STATE OF LOUISIANA
LEGISLATIVE AUDITOR

Grambling State University
University of Louisiana System
State of Louisiana
Grambling, Louisiana

September 25, 2002

Financial and Compliance Audit Division

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

LEGISLATIVE AUDIT ADVISORY COUNCIL

MEMBERS

Senator J. "Tom" Schedler, Chairman
Representative Edwin R. Murray, Vice Chairman

Senator Robert J. Barham
Senator Foster L. Campbell, Jr.
Senator Lynn B. Dean
Senator Willie L. Mount
Representative Rick Farrar
Representative Victor T. Stelly
Representative T. Taylor Townsend
Representative Warren J. Triche, Jr.

LEGISLATIVE AUDITOR

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

DIRECTOR OF FINANCIAL AND COMPLIANCE AUDIT

Albert J. Robinson, Jr., CPA

This document is produced by the Legislative Auditor, State of Louisiana, Post Office Box 94397, Baton Rouge, Louisiana 70804-9397 in accordance with Louisiana Revised Statute 24:513. One hundred forty copies of this public document were produced at an approximate cost of $995.30. This material was produced in accordance with the standards for state agencies established pursuant to R.S. 43:31. This report is available on the Legislative Auditor's Web site at www.lla.state.la.us.

In compliance with the Americans With Disabilities Act, if you need special assistance relative to this document, or any documents of the Legislative Auditor, please contact Wayne "Skip" Irwin, Director of Administration, at 225/339-3800.

GRAMBLING STATE UNIVERSITY
UNIVERSITY OF LOUISIANA SYSTEM
STATE OF LOUISIANA

Grambling, Louisiana

Basic Financial Statements and
Independent Auditor's Reports
As of and for the Years Ended
June 30, 2002 and 2001

Under the provisions of state law, this report is a public document. A copy of this report has been submitted to the Governor, to the Attorney General, and to other public officials as required by state law. A copy of this report has been made available for public inspection at the Baton Rouge and Shreveport offices of the Legislative Auditor and at the office of the parish clerk of court.

September 25, 2002

GRAMBLING STATE UNIVERSITY
UNIVERSITY OF LOUISIANA SYSTEM
STATE OF LOUISIANA

Basic Financial Statements and
Independent Auditor's Reports
As of and for the Years Ended
June 30, 2002 and 2001

CONTENTS

	Statement	Page No.
Independent Auditor's Report on the Financial Statements		2
Basic Financial Statements:		
Statements of Net Assets	A	4
Statements of Revenues, Expenses, and Changes in Net Assets	B	5
Statements of Cash Flows	C	6
Notes to the Financial Statements		8
	Exhibit	
Report on Compliance and on Internal Control Over Financial Reporting Based on an Audit of the Basic Financial Statements Performed in Accordance With *Government Auditing Standards*	A	
Findings and Recommendations on Internal Control Over Financial Reporting	B	
	Appendix	
Management's Corrective Action Plans and Responses to the Findings and Recommendations	A	

OFFICE OF
LEGISLATIVE AUDITOR
STATE OF LOUISIANA
BATON ROUGE, LOUISIANA 70804-9397

DANIEL G. KYLE, PH.D., CPA, CFE
LEGISLATIVE AUDITOR

1600 NORTH THIRD STREET
POST OFFICE BOX 94397
TELEPHONE: (225) 339-3800
FACSIMILE: (225) 339-3870

September 25, 2002

Independent Auditor's Report
on the Financial Statements

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

We have audited the accompanying basic financial statements of Grambling State University, a university within the University of Louisiana System, which is a component unit of the State of Louisiana, as of and for the years ended June 30, 2002 and 2001, as listed in the foregoing table of contents. These basic financial statements are the responsibility of Grambling State University's management. Our responsibility is to express an opinion on these basic financial statements based on our audits.

Except as explained in the following paragraph, we conducted our audits in accordance with auditing standards generally accepted in the United States of America and *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the basic financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall basic financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

Grambling State University made significant adjustments to the general ledger for fiscal year ended June 30, 2001, because of inadequacies in the accounting records. Adjustments were made to the general ledger for amounts that had no supporting documentation and to correct numerous miscellaneous errors. Management was not able to provide auditors with the specific adjustments, their effect on the general ledger accounts, and/or supporting documentation. *These inadequacies made it impractical to apply sufficient audit procedures to enable us to* express an opinion on the fair presentation of the financial statements for fiscal year ended June 30, 2001.

Because of the matter discussed in the preceding paragraph, the scope of our work was not sufficient to enable us to express, and we do not express, an opinion on the financial statements for fiscal year ended June 30, 2001.

In our opinion, the basic financial statements for the fiscal year ended June 30, 2002, present fairly, in all material respects, the financial position of Grambling State University as of June 30, 2002, and the changes in its net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

GRAMBLING STATE UNIVERSITY
UNIVERSITY OF LOUISIANA SYSTEM
STATE OF LOUISIANA
Audit Report, June 30, 2002

As discussed in note 1-A to the financial statements, Grambling State University implemented the provisions of Governmental Accounting Standards Board Statement Number 35, *Basic Financial Statements-and Management's Discussion and Analysis-for Public Colleges and Universities*, for fiscal year ended June 30, 2001. This results in a change in the format and content of the basic financial statements.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 25, 2002, on our consideration of Grambling State University's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Management's discussion and analysis is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. However, this information is not included in the financial statements for fiscal years ended June 30, 2002 or 2001.

Respectfully submitted,

Daniel G. Kyle

Daniel G. Kyle, CPA, CFE
Legislative Auditor

BAC:WJR:DSP:dl

[GSU02]

GRAMBLING STATE UNIVERSITY
UNIVERSITY OF LOUISIANA SYSTEM
STATE OF LOUISIANA

Statements of Net Assets
June 30, 2002 and 2001

	2002	UNAUDITED 2001
ASSETS		
Current assets:		
Cash and cash equivalents	$9,851,798	$6,719,556
Receivables (net):		
Tuition and fees	672,796	622,923
Due from State of Louisiana	1,624,146	
Grants and contracts	2,519,058	6,693,108
Inventories	489,238	548,940
Deferred charges and prepaid expenses	28,119	243,332
Notes receivable (net)	103,917	
Total current assets	15,289,072	14,827,859
Noncurrent assets:		
Restricted cash and cash equivalents	2,232,645	1,976,513
Investments	304,710	2,638,684
Notes receivable (net)	524,055	2,145,118
Capital assets (net)	59,421,275	54,166,714
Assets under capital lease		6,924
Total noncurrent assets	62,482,685	60,933,953
Total assets	77,771,757	75,761,812
LIABILITIES		
Current liabilities:		
Accounts payables and accruals	1,910,895	2,490,140
Deferred revenues	1,104,115	1,784,144
Compensated absences	222,004	185,375
Amounts held in custody for others	292,273	232,094
Capital lease obligations		6,924
Notes payable - current portion	246,310	91,642
Bonds payable - current portion	265,000	265,000
Other current payables	849,167	
Total current liabilities	4,889,764	5,055,319
Noncurrent liabilities:		
Compensated absences	2,145,650	2,121,588
Bonds payable	1,146,000	1,411,000
Notes payable	3,599,359	2,801,815
Total noncurrent liabilities	6,891,009	6,334,403
Total liabilities	11,780,773	11,389,722
NET ASSETS		
Invested in capital assets, net of related debt	54,164,740	49,597,256
Restricted for:		
Nonexpendable	6,878,636	6,404,757
Expendable	7,344,518	9,230,472
Unrestricted (deficit)	(2,396,910)	(860,395)
Total net assets	$65,990,984	$64,372,090

The accompanying notes are an integral part of this statement.

GRAMBLING STATE UNIVERSITY
UNIVERSITY OF LOUISIANA SYSTEM
STATE OF LOUISIANA

Statements of Revenues, Expenses, and Changes in Net Assets
For the Fiscal Years Ended June 30, 2002 and 2001

	2002	UNAUDITED 2001
OPERATING REVENUES		
Student tuition and fees (net of scholarship allowances of $9,681,425 in 2002 and $2,619,920 in 2001)	$8,370,177	$13,215,596
Federal grants and contracts	17,239,256	18,026,020
State and local grants and contracts	1,372,543	290,772
Nongovernmental grants and contracts	2,225	
Sales and services of educational departments	252,764	286,964
Auxiliary enterprise revenues (net of scholarship allowances of $333,497 in 2002 and $877,591 in 2001)	10,360,117	11,042,507
Other operating revenues	1,799,292	1,695,702
Total operating revenues	39,396,374	44,557,561
OPERATING EXPENSES		
Educational and general:		
Instruction	19,228,635	18,211,182
Research	1,042,765	1,563,469
Public service	26,214	82,902
Academic services	6,418,980	7,043,998
Student services	3,443,483	3,466,177
Institutional support	11,485,998	10,022,245
Operations and maintenance of plant	4,153,323	4,803,415
Depreciation	2,939,201	2,787,196
Scholarships and fellowships	7,079,245	8,953,605
Auxiliary enterprises	11,963,125	12,555,424
Other operating expenses	55,571	22,876
Total operating expenses	67,836,540	69,512,488
Operating loss	(28,440,166)	(24,954,927)
NONOPERATING REVENUES (EXPENSES)		
State appropriations	24,647,930	22,953,663
Gifts	772,458	17,471
Investment income	203,597	474,183
Interest expense	(172,794)	(120,548)
Other nonoperating revenues	4,718	521,869
Net nonoperating revenues	25,455,909	23,846,638
Loss before contributions	(2,984,257)	(1,108,289)
Capital appropriations	6,357,791	2,359,976
Increase in net assets	3,373,534	1,251,687
NET ASSETS		
Net assets - beginning of year *(restated)*	62,617,450	63,120,403
Net assets - end of year	$65,990,984	$64,372,090

The accompanying notes are an integral part of this statement.

GRAMBLING STATE UNIVERSITY
UNIVERSITY OF LOUISIANA SYSTEM
STATE OF LOUISIANA

Statements of Cash Flows
For the Fiscal Years Ended June 30, 2002 and 2001

	2002	UNAUDITED 2001
CASH FLOWS FROM OPERATING ACTIVITIES:		
Tuition and fees	$13,424,608	$14,726,794
Grants and contracts	22,509,126	15,276,742
Payments to suppliers	(18,061,173)	(15,911,136)
Payments for utilities	(538,711)	(2,276,208)
Payments to employees	(37,606,179)	(31,362,223)
Payments for benefits	(817,325)	(6,033,416)
Payments for scholarships and fellowships	(10,559,048)	(9,846,640)
Interest earned on loans to students		26,685
Loans issued to students and employees	(306,767)	(136,077)
Auxiliary enterprise charges	9,048,410	12,332,407
Sales and services of educational departments	252,764	286,964
Other receipts	1,953,166	1,782,694
Net cash used by operating activities	(20,701,129)	(21,133,414)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:		
State appropriations	23,023,784	22,953,663
Gifts and grants for other than capital purposes	854,555	
Private gifts for endowments purposes		17,471
Direct lending receipts		614,702
Student organization agency transactions	3,709	(15,143)
Other disbursements	(81,777)	
Net cash provided by noncapital financing sources	23,800,271	23,570,693
CASH FLOWS FROM CAPITAL FINANCING ACTIVITIES:		
Capital appropriations received	6,357,791	
Purchases of capital assets	(7,189,189)	(3,557,479)
Principal paid on capital debt and leases	(478,720)	(399,399)
Interest paid on capital debt and leases	(172,794)	(120,548)
Other sources (uses)	(2,595)	134
Net cash used by capital financing activities	(1,485,507)	(4,077,292)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Proceeds from sales and maturities of investments	2,337,149	5,445,621
Interest received on investments	203,544	416,474
Purchase of investments	(6,960)	(847,158)
Net cash provided for investing activities	2,533,733	5,014,937
Net increase in cash and cash equivalents	4,147,368	3,374,924
Cash at the beginning of the year	7,937,075	5,321,145
Cash at year-end	$12,084,443	$8,696,069

(Continued)

The accompanying notes are an integral part of this statement.

GRAMBLING STATE UNIVERSITY
UNIVERSITY OF LOUISIANA SYSTEM
STATE OF LOUISIANA
Statements of Cash Flows, 2001 and 2002

	2002	UNAUDITED 2001
RECONCILIATION OF NET OPERATING REVENUES (EXPENSES) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES:		
Operating income (loss)	($28,440,166)	$1,251,687
Adjustments to reconcile net income (loss) to net cash provided (used) by operating activities:		
Depreciation expense	2,939,201	2,787,196
Interest paid on capital debt and leases		120,548
Other sources		(147)
Private gifts for endowment purposes		17,471
Student organization agency transactions		(15,143)
Correction of errors	230,037	
Changes in assets and liabilities:		
(Increase) decrease in accounts receivables, net	(49,873)	5,218,908
(Increase) in notes receivables, net	(155,941)	(136,077)
Decrease in inventories	59,702	34,663
Decrease in amount due from federal government	4,174,050	
(Increase) decrease in prepaid expenses	215,213	(14,814)
Increase (decrease) in accounts payable	36,840	(553,426)
Increase (decrease) in deferred revenues	(680,029)	403,186
Increase in amounts held in custody for others	60,179	49,729
Increase (decrease) in compensated absences	60,691	(31,114)
Increase (decrease) in other current liabilities	849,167	(109,143)
Net cash provided (used) by operating activities	($20,701,129)	$9,023,524

(Concluded)

The accompanying notes are an integral part of the financial statements.

