

NORTHWESTERN STATE UNIVERSITY
UNIVERSITY OF LOUISIANA SYSTEM

STATE OF LOUISIANA



FINANCIAL AUDIT SERVICES
MANAGEMENT LETTER
ISSUED JUNE 22, 2022

**LOUISIANA LEGISLATIVE AUDITOR
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Louisiana Legislative Auditor

Michael J. “Mike” Waguespack, CPA

Northwestern State University



June 2022

Audit Control # 80210064

Introduction

As a part of our audit of the University of Louisiana System (System) and our work related to the Single Audit of the State of Louisiana (Single Audit) for the fiscal year ended June 30, 2021, we performed procedures at Northwestern State University (NSU) to provide assurances on financial information that is significant to the System’s financial statements; evaluate the effectiveness of NSU’s internal controls over financial reporting and compliance; and determine whether NSU complied with applicable laws and regulations. We also performed procedures for the period July 1, 2019, through June 30, 2020, to evaluate certain internal controls NSU uses to ensure accurate financial reporting, compliance with applicable laws and regulations, and to provide accountability over public funds. In addition, we determined whether management has taken actions to correct the finding reported in the prior year.

Results of Our Procedures

Follow-up on Prior-year Finding

Our auditors reviewed the status of the prior-year finding reported in the NSU management letter dated December 23, 2019. We determined that management has resolved the prior-year finding related to Noncompliance with Timekeeping Rules and Policies.

Current-year Findings

Inadequate Controls Resulting in Theft via Direct Deposit

In January 2021, a cyberattack occurred in which the attacker changed direct deposit information for 15 employees in the Banner system. As a result, NSU incorrectly distributed payroll funds into fraudulent bank accounts for 13 of the 15 employees, which resulted in a loss of \$55,729.

NSU’s payroll department lacked monitoring reports for direct deposit changes and had not implemented a system feature to automatically notify users of changes to their direct deposit information. Also, at the time of the cyberattack, NSU was not using multifactor authentication (MFA), which requires users to provide more than one distinct factor for successful authentication (e.g. password, token, fingerprint, etc.). A lack of proper access controls could

result in unauthorized system access and/or unauthorized changes and a lack of proper monitoring controls could result in untimely identification and notification if unauthorized access or changes were to occur.

Internal controls should be designed to reduce the risk of unauthorized access, as well as prevent unauthorized changes in direct deposit information. NSU has since implemented a monitoring report for direct deposit changes and has implemented direct deposit change notification in Banner. NSU has also implemented MFA for its business areas, which includes the payroll department.

Management should continue to implement adequate access controls and monitoring for all business areas. Management should also continue to evaluate the effectiveness of these controls and make changes as necessary. Management concurred with the finding and outlined a plan of corrective action (See Appendix A, page 1).

Weakness in Calculation of Return of Title IV Funds

NSU did not have adequate controls in place to calculate the return of Title IV funds correctly for the Federal Pell Grant Program (AL 84.063) and the Federal Direct Student Loans Program (AL 84.268). Out of a random sample of 40 students that withdrew from NSU during the fall 2020, spring 2021, or summer 2021 semesters, 33 (83%) students from the fall 2020 or spring 2021 semesters included the incorrect number of completed days and/or total days. Our review of the 33 affected students indicated that 14 students had differences as a result of the error in their calculation ranging from \$7 to \$586 and totaling \$3,883. Out of this total, \$142 is related to a post-withdrawal disbursement that one student qualified for but NSU did not identify and offer to the student. The remaining \$3,741 represents an erroneous excess of Title IV funds returned to the USDOE on the students' behalf.

Management represented that the applicable modules used in NSU's systems were not properly designed to ensure that the days of attendance and total days in the academic period were calculated correctly as required by federal regulations. Failure to accurately calculate the required return of Title IV funds resulted in a failure to comply with the federal regulations.

