

STATE OF LOUISIANA LEGISLATIVE AUDITOR

Grambling State University
Grambling, Louisiana

September 25, 2002



Investigative Audit

Daniel G. Kyle, Ph.D., CPA, CFE
Legislative Auditor

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Grambling State University

September 25, 2002



**Investigative Audit
Office of the Legislative Auditor
State of Louisiana**

**Daniel G. Kyle, Ph.D., CPA, CFE
Legislative Auditor**

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OFFICE OF
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September 25, 2002

DR. NEARI FRANCOIS WARNER
ACTING PRESIDENT
GRAMBLING STATE UNIVERSITY
Grambling, Louisiana

Transmitted herewith is our investigative report on Grambling State University. Our examination was conducted in accordance with Title 24 of the Louisiana Revised Statutes and was performed to determine the propriety of certain allegations received by this office.

This report presents our findings and recommendations, as well as your response. Copies of this report have been delivered to the University of Louisiana System; the Board of Regents for Higher Education; the Honorable Robert W. Levy, District Attorney for the Third Judicial District of Louisiana; the Honorable Donald W. Washington, United States Attorney for the Western District of Louisiana; and other authorities as required by state law.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Daniel G. Kyle".

Daniel G. Kyle, CPA, CFE
Legislative Auditor

SED:SLC:DGP:d1

[GSU02]

Executive Summary

Investigative Audit Report Grambling State University

Highlights . . .

Ms. Ruby Franklin diverted \$35,512 from GSU ticket sales to an unauthorized bank account.

Of the \$35,512, Ms. Franklin personally received \$31,005.

Because of missing records and inadequate internal controls, we could not determine the amount of proceeds actually collected by GSU for sporting events.

A prepared bank deposit totaling \$1,821 is missing from the cashier's office and was not deposited.

Findings (See pages 7 through 9.)

Diverted Ticket Money

During the period July 27, 1998, through August 31, 2001, \$35,512 was diverted from Grambling State University (GSU) ticket sales to an unauthorized bank account in the name of GSU Baptist Student Union. Ms. Ruby Franklin, former GSU athletic department employee, admitted that she obtained checks from the GSU athletic department made payable to GSU for ticket sales and deposited those checks into the GSU Baptist Student Union bank account, which she controlled. Ms. Franklin stated that she used the money from this unauthorized bank account for personal purposes and to support the Baptist Student Union. Records of the Baptist Student Union show that checks totaling \$31,005 were made payable directly to Ms. Franklin. The remaining checks totaling \$4,507 were payable to vendors and employees of the Baptist Student Union.

In addition, because of missing records and inadequate internal controls, GSU cannot determine the amount of proceeds actually collected by the athletic department for sporting events and related activities nor can GSU determine whether all of these proceeds were actually deposited into bank accounts controlled by GSU.

Missing Bank Deposit

A bank deposit prepared by the cashier's office totaling \$1,821 is missing and was not deposited into GSU's bank account. Records indicate that on May 1, 2002, Officer Warren Jackson, a GSU police officer, signed a log indicating he took possession of two bank bags. Officer Jackson was responsible for placing the bank bags into the night depository at the bank. Officer Jackson stated that he

placed the bags into the night depository. According to bank personnel, the bank received only one bank bag. The remaining bank bag is missing.

Recommendations (See page 11.)

We recommend that Grambling State University implement and enforce policies and procedures to ensure that all funds collected are deposited properly and used for their intended purposes. These procedures, at a minimum, should require the following:

GSU should implement and enforce policies and procedures to ensure that all funds collected are deposited properly.

1. Proper segregation of duties should be performed so that individuals collecting money from ticket transactions are not responsible for preparing deposits.
2. Proper documentation of ticket receipts and deposits should be maintained to ensure that all mailed in receipts and checks are consistently recorded in the mail order log and the check log. The ticket deposit should also identify all cash receipts per the cash receipts book.
3. The checks and money orders listed in the mail order log and the check log should be reconciled to the ticket deposits. Cash receipts per the cash receipts book should be reconciled to the ticket deposits.
4. Each day's collections should be deposited in tact in the same combination as received.
5. Proper oversight by supervisors should be provided to ensure that ticket deposits contain all documentation to fully explain and support each day's collections, deposits, and number of tickets issued.
6. Two employees should be required to accompany deposits to the bank.

