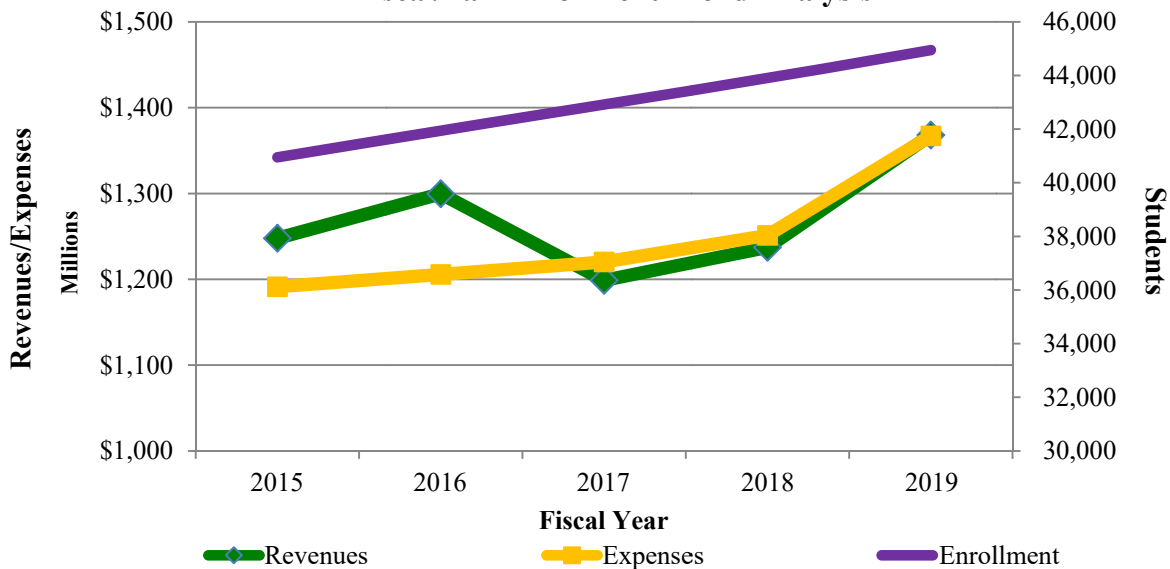
In analyzing financial trends of LSU and Related Campuses over the past five years, expenses have increased by 14.76% since FY 2015, while state appropriations have remained fairly consistent increasing 3.84%. Over that same period, tuition and fees have increased by 22.62%, mainly because of the increases in tuition permitted by the GRAD Act and increases in enrollment. Total enrollment for LSU and Related Campuses has increased by 9.77% since FY 2015.

**Exhibit 1
Five-Year Revenue Trend**



Source: Fiscal Year 2015-2019 LSU System Audit Reports

**Exhibit 2
Fiscal/Fall Enrollment Trend Analysis**



Source: Fiscal year 2015-2019 LSU System Audit Reports and Louisiana Board of Regents website

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 related 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.

Respectfully submitted,

A handwritten signature in blue ink that reads "Daryl G. Purpera". The signature is written in a cursive style with a large, prominent initial "D".

Daryl G. Purpera, CPA, CFE
Legislative Auditor

REW:JPT:BH:EFS:aa

LSUANDRELATED 2019

APPENDIX A: MANAGEMENT'S RESPONSES



Finance & Administration

January 28, 2020

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

Dr. Mr. Purpera:

In conjunction with the legislative audit of LSU, Sponsored Program Accounting (SPA) concurs with the repeat finding concerning Noncompliance with and Inadequate Controls over Federal Special Tests and Provisions Requirements due to a 2 year corrective action plan.

Finding:

Noncompliance with and Inadequate Controls over Federal Special Tests and Provisions Requirements

Response to Finding:

In FY 2018, LSU began work to track and monitor key personnel on an annual basis. However, the corrective action plan required creating new data fields and reports in our accounting software system. During April 2019 (FY19), SPA was able to go live with these data fields and began the data entry to populate the information for tracking. During FY 2020, LSU has continued the progress of data entry in the data fields and is on track to have the corrective action plan fully implemented by June 30, 2020.

Persons Responsible:

Jaime Estave, Director of Sponsored Program Accounting, LSU A&M and LSU Ag Center

Jan Bernath, Director of Accounting Services, LSU Ag Center

Sincerely,

A handwritten signature in blue ink, which appears to read "Daniel T. Layzell", is written over the printed name.

Daniel T. Layzell
Executive Vice President for Finance and Administration/CFO



Finance & Administration

January 28, 2020

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

Dr. Mr. Purpera:

Louisiana State University and Related Campuses (LSU) concurs with the finding regarding the noncompliance with Federal Procurement Standards.