GRAMBLING STATE UNIVERSITY
UNIVERSITY OF LOUISIANA SYSTEM
STATE OF LOUISIANA

Notes to the Financial Statements
As of and for the Years Ended
June 30, 2002 and 2001
(Disclosures Relating to Fiscal Year Ended
June 30, 2001, are Unaudited)

INTRODUCTION

Grambling State University is a publicly supported institution of higher education. The university is a component unit of the State of Louisiana, within the executive branch of government. The university is under the management and supervision of the University of Louisiana System Board of Supervisors; however, the annual budget of the university and changes to the degree programs, department 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.

Grambling State University 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, the sciences and science-related technologies, nursing, and social work. Enrollment at the university was 1,932; 4,500; and 4,430, respectively, during the summer, fall, and spring semesters of fiscal year 2002 and 1,903; 4,716; and 4,360, respectively, during the summer, fall, and spring of fiscal year 2001. The university has approximately 714 full-time faculty and staff members at June 30, 2002.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. BASIS OF PRESENTATION

The Governmental Accounting Standards Board (GASB) promulgates accounting principles generally accepted in the United States of America and reporting standards for state and local governments. These principles are found in the *Codification of Governmental Accounting and Financial Reporting Standards*, published by the GASB. The accompanying financial statements have been prepared in accordance with such principles.

In June 1999, the GASB issued Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*. This was followed in November 1999 by GASB Statement No. 35, *Basic Financial Statements-and Management's Discussion and Analysis-for Public Colleges and Universities*. As a component unit of the State of Louisiana, Grambling State University is required to adopt GASB 34 and 35, as amended by GASB 36, 37, and 38. The financial statement presentation required by GASB 34 and 35 replaces the fund-group perspective previously required and provides a comprehensive, entity-wide perspective of the institution's assets, liabilities, net assets, revenues, expenses, changes in net assets, and cash flows.

B. REPORTING ENTITY

GASB Codification Section 2100 has defined the governmental reporting entity to be the State of Louisiana. Grambling State University is a publicly supported institution of higher education within the state and is a university within the University of Louisiana System. Therefore, the University of Louisiana System, including Grambling State University, is considered a component unit of the State of Louisiana because the state exercises oversight responsibility and has accountability for fiscal matters as follows: (1) a majority of the members of the governing board are appointed by the governor; (2) the state has control and exercises authority over budget matters; (3) state appropriations provide a large percentage of total revenues; and (4) the state issues bonds to finance certain construction. The accompanying financial statements present information only as to the transactions of the programs of Grambling State University as authorized by Louisiana statutes and administrative regulations.

Annually, the University of Louisiana System and the State of Louisiana issue basic financial statements, which include the activity contained in the accompanying financial statements. These financial statements are audited by the Louisiana Legislative Auditor.

C. BASIS OF ACCOUNTING

For financial reporting purposes, the university is considered a special-purpose government engaged only in business-type activities. All activities of the university are accounted for within a single proprietary (enterprise) fund. Accordingly, Grambling State University's financial statements have been presented using the economic resources measurement focus and the accrual basis of accounting. Under the accrual basis, revenues are recognized when earned, and expenses are recorded when an obligation has been incurred. All significant intra-agency transactions have been eliminated.

The university has the option to apply all Financial Accounting Standards Board (FASB) pronouncements issued after November 30, 1989, unless FASB conflicts with GASB. The institution has elected to not apply FASB pronouncements issued after the applicable date.

D. BUDGET PRACTICES

The State of Louisiana's appropriation is an annual lapsing appropriation established by legislative action and by Title 39 of the Louisiana Revised Statutes. The statute requires that the budget be approved by the Board of Regents for Higher Education and certain legislative and executive branches of state government. The Joint Legislative Committee on the Budget grants budget revisions. In compliance with these legal

GRAMBLING STATE UNIVERSITY
UNIVERSITY OF LOUISIANA SYSTEM
STATE OF LOUISIANA
Notes to the Financial Statements (Continued)

restrictions, budgets are adopted on the accrual basis of accounting, except that (1) depreciation is not recognized; (2) leave costs are treated as budgeted expenditures to the extent that they are expected to be paid; (3) summer school tuition and fees and summer school faculty salaries and related benefits for June are prorated to the year earned; (4) certain capital leases are not recorded; and (5) certain inventories are recorded as expenditures at the time of purchase. A formal budgetary comparison is not required by GASB reporting standards for proprietary funds and, therefore, budgetary comparisons are not presented.

E. CASH AND CASH EQUIVALENTS AND INVESTMENTS

The university defines cash and cash equivalents as cash on hand, demand deposits, interest-bearing demand deposits and all highly liquid investments with a maturity of three months or less when purchased. Under state law, the university may deposit funds within a fiscal agent bank organized under the laws of the State of Louisiana, the laws of any other state in the Union, or the laws of the United States. Furthermore, the university may invest in certificates of deposit of state banks organized under Louisiana law and national banks having their principal offices in Louisiana. Cash equivalents reported on the Statement of Net Assets include all negotiable certificates of deposit, regardless of maturity. These terms are also used in the preparation of the Statement of Cash Flows.

In accordance with Louisiana Revised Statute (R.S.) 49:327, the university is authorized to invest funds in direct United States Treasury obligations, United States government agency obligations, and money market funds. In addition, funds derived from gifts and grants, endowments, and reserve funds established in accordance with bond issues may be invested as stipulated by the conditions of the gift instrument or bond indenture. The majority of these investments are United States government agency obligations and are reported at fair value in accordance with GASB Statement No. 31. Changes in the carrying value of investments, resulting from unrealized gains or losses, are reported as a component of investment income in the Statement of Revenues, Expenses, and Changes in Net Assets. For purposes of the Statement of Cash Flows, the university considers all highly liquid investments (including restricted assets) with a maturity of three months or less when purchased to be cash equivalents.

F. INVENTORY

Inventories are valued at the lower of cost or market on the weighted-average basis. The university uses periodic and perpetual inventory systems and accounts for its inventories using the consumption method.

GRAMBLING STATE UNIVERSITY
UNIVERSITY OF LOUISIANA SYSTEM
STATE OF LOUISIANA
Notes to the Financial Statements (Continued)

G. NONCURRENT CASH AND INVESTMENTS

Cash and investments that are externally restricted to make debt service payments, maintain sinking or reserve funds, or to purchase or construct capital or other noncurrent assets are classified as noncurrent assets in the Statement of Net Assets.

H. CAPITAL ASSETS

Capital assets are reported at cost at the date of acquisition or their estimated fair value at the date of donation. For movable property, the institution's capitalization policy includes all items with a unit cost of $5,000 or more and an estimated useful life greater than one year. Renovations to buildings, infrastructure, and land improvements that significantly increase the value or extend the useful life of the structure are capitalized if they exceed $100,000. Any infrastructure exceeding $3 million must be capitalized, but the university does not have any infrastructure that meets that criterion. Routine repairs and maintenance are charged to operating expense in the year in which the expense is incurred. Depreciation is computed using the straight-line method over the estimated useful life of the assets, generally 40 years for buildings and infrastructure, 20 years for depreciable land improvements, and 3 to 10 years for most movable property.

I. DEFERRED REVENUES

Deferred revenues include amounts received for tuition and fees and certain auxiliary activities prior to the end of the fiscal year but are related to the subsequent accounting period. Deferred revenues also include amounts received from grant and contract sponsors that have not yet been earned.

J. COMPENSATED ABSENCES

Employees accrue and accumulate annual and sick leave in accordance with state law and administrative regulations. The leave is accumulated without limitation; however, nine-month faculty members do not accrue annual leave but are granted faculty leave during holiday periods when students are not in classes. Employees who are considered having non-exempt status according to the guidelines contained in the Fair Labor Standards Act may be paid for compensatory leave earned.

Upon separation of employment, both classified and non-classified personnel or their heirs are compensated for accumulated annual leave not to exceed 300 hours. In addition, academic and non-classified personnel or their heirs are compensated for accumulated sick leave not to exceed 25 days upon retirement or death. Act 343 of 1993 allows members of the Louisiana State Employees' Retirement System, upon application for retirement, the option of receiving an actuarially determined lump sum payment for annual and sick leave that would otherwise have been used to compute years of service for retirement. Unused annual leave in excess of 300 hours plus unused sick leave are used to compute retirement benefits.

Upon termination or transfer, a classified employee will be paid for any one and one-half hour compensatory leave earned and may or may not be paid for any straight hour-for-hour compensatory leave earned. Compensation paid will be based on the classified employee's hourly rate of pay at termination or transfer.

K. NONCURRENT LIABILITIES

Noncurrent liabilities include (1) principal amounts of revenue bonds payable and notes payable with maturities greater than one year; (2) estimated amounts for accrued compensated absences and other liabilities that will not be paid within the next fiscal year; and (3) other liabilities that, although payable within one year, are to be paid from funds that are classified as noncurrent assets. Revenue bonds and notes payable are reported at face value.

L. POSTEMPLOYMENT HEALTH CARE AND LIFE INSURANCE BENEFITS

Grambling State University provides certain continuing health care and life insurance benefits for its retired employees. The university recognizes the cost of providing these retiree benefits as an expense when paid during the year.

M. NET ASSETS

Net assets comprise the various net earnings from operation, nonoperating revenues, expenses, and contributions of capital. Net assets are classified in the following components:

(a) Invested in capital assets, net of related debt - consists of the university's total investment in capital assets, net of accumulated depreciation, and reduced by the outstanding balances of any bonds or other borrowings attributable to the acquisition, construction, or improvement of those assets.

(b) Restricted net assets - nonexpendable - consists of endowments and similar type funds for which donors or other outside sources have stipulated that, as a condition of the gift instrument, the principal is to be maintained inviolate and in perpetuity, and invested for the purpose of producing present and future income, which may either be expended or added to principal.

GRAMBLING STATE UNIVERSITY
UNIVERSITY OF LOUISIANA SYSTEM
STATE OF LOUISIANA
Notes to the Financial Statements (Continued)

(c) Restricted net assets - expendable - consists of resources that the university is legally or contractually obligated to spend in accordance with restrictions imposed by external third parties.

(d) Unrestricted net assets - consists of resources derived from student tuition and fees, state appropriations, and sales and services of educational departments and auxiliary enterprises. These resources are used for transactions relating to the educational and general operations of the university and may be used at the discretion of the governing board to meet current expenses and for any purpose.

When an expense is incurred that can be paid using either restricted or unrestricted resources, the university's policy is to first apply the expense toward unrestricted resources, then toward restricted resources.

N. CLASSIFICATION OF REVENUES

The university has classified its revenues as either operating or nonoperating according to the following criteria:

(a) Operating revenue - includes activities that have the characteristics of exchange transactions, such as (1) student tuition and fees, net of scholarship discounts and allowances; (2) sales and services of auxiliary enterprises, net of scholarship discounts and allowances; and (3) most federal, state, and local grants and contracts and federal appropriations.

(b) Nonoperating revenue - includes activities that have the characteristics of nonexchange transactions, such as gifts and contributions, state appropriations, and investment income.

O. SCHOLARSHIP DISCOUNTS AND ALLOWANCES

Student tuition and fee revenues and certain other revenues from students are reported net of scholarship discounts and allowances in the Statement of Revenues, Expenses, and Changes in Net Assets. Scholarship discounts and allowances are the difference between the stated charge for services (tuition and fees) provided by the university and the amount that is paid by students and/or third parties making payments on the students' behalf.

P. ACCOUNTING CHANGES

As a result of the adoption of GASB Statement No. 35, the university was also required to make certain changes in accounting principles, specifically, (1) the adoption of depreciation on capital assets and (2) the allocation of certain summer semester

GRAMBLING STATE UNIVERSITY
UNIVERSITY OF LOUISIANA SYSTEM
STATE OF LOUISIANA
Notes to the Financial Statements (Continued)

revenues and expenses between fiscal years rather than recognizing all of the revenues and expenses in the fiscal year in which the semester was predominantly conducted. Net assets at July 1, 2000, were reduced by $97,300,393 for the cumulative effect of these changes on years prior to fiscal year 2001.