Finally, we recommend that the District Attorney for the Third Judicial District of Louisiana and the United States Attorney for the Western District of Louisiana review this information and take appropriate legal action, to include seeking restitution.

Management's Response (*See Attachment I.*)

Management concurs with the findings and has implemented new procedures that will substantially minimize the risk of reoccurrence in the future.

Background and Methodology

Grambling State University (GSU) is a publicly supported university under the management and supervision of the Board of Supervisors of the University of Louisiana System. The annual budget of the university and changes to the degree programs, departments of instruction, et cetera, require the approval of the Board of Regents for Higher Education. As a state university, operations of the university's instructional programs are funded through annual lapsing appropriations made by the Louisiana Legislature.

GSU is located in Grambling, Louisiana, and serves as a cultural and educational center for north Louisiana. The university offers associate, baccalaureate, and selected masters and specialist degrees in the areas of liberal arts, education, business administration, and sciences and science-related technologies, nursing, and social work.

The athletic department and bursar's office at GSU discovered certain improprieties within the university and as a result, the university notified the Legislative Auditor. We performed this investigative audit to determine the propriety of the allegations.

The procedures performed during this investigative audit consisted of (1) interviewing employees and officials of GSU; (2) interviewing other persons as appropriate; (3) examining selected university records; (4) performing observations and analytical tests as deemed appropriate; and (5) reviewing applicable state and federal laws and regulations.

The results of our investigation are the findings and recommendations herein.

Findings

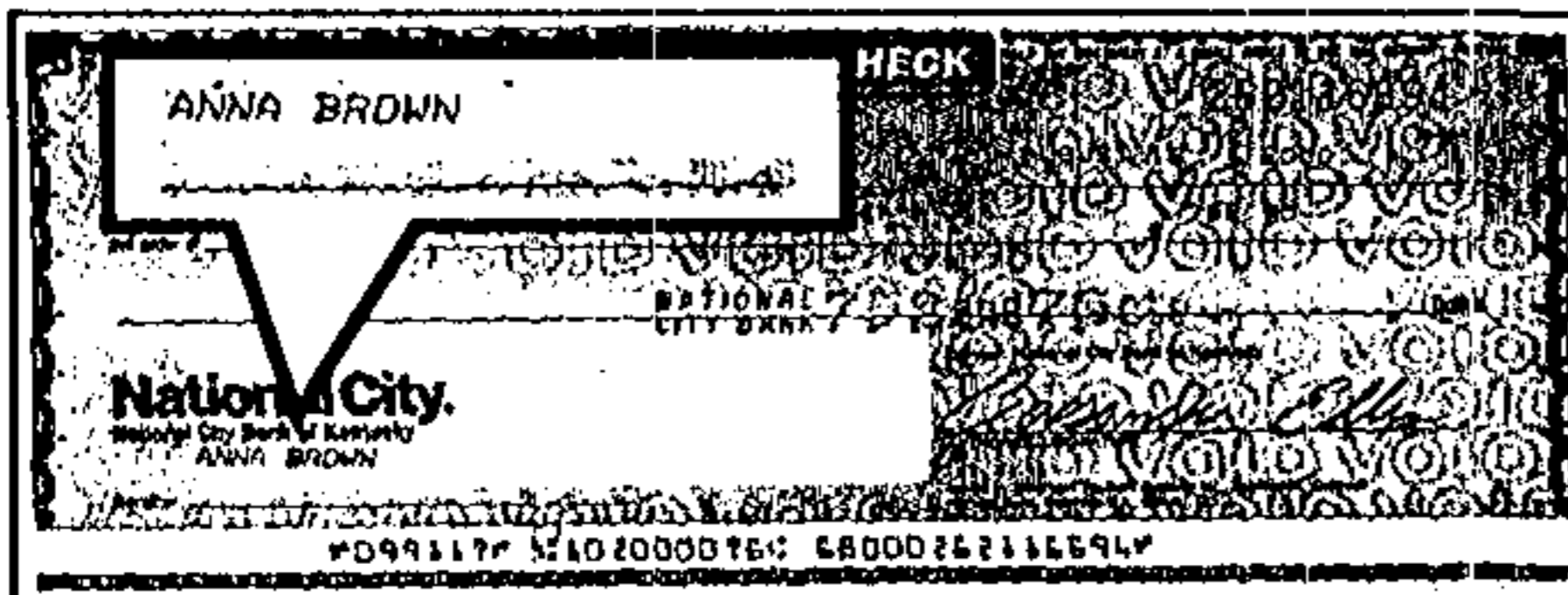
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During the period July 27, 1998, through August 31, 2001, \$35,512 was diverted from Grambling State University (GSU) ticket sales to an unauthorized bank account in the name of GSU Baptist Student Union. Ms. Ruby Franklin, former GSU athletic department employee, admitted that she obtained checks from the GSU athletic department made payable to GSU for ticket sales and deposited those checks into the GSU Baptist Student Union bank account, which she controlled. Ms. Franklin stated that she used the money from this unauthorized bank account for personal purposes and to support the Baptist Student Union. Records of the Baptist Student Union show that checks totaling \$31,005 were made payable directly to Ms. Franklin. The remaining checks totaling \$4,507 were payable to vendors and employees of the Baptist Student Union.