Management should strengthen its procedures in calculating the days of attendance and the total days in an academic period to ensure that the calculations comply with the applicable federal regulations. In addition, management should identify and correct all excessive returns of Title IV funding made on students' behalf. Management concurred with the finding and provided a corrective action plan (See Appendix A, page 2).

Weakness in Controls over Eligibility Requirements

NSU did not have adequate controls in place to ensure that financial aid packages awarded to students remained within the appropriate limits set by federal regulations. Out of a random sample of 40 students that were disbursed funds from the Federal Pell Grant Program (AL 84.063) and/or the Federal Direct Student Loans Program (AL 84.268) for the Fall 2020, Spring 2021, or Summer 2021 semesters, one student (2.5%) received awarded financial aid that

exceeded the student's calculated gross financial need by \$144. During discussions regarding this issue, NSU's management represented to us that it reviewed multiple reports and identified an additional \$95,709 of financial aid awards for the Fall 2020, Spring 2021, and Summer 2021 semesters that exceeded 91 students' calculated gross financial needs. Failure to detect and correct financial aid awards that exceed students' calculated gross financial need resulted in noncompliance with applicable federal regulations.

Management indicated that it discovered an error that prevented periodic reports, that are designed for use in correcting excess financial aid, from identifying all students with excess financial aid awards. Management represented that it had initiated corrective action to identify and correct the affected students, but that the error was not discovered until after fiscal year 2021 ended.

Management should develop and implement controls that will either prevent or detect and correct situations in which students are awarded financial aid that exceed their calculated gross financial need. In addition, management should take corrective action to resolve all of the identified cases in which students have financial aid awards that exceed their calculated gross financial needs. Management concurred with the finding and outlined a plan of corrective action (See Appendix A, page 3).

Untimely Return of Title IV Funds

NSU did not have adequate controls in place to make required returns of Title IV funding to the U.S. Department of Education (USDOE) within the timeframes set by federal regulations. We reviewed a random sample of 40 students that withdrew from NSU during the Fall 2020, Spring 2021, or Summer 2021 semesters and noted that the required returns of Title IV funding for seven (18%) students were processed through the students' accounts between four and 546 days late. For the seven noted students, a combined \$13,214 of required institutional returns were processed late.

Management represented that it initiated the Return to Title IV process at the time that the seven students withdrew from NSU and promptly sent notices to the students regarding the reductions to their financial aid. However, the required returns of Title IV funding were not completely processed to the students' accounts in NSU's systems.

Federal regulations require an institution return unearned Title IV, Higher Education Act Program funds no later than 45 days after the date it determines that the student withdrew. Failure to process a student's required return in a timely manner resulted in noncompliance with applicable federal regulations and increases the risk that required returns will not be processed.

Management should develop and implement procedures that will ensure that all required returns of Title IV funding are processed to students' accounts and returned to the USDOE within the timeframes established by applicable federal regulations. Management concurred with the finding and provided a corrective action plan (See Appendix A, page 4).

Noncompliance with Gramm-Leach-Bliley Act Regarding Student Information Security

NSU did not have a formal risk assessment documented or related safeguards that address the following minimum requirements of the Gramm-Leach-Bliley Act standards for safeguarding student information:

- Employee training and management;
- Information systems including network and software design, as well as information processing, storage, transmission and disposal; and
- Detecting, preventing and responding to attacks, intrusions, or other systems failures.

Management represented that NSU performed procedures in fiscal year 2021 to provide employees and management with cyber security training, began implementation of MultiFactor Authentication, implement centralized deployment and sanitization of desktop computers, implement regular review of access to the ERP, standardize and implement antivirus software, implement use of Microsoft Safe Links along with OpenDNS and Proofpoint to respond to phishing and malicious URLs, and implement the centralization of servers, storage, and backup. However, management was unable to produce formal documentation to support risk assessments performed and safeguards implemented as required by federal regulations. As a result, there is an increased risk for unauthorized disclosure, misuse, alteration, destruction, or other compromise of student information and results in noncompliance with applicable federal regulations.