2. CASH AND CASH EQUIVALENTS

At June 30, 2002 and 2001, the university has cash (book balances) totaling $12,084,443 and $8,696,069, respectively. A summary of the university's cash follows:

	2002	2001
Petty cash	$3,200	$3,200
Demand deposits:		
Noninterest-bearing	2,373,068	(662,967)
Interest-bearing	7,475,530	7,379,324
Time certificates of deposit	2,232,645	1,976,512
Total	$12,084,443	$8,696,069

Under state law, these deposits (or the resulting bank balances) must be secured by federal deposit insurance or similar federal security or the pledge of securities owned by the fiscal agent bank. The fair market value of the pledged securities plus the federal deposit insurance must at all times equal the amount on deposit with the fiscal agent. These securities are held in the name of the university or the pledging bank by a holding or custodial bank that is mutually acceptable to both parties. At June 30, 2002 and 2001, the university had $14,908,822 and $17,506,698, respectively, in deposits (collected bank balances) that were secured from risk, except for $16,342 for 2002, in the following manner:

GRAMBLING STATE UNIVERSITY
UNIVERSITY OF LOUISIANA SYSTEM
STATE OF LOUISIANA
Notes to the Financial Statements (Continued)

	June 30, 2002		
	Cash	Certificates of Deposit	Total
Deposits in bank accounts	$12,676,177	$2,232,645	$14,908,822
Bank balances (collected balances):			
Insured or collateralized with securities held by the entity or its agent in the entity's name - GASB Category 1	$200,000	$300,000	$500,000
Collateralized with securities held by the pledging institution's trust department or agent in the entity's name - GASB Category 2	12,476,177	1,916,303	14,392,480
Uncollateralized - GASB Category 3		16,342	16,342
Total bank balances	$12,676,177	$2,232,645	$14,908,822

	June 30, 2001		
	Cash	Certificates of Deposit	Total
Deposits in bank accounts	$6,716,357	$1,976,512	$8,692,869
Bank balances (collected balances):			
Insured or collateralized with securities held by the entity or its agent in the entity's name - GASB Category 1	$100,000	$300,000	$400,000
Collateralized with securities held by the pledging institution's trust department or agent in the entity's name - GASB Category 2	6,616,357	1,676,512	8,292,869
Total bank balances	$6,716,357	$1,976,512	$8,692,869

3. INVESTMENTS

At June 30, 2002 and 2001, the university has investments totaling $304,710 and $2,638,684, respectively, as shown on Statement A. These investments include unrealized losses of $348 for 2002 and $31,863 for 2001. These funds are to be invested in accordance with the Louisiana Board of Regents Eminent Scholars and Endowed Professorship Program Statement of Investment Policy and Objectives. In accordance with GASB Codification Section I50.125, the various types of investments are listed and presented by category of credit risk assumed by

GRAMBLING STATE UNIVERSITY
UNIVERSITY OF LOUISIANA SYSTEM
STATE OF LOUISIANA
Notes to the Financial Statements (Continued)

the university. Category 1 represents those investments insured or registered in the university's name or securities held by the university or its agent in the university's name. Category 2 represents investments uninsured and unregistered, with securities held by the counterparty's trust department or agent in the university's name. Category 3 represents investments unsecured and unregistered, with securities held by the counterparty or by its trust department or agent but not in the university's name.

A summary of university investments follows:

	Fair Value	
	June 30, 2002	June 30, 2001
Category 1:		
Equity stock	$3,840	$2,744
U.S. Treasury notes and bonds		2,338,880
Total categorized investments	3,840	2,341,624
Investments not categorized - corporate bonds	300,870	297,060
Total	$304,710	$2,638,684

4. RECEIVABLES

Receivables are shown on Statement A net of an allowance for doubtful accounts at June 30, 2002 and 2001. These receivables are composed of the following:

Type	Accounts Receivable	Allowance for Doubtful Accounts	Accounts Receivable (Net)
June 30, 2002:			
Student tuition and fees	$4,083,422	($3,547,820)	$535,602
Auxiliary enterprises	137,194		137,194
Due from State of Louisiana	1,624,146		1,624,146
Federal, state, and private grants and contracts	2,759,748	(240,690)	2,519,058
Other	384,859	(384,859)	
Total at June 30, 2002	$8,989,369	($4,173,369)	$4,816,000
June 30, 2001:			
Student tuition and fees	$3,474,194	($3,018,501)	$455,693
Auxiliary enterprises	409,692		409,692
Federal, state, and private grants and contracts	7,436,564		7,436,564
Other	459,955	(339,014)	120,941
Total at June 30, 2001	$11,780,405	($3,357,515)	$8,422,890

GRAMBLING STATE UNIVERSITY
UNIVERSITY OF LOUISIANA SYSTEM
STATE OF LOUISIANA
Notes to the Financial Statements (Continued)

5. NOTES RECEIVABLE

Notes receivables are comprised of loans to students under the Federal Perkins Loan, Nursing Student Loan, and short-term student loan programs. The university administers the Perkins and Nursing Student Loan programs. Restricted federal and state contributions and interest on the loans provide the funding for the Perkins Loan program. The Perkins program provides for the cancellation of a loan at rates of 10% to 30% per year up to a maximum of 100% if the participant complies with certain provisions. If loans are determined to be uncollectible and not eligible for reimbursement by the federal government, the loans can be written off and assigned to the United States Department of Education. Loans are no longer issued under the Nursing Student Loan program, but collections are still made on outstanding loans. Short-term student loans are funded from self-assessed student fees and are available to qualified students for limited personal and emergency financial needs.

Notes receivable are shown on Statement A net of an allowance for doubtful accounts at June 30, 2002 and 2001. These receivables are composed of the following:

Type	Notes Receivable	Allowance for Doubtful Accounts	Notes Receivable (Net)
June 30, 2002:			
Federal Perkins Loans	$2,076,217	($1,456,152)	$620,065
Nursing Student Loans	129,661	(122,364)	7,297
Short-term student loans	610		610
Total	$2,206,488	($1,578,516)	$627,972
June 30, 2001:			
Federal Perkins Loans	$1,936,609		$1,936,609
Nursing Student Loans	208,304		208,304
Short-term student loans	205		205
Total	$2,145,118	NONE	$2,145,118

6. CHANGES IN CAPITAL ASSETS

A summary of changes in capital assets for the fiscal years ended June 30, 2002 and 2001, follows:

GRAMBLING STATE UNIVERSITY
UNIVERSITY OF LOUISIANA SYSTEM
STATE OF LOUISIANA
Notes to the Financial Statements (Continued)

	Fiscal Year Ended June 30, 2002				
	Balance, July 1, 2001	Additions	Transfers	Retirements	Balance, June 30, 2002
Capital assets not being depreciated:					
Land	$989,239				$989,239
Construction-in-progress	4,976,089	$6,357,791		($5,980,573)	5,353,307
Total capital assets not being depreciated	$5,965,328	$6,357,791	NONE	($5,980,573)	$6,342,546
Other capital assets:					
Land improvements	$2,297,099			($1,830,000)	$467,099
Less accumulated depreciation	(2,297,099)			1,830,000	(467,099)
Total land improvements	NONE	NONE	NONE	NONE	NONE
Buildings	94,871,172		$5,812,286		100,683,458
Less accumulated depreciation	(49,195,467)	($1,974,142)			(51,169,609)
Total buildings	45,675,705	(1,974,142)	5,812,286	NONE	49,513,849
Equipment	13,393,307	1,671,112			15,064,419
Less accumulated depreciation	(11,432,088)	(653,210)			(12,085,298)
Total equipment	1,961,219	1,017,902	NONE	NONE	2,979,121
Library books	12,976,780	326,217		(197,722)	13,105,275
Less accumulated depreciation	(12,405,389)	(311,849)		197,722	(12,519,516)
Total library books	571,391	14,368	NONE	NONE	585,759
Total other capital assets	$48,208,315	($941,872)	$5,812,286	NONE	$53,078,729
Capital Asset Summary:					
Capital assets not being depreciated	$5,965,328	$6,357,791		($5,980,573)	$6,342,546
Other capital assets, at cost	123,538,358	1,997,329	$5,812,286	(2,027,722)	129,320,251
Total cost of capital assets	129,503,686	8,355,120	5,812,286	(8,008,295)	135,662,797
Less accumulated depreciation	(75,330,043)	(2,939,201)	NONE	2,027,722	(76,241,522)
Capital assets, net	$54,173,643	$5,415,919	$5,812,286	($5,980,573)	$59,421,275

GRAMBLING STATE UNIVERSITY
UNIVERSITY OF LOUISIANA SYSTEM
STATE OF LOUISIANA
Notes to the Financial Statements (Continued)

	Fiscal Year Ended June 30, 2001				
	Balance, July 1, 2000	Additions	Transfers	Retirements	Balance, June 30, 2001
Capital assets not being depreciated:					
Land	$989,239				$989,239
Construction-in-progress	11,945,510	$2,359,976	($9,329,397)		4,976,089
Total capital assets not being depreciated	$12,934,749	$2,359,976	($9,329,397)	NONE	$5,965,328
Other capital assets:					
Land improvements	$2,297,099				$2,297,099
Less accumulated depreciation	(2,297,099)				(2,297,099)
Total land improvements	NONE	NONE	NONE	NONE	NONE
Buildings	85,541,775	$9,329,397			94,871,172
Less accumulated depreciation	(47,344,060)	(1,851,407)			(49,195,467)
Total buildings	38,197,715	7,477,990	NONE	NONE	45,675,705
Equipment	12,885,990	607,729		($100,412)	13,393,307
Less accumulated depreciation	(10,756,883)	(741,921)		66,716	(11,432,088)
Total equipment	2,129,107	(134,192)	NONE	(33,696)	1,961,219
Library books	12,812,249	223,814		(59,283)	12,976,780
Less accumulated depreciation	(12,144,805)	(319,867)		59,283	(12,405,389)
Total library books	667,444	(96,053)	NONE	NONE	571,391
Total other capital assets	$40,994,266	$7,247,745	NONE	($33,696)	$48,208,315
Capital Asset Summary:					
Capital assets not being depreciated	$12,934,749	$2,359,976	($9,329,397)		$5,965,328
Other capital assets, at cost	113,537,113	10,160,940		($159,695)	123,538,358
Total cost of capital assets	126,471,862	12,520,916	(9,329,397)	(159,695)	129,503,686
Less accumulated depreciation	(72,542,847)	(2,913,195)	NONE	125,999	(75,330,043)
Capital assets, net	$53,929,015	$9,607,721	($9,329,397)	($33,696)	$54,173,643

7. PENSION PLANS

Plan Description. Substantially all employees of the university are members of two statewide, public employee retirement systems. Academic employees are generally members of the Louisiana Teachers Retirement System (TRS), and classified/unclassified state employees are members of the Louisiana State Employees Retirement System (LASERS). Both plans are cost-sharing, multiple-employer defined benefit pension plans administered by separate boards of trustees. TRS and LASERS provide retirement, disability, and survivors' benefits to plan members and beneficiaries. The State of Louisiana guarantees benefits granted by the retirement systems by provisions of the Louisiana Constitution of 1974. Generally, all full-time employees are eligible to participate in the systems; employee benefits vest with TRS after five years of service and with LASERS after ten years of service. Article 10, Section 29 of the Louisiana Constitution of 1974 assigns the authority to establish and amend benefit provisions

GRAMBLING STATE UNIVERSITY
UNIVERSITY OF LOUISIANA SYSTEM
STATE OF LOUISIANA
Notes to the Financial Statements (Continued)

to the state legislature. The systems issue annual publicly available financial reports that include financial statements and required supplementary information for the systems. The reports may be obtained by writing to the Teachers Retirement System of Louisiana, Post Office Box 94123, Baton Rouge, Louisiana 70804-9123, or by calling (225) 925-6446 and/or the Louisiana State Employees Retirement System, Post Office Box 44213, Baton Rouge, Louisiana 70804, or by calling (225) 922-0600.

Funding Policy. The contribution requirements of plan members and the university are established and may be amended by the state legislature. The legislature annually sets the required employer contribution rate equal to the actuarially required employer contribution as set forth in R.S. 11:102. Employees contribute 8% (TRS) and 7.5% (LASERS) of covered salaries. The state is required to contribute 13.1% of covered salaries to TRS and 13% of covered salaries to LASERS for fiscal year 2002, and 14.2% of covered salaries to TRS and 13% of covered salaries to LASERS for fiscal year 2001. The State of Louisiana, through the annual appropriation to the university, funds the university's employer contribution. The university's employer contributions to TRS for the years ended June 30, 2002, 2001, and 2000, were \$2,511,955, \$2,585,071, and \$2,719,644, respectively, and to LASERS for the years ended June 30, 2002, 2001, and 2000, were \$977,353, \$1,154,829, and \$1,147,527, respectively, equal to the required contributions for each year.