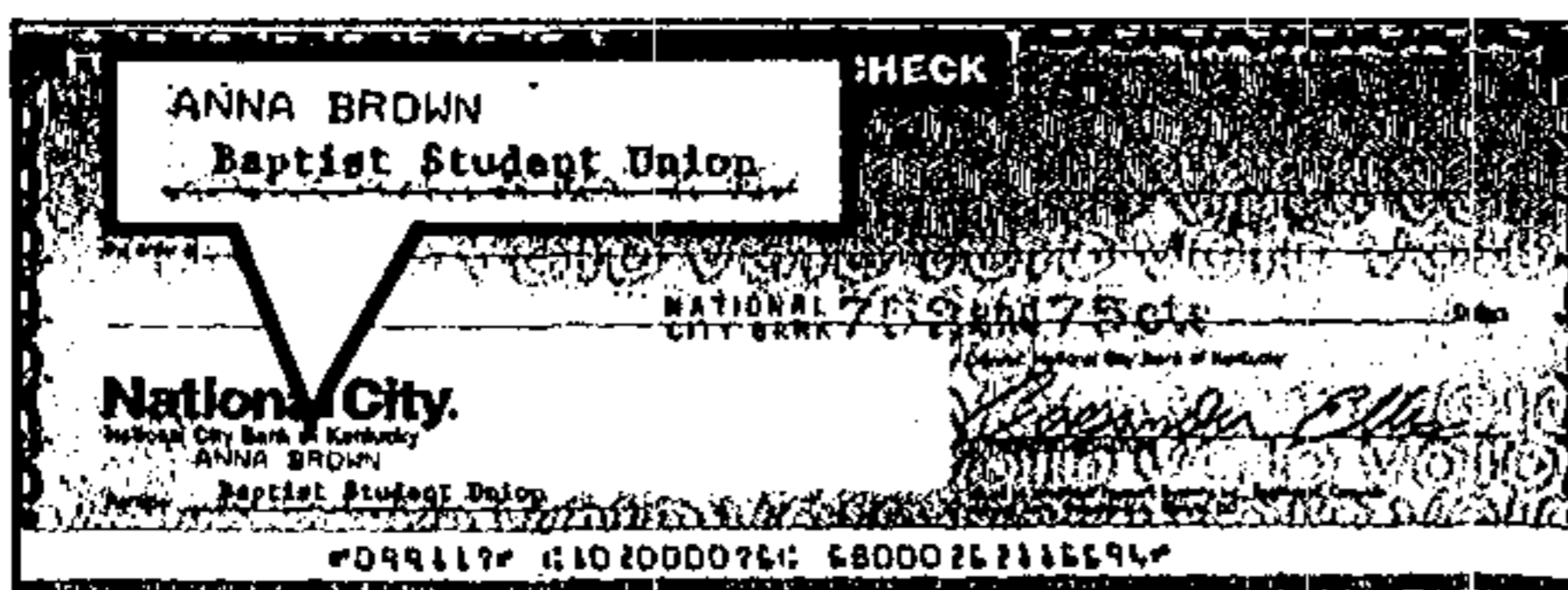
In addition, because of missing records and inadequate internal controls, GSU cannot determine the amount of proceeds actually collected by the athletic department for sporting events and related activities nor can GSU determine whether all of these proceeds were actually deposited into bank accounts controlled by GSU.