Management should develop, implement, maintain, and document information security programs that include a formal documented risk assessment of relevant areas of operation as well as design and document safeguards implemented to control the risks identified in regards to student information. Management concurred with the finding and outlined a plan of corrective action (See Appendix A, page 5).

Financial Statements - University of Louisiana System

As a part of our audit of the System's financial statements for the year ended June 30, 2021, we considered NSU'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, Due from State Treasury, and Capital Assets

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, State Appropriations, and Federal Nonoperating Revenues

Expenses – Education and General

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, 2021, 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 NSU's major federal program, Student Financial Assistance Cluster.

Those tests included evaluating the effectiveness of NSU's internal controls designed to prevent or detect material noncompliance with program requirements and tests to determine whether NSU complied with applicable program requirements. In addition, we performed procedures on information submitted by NSU 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 findings related to Weakness in Calculation of Return of Title IV Funds, Weakness in Controls over Eligibility Requirements, Untimely Return of Title IV Funds, and Noncompliance with Gramm-Leach-Bliley Act Regarding Student Information Security. These findings will also be included in the Single Audit for the year ended June 30, 2021. In addition, NSU's information submitted for the preparation of the state's SEFA 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 NSU's internal control and compliance with related laws and regulations over timekeeping and other procedures over system access.

Based on the results of these procedures, we reported a finding related to Inadequate Controls Resulting in Theft via Direct Deposit, as described previously.

Trend Analysis

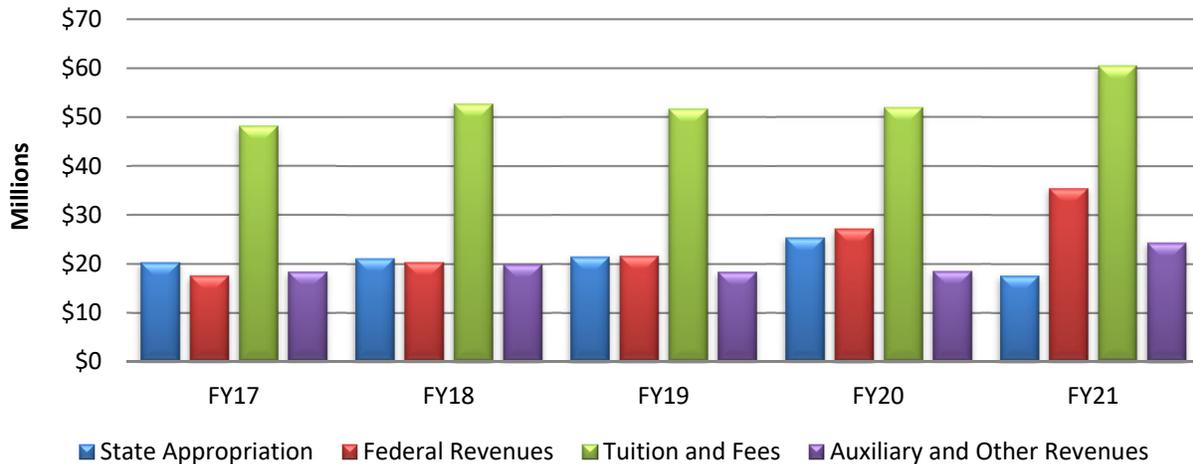
We compared the most current and prior-year financial activity using NSU's Annual Fiscal Reports and/or system-generated reports and obtained explanations from NSU's management for any significant variances. We also prepared an analysis of revenues, expenses, and enrollment over the past five fiscal years, as shown in Exhibits 1 and 2.

In analyzing the financial trends of NSU over the past five fiscal years, revenues and expenses are trending in the same direction. Total revenues have increased 32%, and operating expenses

have increased by 16% over the past five fiscal years. Since fiscal year 2019, Federal Nonoperating Revenues have increased 68% due to federal funds received related to COVID-19 relief. This corresponds to the increase in operating expenses, which in fiscal years 2020 and 2021, included expenses related to COVID-19 mitigation efforts. Enrollment has generally increased over the last five fiscal years.

