

UNIVERSITY OF LOUISIANA AT LAFAYETTE
UNIVERSITY OF LOUISIANA SYSTEM

STATE OF LOUISIANA



FINANCIAL AUDIT SERVICES
MANAGEMENT LETTER
ISSUED JANUARY 24, 2018

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

LEGISLATIVE AUDITOR
DARYL G. PURPERA, CPA, CFE

ASSISTANT LEGISLATIVE AUDITOR
FOR STATE AUDIT SERVICES
NICOLE B. EDMONSON, CIA, CGAP, MPA

DIRECTOR OF FINANCIAL AUDIT
ERNEST F. SUMMERVILLE, JR., CPA

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Louisiana Legislative Auditor

Daryl G. Purpera, CPA, CFE



University of Louisiana at Lafayette

January 2018

Audit Control # 80170079

Introduction

As a part of our audit of the University of Louisiana System (System) and the Single Audit of the State of Louisiana (Single Audit) for the fiscal year ended June 30, 2017, 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; evaluate the effectiveness of UL Lafayette's internal controls over financial reporting and compliance; and determine whether UL Lafayette complied with applicable laws and regulations. In addition, we determined whether management has taken actions to correct the finding reported in the prior year.

UL Lafayette is a part of the System and reported an enrollment of more than 17,500 students for the Fall 2016 semester. UL Lafayette's mission is to offer an exceptional education informed by diverse world views, grounded in tradition, heritage, and culture.

Results of Our Procedures

Follow-up on Prior-year Finding

Our auditors reviewed the status of the prior-year finding reported in the UL Lafayette management letter dated December 21, 2016. We determined that management has resolved the prior-year finding related to Inadequate Monitoring over Food Services Contract.

Current-year Findings

Inadequate Accounting of Grants and Contracts

UL Lafayette does not have adequate controls over its accounting processes for grants and contracts to ensure they are accurately recorded and properly classified in the financial statements. Failure to properly account for grants and contracts could result in material misstatements in the financial statements.

Audit procedures identified errors on 11 (34.4%) of the 32 grants and contracts reviewed with some grants having multiple errors.

- Revenues associated with four grants (12.5%) were overstated by \$1.6 million because UL Lafayette did not recognize the revenue according to the terms of the contract. This caused accounts receivable to be overstated as well.
- Revenues associated with two grants (6.3%) were understated by \$595,000 because UL Lafayette posted an adjustment to its financial records incorrectly. This error caused unearned revenue to be understated by the same amount.
- Revenues associated with five grants (15.6%) were overstated by \$555,000 because the transactions were posted to the wrong fiscal year.
- Four grants (12.5%) had approximately \$694,000 that was misclassified among federal, state, and nongovernmental grants and contracts revenue sources.

Management should strengthen controls to ensure that transactions associated with grants and contracts are properly reflected in the accounting records. Management concurred with the finding and provided a plan of corrective action (see Appendix A, page 1).

Inappropriate System Access

UL Lafayette granted employees inappropriate access to the Banner system. Inappropriate system access increases the risk of errors and fraud. Audit procedures on access as of April 2017 revealed the following:

- Three payroll employees had access to complete all human resource and payroll functions related to establishing an employee and processing payroll in the Banner system.
- Five employees had access to modify basic employee information such as status, leave balances, review dates, termination and leave dates, etc., without a business need.
- Twenty-six employees had access to create or modify direct deposit information without a business need.
- Twelve employees' access, which allowed them to create or modify vendors, was not removed timely. Access was removed 202 days after determination that they no longer had a business need.

Good internal control requires UL Lafayette to restrict access to those functions necessary for its employees' job duties and ensure job functions and capabilities are properly segregated. Management should restrict or closely monitor any access that is not properly segregated and remove unnecessary or inappropriate access timely. Management concurred with the finding and provided a plan of corrective action (see Appendix A, pages 2-3).

Noncompliance over Return of Title IV Funds

UL Lafayette did not ensure compliance with federal regulations related to the return of Title IV funds.

