GRAMBLING STATE UNIVERSITY
UNIVERSITY OF LOUISIANA SYSTEM
STATE OF LOUISIANA

MANAGEMENT LETTER
ISSUED JUNE 23, 2010

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

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LOUISIANA LEGISLATIVE AUDITOR
DARYL G. PURPERA, CPA, CFE

May 26, 2010

GRAMBLING STATE UNIVERSITY
UNIVERSITY OF LOUISIANA SYSTEM
STATE OF LOUISIANA
Grambling, Louisiana

As part of our audit of the University of Louisiana System's financial statements for the year ended June 30, 2009, we considered Grambling State University's internal control over financial reporting; we examined evidence supporting certain accounts and balances material to the System's financial statements; and we tested the university's compliance with laws and regulations that could have a direct and material effect on the System's financial statements as required by *Government Auditing Standards*.

The Annual Fiscal Report of Grambling State University is not audited or reviewed by us, and, accordingly, we do not express an opinion on that report. The university's accounts are an integral part of the University of Louisiana System's financial statements, upon which the Louisiana Legislative Auditor expresses an opinion.

In our prior audit report on Grambling State University for the year ended June 30, 2008, we reported findings relating to an inaccurate annual fiscal report; control weaknesses over information technology; unlocated movable property; failure to obtain written, signed contracts; control weaknesses over athletic revenues; inadequate collection efforts over accounts receivables; and untimely repayment of travel advances. The findings relating to control weaknesses over information technology and untimely repayment of travel advances have been resolved by management. Our review report issued on September 23, 2009, included the following findings, three of which were repeat findings from our 2008 report:

Unlocated Movable Property - repeat
Athletic Revenue Control Weaknesses - repeat
Failure to Obtain Written, Signed Contracts - repeat
Failure to Timely Submit Reports to the Board of Regents

The findings relating to inaccurate annual financial report and inadequate collection efforts over accounts receivables are addressed again in this letter.

Based on the application of the procedures referred to previously, all significant findings are included in this letter for management's consideration. All findings included in this management letter that are required to be reported by *Government Auditing Standards* have also been included in the State of Louisiana's Single Audit Report for the ended June 30, 2009.

Inaccurate Annual Financial Report

For the third consecutive year, Grambling State University (university) did not compile an accurate Annual Fiscal Report (AFR). As authorized by Louisiana Revised Statute (R.S.) 39:79, the commissioner of administration through the Division of Administration's Office of Statewide Reporting and Accounting Policy (OSRAP) prescribes the content and format for the preparation of the university's AFR, which is then submitted to the Office of Legislative Auditor for audit and to the University of Louisiana System (System) office for inclusion in the AFR for the System. To maintain the university's accreditation with the Southern Association of Colleges and Schools (SACS), it was required to provide SACS with a review report on its AFR by the middle of September. To comply with this requirement, the university submitted its AFR to auditors for review earlier than the prescribed deadline established by the System.

Good internal control and sound business practices require that (1) accounting records and reports reflect all financial transactions incurred by an entity for the reporting cycle, (2) subsidiary records be routinely reconciled to control records for consistency, and (3) reports be reviewed by competent members of management for accuracy and compliance with applicable requirements.

A review of the university's AFR for the fiscal year ended June 30, 2009, disclosed the following errors which resulted in significant adjustments to the financial statements:

- Management inaccurately classified net assets resulting in a net overstatement of restricted expendable net assets and a net understatement of unrestricted net assets totaling $2,093,387 on its Statement of Net Assets (SNA). The correction of these errors also required a related adjustment to the note disclosure for restricted net assets.

- Management overstated the noncurrent liability for other postemployment benefits by $77,657 on the SNA which also resulted in overstatements to several operating expense accounts on the Statement of Revenues, Expenses, and Changes in Net Assets (SRECNA) and an understatement of unrestricted net assets.

- Management overestimated the current portion of compensated absences by $329,964 causing an overstatement of the current portion of compensated absences and an understatement of the noncurrent portion of compensated absences. This also required adjustment to the related note disclosures for compensated absences and long-term liabilities.

- Management incorrectly used $6,915,275 of contract revenues to reduce the related expenses, resulting in the understatement of auxiliary revenues and expenses by $5,587,817 and of state and local grants and contract revenues and academic support expenses by $1,327,458 on the SRECNA.

- Management incorrectly classified $377,895 of Federal Supplemental Educational Opportunity Grant revenues resulting in an overstatement of federal grants and contract revenues and an understatement of federal nonoperating revenues on the SRECNA.