Exhibit 1

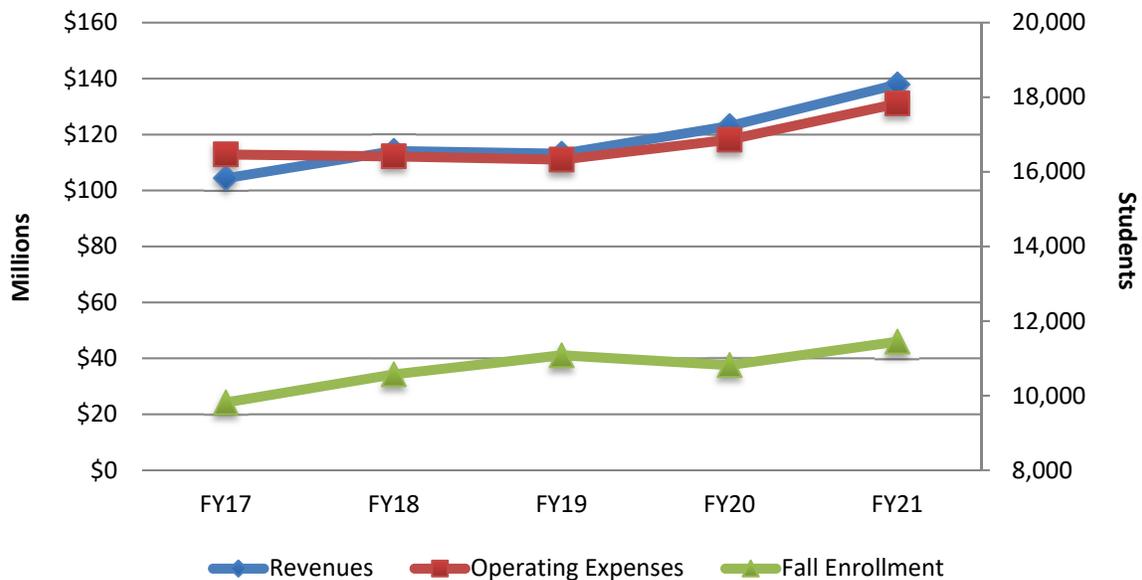
Five-Year Revenue Trend, by Fiscal Year (FY)



Source: 2021 Annual Fiscal Report/2020-2017 System Audit Reports

Exhibit 2

Fiscal/Enrollment Trends



Source: 2021 Annual Fiscal Report/2020-2017 System Audit Reports/Agency Reports

The recommendations in this letter represent, in our judgment, those most likely to bring about beneficial improvements to the operations of NSU. The nature of the recommendations, their implementation costs, and their potential impact on the operations of NSU should be considered in reaching decisions on courses of action. The findings related to NSU'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,



Michael J. "Mike" Waguespack, CPA
Legislative Auditor

BDM:RJM:BH:EFS:aa

NSU2021

APPENDIX A: MANAGEMENT'S RESPONSES



NORTHWESTERN STATE

Office of the President

February 3, 2022

Mr. Michael J. "Mike" Waguespack, CPA
Louisiana Legislative Auditor
1600 North Third Street
Baton Rouge, LA 70804-9397

Dear Mr. Waguespack:

In response to the audit finding: Inadequate Controls Resulting in Theft via Direct Deposit, the University concurs with the finding and submits the following:

NSU has implemented a monitoring report for direct deposit changes and has also implemented direct change notification through our Banner software system. NSU has also implemented Multifactor Authentication for our business areas, which includes the payroll department.

Dr. Darlene Williams and Mr. Patrick Jones led our corrective actions, and we believe them to be complete. We will continue to implement adequate access controls and monitoring for all business areas and make changes as necessary.