8. OPTIONAL RETIREMENT SYSTEM

R.S. 11:921 created an optional retirement plan for academic and administrative employees of public institutions of higher education. This program was designed to aid universities in recruiting employees who may not be expected to remain in the TRS for 10 or more years. The purpose of the optional retirement plan is to provide retirement and death benefits to the participants while affording the maximum portability of these benefits to the participants.

The optional retirement plan is a defined contribution plan that provides for full and immediate vesting of all contributions remitted to the participating companies on behalf of the participants. Eligible employees make an irrevocable election to participate in the optional retirement plan rather than the TRS and purchase retirement and death benefits through contracts provided by designated companies.

Total contributions by the university are 13.1% of the covered payroll (14.2% for 2001). The participant's contribution (8%), less any monthly fee required to cover the cost of administration and maintenance of the optional retirement plan, is remitted to the designated company or companies. Upon receipt of the employer's contribution, the TRS pays over to the appropriate company or companies, on behalf of the participant, an amount equal to the employer's portion of the normal cost contribution as determined annually by an actuarial committee. The TRS retains the balance of the employer contribution for application to the unfunded accrued liability of the system. Benefits payable to participants are not the obligation of the State of Louisiana or the TRS. Such benefits and other rights of the optional retirement plan are the liability and

GRAMBLING STATE UNIVERSITY
UNIVERSITY OF LOUISIANA SYSTEM
STATE OF LOUISIANA
Notes to the Financial Statements (Continued)

responsibility solely of the designated company or companies to whom contributions have been made.

Employer contributions to the optional retirement plan totaled $691,808 and $648,091 for the years ended June 30, 2002, and June 30, 2001, respectively.

9. POSTEMPLOYMENT HEALTH CARE AND LIFE INSURANCE BENEFITS

The university provides certain continuing health care and life insurance benefits for its retired employees. Substantially all of the university's employees become eligible for these benefits if they reach normal retirement age while working for the university. These benefits for retirees and similar benefits for active employees are provided through a state-operated group insurance program and various insurance companies whose monthly premiums are paid jointly by the employee and the university. The university recognizes the cost of providing these benefits to retirees (university's portion of premiums) as an expense when paid during the year. These retiree benefits totaled $1,057,047 and $833,048 for the years ended June 30, 2002, and June 30, 2001, respectively. The total number of retirees at June 30, 2002, and June 30, 2001, was 262 and 251, respectively.

10. COMPENSATED ABSENCES

At June 30, 2002, employees of the university have accumulated and vested annual leave, sick leave, and compensatory leave of $1,791,698, $348,589, and $227,367, respectively. At June 30, 2001, employees of the university have accumulated and vested annual leave, sick leave, and compensatory leave of $1,887,044, $235,628, and $184,291, respectively. These balances were computed in accordance with GASB Codification Section C60. The leave payable is recorded in the accompanying financial statements.

11. DEFERRED REVENUES

The following is a summary of deferred revenues at June 30, 2002 and 2001:

Account Name	June 30, 2002	June 30, 2001
Prepaid tuition and fees	$616,121	$579,360
Prepaid athletic ticket sales	35,943	25,989
Grants and contracts	452,051	1,178,795
Total deferred revenues	$1,104,115	$1,784,144

GRAMBLING STATE UNIVERSITY
UNIVERSITY OF LOUISIANA SYSTEM
STATE OF LOUISIANA
Notes to the Financial Statements (Continued)

12. PAYABLES

The following is a summary of payables at June 30, 2002 and 2001:

Account Name	June 30, 2002	June 30, 2001
Vendor payables	$539,652	$296,993
Accrued salaries and payroll deductions	1,365,393	1,231,669
Other	5,850	961,478
Total payables	$1,910,895	$2,490,140

13. LONG-TERM LIABILITIES

The following is a summary of bonds and notes payable and other long-term transactions of the university for the years ended June 30, 2002 and 2001.

	Year Ended June 30, 2002				
	Balance, June 30, 2001	Additions	Reductions	Balance, June 30, 2002	Amounts due within one year
Bonds and notes payable:					
Revenue bonds payable	$1,676,000		($265,000)	$1,411,000	$265,000
Notes payable	2,893,457	$1,165,931	(213,719)	3,845,669	246,310
Total bonds and notes payable	4,569,457	1,165,931	(478,719)	5,256,669	511,310
Other liabilities - accrued compensated absences	2,306,963	60,691	NONE	2,367,654	222,004
Total long-term liabilities	$6,876,420	$1,226,622	($478,719)	$7,624,323	$733,314

GRAMBLING STATE UNIVERSITY
UNIVERSITY OF LOUISIANA SYSTEM
STATE OF LOUISIANA
Notes to the Financial Statements (Continued)

	Year Ended June 30, 2001				
	Balance, June 30, 2000	Additions	Reductions	Balance, June 30, 2001	Amounts Due Within One Year
Bonds and notes payable:					
Revenue bonds payable	$1,984,000		($308,000)	$1,676,000	$265,000
Notes payable	2,982,107		(88,650)	2,893,457	91,642
Total bonds and notes payable	4,966,107	NONE	(396,650)	4,569,457	356,642
Other liabilities:					
Accrued compensated absences	2,289,262	$17,701		2,306,963	185,375
Capital lease obligations	9,674		(2,750)	6,924	6,924
Total other liabilities	2,298,936	17,701	(2,750)	2,313,887	192,299
Total long-term liabilities	$7,265,043	$17,701	($399,400)	$6,883,344	$548,941

The additions and reductions to compensated absences during the two fiscal years ended June 30, 2002, represent the net change during the years because the additions and deductions could not readily be determined.

14. REVENUE BONDS AND NOTES PAYABLE

Revenue bonds and notes payable consisted of the following for the two years ended June 30, 2002:

	Date of Issue	Original Issue	Outstanding June 30, 2000
Revenue bonds			
Student Housing System:			
1965 Series B	Oct. 1, 1965	$4,000,000	$995,000
1968 Series B	Oct. 1, 1968	3,000,000	946,000
1970 Series I	July 1, 1970	800,000	43,000
Total bonds payable		7,800,000	1,984,000
Notes payable			
U.S. Department of Education	May 1, 1993	3,500,000	2,982,107
Ford Motor Credit Company for telephone equipment	Aug. 30, 2001	1,165,931	
Total notes payable		4,665,931	2,982,107
Total bonds and notes payable		$12,465,931	$4,966,107

Redeemed June 30, 2001	Redeemed (Issued) June 30, 2002	Oustanding June 30, 2002	Final Maturity Year	Interest Rates	Interest Outstanding June 30, 2002
$160,000	$160,000	$675,000	2005	3.7%	$42,338
105,000	105,000	736,000	2008	3.0%	71,970
43,000			2001		
308,000	265,000	1,411,000			114,308
88,953	91,640	2,801,514	2023	3.0%	1,020,199
	(1,044,155)	1,044,155	2008	4.1%	139,681
88,953	(952,515)	3,845,669			1,159,880
$396,953	($687,515)	$5,256,669			$1,274,188

GRAMBLING STATE UNIVERSITY
UNIVERSITY OF LOUISIANA SYSTEM
STATE OF LOUISIANA
Notes to the Financial Statements (Continued)

All auxiliary enterprise revenues are available as security for the outstanding revenue bonds at both June 30, 2002 and 2001.

The scheduled maturities of the revenue bonds and notes payable at June 30, 2002, are as follows:

	Bonds Payable		Notes Payable		
Fiscal Year	Principal	Interest	Principal	Interest	Total
2003	$265,000	$39,330	$246,310	$123,418	$674,058
2004	285,000	30,293	255,526	114,202	685,021
2005	285,000	21,555	265,094	104,633	676,282
2006	290,000	12,930	275,029	94,698	672,657
2007	125,000	6,705	285,345	84,383	501,433
2008-2012	161,000	3,495	800,295	312,444	1,277,234
2013-2017			675,405	213,364	888,769
2018-2020			456,234	77,028	533,262
Thereafter			586,431	35,710	622,141
Total	$1,411,000	$114,308	$3,845,669	$1,159,880	$6,530,857

The following is a summary of the debt service reserve requirements of the various bond issues outstanding at June 30, 2002.

	Cash/ Investment Reserves Available	Reserve Requirements	Excess
Student Housing System Repair and Replacement Reserve Account	$863,906	$600,000	$263,906
U.S. Department of Education note	318,000	318,000	
Student Housing System revenue bonds	511,700	511,700	
Academic Facilities Building Use Fee revenue bonds	81,420	81,420	
Total	$1,775,026	$1,511,120	$263,906

The university is required by the U.S. Department of Education note to establish a Retirement of Indebtedness Account and make semiannual deposits of $22,250 until $178,000 has been reached. Once the debt service reserve account balance is satisfied, the university is to establish a Repair and Replacement Reserve Account and make annual deposits of $35,000 until $350,000 has been accumulated.

GRAMBLING STATE UNIVERSITY
UNIVERSITY OF LOUISIANA SYSTEM
STATE OF LOUISIANA
Notes to the Financial Statements (Continued)

15. RESTRICTED NET ASSETS

The university has the following restricted net assets at June 30, 2002 and 2001:

For fiscal year 2002	
Nonexpendable:	
Endowments	$2,372,792
Student loans (federal and institutional capital contributions)	4,505,844
Total nonexpendable	$6,878,636
Expendable:	
Grants and contracts	$5,030,378
Student loans	(2,046,539)
University plant projects	2,510,265
Debt service requirements	1,850,414
Total expendable	$7,344,518
For fiscal year 2001	
Nonexpendable:	
Student Loan Fund	$4,505,845
Endowment Fund	1,898,912
Total nonexpendable	$6,404,757
Expendable:	
Unrestricted Fund	$372,972
Restricted Fund	6,857,090
Student Loan Fund	(2,054,232)
Plant Funds	4,054,642
Total expendable	$9,230,472

16. RESTATEMENT OF NET ASSETS

Accounting changes made during fiscal year 2001 involved a change in accounting estimates where the university changed the capital threshold for movable equipment and buildings and required depreciation expense to be recorded and a change in reporting to conform to GASB 35. The following adjustments were made to restate beginning net assets for June 30, 2001:

GRAMBLING STATE UNIVERSITY
UNIVERSITY OF LOUISIANA SYSTEM
STATE OF LOUISIANA
Notes to the Financial Statements (Continued)

	Fund Balance July 1, 2000	Adjustments	Restated Beginning Net Assets July 1, 2000
Invested in plant	$149,602,745	($95,748,713)	$53,854,032
Restricted - nonexpendable	6,179,707		6,179,707
Restricted - expendable	4,622,881	4,636,001	9,258,882
Unrestricted	4,916,401	(6,187,681)	(1,271,280)
Total	$165,321,734	($97,300,393)	$68,021,341

For fiscal year 2002, the university re-established an allowance for doubtful accounts for notes receivable that was eliminated in error and corrected errors in the Family Federal Education Loan liability account. The following adjustments were made to restate the beginning net asset balance for fiscal year 2002:

	July 1, 2001
Previously reported	$64,372,090
Adjustments:	
Re-establish allowance for doubtful accounts for notes receivable	(1,673,697)
Correction of errors in federal loan liability account	(80,943)
Total	$62,617,450

17. CONTINGENT LIABILITIES AND RISK MANAGEMENT

The university is involved in three lawsuits at June 30, 2002 and 2001. In the opinion of legal counsel for the university, the ultimate outcome of these lawsuits cannot be determined; however, any losses, with few exceptions, would be fully covered by insurance. Losses arising from judgments, claims, and similar contingencies are paid through the state's self-insurance fund operated by the Office of Risk Management, the agency responsible for the state's risk management program, or by appropriation from the state's General Fund. The Office of Risk Management insures all of these lawsuits. During each of the fiscal years 2002 and 2001, claims and litigation costs of $38,340 were incurred and are reflected in the accompanying financial statements.

GRAMBLING STATE UNIVERSITY
UNIVERSITY OF LOUISIANA SYSTEM
STATE OF LOUISIANA
Notes to the Financial Statements (Continued)

18. RELATED PARTY TRANSACTIONS

During fiscal year ended June 30, 2000, the university established relationships with two affiliate organizations, Grambling University National Alumni Association, Inc. (GUNAA) and the Grambling University Athletic Foundation, Inc. (GUAF). Both of these organizations have affiliation agreements. The GUNAA has a corporate endeavor with the university to coordinate the ancillary activities of the Bayou Classic weekend. The GUAF has a corporate endeavor with the university to coordinate the Sports Radio Network and the concession for home sporting events. The GUNAA corporate endeavor extends through the 2001 event, and the GUAF corporate endeavor extends to June 30, 2002.