- Management incorrectly classified $2,587,558 resulting in the overstatement of operations and maintenance of plant expenses and the understatement of loss on disposal of capital assets on the SRECNA.

- Management implemented a new automated reporting module in its financial reporting system and did not map $669,270 of expenses to the correct expense accounts, resulting in the overstatement of institutional support expenses and the understatement of operations and maintenance of plant expenses on the SRECNA.

- Management did not use the correct beginning net assets balance on the SRECNA, resulting in an overstatement of beginning net assets and auxiliary expenses of $44,356.

Seven different versions of the Statement of Cash Flows (SCF) were provided by management to the auditors. While some of the errors noted above resulted in adjustments to the SCF, other errors in the numerous revisions required additional adjustments. The following is a summary of errors of $1 million or more in the initial SCF provided to the auditors, which required subsequent audit and/or agency adjustments:

- Grants and contracts were overstated by $10,003,937.

- Auxiliary enterprise receipts were understated by $5,588,417.

- Payments for employee compensation were understated by $1,495,785.

- Payments for supplies and services were understated by $2,931,288.

- Other noncapital financing receipts were understated by $12,706,495.

- Capital appropriations received were overstated by $5,551,284.

- Purchases of capital assets were overstated by $2,963,726.

- Proceeds from sales and maturities of investments were understated by $87,937,420.

- Purchases of investments were overstated by $89,103,916.
- Operating loss was understated by $9,996,924.
- Deferred revenue was understated by $1,378,296.
- Noncash investing, noncapital financing, and capital and related financing transactions were understated by $8,138,842

Other adjustments were also necessary to correct the presentation in the Deposits with Financial Institutions and Investments notes and the Debt Service Reserve note. Investments totaling $28,362,419 were incorrectly reported as having concentrated credit risk. Management failed to disclose $928,047 of deposits that were uninsured and uncollateralized and failed to correctly disclose the interest rate risk for investments totaling $6,837,984. Management did not disclose the $5,370,766 reserve requirement or the $6,000,255 reserves available for maintenance revenue bonds.

Two additional proposed adjusting entries were identified for the financial statements and notes that we did not consider material or significant. The proposed adjusting entries were prepared and presented to management for consideration.

Management of the university does not adequately analyze and adjust the accounts in its accounting system prior to closing the system and preparing its AFR. In addition, supporting schedules and work papers are not prepared and agreed to the supporting accounting records prior to the preparation of the financial statements. As a result, the university's financial information submitted to the auditors for the review engagement and to the System required significant time and effort by the auditors to identify and correct errors which should have been detected by management. Furthermore, failure to timely analyze accounts and identify errors subjects university assets to potential fraud and/or abuse.

Once again, we recommend that university management should immediately begin analyzing and reconciling all accounts and should make all adjustments necessary to the records to reflect current, accurate financial information. In addition, management should develop a compilation process that requires the timely reconciliation of all general ledger accounts to subsidiary or supporting records and schedules. The compilation process should include the performance of analytical procedures and a high level supervisory review of financial information and note disclosures to detect and correct errors in a timely manner before submitting that information to the System and the Louisiana Legislative Auditor. Management concurred with the finding and recommendations and outlined a plan of corrective action (see Appendix A, pages A.1-2).

Inadequate Collection Efforts of Accounts Receivable

For the second consecutive year, the university has not developed and implemented policies and procedures necessary to timely and effectively pursue the collection of funds owed the university by current and former employees and students. In addition, the university has not provided its external collection agencies with complete information in a timely manner to enhance the collection process. Good internal controls and sound business practices dictate that management develop and implement clear and concise written policies and procedures that would allow for the timely recording, aging, billing, and collection of amounts owed the university. University staff should be trained and periodically evaluated to ensure that they are following university policies and procedures. In addition, when payments are not received within a reasonable time, the policies should clearly indicate that the accounts should be turned over to an external collection agency for further collection efforts. Furthermore, the university should transfer all available information to the external collection agency as quickly as possible so it will have the information necessary to maximize its collection efforts.

In March 2009, the university transferred 4,714 accounts totaling $4,495,531 to its collection agency. A review of the university's collection records, procedures, and the 4,714 accounts transferred to the collection agency disclosed the following:

- The university did not adopt a new collection policy until the end of June 2009. Therefore, there was no change in the university's collection procedures for the fiscal year ending June 30, 2009. A review of the policy adopted at the end of June disclosed that it still does not identify specific dates when accounts must be turned over to the external collection agency. The new policy states that if no collection activity has taken place on accounts from the prior semester then the accounts will be turned over for collection after the 14th class day or the last day of registration, whichever is later. However, the policy does not specify how long after the 14th class day or the last day of registration. Delinquent accounts from the spring 2009 semester were not turned over to the collection agency until November 9, 2009, approximately 67 days after the 14th class day which was September 3, 2009, and approximately 80 days after the last day of registration which was August 21, 2009.