Audit procedures disclosed the following:

- For three (7.5%) of 40 students tested, UL Lafayette did not perform return of funds procedures timely. For the first student, UL Lafayette did not determine the unofficial withdrawal date within the required 30 days. This determination was made four days late. For the second student who officially withdrew, UL Lafayette did not determine if funds should be returned within the required 45 days. This determination was made five days late. Although UL Lafayette performed the determination and calculation timely for the third student, the funds were not returned to the U.S. Department of Education (USDOE) until almost nine months after the calculation was performed.
- For two (5%) of 40 students tested, the return of funds calculations were not accurate. As a result, UL Lafayette erroneously removed \$1,880 in student loan funds from the students' accounts and erroneously returned those funds to the USDOE. This caused the outstanding balances to be overstated in the students' accounts.
- The reports used by UL Lafayette to identify potential students requiring a return of funds calculation mistakenly excluded two students. As a result, UL Lafayette did not determine the amount of Title IV funds that should have been returned to the USDOE for these two students.

Management should strengthen controls to ensure that all students requiring a return of funds calculation are identified and return of funds procedures are performed timely and accurately. Management concurred with the finding and outlined a plan of corrective action (see Appendix A, page 4).

Financial Statements - University of Louisiana System

As a part of our audit of the System's financial statements for the year ended June 30, 2017, we considered UL Lafayette's 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, Due from State Treasury, and Capital Assets

Liabilities – Unearned Revenue resulting from tuition and fees

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, Scholarship Allowances, Federal Grants and Contracts, State and Local Grants and Contracts, Nongovernmental Grants and Contracts, Auxiliary Revenues, State Appropriations, and Federal Nonoperating Revenues

Expenses – Educational and General, and Auxiliary Enterprise

Based on the results of these procedures on the financial statements, we reported findings related to Inadequate Accounting of Grants and Contracts and Inappropriate System Access, as described previously. 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, 2017, 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 UL Lafayette's major federal program, as follows:

- Student Financial Assistance Cluster

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 information submitted by UL Lafayette 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 (SEFA), as required by Uniform Guidance.

Based on the results of these Single Audit procedures, we reported a finding related to Noncompliance over Return of Title IV Funds. This finding will also be included in the Single Audit for the year ended June 30, 2017. In addition, UL Lafayette's information submitted for the preparation of the state's SEFA, as adjusted, 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 UL Lafayette's internal control and compliance with the terms of its contract with its food service provider.

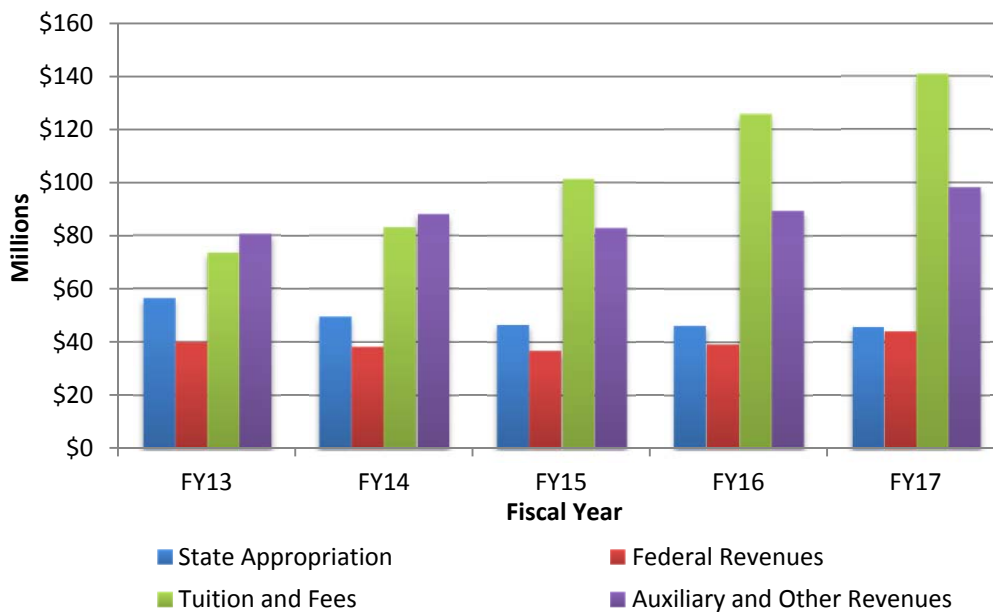
Based on the results of these procedures performed, we found no issues or weaknesses that were required to be reported. In addition, we determined that the prior year finding on Inadequate Monitoring over Food Services Contract has been resolved.