On July 27, 1998, Ms. Franklin opened a bank account at the Lincoln Community Federal Credit Union in the name of the Grambling State University Baptist Student Union. Ms. Franklin did not obtain authorization from GSU to open this account. At that time, Ms. Franklin was the sponsor for the Baptist Student Union and an employee of the GSU athletic department responsible for ticket sales.

Ms. Franklin opened a bank account that was not authorized by GSU and then diverted athletic department funds to that account.



Original Money Order



Altered Money Order

During the period July 27, 1998, through August 31, 2001, 64 checks and money orders totaling \$35,512 made payable to the athletic department or GSU were diverted into the unauthorized bank account.

Ms. Franklin admitted that she obtained checks and money orders from GSU for ticket sales and deposited those checks into the GSU Baptist Student Union bank account. In some cases, Ms. Franklin altered the checks and money orders by adding "BSU" or "Baptist Student Union" to the check or money order (see example at left). Bank records show that on 56

occasions Ms. Franklin withdrew money from the account in the form of credit union checks. These checks were made payable to either herself (Franklin) or a vendor. On each of the 56 occasions, Ms. Franklin was required by the bank to sign a withdrawal slip.

According to Ms. Franklin, she used the diverted funds to assist her elderly parents with medical bills and for Baptist Student Union activities. The checks made payable to Ms. Franklin totaled \$31,005. The remaining \$4,507 were made payable to vendors and employees of the Baptist Student Union and may have been for Baptist Student Union activities.

Total Diverted Funds	
Personal Use	\$31,005
Baptist Student Union	<u>4,507</u>
Total Missing	<u>\$35,512</u>

By diverting GSU funds into an unauthorized account and then using those funds for personal or any unauthorized reasons, Ms. Franklin may have violated one or more of the following Louisiana laws:

- R.S. 14:67, "Theft"¹
- R.S. 14:68, "Unauthorized Use of a Movable"²
- R.S. 14:134, "Malfeasance in Office"³
- 18 U.S.C. §1341, "Mail Fraud"⁴

The actual determination as to whether this individual is subject to formal charge is at the discretion of the district attorney.

Because of missing records and inadequate internal controls, GSU cannot determine the amount of proceeds actually collected for sporting events nor can GSU determine whether all of these proceeds were actually deposited. The Louisiana Public Records Law⁵ states, in part, that all public records in the custody or control of a public body shall be preserved and maintained for a period of at least three years from the date on which the public record was created.

A lack of segregation of duties exists because employees are allowed to collect money, record ticket transactions, and prepare deposits. Deposit records do not contain adequate and appropriate supporting information to ensure that all collections are accounted for properly. In

¹ R.S. 14:67 provides, in part, that theft is the misappropriation or taking of anything of value which belongs to another, either without the consent of the other to the misappropriation or taking, or by means of fraudulent conduct, practices, or representations.

² R.S. 14:68 provides, in part, that unauthorized use of a movable is the intentional taking or use of a movable which belongs to another, either without the other's consent, or by means of fraudulent conduct, practices, or representations, but without any intention to deprive the other of the movable permanently.

³ R.S. 14:134 provides, in part, that malfeasance in office is committed when any public officer or public employee shall (1) intentionally refuse or fail to perform any duty lawfully required of him, as such officer or employee; (2) intentionally perform any such duty in an unlawful manner; or (3) knowingly permit any other public officer or public employee, under his authority, to intentionally refuse or fail to perform any duty lawfully required of him or to perform any such duty in an unlawful manner.

⁴ 18 U.S.C. §1341 provides, in part, that mail fraud is having devised or intended to devise any scheme to defraud, or for obtaining money or property by means of false or fraudulent pretenses, representations, or promises for the purpose of executing such scheme or attempting so to do, places in any post office or authorized depository for mail matter, any matter or thing whatever to be sent or delivered by the Postal Service, or takes or received therefrom, any such matter or thing, or knowingly causes to be delivered by mail according to the direction thereon.

⁵ R.S. 44:36

addition, adequate reconciliations between the various logs and accounting records are not performed to ensure that all funds are deposited.