- Generally, information provided by the university to its collection agencies consists of primary information such as names, social security numbers, and account balances. Other relevant information on file at the university, such as telephone numbers (including cell phone numbers), permanent addresses, parents' information, references, entrance and exit interview information, etc., should also be provided to the collection agencies. A review of the data transmitted to the collection agency in March 2009 revealed that other relevant information was missing for all 4,714 accounts. In addition, primary information was not provided to the collection agency for 255 accounts totaling $124,468.

- Collection efforts were not consistently applied for former and current employees of the university during fiscal year 2009. At the beginning of the fiscal year, July 1, 2008, 306 current employees owed the university $88,347 and 13 former employees owed the university $12,877 prior to terminating employment and the university had not taken appropriate action to collect amounts from these individuals. In March 2009, efforts were made to collect amounts owed by the former employees and in late May 2009, efforts were made to collect amounts owed from the current employees. As of December 4, 2009, university management has been unable to demonstrate any measurable collection results for its efforts.

University management has not placed sufficient emphasis on collecting all funds due the university. The inconsistency between the various policy statements during the year, the implementation of a new policy which is still unclear as to specifically when accounts are to be transmitted to the collection agency, and management's failure to actively pursue collection of amounts owed the university has created an environment conducive to non-payment. Failure to collect funds owed the university increases the need for additional state support to operate the university in a time when state funds are decreasing and budgets are being reduced. In addition, the failure to pursue collection increases the risk of fraud and abuse.

Again, we recommend that management ensure the implementation of comprehensive policies and procedures that ensure the timely recording, aging, billing, and collection of amounts owed the university. The policies and procedures should clearly indicate when delinquent accounts are to be turned over to a collection agency and should require that all pertinent information on file with the university be transmitted to the collection agency. Management should also monitor and review this function to ensure that the established policies and procedures are followed. Management did not concur with the finding and recommendations stating that it is following its existing policies; however, it is awaiting the approval of the Cash Management Review Board for changes in its policies relating to changes in the collection period. In addition, the university feels that it is providing the information required by the external collection agency (see Appendix A, pages A.3-4).

Additional Comments: As indicated in management's response, it followed existing policies for the year ending June 30, 2009, which were the same policies reported in the prior year finding. While revisions to the existing policies relating to the collection period have been submitted to the Cash Management Review Board for approval, we were unable to identify any measurable improvement in the university's collection efforts for the year ending June 30, 2009. In addition, as described in the finding above, the new policy requires accounts to be turned over for collection after the 14^{th} class day or the last day of registration but is not specific as to how long after the 14^{th} class day or the last day of registration it should be done, which continues to be a weakness in controls even with the revised policy.

Management's response also indicated that the university is providing information required by the external collection agencies. However, the information provided to the auditors by the university indicated that primary information for 255 accounts was not transmitted to the collection agency. Furthermore, we believe that the university should provide all pertinent information that it has on file to the external collection agency, as quickly as possible, to enhance the external collection agency's collection efforts.

Investing in Stocks in Violation of State Law

The university purchased stock valued at $2,606,899 with its plant funds which is not authorized by state law. R.S. 49:327(C) identifies the various types of investment instruments that may be purchased using funds not on deposit with the state treasury. Investing in stocks is not authorized, except when the funds used to purchase the stock are derived from gifts and grants, funds functioning as endowments, or other permanent funds. In addition, the university's Cash Management Policy FCT001 states that all investments will comply with state and federal laws and it also does not list stocks as an authorized investment.

At June 30, 2009, the fair market value of the stock is $1,529,426. The lower market value is primarily the result of market losses. Failure to closely monitor the investment activity of the university's investment broker allowed the broker to purchase the stock with plant funds. As a result, the university is in noncompliance with state law.

Management of the university should implement controls to ensure that the university complies with state law and only invests state funds in investment instruments authorized under state law. The controls should include, at a minimum, that at least two members of management review and approve all investment transactions conducted by its investment broker. Management concurred with the finding and recommendations and outlined a plan of corrective action (see Appendix A, pages A.5-6).

Unsecured Deposits

The university failed to ensure that $928,047 on deposit in five savings accounts was adequately secured as required by state law. R.S. 49:321 requires that funds on deposit in excess of amounts insured by the Federal Deposit Insurance Corporation or any governmental agency insuring banks or other financial institutions must at all times be fully secured from loss.