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's 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.

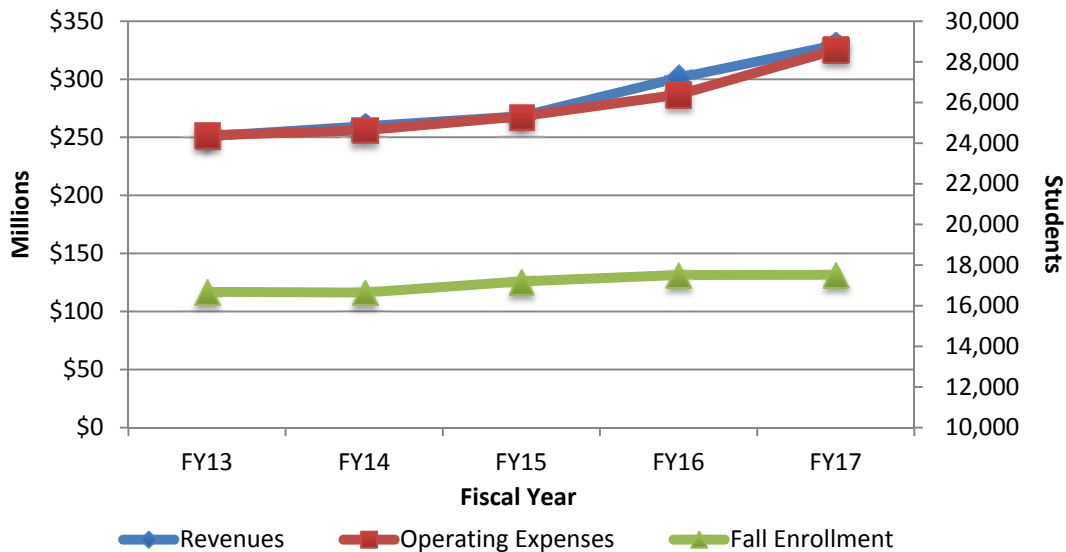
In analyzing the financial trend of UL Lafayette over the past five fiscal years, tuition and fees revenues have steadily increased because of the increases in tuition permitted by the GRAD Act and House Bill 152 of the 2015 Regular Session of the Louisiana Legislature. Auxiliary and other revenue fluctuations are due to bond proceeds for construction; grants and gifts for capital projects and athletics; new permanent endowments and fluctuations in realized and unrealized gain/loss on endowment funds; new dormitories and increased dormitory and meal rates; and increases in research grants with private industry. State appropriations have decreased since fiscal year 2013. Federal revenues and enrollment have remained relatively consistent at UL Lafayette over the past five fiscal years. Operating expenses increased in 2017 due to increases in pension expense recognized, salaries and employee benefits for tuition exemptions, scholarships and fellowships, chairs and professorships discretionary expenses, and Banner support costs.

Exhibit 1
Five-Year Revenue Trend



Source: Fiscal Years 2013-2017 System Audit Reports

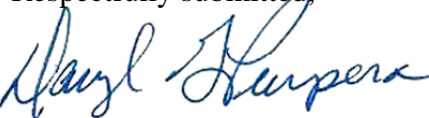
**Exhibit 2
Fiscal/Enrollment Trends**



Source: Fiscal Years 2013-2017 System Audit Reports

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 UL Lafayette should be considered in reaching decisions on courses of action. The finding related 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.

Respectfully submitted,

 Daryl G. Purpera, CPA, CFE
 Legislative Auditor

RM:CR:BH:EFS:aa

ULL 2017

APPENDIX A: MANAGEMENT'S RESPONSES



December 13, 2017

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

Dear Mr. Purpera:

Please find below our management response to the FY 2016-2017 audit finding of "Inadequate Accounting of Grants and Contracts".

The University concurs with the finding.

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

Shannon Gary, Interim Director, is responsible to verify the implementation of action plan.