19. ON-BEHALF PAYMENTS FOR SALARIES AND FRINGE BENEFITS

On-behalf payments for salaries and fringe benefits are direct payments made by one entity to a third-party recipient for the employees of another legally separate entity. On-behalf payments include pension plan contributions, employee health and life insurance premiums, and salary supplements or stipends. For example, a nongovernmental fund-raising foundation affiliated with a governmental university (such as Grambling State University) may supplement salaries of certain university employees. Those payments constitute on-behalf payments for purposes of reporting by the university if they are made to the faculty members in their capacity as employees of the university.

The amount of on-behalf payments for salaries and fringe benefits included in the accompanying financial statement for fiscal years ended June 30, 2002 and 2001, is $82,097 and $105,536, respectively, and is summarized as follows:

GRAMBLING STATE UNIVERSITY
UNIVERSITY OF LOUISIANA SYSTEM
STATE OF LOUISIANA
Notes to the Financial Statements (Continued)

Employee Name	Title	2002 Payment	2001 Payment
Grambling University National Alumni Association, Inc.			
Reimbursement for moving expenses:			
Billy R. Owens	Vice President for Finance	$2,852	
Niena Williams	Assistant Director of Human Resources	1,157	
On-behalf/compensation payments:			
Scott Boatwright	Media Consultant for Bayou Classic (BC)	1,200	$800
Janis Bluford	Clerical Assistant - BC President	500	
Valencia W. Clemons	BC Administrative Assistant	2,000	
Wanda Currie	Coordinator - BC vendors	1,000	
Albert Dennis	Athletic Director		1,000
Gwendolyn Douglas	Consultant - BC pageant	650	400
Bobbie Ethridge	Clerical Assistant - BC pageant	300	
Stephan Fontenot	Coordinator - BC Friday Night Extravaganza	2,000	1,500
Vickie Gant-Jackson	Vision Magazine/BC promotions	4,700	2,800
Carmen Giles-Copes	Graphic Artist		50
Vickie Joe	Assistant Alumni Director		5,422
Leroy Hawthorne	Music consultant - BC pageant	100	
Dr. Ruby D. Higgins	Coordinator - BC pageant	3,000	2,000
Aaron James	BC Interim Coordinator/Quadrant Sales	4,000	500
Vickie Joe	Assistant Alumni Director	6,850	
Eddie M. Jones	Consultant - BC pageant	250	
Shirley Kidd	Consultant - BC pageant	400	300
Russell LeDay	BC Fiscal Officer	4,000	1,500
Matthew Latson	Driver - BC pageant	150	
Herbert Simmons	Coordinator		5,000
Herbert Simmons, Jr., Esquire	Alumni Director/BC Coordinator	9,000	6,500
Linda Stringfellow	Clerical Assistant	1,500	300
Charles Walker	Lighting consultant - BC pageant	300	

GRAMBLING STATE UNIVERSITY
UNIVERSITY OF LOUISIANA SYSTEM
STATE OF LOUISIANA
Notes to the Financial Statements (Continued)

Employee Name	Title	2002 Payment	2001 Payment
Grambling University Athletic Foundation, Inc.			
On-behalf/compensation payments:			
Joann Brown	Clerical Assistant		$506
Leslie Dawson	Equipment Manager		1,000
Diedre Gardner	Women Basketball Secretary		300
Marshall Hayes	Assistant Football Coach		2,500
Charles Lacy	Assistant Band Director		600
Charlie Lewis	Videographer		4,191
Russell LeDay	Consultant/manager	$1,500	6,152
Terry Lilly	Aerobics Instructor	250	800
Bertram Lovell	Head Track Coach		6,256
Dianne A. Maroney	Orchesis Director	500	
Ricky McCall	Trainer		1,000
Heishma Northern	Assistant Football Coach		2,500
Richard Paul	Assistant Football Coach		1,500
David Ponton, Jr.	Head Women Basketball Coach	20,000	16,000
Michael Roach	Assistant Football Coach		2,500
Chris Scott	Assistant Football Coach		2,500
Earl Simpson	Grambling High Band Director		500
Gloria N. Smallwood	Clerical Assistant	6,188	5,933
Melvin Spears	Assistant Football Coach		2,500
Patty Taylor	Assistant Trainer		500
Dr. Edwin Thomas	Assistant Band Director	250	600
Willie Watley	Carpenter		125
Sammie White	Assistant Football Coach		2,500
Douglas Williams	Head Football Coach	7,500	16,500
Total		$82,097	$105,535

20. DONOR RESTRICTED ENDOWMENTS

If a donor has not provided specific instructions, state law permits the University of Louisiana Board of Supervisors to authorize expenditure of the net appreciation (realized and unrealized) of the investments of endowment funds. Any net appreciation that is spent is required to be spent for the purposes for which the endowment was established.

At June 30, 2002 and 2001, the value of endowments equaled the donated amount. The university limits endowment spending to the income earned in a given year for purposes specified by donors. The donated portion of the endowments is reported in restricted net assets - nonexpendable in the Statement of Net Assets; the endowment income is reported in restricted net assets - expendable.

GRAMBLING STATE UNIVERSITY
UNIVERSITY OF LOUISIANA SYSTEM
STATE OF LOUISIANA
Notes to the Financial Statements (Concluded)

21. ACCREDITATION

On December 11, 2001, the Commission on Colleges - Southern Association of Colleges and Schools denied reaffirmation of accreditation, continued accreditation, and placed the university on probation for one year. The university is on probation for failure to comply with Section 1.4 (Condition of Eligibility 13), Section 6.3.2 (Organization for Administration of Financial Resources) and Section 6.3.6 (Accounting, Reporting, and Auditing) and is currently attempting to resolve the accreditation issues. GSU must provide evidence to the commission by September 25, 2002, that it is in compliance.

OTHER REPORT REQUIRED BY

GOVERNMENT AUDITING STANDARDS

The following pages contain a report on compliance with laws and regulations and on internal control as required by *Government Auditing Standards*, issued by the Comptroller General of the United States. This report is based solely on the audit of the financial statements and includes, where appropriate, any reportable conditions and/or material weaknesses in internal control or compliance matters that would be material to the presented financial statements.

OFFICE OF
LEGISLATIVE AUDITOR
STATE OF LOUISIANA
BATON ROUGE, LOUISIANA 70804-9397

DANIEL G. KYLE, PH.D., CPA, CFE
LEGISLATIVE AUDITOR

1600 NORTH THIRD STREET
POST OFFICE BOX 94397
TELEPHONE: (225) 339-3800
FACSIMILE: (225) 339-3870

September 25, 2002

Report on Compliance and on Internal Control Over Financial Reporting Based on an Audit of the Basic Financial Statements Performed in Accordance With *Government Auditing Standards*

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

We have audited the basic financial statements of Grambling State University, a university within the University of Louisiana System, which is a component unit of the State of Louisiana, as of and for the years ended June 30, 2002 and 2001, and have issued our report thereon dated September 25, 2002. The scope of our audit was limited in that we were unable to satisfy ourselves about the adjustments made to restate total net assets at July 1, 2000. This resulted in a disclaimer of opinion on the basic financial statements for fiscal year ended June 30, 2001. Except for this scope limitation, we conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the Grambling State University's basic financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and, accordingly, we do not express such an opinion. The results of our tests disclosed the following instance of noncompliance that, although not material to the financial statements, is required to be reported under *Government Auditing Standards*.

Expenses Incurred Without Valid Contract

Grambling State University (GSU) entered into and operated under a professional services contract with KPMG, LLP for 46 days before obtaining the required written approval from the Office of Contractual Review (OCR). Louisiana Revised Statute 39:1502(A) provides that contracts for professional services, which include accounting services, are not valid until approved by the director of OCR. In addition, GSU made payments to the contractor without sufficient supporting documentation. A review of the KPMG contract files revealed the following:

- KPMG provided services under the invalid contract from April 1, 2002, through May 17, 2002, incurring a total of $155,086 in reimbursable expenses.

- GSU was unable to provide supporting documentation for $11,193 of expenses charged by KPMG and paid by GSU.

- KPMG submitted invoices with mathematical errors that GSU personnel did not detect, resulting in overpayments of $2,314.

On March 27, 2002, GSU obtained an approval from OCR to enter into a contract for accounting services, concluded that the actual contract had been approved, and proceeded to operate under the unapproved contract. OCR did not receive the actual contract for approval consideration until April 16, 2002, over two weeks after the actual commencement of the contract. In addition, GSU made payments on the contract although sufficient supporting documentation did not exist.

The OCR approval process exists to ensure that the contract is legal, efficient, and contains appropriate deliverables, among other issues. GSU's failure to obtain proper approval for this professional services contract and its failure to obtain sufficient supporting documentation for disbursements has resulted in the university paying for services not received and being in noncompliance with state law regarding contracts.

GSU should identify its needs in a timely manner to allow for approval of all contracts by OCR before work begins. In addition, management should emphasize to its staff that payment is to be made only when there is an original itemized invoice that adequately supports the claim and is mathematically correct. Finally, the university should take the necessary steps to recover the $2,314 overpayment. Management concurred with the finding and recommendations and outlined a plan of corrective action (see Appendix A, page 1).

Internal Control Over Financial Reporting

In planning and performing our audit, we considered GSU's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the university's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in the accompanying schedule of findings in Exhibit B.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions included in Exhibit B, we consider the following reportable conditions to be material weaknesses:

1. Substandard Accounting Procedures and Records
2. Inaccurate and Incomplete Annual Financial Statements
3. Untimely and Insufficiently Supported Bank Reconciliations
4. General Ledger Accounts Not Reconciled to Supporting Records
5. Untimely Collection of Grant Proceeds
6. Ineffective Billing and Collection Procedures for Student Receivables

This report is intended solely for the information and use of the university and its management 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 report is distributed by the Legislative Auditor as a public document.

Respectfully submitted,

Daniel G. Kyle

Daniel G. Kyle, CPA, CFE
Legislative Auditor

BAC:WJR:DSP:dl

[GSU02]

EXHIBIT A

OFFICE OF
LEGISLATIVE AUDITOR
STATE OF LOUISIANA
BATON ROUGE, LOUISIANA 70804-9397

DANIEL G. KYLE, PH.D., CPA, CFE
LEGISLATIVE AUDITOR

1600 NORTH THIRD STREET
POST OFFICE BOX 94397
TELEPHONE: (225) 339-3800
FACSIMILE: (225) 339-3870

September 25, 2002

Findings and Recommendations on Internal Control
Over Financial Reporting

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

Substandard Accounting Procedures and Records

Grambling State University (GSU) allowed the quality of its accounting procedures and records to deteriorate to a substandard level. A good financial environment should contain stable leadership, detailed formal written policies and procedures, and knowledgeable employees with skill and experience in performing their duties. The poor quality of the existing procedures and records reduced the university's operational effectiveness, caused the university to pay large sums to outside consultants, and placed the university in a precarious situation regarding reaccreditation.

The primary source of this deterioration over the past several years has been incompetence in many of the key financial and information system personnel. When GSU began installation of the BANNER software system in 1998, there were few, if any, employees or members of management that were qualified to operate the new system. The software vendor (SCT) provided training in use of the software; however, many errors were made in the early months of operations because of a lack of understanding of how the system actually operated, resulting in millions of dollars of inaccurate entries.

Compounding these problems was a faulty backup procedure that caused a catastrophic event in 1998--four months of detailed accounting data were lost. Management lacked the technical ability required to resolve this crisis and sought assistance from various staff within the University of Louisiana System Board of Supervisors (ULS) and several accounting and software consulting firms. Accounting consultants have been paid $960,000 to date, while software firms have been paid over $2 million for specialized services relating to the accounting problems and for software installation, upgrades, and implementation.

The use of these consultants did not correct the primary weakness in the environment, which was the lack of competent, well-trained staff to operate the university's accounting system. On July 1, 2001, a new Vice President for Finance was hired to fill a vacancy that had existed for approximately one year. Shortly after being hired, the new Vice President for Finance began an intensive search for knowledgeable, qualified, experienced staff to manage key positions, such as Comptroller, Assistant Comptroller, Information Services Director, and Grants Administrator. These key positions are now filled. Numerous hours have now been spent analyzing account balances and the supporting data. Millions of dollars in erroneous account balances have been written off.

Management of GSU and the ULS should continue to make changes necessary to improve the accounting environment. Formal written policies and procedures should be developed and/or improved. When re-evaluated on a regular basis, management can gain assurance that the accounting process is providing the information needed for financial statement preparation and university assets are safeguarded from loss and/or theft. Employees should be adequately trained as part of the implementation of the new procedures and thereafter held fully accountable for complying with those policies and procedures. Management concurred with the finding and recommendations and outlined a plan of corrective action (see Appendix A, page 2).