Sincerely,

Dr. Marcus Jones
President



June 6, 2022

Mr. Michael J. "Mike" Waguespack, CPA
Louisiana Legislative Auditor
1600 North Third Street
Baton Rouge, LA 70804-9397

Dear Mr. Waguespack:

In response to the audit finding: Weakness in Calculation of Return to Title IV Funds, the University concurs with the finding and submits the following:

Holiday closure dates from Banner Form SOATBRK (Student term break) are entered by the Registrar's office and those dates are included in the calculation report used by the Office of Financial Aid for return of Title IV funds. Those dates were not updated.

The University's Registrar's Office has added the entry of term breaks to the Student Term Break form in Banner to the department's Beginning of Semester Checklist to ensure the data is populated each semester as needed.

Registrar Barbara Prescott will lead our corrective actions.

Sincerely,

Dr. Marcus Jones
President



June 6, 2022

Mr. Michael J. "Mike" Waguespack, CPA
Louisiana Legislative Auditor
1600 North Third Street
Baton Rouge, LA 70804-9397

Dear Mr. Waguespack:

In response to the audit finding: Weakness in Controls over Eligibility Requirements, the University concurs with the finding and submits the following:

NSU identified this weakness in August 2021 and immediately implemented corrective actions. Documentation identifying this error in the over-need monitoring report and corrective actions taken were given to the auditor at the beginning of the audit process.

Ms. Lauren Jackson led our corrective actions, and we believe them to be complete. We will continue to implement adequate controls over eligibility requirements.

Sincerely,

Dr. Marcus Jones
President



June 6, 2022

Mr. Michael J. "Mike" Waguespack, CPA
Louisiana Legislative Auditor
1600 North Third Street
Baton Rouge, LA 70804-9397

Dear Mr. Waguespack:

In response to the audit finding: Noncompliance with Return to Title IV Requirements, the University concurs with the finding and submits the following:

The University will continue to strengthen internal controls to ensure that all students requiring a return of Title IV calculation are identified and return of funds procedures are performed timely and accurately. Additional procedures will be implemented to provide additional reporting and review processes to ensure that funds are returned in the appropriate timeframe required by the U.S. Department of Education.

Director of Financial Aid Lauren Jackson will lead our corrective actions.

Sincerely,

Dr. Marcus Jones
President



NORTHWESTERN STATE

Office of the President

March 15, 2022

Mr. Michael J. "Mike" Waguespack, CPA
Louisiana Legislative Auditor
1600 North Third Street
Baton Rouge, LA 70804-9397

Dear Mr. Waguespack:

In response to the audit finding: Noncompliance with Gramm-Leach-Bliley Act Regarding Student Information Security, the University concurs with the finding and submits the following:

Management is actively developing, implementing, and documenting an information security program that includes documented formal risk assessments of relevant areas as well as documented safeguards implemented to control risks identified in regards to student information.

Chief Information Officer Stanley Hippler led our corrective actions.

Sincerely,

Dr. Marcus Jones
President

APPENDIX B: SCOPE AND METHODOLOGY

We performed certain procedures at Northwestern State University (NSU) for the period from July 1, 2020, through June 30, 2021, to provide assurances on financial information significant to the University of Louisiana 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 our work related to the Single Audit of the State of Louisiana (Single Audit) for the year ended June 30, 2021.

In addition, we conducted certain procedures at NSU for the period from July 1, 2019, through June 30, 2020. Our objective was to evaluate certain controls NSU uses to ensure accurate financial reporting, compliance with applicable laws and regulations, and accountability over public funds. 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.

- We evaluated NSU'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 NSU.
- Based on the documentation of NSU'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, 2021, as a part of the 2021 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, 2021, as a part of the 2021 Single Audit.
- We compared the most current and prior-year financial activity using NSU's Annual Fiscal Reports and/or system-generated reports to identify trends and obtained explanations from NSU's management for significant variances.

In addition, we performed procedures on NSU's internal control and compliance with related laws and regulations over timekeeping and other procedures over system access. 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 NSU and not to provide an opinion on the effectiveness of NSU'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 NSU's Annual Fiscal Report, and accordingly, we do not express an opinion on that report. NSU's accounts are an integral part of the System's financial statements, upon which the Louisiana Legislative Auditor expresses opinions.