

LOUISIANA BOARD OF REGENTS

STATE OF LOUISIANA



FINANCIAL AUDIT SERVICES
MANAGEMENT LETTER
ISSUED MARCH 28, 2018

**LOUISIANA LEGISLATIVE AUDITOR
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DIRECTOR OF FINANCIAL AUDIT
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Louisiana Legislative Auditor

Daryl G. Purpera, CPA, CFE



Louisiana Board of Regents

March 2018

Audit Control # 80170172

Introduction

As a part of the Single Audit of the State of Louisiana (Single Audit) for the fiscal year ended June 30, 2017, we performed procedures at the Louisiana Board of Regents (BOR) to evaluate the effectiveness of BOR's internal controls over financial reporting and compliance and determine whether BOR complied with applicable laws and regulations. In addition, we determined whether management has taken actions to correct the Single Audit findings reported in the prior year.

BOR was created to act as an oversight body for higher education in the State of Louisiana and plan, coordinate, and have budgetary responsibility for all public postsecondary education. Through statewide academic planning and review, budgeting and performance funding, research, and accountability, BOR coordinates the efforts of the state's 33 degree-granting public institutions in addition to the Louisiana State University and Southern University Agricultural Centers and the Pennington Biomedical Research Center. BOR also serves as the State liaison to Louisiana's accredited, independent institutions of higher learning. While not involved in overseeing the day-to-day operations of college campuses, BOR is responsible for setting important statewide standards, including minimum admissions requirements. BOR represents the public higher education community before all branches of government and the public.

Results of Our Procedures

Follow-up on Prior-year Findings

Our auditors reviewed the status of the prior-year Single Audit findings reported in the BOR management letter dated July 19, 2017. We determined that management has resolved the prior-year Single Audit finding related to Indirect Costs not Reported on the SEFA. The prior-year Single Audit findings related to Noncompliance with Subrecipient Monitoring Requirements and Weaknesses in Controls over Cash Management Requirements have not been resolved and are addressed again in this letter.

Current-year Findings

Noncompliance with Subrecipient Monitoring Requirements

For the second consecutive fiscal year, BOR did not adequately monitor subrecipients of Federal Research and Development (R&D) Cluster programs. Failure to properly monitor subrecipients results in noncompliance with Federal regulations and increases the likelihood of disallowed costs that may have to be returned to the Federal grantor.

Audit procedures identified the following:

- BOR did not have controls in place to ensure that required audits were completed within nine months of the end of the subrecipient's audit period; a management decision on audit findings was issued within six months after receipt of the subrecipient's audit report; the subrecipient took timely and appropriate corrective action on all audit findings; or a certification from the subrecipient was obtained indicating that an audit was not required. For three (19%) of BOR's 16 subrecipients, BOR was unable to provide evidence that BOR ensured the subrecipient's required audit was completed or verified with the subrecipient that no audit was required.
- BOR did not adequately evaluate each subrecipient's risk of noncompliance for the purpose of determining the appropriate subrecipient monitoring related to the subaward. Federal regulations state that the pass-through entities must evaluate each subrecipient's risk of noncompliance with Federal statutes, regulations, and the terms and conditions of the subaward for purposes of determining the appropriate monitoring of the subrecipient. BOR indicated that its evaluation was based on the amount awarded by BOR to the subrecipient. A risk assessment based solely on the amount of the award is insufficient as it does not consider factors specific to the subrecipient.
- BOR did not adequately monitor required financial and programmatic reports prior to payments made to subrecipients. In a test of 15 R&D Cluster accounts with subrecipient payments, BOR improperly reimbursed two (13%) subrecipients \$36,675 before required reports were obtained and reviewed. BOR indicated that its policies related to subrecipient monitoring do not allow payments to be made when required reports are outstanding. These reports were later obtained and reviewed by BOR.

BOR management should implement internal controls to ensure that subrecipients meet audit requirements; review of subrecipient audit reports are performed timely; management decision letters are issued on applicable audit findings; and management is evaluating subrecipient risk of noncompliance to determine the level of monitoring required. In addition, BOR management should ensure that subrecipients submit all financial and programmatic reports timely and that sufficient monitoring activities occur prior to making payments to subrecipients. Management concurred with the finding and provided a corrective action plan (see Appendix A, pages 1-2).

Weakness in Controls over Cash Management Requirements

For the second consecutive fiscal year, BOR did not have adequate controls in place to ensure compliance with cash management requirements for the R&D Cluster programs. One employee is assigned the responsibilities of preparing and submitting the draw request for Federal funds without an independent review. These procedures, as designed, would not detect errors or fraud that could occur when preparing the draw request. Failure to implement sufficient controls over cash management could result in BOR requesting reimbursement for expenses not incurred prior to the request and place BOR in noncompliance with Federal regulations.

Federal regulations require that non-Federal entities receiving Federal awards establish and maintain internal control designed to reasonably ensure compliance with Federal statutes, regulations, and the terms and conditions of the Federal award.