Inaccurate and Incomplete Annual Financial Statements

For the third consecutive audit, GSU prepared and submitted inaccurate and/or incomplete annual financial statements. Management's fiscal responsibility is to provide the university with procedures to record, process, and summarize financial data needed to prepare accurate financial statements. These procedures should require that accounts be periodically analyzed and reconciled to subsidiary ledgers or to detailed information to determine the validity of the account balances. Management is also responsible for reviewing the financial statements so that any preparation errors can be detected and corrected in a timely manner.

Although the financial statements for June 30, 2001, were due on September 4, 2001, management provided financial statements to auditors on September 14, 2001. The university then issued three revisions to its original financial statements. These revisions were dated October 4, 24, and 29, 2001.

Even though the university worked on the financial statements for two months past the deadline, accounts on the balance sheet (Statement of Net Assets) and operating statement (Statement of Revenues, Expenses, and Changes in Net Assets) had not been analyzed or reconciled and included numerous classification and posting errors and balances that could not be supported by management. In addition, the financial statements were prepared even though the three major bank accounts had not been reconciled for June 30, 2001. Furthermore, management was unable to support all of the adjustments made to the general ledger balances/totals to arrive at the financial statement balances/totals, and certain notes to the financial statements did not agree with the financial statements amounts and/or the notes contained inaccurate information.

For the June 30, 2002, year GSU was required to implement Governmental Accounting Standards Board Statement No. 35. In addition to presenting its 2002 financial statements using this new reporting format, GSU elected to reissue its 2001 financial statements using this same format. The restated 2001 financial statements were provided to the auditors on July 29, 2002, and the June 30, 2002, financial statements were provided to the auditors on July 31, 2002, to provide for early issuance of the audit report. The three major bank accounts for both the 2001 and 2002 fiscal years had still not been reconciled and many of the accounts had not been completely analyzed. The auditors' analysis of subsidiary ledgers and other records for various accounts indicated significant balances that management could not support, resulting in numerous proposed adjustments. In addition, management used estimates that were not supported or had no historical basis for the estimate. These estimates affect accounts and notes receivables and tuition and fee discounts and allowances.

Management has not placed sufficient emphasis on ensuring that financial statements are prepared in accordance with generally accepted accounting principles and contain accurate, reliable information that can be reconciled to supporting subsidiary ledgers and records. Management currently relies on the audit process and outside consultants to detect errors in its operations.

Within the last year the university has employed some competent accounting personnel. Management should begin a rigorous training program for all of its financial personnel and ensure that all of its personnel are adequately trained and supervised. Management should then develop and implement the controls necessary to ensure that the financial data in the accounting system are accurate. These controls must include analyzing and reconciling subsidiary ledgers and other supporting records to the general ledger in a timely manner. Finally, before issuing the financial statements to the auditors or to the public, senior management should perform a higher level of review of the financial statements and note disclosures. Management concurred with the finding and recommendations and outlined a plan of corrective action (see Appendix A, page 3).

Untimely and Insufficiently Supported Bank Reconciliations

For the third consecutive audit, GSU did not reconcile its bank accounts timely. Also, adjusting or reconciling items on the bank reconciliations did not have sufficient supporting documentation that would provide assurance that the adjustments were valid. Good internal controls require reconciliation of all bank accounts on at least a monthly basis. Valid bank reconciliations provide management a reasonable basis to ensure that all transactions that affect both the bank accounts and accounting records are in agreement and that no errors or fraud have occurred and not been detected and/or corrected.

The university maintained six bank accounts as of June 30, 2001 and 2002. Throughout both years, management was routinely late in reconciling many of these accounts, especially its three major accounts, ranging from a few months to over a year. As of August 30, 2002, the Accounts Payable (disbursements) and Payroll accounts were not reconciled for June 30, 2001 and 2002. In addition, the General Treasury account was not reconciled for June 30, 2002.

A draft version of the 2001 bank reconciliation was provided to the auditors on September 4, 2002, then was followed by three revisions as of September 9, 2002. On September 9, 2002, the auditors received the June 30, 2002, reconciliation. The reconciliations indicate that the university proposed 51 adjustments (journal entries) for 2002 and 119 adjustments (journal entries) for 2001 to adjust general ledger cash for the Accounts Payable bank account.

Tests of the reconciliations by the auditors revealed the following deficiencies, which possibly delayed the timely completion of the reconciliation process:

- Outstanding checklists for the Accounts Payable and Payroll accounts included void checks and checks that had previously cleared the bank.
- There were instances where journal entries were prepared to correct an initial error, but the subsequent correcting entry was incorrect, and the additional entries were also incorrect, compounding the initial problem.
- Numerous reconciling items routinely appeared in reconciliations for several months before the correcting entries were posted to the university's books of original entry.
- The university did not have a copy of the beginning or ending book balance readily available to support these balances on the bank reconciliation. It has not been the practice of the university to generate a paper copy of its monthly reports.

We also noted that the university does not have formal written policies and procedures or a standard format for preparing and approving bank reconciliations. The staff preparing the reconciliations does not possess the necessary experience and has not been adequately trained. Furthermore, supervisory staff does not always perform a careful review of the reconciliations or does not possess the necessary training and/or experience to recognize errors.

Failure to reconcile the bank accounts timely increases the risk that assets could be misappropriated and not detected in a timely manner. Furthermore, management is making major financial decisions based on questionable financial information when the accounting system has not been reconciled to the bank records.

Management should develop and implement formal written policies and procedures for reconciling, at least monthly, each of its bank accounts. University employees should be sufficiently trained and held accountable for the work they perform. Their work should be reviewed and approved by a knowledgeable member of management to ensure that it is accurate. This member of management should also review all reconciling items and journal entries prepared to correct errors. Once it is determined a journal entry is accurate, the member of management should ensure that the entry is entered immediately into the system and the entry does correct the problem. Management concurred with the finding and recommendations and outlined a plan of corrective action (see Appendix A, page 4).

General Ledger Accounts Not Reconciled to Supporting Records

GSU did not reconcile several accounts, which are on the Statement of Net Assets, to detailed supporting documentation or subsidiary records. A good internal control system requires the periodic reconciliation of account balances to ensure that errors and/or fraud are detected timely and to ensure fair presentation of financial information. Management did not ensure that the necessary records were maintained and the reconciliations were prepared properly and timely. Our audit revealed the following:

- As of June 30, 2001, the university had not reconciled the general ledger payable balance of $581,961 for state group health and life insurance premiums to employee deductions in the payroll subsidiary records. Activity in this account over the following eleven months created a debit balance or overpayment at May 31, 2002, of $421,966. In June 2002, management reconciled the account and determined that it actually had a credit balance (payable) of $290,495 as of May 31, 2002. As a result, university management prepared and entered an adjusting entry for $712,461 to increase expenses and increase the liability to reflect a $290,495 balance as of May 31, 2002.

- As of June 30, 2001, the "Due from Miscellaneous Agencies" and the "Due from TOPS" receivable accounts reflected debit balances of $190,133 and $63,475, respectively. Management had not reconciled these accounts and could not provide detailed subsidiary records to support the balances. Management decided in June 2002 to write off these balances since neither detailed records nor support could be provided.

- As of June 30, 2001, the "Stafford Loan (EFT)" liability account reflected a credit balance of $1,010,562 that had not been reconciled to the detailed subsidiary records. In July 2002, management reconciled the account and determined that the correct balance as of June 30, 2001, was $165,270. The reconciliation indicated that $808,296 of the $1,010,562 had been entered twice into the accounting records, so an adjusting entry was prepared and entered to correct the error. The remaining balance of $36,996 was written off in fiscal year 2002.

- The Deferred Revenues account balance as of June 30, 2002 and 2001, included $445,686 for advanced federal and state program funds received before July 1, 2000. The university analyzed this account and could not provide documentation to support whether eligible expenses were or were not incurred under these programs by the end of the grant period. The grants director believes that grant expense information may have been lost during a computer conversion. However, deferred revenues will be reduced by the unsupported amounts of $445,686 as of June 30, 2001 and 2002.

The university did not have policies and procedures that explained and required the reconciliation of the various general ledger accounts to supporting documentation and has not always had personnel with the experience and knowledge necessary to analyze and/or reconcile the various accounts. When accounts are not analyzed or reconciled periodically, university assets are placed at a greater risk of fraud and/or misappropriation and financial records and/or statements may not represent the true financial condition of the university.

GSU should develop and implement formal written policies and procedures that require the timely reconciliation of all subsidiary accounts to general ledger balances and totals. A knowledgeable member of management should then review the reconciliations to ensure that all reconciling items are properly supported. Where possible, account balances should be aged and when an account does not clear within a reasonable time, management should immediately require university personnel to investigate the balance to determine why the balance has not cleared. Management concurred with the finding and recommendations and outlined a plan of corrective action (see Appendix A, page 5).

Untimely Collection of Grant Proceeds

GSU expended state funds to participate in several federal, state, local, and private grant programs without requesting timely reimbursement from grantors. Good internal control and business practices require that procedures be in place to alert management and grant personnel when requests for reimbursement of expenses have not been processed timely.

The university participates in various grant programs relating to research and development, scholarships, and community services. The grant programs are usually administered on a reimbursement basis that requires the university to first incur the cost to operate the program. A request should then be submitted to the grantor for reimbursement for all eligible costs incurred. During fiscal year ended June 30, 2002, management reconstructed the accounting records for the grant programs and determined the following:

- At June 30, 2001, the university had expended $7,423,037 in state funds for program costs for which no reimbursement request had been processed.

- In June 2002 when $4,645,916 of the June 30, 2001, balance was still outstanding, management took the following actions:
    - Requested reimbursement of $3,675,296 from the grantors
    - Wrote off $489,240 as uncollectible because the grant periods had expired
    - Continued to investigate the collectibility of $481,380

According to the new grants director, at June 30, 2002, the university is still not current with its requests for reimbursement but plans to be current in the near future.

In April 2002, the university contracted with an accounting firm to assist in preparing its requests for reimbursement for the current and previous periods. As indicated above by the write-off of the $489,240, failure to request reimbursement timely increases the risk that state funds will not be reimbursed by the grantor. A conservative estimate indicates that during fiscal year 2002, the state lost interest income of approximately $194,506 from amounts owed the university by grantors at June 30, 2001.

GSU should develop and implement controls to ensure that state funds are not used for extended periods of time to finance the operations of its grant programs. This can be accomplished by developing formal written policies, procedures, and timelines when requests must be prepared, approved, and submitted. Employees should be properly trained, assigned specific responsibilities, and held accountable for performing their required tasks. Finally, controls should be installed in the university's automated accounting system, such as an exception report, that would alert management when requests for reimbursement are not processed timely. Management concurred with the finding and recommendations and outlined a plan of corrective action (see Appendix A, page 6).

Ineffective Billing and Collection Procedures for Student Receivables

GSU has not established effective billing and collection procedures governing its student receivables, valued at $4,083,422 and $3,474,194, at June 30, 2002 and 2001, respectively. Due diligence and fiscal responsibility require management to establish policies and procedures that enable the university to bill students timely and make every effort legally available to collect these receivables.

Little or no effort was made during fiscal years 2001 and 2002 to collect amounts owed the university from students. University management did not:

- Establish formal written policies and procedures for billing for student receivables, which would include the handling of delinquent student receivables.
- Timely bill current and former students for outstanding balances.
- Turn over delinquent accounts to a collection agency for further processing.
- Periodically evaluate the methodology of estimating the allowance for doubtful accounts.

Management did not address this issue during fiscal years 2001 or 2002 because it was addressing other significant areas of concern in the accounting system. In addition, changes in key personnel, including the employee responsible for student billing, affected operations.

GSU should ensure that effective policies and procedures are developed and implemented to enable the university to bill timely, make reasonable collection efforts, then turn outstanding accounts over to a collection agency as soon as possible. Furthermore, management should ensure that the accounting system accounts for student receivables so that an allowance for doubtful accounts may be reasonably estimated and appropriately included in the financial statements. Management concurred with the finding and recommendations and outlined a plan of corrective action (see Appendix, page 7).

No Athletic Ticket Revenue Reconciliation Procedures

GSU has not implemented reconciliation procedures governing its athletic ticket revenues totaling $1,046,366 and $1,923,271 at June 30, 2002 and 2001, respectively. A good internal control system would require the university to establish and maintain reconciliation procedures that enable the university to fully account for all revenue from ticket sales related to athletic events.

Management of the university did not:

- Establish formal written procedures requiring the reconciliation of physical tickets (includes sold, unissued, and free/comp tickets) to revenue reported in the university's financial accounting system
- Perform timely reconciliations of ticket sales revenue reported by the Ticket Master system to the university's financial accounting system for home football and basketball games
- Perform timely reconciliations of tickets sales revenue from consignment sales to the university's financial accounting system for "away" sporting events

Management has not emphasized the importance of accounting for athletic ticket revenue by developing and implementing written procedures that include the designation of specific university employees to perform the reconciliations. As a result, management has no assurance that income from sold tickets has been correctly recorded in the accounting records or that all attendees actually paid for their tickets. In addition, there is a greater risk that errors and/or fraud may occur and not be detected and corrected in a timely manner.