Finding:

Noncompliance with Federal Procurement Standards

Response to Finding:

LSU obtained an exemption from Department of Health and Human Services effective September 25, 2019, that allows LSU and Related Campuses (LSU) to use the micro-purchase threshold of \$50,000 allowing us to remain consistent with state law and the University Pilot Procurement Code, LAC 34: XIII Chapters 3-25, (UPPC).

As recommended, LSU is assessing the current policy to ensure compliance with Uniform Guidance and the UPPC. If necessary, corrective measures or changes to existing policies will be in effect no later than the start of federal fiscal year 2021 (October 1, 2020).

Persons Responsible:

Sally McKechnie, Assistant Vice President for Procurement & Property Management, LSU A&M (CPO)
Jan Bernath, Director of Accounting Services, LSU Ag Center
Monica Mougeot, Director of Fiscal Operations, Pennington Biomedical Research Center

Sincerely,

A handwritten signature in blue ink, appearing to read "Daniel T. Layzell", is written over a faint, larger version of the same signature.

Daniel T. Layzell
Executive Vice President for Finance and Administration/CFO



FINANCE AND
ADMINISTRATION

Louisiana State
University
330 Thomas Boyd Hall
Baton Rouge, LA 70803

O 225-578-3386
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March 12, 2020

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

Dear Mr. Purpera,

Louisiana State University and Related Campuses (LSU) concur with the findings regarding the lack of appropriate approvals in Workday.

Finding:

Lack of Policy Related to Administrative Allowances

Response to Finding:

- *Three employees lacked appropriate documented approvals in the Workday System*

In two of the three instances cited, the initiator of the action was also given Delegated Authority by the Department Head to approve personnel actions on his behalf. HRM has worked with Central Support Services to mitigate going forward by making revisions to Workday business processes to prevent an initiator from also having approval authority that results in a consolidated approval by one individual on an action without having proper segregation of duties and authority (to be effective by April 15, 2020).

In the third instance, the employee who initiated and approved the allowance was correcting conversion data that had not transferred properly from the previous HRS system. The allowance had properly documented approvals in place, but that document had not been uploaded into the system. Since that time, the AgCenter has ensured that the appropriate Department Head is included in the Workday approval process by routing the action to them for review.

- *One employee lacked supporting documentation over the administrative allowance that included the reason for the allowance and support regarding the calculated amount of the administrative allowance.*

The AgCenter has since enacted processes that require the justification for the allowance in addition to the calculation to be documented in Workday. This may be accomplished by including the information in the action comments that are entered by the initiator or by attaching the paper request to the Workday action.

HRM has also worked with Central Support Services to further define administrative allowance plans and we are currently working to implement Workday validations to ensure proper documentation, date management and approvals are addressed. All Workday changes should be in effect by June 30, 2020.

Suggested revisions to Permanent Memoranda 3 have been discussed by multiple campuses and a final revision will be discussed at a scheduled April 2020 meeting to include the addition of administrative allowance plans and their application. These revisions will then be remitted to University Administration for consideration by May 1, 2020.

Persons Responsible:

Niki Norton, Assistant Vice President for Human Resource Management, LSU A&M
Ashley Gautreaux, Director of Human Resources, LSU Ag Center

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

Sincerely,



Daniel T. Layzell

Executive Vice President for Finance and Administration/CFO

APPENDIX B: SCOPE AND METHODOLOGY

We performed certain procedures at Louisiana State University, Louisiana State University Agricultural Center, Pennington Biomedical Research Center, Louisiana State University of Alexandria, Louisiana State University at Eunice, and Louisiana State University Shreveport, collectively referred to as LSU and Related Campuses for the period from July 1, 2018, through June 30, 2019, 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. Our procedures, summarized below, are a part of the audit of the System's financial statements and the Single Audit Report of the State of Louisiana (Single Audit) for the year ended June 30, 2019.

- 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 certain account balances and classes of transactions to support our opinions on the System's financial statements.
- We performed procedures on the Research and Development cluster of federal programs for the year ended June 30, 2019, as a part of the 2019 Single Audit.
- We performed procedures on information for the preparation of the state's Schedule of Expenditures of Federal Awards and on the status of prior-year findings for the preparation of the state's Summary Schedule of Prior Audit Findings for the year ended June 30, 2019, as a part of the 2019 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.

In addition, we performed procedures on travel expenses, administrative allowance compensation, and affiliated organizations. The scope of these procedures was significantly less than an audit conducted in accordance with *Government Auditing Standards* issued by the Comptroller General of the United States.

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.