During fiscal year 2009, the university opened and deposited $840,703 in four new savings accounts and purchased a $250,000 certificate of deposit at the Shreveport Federal Credit Union. In addition, the university opened another savings account at the credit union before fiscal year 2009. At June 30, 2009, the university has $1,178,047 on deposit with the credit union with only $250,000 of National Credit Union Share Insurance Fund (NCUSIF) coverage. The remaining balance of $928,047 was uninsured and uncollateralized and exposed to potential loss.

Management of the university did not adequately monitor its deposits for compliance with R.S. 49:321 and mistakenly believed that each account it opened at the credit union was covered by NCUSIF insurance of up to $250,000. As a result, the university is in violation of state law and has subjected state funds to the risk of loss.

Management of the university should implement procedures to properly monitor its deposits to ensure that all deposits are safeguarded from loss by being properly insured and/or collateralized as required by state law. Management concurred with the finding and recommendations and outlined a plan of corrective action (see Appendix A, page A.7).

The recommendations in this letter represent, in our judgment, those most likely to bring about beneficial improvements to the operations of the university. The varying nature of the recommendations, their implementation costs, and their potential impact on the operations of the university should be considered in reaching decisions on courses of action. The findings relating to the university's compliance with applicable laws and regulations should be addressed immediately by management.

This letter is intended for the information and use of the university and its management, others within the university, and the Louisiana Legislature and is not intended to be, and should not be, used by anyone other than these specified parties. 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

WMS:WJR:BQD:THC:dl

GSU09

Management's Corrective Action Plans and Responses to the Findings and Recommendations

GRAMBLING
STATE UNIVERSITY
GRAMBLING, LOUISIANA

Office of the President

January 25, 2010

Mr. Daryl G. Purpera, CPA, CFE
Temporary Legislative Auditor
Office of the Legislative Auditor
State of Louisiana
1600 North Third Street
Baton Rouge, LA 70804-9397

Dear Mr. Purpera:

RE: Inaccurate Annual Fiscal Report

Grambling State University (GSU) concurs with the findings of the Legislative Auditor related to Inaccurate Annual Fiscal Report (AFR) preparation. We acknowledge that some of these errors occurred in our haste to complete the financial statements within the prescribed deadline (mid September 2009) for the Southern Association of Colleges and Schools (SACS) external review.

We agree with the general concerns as they relate to good internal controls; however, in the spirit of fairness, management would like to recognize GSU's Finance and Accounting staff for their tremendous efforts that notably improved the university's AFR development processes. Since the Fiscal Year 2008 Auditor's review, our Finance Team is recruiting and placing qualified administrators in all positions of authority; formal training sessions are being arranged resulting in improved technical skills to compile and analyze financial statements; accounting policies have been updated and are being followed to affirm sound business practices; and, finally, monthly reconciliation of general ledger accounts to subsidiary supporting records and schedules are being performed.

Nevertheless, our hard work will continue to achieve full compliance within the reporting requirements as set forth by the Office of the Statewide Reporting and Accounting Policy. Corrective actions are as follows:

- The University continues to hire competent staff within the Finance and Accounting service departments which will clearly contribute to our aim to compile accurate financial statements.

- Additional staff development and training opportunities are being aggressively pursued.

- We are working to arrange assistance from external professionals keenly knowledgeable of governmental accounting practices.

- Policies and procedures are being put into place to assure that adjustments are made when necessary, to ensure financial statements and reports reflect generally accepted accounting principles and applicable guidelines.

- The accounting staff is analyzing the financial statements more closely prior to the submission of the reports to the Vice President for Finance and Administration.

These enhanced corrective measures are presently being implemented and we have every confidence that Grambling State University's Finance Team will continue their initiative to compile flawless AFRs. Our contact person is Mr. Daarel Burnette, Vice President for Finance and Administration.

I would like to take this opportunity to thank you and your staff for their continued support and cooperation.

Sincerely,

Frank G. Pogue

Frank G. Pogue, Ph.D.
Interim President

GRAMBLING
STATE UNIVERSITY
GRAMBLING, LOUISIANA

Office of the President

February 11, 2010

Mr. Daryl G. Purpera, CPA
Temporary Legislative Auditor
Office of the Legislative Auditor
State of Louisiana
1600 North Third Street
Baton Rouge, LA 70804-9397

Dear Mr. Purpera:

RE: Inadequate Collection Efforts of Accounts Receivable

Management does not concur with the Auditor's opinions that inadequate collection efforts were made to collect account receivables owed to the University.