GSU should ensure that effective procedures are developed and implemented to account for all tickets of each sporting event. These procedures should require the timely reconciliation of tickets sold to amounts posted to the financial accounting system. Furthermore, specified employees should be held totally accountable for the timely preparation of the reconciliations. Management concurred with the finding and recommendations and outlined a plan of corrective action (see Appendix A, page 8).

No Methodology for Estimating the Allowance for Doubtful Accounts

GSU does not have a methodology for estimating its allowance for doubtful accounts. Generally accepted accounting principles require that management develop a reasonable and systematic basis for estimating the amount of receivables that will not be collectible. The basis used should be documented, well supported, and also periodically reviewed and adjusted based on changing conditions. Changes in an allowance account affect not only the balance of receivables reported in the Statement of Net Assets, but also affect the Statement of Revenues, Expenses, and Changes in Net Assets (i.e. an increase in an allowance account increases expenses and a decrease in an allowance account reduces expenses).

A review of receivable account balances included in the financial statements revealed the following:

- Lab School receivables - The allowance for doubtful accounts is $250,888 at both June 30, 2002 and 2001, although gross receivables increased from $250,888 (2001) to $295,133 (2002).

- Employee traffic fines receivable - The allowance for doubtful accounts is $35,892 at both June 30, 2002 and 2001, although gross receivables decreased from $71,784 (2001) to $62,421 (2002).

- Student notes receivable - No allowance for doubtful accounts is reported for fiscal years 2002 or 2001. Gross student notes receivables at June 30, 2002 and 2001, were $2,206,488 and $2,145,118, respectively.

- Unidentified allowance balance - The allowance for doubtful accounts includes $98,078 for June 30, 2002, that is not related to any specific receivable.

Management has not gathered and analyzed available historical data or performed any other type of analysis to determine whether the estimates used are reasonable. Furthermore, management feels that it is not necessary to establish an allowance for student notes receivable; however, no authoritative guidance has been provided to support this position. As a result, management can neither support its assertion that expenses for uncollectible amounts are reasonable nor that the accounts receivable balances for student tuition and fees, lab school, employee traffic fines or student notes receivable are reasonable as presented in the financial statements.

GSU should review available historical data to estimate the allowance for doubtful accounts. The methodology used to estimate the allowance account should be fully documented with assumptions, computer reports, and other supporting evidence readily available for review and verification. Management should also periodically review the method used to determine whether it should be adjusted. Management concurred with the finding and recommendations and outlined a plan of corrective action (see Appendix A, page 9).

Additional Comments: After this finding was completed, management analyzed historical data and adjusted GSU's financial statements to include revised allowances for doubtful accounts for applicable receivable balances.

Ineffective Internal Audit Function

For the second consecutive audit, GSU did not have an effective internal audit function. An effective internal audit function would provide management with assurances that assets of the university are properly safeguarded, internal controls are established and operating in accordance with applicable laws and regulations, and policies and procedures are sufficient to prevent or detect errors and/or fraud in a timely manner.

Although the external audit of the university for the year ended June 30, 2000, included a number of internal control and compliance findings, the university did not have an effective internal audit function during fiscal years 2000-2001 and 2001-2002. The director of internal audit position was vacant from February 1, 2000, until March 11, 2002; the lead staff auditor position has been vacant since February 20, 2001.

Considering the university's reported assets of $77,771,757 and $75,761,812, at June 30, 2002 and 2001, respectively, and operating revenues of $39,396,374 and $44,557,561 at June 30, 2002 and 2001, respectively, an effective internal audit function is needed to ensure that university assets are properly safeguarded, internal controls are established and operating in accordance with applicable laws and regulations, and policies and procedures are sufficient to prevent or detect errors and/or fraud in a timely manner.

GSU should ensure that the Internal Audit Department is staffed with experienced and knowledgeable auditors and that the internal audit function is used effectively. Management concurred with the finding and recommendation and outlined a plan of corrective action (see Appendix A, page 10).

Information Technology System -
Lack of Disaster Recovery Plan

GSU does not have a disaster recovery plan in place should a major catastrophe occur in the university's computing center. A disaster recovery plan, if properly implemented, should provide the university's computing center with the ability to provide the same level of continuity for all critical operations. A disaster recovery plan, at a minimum, should:

- Be a written, functional plan that will allow for continued operation of critical IT services in the event of an unexpected interruption.
- Include a requirement that backup tapes containing critical programs and data be stored periodically offsite. These tapes should be available for use in restoring an application and should allow for timely resumption of normal operations with minimal loss of data/transactions.
- Be tested periodically to help ensure a timely and orderly return to regular operations.

The university has developed a one-page written plan that includes an "on campus" alternative site for use in case of emergency; however, the computers needed to implement the plan are not yet in place. In addition, the plan does not define what constitutes a "disaster" nor when the plan would be put into action. Failure to design and test an adequate disaster recovery plan may result in the loss of all or part of the university's data or computing capability. This loss could affect the collection of revenue, the payment of debt, the preparation of financial information or year-end financial statements, and possibly lead to closure of the institution.

GSU should design and test a disaster recovery plan that would allow the university to operate its computer system software from a remote location in the event of a major catastrophic event. Once an adequate disaster recovery plan for a catastrophic event has been designed, it is imperative that the plan be periodically tested to determine whether the plan works as intended in an emergency situation. Management concurred with the finding and recommendations and outlined a plan of corrective action (see Appendix A, page 11).

Signed Game Contracts Not Obtained for All Sporting Events

For the second consecutive audit, GSU did not obtain signed contracts for all its sporting events. Good business practices require that terms of financial arrangements for all sporting events be specified in writing to establish responsibility for all parties and to identify penalties for nonperformance. The university does not require contracts on nonrevenue sporting events and only requires contracts for football games and men's and women's basketball games where a *game-guarantee is required*.

The university has 13 sports, of which ten are nonrevenue sports. The ten nonrevenue sports comprise approximately 22% ($830,043/$3,776,935) of Athletic Department expenditures for fiscal year 2002 and approximately 22% ($903,051/$4,138,643) for fiscal year 2001. A review of all sporting event schedules and available contracts revealed the following:

Fiscal Year 2002

- A total of 20 out of 62 contracts for revenue producing sports (32%) did not have contracts signed by authorized representatives of both schools.
- A total of 79 out of 130 contracts for nonrevenue producing sports (61%) did not have contracts signed by authorized representatives of both schools.

Fiscal Year 2001

- A total of 38 out of 61 contracts for revenue producing sports (62%) did not have contracts signed by authorized representatives of both schools.
- A total of 109 out of 129 contracts for nonrevenue producing sports (84%) did not have contracts signed by authorized representatives of both schools.

The athletic coordinator informed us that the contracts had been mailed, but the signed contracts had not been returned by the other participating school(s). Failure to have valid written contracts creates an undetermined amount of potential nonperformance penalties for sporting events.

GSU should enter into written contracts for all sporting events and ensure that all contacts have the appropriate signatures. Management concurred with the finding and recommendations and outlined a plan of corrective action (see Appendix A, page 12).

Unsupported Extra Service Contract Pay

For the third consecutive audit, GSU did not have sufficient documentation to support payments for extra service contract work. Sound internal control requires that payment for extra services should be supported with adequate documentation to verify that the employee worked the extra hours in addition to the hours required by his/her primary job. University policy states extra services shall be defined as duties and responsibilities performed by faculty and unclassified employees outside of an explicitly stated job description. The work day is generally defined as 8:00 a.m. to 5:00 p.m.

GSU management adopted a policy requiring employees to document actual hours of the day worked as well as the hours worked to support extra service contract hours. However, interviews with university personnel revealed that employees did not correctly interpret management's policy. Employees continue to report only the number of hours worked in the space provided on the time report and do not post the actual hours for the regular work day or the extra service time (e.g., 5:00 p.m. to 6:30 p.m.). Auditors tested five transactions from fiscal year ended June 30, 2002, and seven transactions from fiscal year 2001. None of these transactions reflected the actual hours of the day worked.

The university's gross extra service contract pay during the fiscal years 2001-2002 and 2000-2001 totaled approximately $611,000 and $602,000, respectively. Interviews and test work indicate that none of these expenses are supported with sufficient documentation. Lack of documentation reflecting the actual work hours increases the risk of fraud, abuse, and/or illegal acts.

GSU should clarify its extra service contract pay policy and require employees to document the actual hours during which the work was performed to provide for greater control and oversight of the work. Management concurred with the finding and recommendation and outlined a plan of corrective action (see Appendix A, page 13).

Appendix A

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

Grambling State University
OFFICE OF THE PRESIDENT
Grambling, Louisiana 71245
P.O. DRAWER 607
(318) 274-6117
FAX: (318) 274-6172

August 13, 2002

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

Dear Dr. Kyle:

In reference to the finding "Expenses Incurred Without Valid Contract," management concurs with this finding. The University of Louisiana Board of Supervisors approved the hiring of professional accounting help from KPMG and directed them to start work on March 27, 2002. This emergency decision was necessary in an attempt to meet the audit deadlines agreed upon with the Legislative Auditors for submission of the audit financial statements to the Southern Association of Colleges and Schools by September 16, 2002.

Management did not pay the firm until the contract had been finalized. There was a $2,000 error on one of the KPMG billing statements that inflated the bill. The University did pay the inflated amount, but reduced the next bill by $2,000. In the future, management will allow sufficient time to complete professional service contracts before work begins. Management has also emphasized that bills should be checked thoroughly for mathematical accuracy before payment.

Mr. Norman Jones, Associate Vice President and Controller, is responsible for ensuring the accuracy of all invoices prior to payment.

Sincerely,

Neari F. Warner

Neari F. Warner
Acting President

NFW:jj

Grambling State University
OFFICE OF THE PRESIDENT
Grambling, Louisiana 71245
P.O. DRAWER 607 (318) 274-6117
FAX: (318) 274-6172

August 27, 2002

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

Dear Dr. Kyle:

Management concurs with the finding on "Substandard Accounting Procedures and Records." To solidify the financial operations and systems at Grambling State University, Billy R. Owens was hired as Vice President for Finance and is directly responsible for implementation of the following corrective action plan:

- By October 1, 2002, the finance and accounting staff will begin redefining the University's chart of accounts in Banner to enhance the effectiveness of reporting and consequently minimize adjustments and reclassifications needed to prepare financial statements.

- Management is advertising on the web and networking to identify qualified candidates to fill the following positions as soon as possible:
  a. Two senior system analysts for application software programming
  b. One grant accountant
  c. One property accountant
  d. An Associate Vice President for Information Technology
  e. An Associate Vice President for Budget
  f. Other information technology positions

- By October 1, 2002, management will begin the streamlining of its work processes in and around all Banner modules and rewriting policies and procedures to support Banner operating systems. This process is expected to be completed by December 15, 2002.

- By October 2002, management will increase its focus on ensuring that its finance staff is throughly trained on the Banner system, the specific areas of job responsibilities, and policies and procedures affecting their jobs.

Management believes that continuity in upper management, a continuous staff training and evaluation system, and the implementation of sound policies, procedures and business practices in a dynamic environment will allow its resources to be allocated to the highest and best uses.

Sincerely,

Neari F. Warner

Neari F. Warner
Acting President

Grambling State University
OFFICE OF THE PRESIDENT
Grambling, Louisiana 71245
P.O. DRAWER 607 (318) 274-6117
FAX: (318) 274-6172

September 17, 2002

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

Dear Dr. Kyle:

Management concurs with the finding on "Inaccurate and Incomplete Annual Financial Statements". Management agrees that its fund accounting financial statements for June 30, 2001 had several iterations through October 29, 2001. It is further a fact that the financial statements prepared in Governmental Accounting Standards Format 34/35 for the year ended June 30, 2001 and 2002 had additional adjustments after submission to the auditors on July 29, 2002 and July 31, 2002. This management team is bound by ethical behavior to report and correct all known transactions not recorded or properly recorded on its financial statements. Management made its best effort to prepare all reconciliations and correct all accounts prior to the submission of the financial statements in GASB 34/35 format. Researching four (4) years of data in four (4) months and preparing financial statements in the new GASB format for 2000, 2001 and 2002 one month prior to the statutory due date for all universities in the state, with all new employees, proved to be a formidable and almost impossible task. This management team does not rely on the audit process or outside consultants to correct and/or detect errors and fraud. Irregularities involving University assets were discovered first and investigated by University staff.

Under the overall directions of Billy R. Owens, Vice President for Finance, and the immediate directions of Norman Jones, Associate Vice President/Controller, the following will be implemented by November 2002.