The exceptions noted during the audit are directly related to the ongoing grant module implementation. The Office of Sponsored Programs Finance Administration and Compliance (SPFAC) has been working with the Office of Information Technology to ensure the grants are setup correctly to preclude the reoccurrence of these conditions in the future. In addition, the Interim Director of SPFAC has implemented procedures to strengthen the review of grant transactions which will also preclude the reoccurrence of these conditions.

Sincerely,

Shannon M Gary
SPFAC Interim Director

E. Joseph Savoie
President



January 8, 2018

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

Dear Mr. Purpera:

Please find below our management response to the FY 2016-2017 audit finding of "Inappropriate System Access".

The University concurs with the finding.

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

Paul Thomas, Chief Human Resource Officer, is responsible to verify the implementation of action plan.

Upon the implementation of Banner HR, all employees who utilized HR forms were placed in a default Superuser group, which resulted in many of the findings from the access audit.

Our HR staff addressed these issues by devising new groups of area/function specific security classes, and limiting access based on basic access needed for business processes in each area, and with a focus of concrete division of duties. All users have been removed from the original Superuser group and placed in their respective functional area security class.

These four areas are HR Staff, Payroll Staff, Finance/Comptroller, and Student Payroll Staff.

Below are how these changes address each finding:

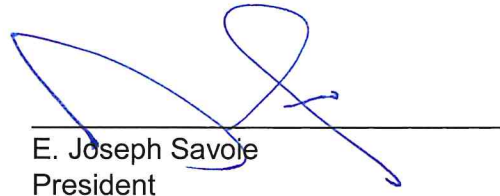
1. Payroll employee access was amended, removing access to establish or maintain an employee record. Access to Banner form PPAIDEN (Creating an individual) and PEAEMPL (Assigning an individual an employee class) were changed to query-only. This in essence prohibits them from creating an employee/individual, or for assigning an employee role to an existing individual in our HRIS.

2. Access to employee status (maintained on PEAEMPL) is now limited to only HR staff. Access to modify leave balances (PTRLEAV) is now limited to only Payroll personnel. Access to modify termination and leave dates (NBAJOBS) has been limited to HR & Payroll. While HR has primary ownership over this record, Payroll does need access to change a termination date affecting payroll calculations. Because Payroll cannot create an individual or designate them as an employee per the finding above, this access to JOBS does not create an issue.
3. Direct deposit form access has been limited to Payroll personnel.
4. The exception related to access to create vendors was an isolated incident associated with access granted during the transition from our Legacy System. The access to create vendors is currently being monitored by the Comptroller in correlation with the Director of Purchasing.

Sincerely,



Paul Thomas
Chief Human Resource Officer



E. Joseph Savoie
President



December 14, 2017

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

Dear Mr. Purpera:

Please find below our management response to the FY 2016-2017 audit finding of "Noncompliance over Return of Title IV Funds".

The University concurs with the finding.

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

Cindy Perez, Executive Director of Student Aid & Scholarships is responsible to verify the implementation of action plan.

The Financial Aid Office has developed a management plan to prevent this finding from re-occurring. The plan is as follows:

- Reallocation of duties of office personnel with accounting backgrounds to process Return to Title IV
- Request/Run the report of potential unofficial withdrawal students the week after finals end and begin making determinations at the receipt of the reports.
- Additional report requests are being made to monitor any and all student withdrawals from the University.

Sincerely,

Cindy S. Perez
Financial Aid Director

E. Joseph Savoie
President

APPENDIX B: SCOPE AND METHODOLOGY

We performed certain procedures at the University of Louisiana at Lafayette (UL Lafayette) for the period from July 1, 2016, through June 30, 2017, 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, 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, 2017.

- 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 certain account balances and classes of transactions to support our opinions on the System's financial statements.
- We performed procedures on the Student Financial Assistance Cluster for the year ended June 30, 2017, as a part of the 2017 Single Audit.
- We performed procedures on information for the preparation of the state's Schedule of Expenditures of Federal Awards for the year ended June 30, 2017, as a part of the 2017 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's management for significant variances.

In addition, we performed procedures on selected controls and transactions relating to UL Lafayette's contract with its food service provider. 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 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 purposes.

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.