Missing Bank Deposit

A bank deposit prepared by the cashier's office totaling \$1,821 is missing and was not deposited into GSU's bank account. Records indicate that on May 1, 2002, Officer Warren Jackson, a GSU police officer, signed a log indicating he took possession of two bank bags. Officer Jackson was responsible for placing the bank bags into the night depository at the bank. Officer Jackson stated that he placed the bags into the night depository. According to bank personnel, the bank received only one bank bag. The remaining bank bag is missing.

Policies in place at GSU require an "adequate escort" by GSU police to transport deposits to the bank. GSU's records indicate that on May 1, 2002, Officer Jackson received two bank bags from the cashier's office that were to be placed in the bank's night depository. The bank processed a deposit five days later on May 6, 2002, representing the funds recorded by the cashier's office in one of the bank bags. According to the cashier's office, the remaining bank bag contained \$1,821 and is missing. This missing deposit consisted of one check for \$1,058 and cash totaling \$763.

The bank's policy requires that bank personnel remove and process the deposits from the night depository immediately in the mornings. Deposits placed in the night depository over the weekend are processed on Monday mornings. Therefore, according to bank policy, had both deposits been placed in the night depository on Wednesday, May 1, 2002, the bank would have processed them on the morning of Thursday, May 2, 2002, not on Monday, May 6, 2002.

GSU's police dispatch log for May 1, 2002 indicates that personnel from the cashier's office called for an officer to make a deposit at 5:10 p.m. The next entry indicates that Officer Jackson left for the bank from campus at 5:16 p.m.; however, there is no entry indicating Officer Jackson reported that he was returning from the bank. Officer Jackson stated that he reported to his supervisor that he had made the deposit and was returning from the bank. However, his supervisor, Officer Patricia Cato, stated that she is not certain that Officer Jackson reported to her that he completed the deposit and was returning from the bank because she had left the office to respond to a fight. When asked to explain the missing deposit, Officer Jackson stated that he placed both bank bags into the night depository. He further explained that if a bag is missing it's due to a bank conspiracy.

Recommendations

We recommend that Grambling State University implement and enforce policies and procedures to ensure that all funds collected are deposited properly and used for their intended purposes. These procedures, at a minimum, should require the following:

1. Proper segregation of duties should be performed so that individuals collecting money from ticket transactions are not responsible for preparing deposits.
2. Proper documentation of ticket receipts and deposits should be maintained to ensure that all mailed in receipts and checks are consistently recorded in the mail order log and the check log. The ticket deposit should also identify all cash receipts per the cash receipts book.
3. The checks and money orders listed in the mail order log and the check log should be reconciled to the ticket deposits. Cash receipts per the cash receipts book should be reconciled to the ticket deposits.
4. Each day's collections should be deposited in tact in the same combination as received.
5. *Proper oversight by supervisors should be provided to ensure that ticket deposits contain all documentation to fully explain and support each day's collections, deposits, and number of tickets issued.*
6. Two employees should be required to accompany deposits to the bank.

Finally, we recommend that the District Attorney for the Third Judicial District of Louisiana and the United States Attorney for the Western District of Louisiana review this information and take appropriate legal action, to include seeking restitution.

Attachment I

Management's Response



Grambling State University

OFFICE OF THE PRESIDENT

Grambling, Louisiana 71245

P.O. DRAWER 607

August 30, 2002

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Dr. Daniel G. Kyle, CPA, CFE
Office of the Legislative Auditor
State of Louisiana
1600 North Third Street
Baton Rouge, LA 70804-9397

Dear Dr. Kyle:

In response to the Legislative Auditor's Investigative Report on "Diverted Ticket Money and Missing Bank Deposit," the following response is submitted:

Grambling State University concurs with the findings noted in the aforementioned report. The University immediately implemented new procedures that are consistent with your office's recommendations that will substantially minimize the risk of reoccurrence in the future.

- The ticket office has been reorganized, additional staff has been hired and duties have been segregated.
- The Athletic Director (AD) has installed a supervisory review system of our Ticketmaster office.
- The ticket purchase log has been reassigned to an employee who does not have the capabilities of issuing tickets.
- The mail order log is prepared by the AD's secretary with a copy forwarded to the ticket office and a copy retained in the AD's office.
- The bursar is escorted by university police to the bank rather than university police taking the deposits alone.

The University would like to thank your office for your expeditious response and follow-up to our notification of these possible improprieties.

Sincerely,

Neari F. Warner
Acting President

NFW:jj