BOR should design and implement controls, such as review and approval of Federal drawdown requests prior to the request of funds, sufficient to ensure compliance with cash management requirements. Management concurred with the finding and provided a corrective action plan (see Appendix A, page 3).

Weakness in Controls over Federal Reporting Requirements

BOR did not have a review process in place to ensure that financial reports are accurate prior to being submitted to the Federal agency. We selected a sample of three R&D Cluster awards with Federal reporting requirements during fiscal year 2017. For all three awards tested, BOR did not have a review process established to ensure the accuracy of the information being submitted to the Federal agency. For two awards, the reports were completed on Federal Standard Form 425 (SF425), while the remaining award reported via the Program Income Reporting Worksheet.

Federal regulations require that non-Federal entities receiving Federal awards establish and maintain internal control designed to reasonably ensure compliance with Federal statutes, regulations, and the terms and conditions of the Federal award. According to the employee responsible for compiling the Federal reports, procedures are not in place to review the accuracy of information entered on the reports prior to submission to the Federal agency. Failure to set prescribed controls over financial reporting could result in the financial information being reported inaccurately and place BOR in noncompliance with Federal regulations.

BOR should design and implement controls, such as a review of the report by someone other than the compiler of the report, to ensure all information contained in the financial reports submitted to Federal agencies is accurate. Management concurred with the finding and provided a corrective action plan (see Appendix A, page 4).

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 BOR's major Federal program, as follows:

- Research and Development Cluster

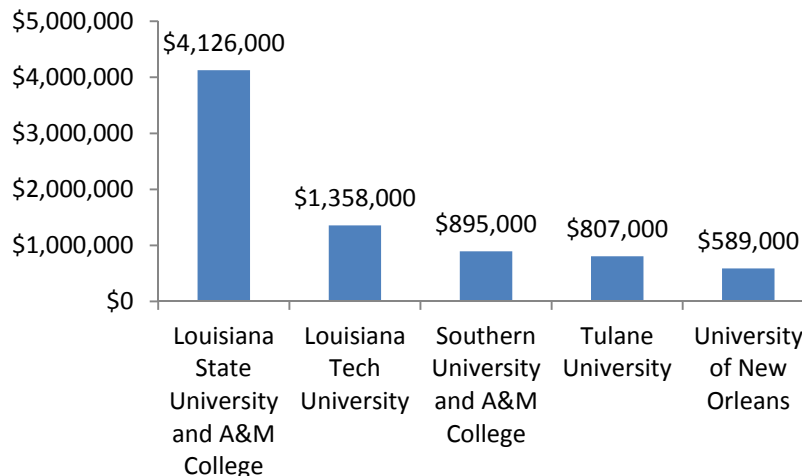
Those tests included evaluating the effectiveness of BOR's internal controls designed to prevent or detect material noncompliance with program requirements and tests to determine whether BOR complied with applicable program requirements. In addition, we performed procedures on the status of the prior-year findings for the preparation of the State's Summary Schedule of Prior Audit Findings.

Based on the results of these Single Audit procedures, we reported findings related to Noncompliance with Subrecipient Monitoring Requirements, Weakness in Controls over Cash Management Requirements, and Weakness in Controls over Federal Reporting Requirements. These findings will also be included in the Single Audit for the year ended June 30, 2017. In addition, information submitted for the preparation of the State's Summary Schedule of Prior Audit Findings, as adjusted, are materially correct.

Trend Analysis

We compared the most current and prior-year financial activity using BOR's Annual Fiscal Reports and/or system-generated reports and obtained explanations from BOR management for any significant variances. We also prepared a summary of BOR's R&D Cluster subrecipients who received more than \$500,000 from BOR during fiscal year 2017. As shown below, the majority of BOR's R&D Cluster subrecipient payments are made to the state's public higher education institutions.

Exhibit 1
BOR R&D Cluster Payments to Subrecipients during FY17



Source: BOR Contract Database

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

Daryl G. Purpera, CPA, CFE
Legislative Auditor

JO:JT:BH:EFS:aa

BOR 2017-2

APPENDIX A: MANAGEMENT'S RESPONSES

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Marty J. Chabert
Vice Chair

Collis B. Temple III
Secretary

Joseph C. Rallo, Ph.D.
Commissioner of
Higher Education



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Sonia A. Pérez
Wilbert D. Pryor
T. Jay Seale III
Jacqueline V. Wyatt
Adarian D. Williams, Student

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February 20, 2018

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

RE: Noncompliance with Subrecipient Monitoring Requirements

Dear Mr. Purpera:

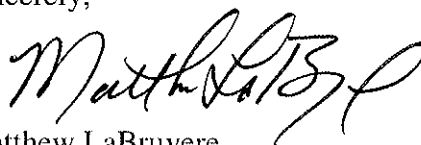
The Board of Regents (BOR) concurs with the finding titled "Noncompliance with Subrecipient Monitoring Requirements." The BOR began working on subrecipient monitoring procedures described in BOR management's response to the Legislative Auditor's Management Letter issued February 15, 2017 and will continue to implement the additional procedures listed below:

- After the prior finding from FY 2016, the Finance audit team began reviewing FY 2017 Single Audits for subrecipients. Since presenting the corrective action plan in February 2017, the subrecipient audits and any findings are tracked via a spreadsheet. This is used to determine if a subrecipient requires a management decision letter and/or further monitoring. This will ensure all management decision letters are issued timely for the FY 2017 and all subsequent fiscal year Single Audit reports.
- The BOR staff will perform subrecipient risk assessments to determine risk of non-compliance and assign the appropriate level of monitoring to subrecipients. The BOR subrecipient risk assessments will consider the subrecipients' prior experience with the similar subawards, results of previous audits, changes in personnel or systems, and results of Federal awarding agency monitoring. Implementing these additional risk assessment procedures will ensure compliance with 2 CFR 200.331(b) requirements for pass-through entities.
- The BOR is reviewing ways to ensure reports are verified by two individuals prior to the payment approval. Each verification will be recorded with initials of each reviewer and the date the verification was performed. Sponsored Programs personnel will be notified of the procedure change via email. Implementing this additional procedure will ensure payments are not made prior to submission and review of contract deliverables.

The staff responsible for the implementation of these corrective actions are Jessica Patton, Federal Programs Manager, and Elizabeth K. Bourgeois, Assistant Commissioner for Audit and Compliance. These corrective actions will be implemented by May 31, 2018.

We appreciate the cooperation and diligence of your staff during the course of this audit.

Sincerely,

A handwritten signature in black ink, appearing to read "Matthew LaBruyere". The signature is fluid and cursive, with the first name "Matthew" being the most prominent part.

Matthew LaBruyere
Associate Commissioner for Finance and Administration

Robert W. Levy
Chair

Marty J. Chabert
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RE: Weakness in Controls Over Cash Management Requirements

Dear Mr. Purpera:

The Board of Regents (BOR) concurs with the finding titled “Weakness in Controls Over Cash Management Requirements” for the audit period ending June 30, 2017.

The BOR has amended the grants drawdown procedures to include a supervisor review. This will provide an additional level of review to detect any errors or fraud that could occur when preparing the draw request.

The staff responsible for the implementation of these corrective actions are Annette Dalton, Federal Grants Officer, and Brett Hunt, Director of Finance and Accounting. This corrective action was implemented February 1, 2018 and all draw requests since have been prepared by the Grants Officer and reviewed and signed by The Director of Finance and Accounting.

We appreciate the cooperation and diligence of your staff during the course of this audit.

Sincerely,

Brett Hunt
Director of Finance and Accounting

Robert W. Levy
Chair

Marty J. Chabert
Vice Chair

Collis B. Temple III
Secretary

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February 20, 2018

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

RE: Weakness in Controls Over Federal Reporting Requirements

Dear Mr. Purpera:

The Board of Regents (BOR) concurs with the finding titled "Weakness in Controls Over Federal Reporting Requirements" for the audit period ending June 30, 2017.

The BOR has amended the Federal reporting procedures to include a supervisor-level review. These controls will ensure that financial information is being reported accurately and will place Board of Regents in compliance with federal regulations.

The staff responsible for the implementation of these corrective actions are Annette Dalton, Federal Grants Officer, and Brett Hunt, Director of Finance and Accounting. This corrective action was implemented February 1, 2018 and all federal reporting going forward will be prepared by the Grants Officer and reviewed and signed by The Director of Finance and Accounting.

We appreciate the cooperation and diligence of your staff during the course of this audit.

Sincerely,

A handwritten signature in blue ink that reads "Brett Hunt". The signature is written in a cursive style.

Brett Hunt
Director of Finance and Accounting

APPENDIX B: SCOPE AND METHODOLOGY

We performed certain procedures at the Louisiana Board of Regents (BOR) for the period from July 1, 2016, through June 30, 2017, 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 Single Audit of the State of Louisiana (Single Audit) for the year ended June 30, 2017.

- We evaluated BOR'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 BOR.
- We performed procedures on the Research and Development Cluster of Federal programs for the year ended June 30, 2017, as a part of the 2017 Single Audit.
- We performed procedures 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, 2017, as a part of the 2017 Single Audit.
- We compared the most current and prior-year financial activity using BOR's Annual Fiscal Reports and/or system-generated reports to identify trends and obtained explanations from BOR's management for significant variances.

The purpose of this report is solely to describe the scope of our work at BOR and not to provide an opinion on the effectiveness of BOR'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 BOR's Annual Fiscal Report, and accordingly, we do not express an opinion on that report. BOR's accounts are an integral part of the State of Louisiana's CAFR, upon which the Louisiana Legislative Auditor expresses opinions.