- The University is following existing approved policies during the year ending June 2009 that requires turning over account receivables to the Department of Justice on an 18 month cycle. The updated collection policy, which changes the collection period, is pending the approval of the Cash Management Review Board. Upon approval, the University will begin using the 14th class day after the last registration date to turn over outstanding accounts to the external collection agency. In anticipation of the new policy being approved by the Cash Management Board, the University is seeking collections of the debts owed in a timely manner. On November 9, 2009, the institution turned over 1,749 student accounts to an external collection agency and has mailed debt notification letters to 100 former and current employees. These settlement letters to former and current employees give the options of presenting the debt owed to an appeals committee or paying the outstanding account receivable by cash, check, credit card, or payroll deduction within five business days. After the fifth business day, all unsettled accounts are turned over to the Department of Justice for collection purposes.

- The University is providing the criteria as specified by the external collection agency, which encompasses the name, social security numbers and account balances. To date, the University has not received any inquiries from the external collection agency for additional information. The suggested information, such as cell phones are not given upon entrance into the institution and parental location data is not required if a student is independent or is not receiving financial aid assistance. The auditor's reference of collecting and providing other relevant data is subject to opinion. In all cases, the data required by the external collection agency is being provided for identification purposes (i.e., names, social security numbers and account balances).

P.O. Drawer 607 • 403 Main • Grambling, LA 71245 • Office: (318) 274-6117 • Fax: (318) 274-6172 • www.gram.edu

The Vice President for Finance and Administration, Controller and key managers in the Division of Finance are committed to collecting outstanding accounts receivables.

If you have any questions, please contact Mr. Daarel E. Burnette, Vice President for Finance and Administration.

Sincerely,

Frank G. Pogue
Interim President

GRAMBLING
STATE UNIVERSITY
GRAMBLING, LOUISIANA

Office of the President

December 18, 2009

Mr. Daryl G. Purpera, CPA, CFE
Temporary Legislative Auditor
Office of the Legislative Auditor
State of Louisiana
1600 North Third Street
Baton Rouge, LA 70804-9397

Dear Mr. Purpera:

Re: Investing in Stocks in Violation of State Law

Management concurs with the Auditor's finding and recommendations on the investment of state funds in investment instruments authorized under state law. The University recognized the plant assets were invested in stocks and had begun implementing actions to prevent violation of the state's provisions.

- On October 9, 2009, the University initiated the transfer of all Crews and Associates instruments to a custody account. Effective November 19, 2009, these instrument transfers from Crew and Associates were completed. These instruments will remain in the account until the investment policy has been approved by University of Louisiana System (ULS) and the Grambling Black and Gold Foundation, Inc. Upon approval, the assets will be reinvested in accordance to the provisions of the investment policy.

- Effective December 18, 2009, the University submitted a draft investment policy to the ULS Board of Supervisors for approval. Upon ULS acceptance, this policy will be presented to the Grambling Black and Gold Foundation Board of Directors for approval at the next quarterly session.

- Once the assets have been reinvested, the activity will be reviewed and approved by the University's President and Vice President for Finance and Administration.

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If you have any questions, please call me or my primary point of contact, Mr. Daarel E. Burnette, Vice President for Finance and Administration, at 318-274-6406.

Sincerely,

Frank G. Pogue, Ph.D.
Interim President

FGP:jj

GRAMBLING
STATE UNIVERSITY
GRAMBLING, LOUISIANA

Office of the President

December 18, 2009

Mr. Daryl G. Purpera, CPA, CFE
Temporary Legislative Auditor
Office of the Legislative Auditor
State of Louisiana
1600 North Third Street
Baton Rouge, LA 70804-9397

Dear Mr. Purpera:

Re: Unsecured Deposits

Management concurs that the University did not adequately monitor its deposits for compliance with the Louisiana Revised Statute (R.S.) 49:321. The corrective actions taken to remediate this violation are as follows:

- On December 16, 2009, the University entered into a tri-party security agreement with Shreveport Federal Credit Union (SFCU) and Southwest Corporate Federal Credit Union (SCFCU). SCFCU has agreed to accept a deposit as collateral on behalf of Grambling State University from SFUC in the amount which is in excess of the credit union's National Credit Union Association (NCUA) insured amount ($250,000). In the event SFCU becomes insolvent, the funds in the instrument will be payable to Grambling State University.

- On a semi-annual basis, the University will review all deposits to insure investments are in compliance with Louisiana Revised Statute (R.S.) 49:321.

If you have any questions, please call me or my primary point of contact, Mr. Daarel E. Burnette, Vice President for Finance and Administration, at 318-274-6406.

Sincerely,

Frank G. Pogue, Ph.D.
Interim President

FGP:jj

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