1. Beginning September 2002, bank reconciliations and other reconciliations will be prepared on a monthly basis to support month end closings.
2. Monthly financial statements will be prepared on the accrual basis. The Banner GASB financial statement system will be implemented in October 2002.
3. Journal entries with supporting documents will be reviewed prior to processing.

Under the directions of Billy R. Owens, the finance team is focused and dedicated. Management is committed to training all persons responsible for processing accounting transactions on Banner, University policies and procedures, and business practices required to perform their job. Employees will be properly supervised, held accountable and continuously trained. This should ensure that accounting transactions and financial statements are recorded and reported in accordance with generally accepted accounting principles.

Sincerely,

Neari F. Warner

Neari F. Warner
Acting President

Grambling State University
OFFICE OF THE PRESIDENT
Grambling, Louisiana 71245

P.O. DRAWER 607 (318) 274-6117
FAX: (318) 274-6172

September 17, 2002

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

Dear Dr. Kyle:

Management concurs with the finding on "Untimely and Insufficiently Supported Bank Reconciliations". The three major bank accounts have not been accurately reconciled for three (3) years. The use of three accounting firms has not yielded proper reconciliation of these accounts. The volume of transactions covering three years has been overwhelming. Under the direction of Mr. Norman Jones, Associate Vice President/Controller, the following will be implemented:

1. Written policies and procedures will be developed and implemented for reconciling bank accounts by October 15, 2002. This will include training on the Banner bank reconciliation module and downloading lists of paid checks from the bank. Reconciliations with supporting documentation will be completed and submitted for review by the 5th working day of the month.
2. The general accountants are responsible for processing checks requesting to be voided. This procedure will include, but not be limited to, a search of the paid checks on the bank on-line system and processing stop payments at the bank. A thorough review of cleared checks written will eliminate the processing of cleared checks as voids.
3. Journal entries required for correction of reconciling items will be prepared as part of the bank reconciliation and submitted for review and approval by the Associate Vice President/Controller before processing.
4. The management will implement "positive pay" at its lead bank in November 2002 where the bank will validate check presentments against the list of checks written by the University prior to payments. This system will help to eliminate potential unauthorized check disbursements by the bank, check and bank disbursement errors, and aid in the reconciliation process.

Management is committed to training all persons responsible for bank reconciliations and accounting transactions on Banner, University policies and procedures, and business practices required to perform their job of safeguarding cash. Employees will be properly supervised, held accountable and continuously trained to meet deadlines.

Sincerely,

Neari F. Warner

Neari F. Warner
Acting President

NFW:jj

Grambling State University
OFFICE OF THE PRESIDENT
Grambling, Louisiana 71245

P.O. DRAWER 607

(318) 274-6117
FAX: (318) 274-6172

August 27, 2002

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

Dear Dr. Kyle:

Management concurs with the audit finding on "General Ledger Accounts Not Reconciled to Supporting Records." Norman Jones, Associate Vice President/Controller, will have overall responsibility for implementing the following corrective action plan:

- Effective July 1, 2002, management converted its payroll and human resource system from Poise to Banner where the state group health and insurance premium accounts will be reconciled on a monthly basis by Gregory Sykes, Assistant Controller for Disbursements and Niena Williams, Assistant Director for Human Resources/Benefits.

- Management is in the process of posting all receivable accounts to the Banner receivable module under the immediate supervision of Dezandra Blankenship and overall responsibility of Moroline Sanders, Director Grants Administration/Assistant Controller for Revenue. Effective October 1, 2002, monthly billings will be sent to all outstanding accounts.

- Effective October 15, 2002, the University will formalize its current practice on recording Stafford Loan EFT bank deposits and subsequent postings to students' accounts. The policy will require monthly reconciliations to ensure accuracy of accounts and timely posting of student loans. Destinee Westmoreland will have immediate responsibility for the account.

- The Director of Grants Administration is reclassifying the $445,686 from inactive deferred revenue accounts to other liabilities until the accounts have been thoroughly researched for accuracy. After these accounts have been thoroughly researched, the granting agencies will be contacted for disposition of funds. During October 2002, grants administration will attempt to reconstruct the deferred revenue account balances in these inactive accounts with an expected completion date of November 30, 2002.

Management will ensure that staff are thoroughly trained on Banner in their respective areas of responsibilities. Additionally, the finance staff under the directions of Billy R. Owens, Vice President for Finance will re-engineer all work processes and rewrite policies, train the staff on work requirements and make them responsible for following policies and procedures.

Sincerely,

Neari F. Warner

Neari F. Warner
Acting President

Grambling State University
OFFICE OF THE PRESIDENT
Grambling, Louisiana 71245

P.O. DRAWER 607

(318) 274-6117
FAX: (318) 274-6172

August 20, 2002

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

Dear Dr. Kyle:

Management concurs with the finding on "Untimely Collection of Grant Proceeds." On March 15, 2002, the University hired a Director of Grants Management/Assistant Controller for Revenue, Moroline Sanders, who has significant experience with federal rules and regulations governing grants and contracts. Under her direction, the corrective action plan will be implemented as followed:

- Grants administration has increased its staff from two to three with another accountant vacancy to be filled as soon as a qualified candidate is identified.
- Management will make every effort to train all of its grants administration employees on the use of Banner and federal and state grants and contracts rules and regulations.
- While the University wrote off $489,240 in grants receivables with expired dates, the grants staff will reconstruct and validate the balances and begin collection efforts by September 30, 2002.
- The grants staff will also continue collection efforts on grant accounts totaling $962,760 where collection was assumed to be 50% or $481,380.
- The Vice President for Finance, Billy Owens, Associate Vice President for Finance/Controller, Norman Jones, and the Director of Grants Administration/Assistant Controller, Moroline Sanders, will develop new formal written policies, procedures, and timelines regarding the processing of grants expenditures, billings, reporting, and the collection of funds by November 15, 2002.
- Starting in September 2002, all billings and reporting to grantors will be prepared within 30 days after month-end to ensure that the University is reimbursed for all allowable costs in a timely manner.

Moroline Sanders will be responsible for accounting, billing, reporting and collection efforts under the direction of Norman Jones.

Sincerely,

Neari F. Warner

Neari F. Warner
Acting President

NFW:jj

Grambling State University
OFFICE OF THE PRESIDENT
Grambling, Louisiana 71245

P.O. DRAWER 607 (318) 274-6117
FAX: (318) 274-6172

August 20, 2002

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

Dear Dr. Kyle:

Management concurs with the Office of Legislative Audit's finding regarding "Ineffective Billing and Collection Procedures for Student Receivables". On March 15, 2002, the University hired a Director of Grants Management/Assistant Controller for Revenue, Moroline Sanders, who has significant experience with student receivable and collection efforts. Under her direction, the corrective action plan will be implemented as followed:

- After Fall registration and effective October 1, 2002, monthly statements will be sent to all outstanding accounts.
- By September 30, 2002, Billy R. Owens, Vice President for Finance, Norman Jones, Associate Vice President for Finance/Controller, Moroline Sanders, Director of Grants Administration/Assistant Controller for Revenue, and Dezandra Blankenship, Bursar, will begin the process of re-engineering the work processes and re-writing policies and procedures on student registration, billing and collection efforts on current and past due accounts.
- The staff will be trained on the full utilization of the Banner system, collection on due diligence rules and regulations, cashiering, and customer service to be completed by November 30, 2002.
- Receivable analyses will be prepared as part of the standard monthly reporting to identify delinquent accounts for expanded collection efforts needed to restore accounts to a current status by September 30, 2002.
- The adequacy of the allowance for doubtful accounts will be reviewed twice a year (June and December) and adjusted based on rational and standard methodology.
- Effective September 1, 2002, one of the general accountants will be reassigned to the receivable area and properly trained on the Student Accounts Receivable processes. Staffing changes and training will provide the University with sufficient personnel to collect on outstanding receivables.
- In early October 2002, management will send a request for proposal to solicit bids from collection agencies for the purpose of entering into a contract by November 15, 2002 to begin collection efforts. Additionally, we will turn accounts over to a credit bureau and initiate garnishment of wages for current employees and others who refuse to pay.

Sincerely,

Neari F. Warner

Neari F. Warner
Acting President

NFW:jj

Grambling State University
OFFICE OF THE PRESIDENT
Grambling, Louisiana 71245

P.O. DRAWER 607 (318) 274-6117
FAX: (318) 274-6172

September 3, 2002

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

Dear Dr. Kyle:

Management concurs that there was "No Athletic Ticket Revenue Reconciliation Procedures" for football and basketball whereby total ticket inventory was reconciled to the cash receipts. The University will continue to use the Ticket Master System ("TMS") to account for ticket sales. Further, management has adopted a comprehensive policy under the oversight of Albert Dennis, Director of Intercollegiate Athletics, who will be responsible for the following:

- Effective August 1, 2002, all pre-numbered ticket stock is to be delivered directly to the Athletic Director. The Athletic Director or his assistant will be responsible for the daily issuance of pre-numbered stock to each ticket seller who will sign a logbook indicating the number of tickets taken.

- Effective August 15, 2002, daily receipts are to be reconciled to the ticket inventory audit report generated on the TMS. The ticket manager is responsible for the reconciliation of tickets received to receipts on a daily basis. The Athletic Director or Business Manager will review the reconciliation.

- Daily deposits with the reconciliation of tickets sold are to be deposited with the University cashier.

- The ticket manager and sellers have been re-trained on the TMS and athletic ticket sales policies and procedures.

- During September and October 2002, the University's Internal Auditor will perform a review of the ticket sales and inventory system.

Management believes that with the above systems and procedures in place, it will be able to account for all ticket inventory and resulting cash receipts.

Sincerely,

Neari F. Warner

Neari F. Warner
Acting President

NFW:jj

Grambling State University
OFFICE OF THE PRESIDENT
Grambling, Louisiana 71245
P.O. DRAWER 607
(318) 274-6117
FAX: (318) 274-6172

September 3, 2002

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

Dear Dr. Kyle:

Management concurs with the finding on "No Methodology for Estimating the Allowance for Doubtful Accounts." Management made estimates on the allowance for doubtful accounts as there was no readily identifiable and reliable trend information to support the calculation in the limited time available. Management will adopt the procedures as follows:

- In October 2002, management will develop a formal methodology for calculating the allowance for doubtful accounts.
- Starting in October 2002, detailed receivable balances, agings and analyses of all receivables will be presented monthly to the Vice President for Finance for review as part of the monthly financial statement reporting.
- The Associate Vice President/Controller and Vice President for Finance will review the adequacy of the allowance for doubtful accounts in December and June of each year.
- Management will implement strong collection efforts to try and collect all funds due the University.

Mrs. Moroline Sanders, Director of Grants Management/Assistant Controller for Revenue, has direct responsibility for analyzing all receivables, assessing collectability of accounts, and adequacy of the reserves.

Sincerely,

Neari F. Warner

Neari F. Warner
Acting President

NFW:jj

Grambling State University
OFFICE OF THE PRESIDENT
Grambling, Louisiana 71245

P.O. DRAWER 607 (318) 274-6117
FAX: (318) 274-6172

August 13, 2002

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

Dear Dr. Kyle:

In reference to the finding "Ineffective Internal Audit Function," management concurs with this finding. While management fully understands the importance of internal audit, management has not been successful in providing full staffing for the office. Nonetheless, the internal audit function has been active. The position of Director of Internal Audit was filled on March 11, 2002 with a very capable and qualified individual. The director established an audit plan, implemented it consistently and pursued leads of suspected improprieties. The director has conducted fact finding into several issues and has been able to provide the Office of the Legislative Auditor with cases and incidents for full investigation.

Management will implement the following corrective action plan to provide a full staff of auditors:

- Mrs. Phyllis Spragin, Director of Internal Audit, is the contact person and is responsible for the corrective action;
- Positions will continue to be advertised on the university webpage and in various local newspapers;
- Upon receipt of applications, candidates will be screened, notified and interviewed as appropriate;
- By December 31, 2002, an acceptable candidate will be presented to the president for approval and subsequent hiring.

Management is committed to improving effective operations throughout the university by providing a full, functioning Internal Audit Department.

Sincerely,

Neari F. Warner
Acting President

NFW:jj

Grambling State University
OFFICE OF THE PRESIDENT
Grambling, Louisiana 71245

P.O. DRAWER 607

(318) 274-6117
FAX: (318) 274-6172

August 13, 2002

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

Dear Dr. Kyle:

In reference to the finding regarding "Information Technology System – Lack of Disaster Recovery Plan," management concurs with this finding. A comprehensive plan will be developed to address off-site storage, catastrophic system failures, backup and recovery of the Oracle database, Banner software applications and catastrophic Networking and Telecommunication failure and recovery.

In this plan, outside vendors with comparable hardware and an Oracle database will be identified to assist the University in simulating a test environment and to provide remote backup support for critical systems. This plan is expected to be completed by December 15, 2002.

Management is committed to safeguarding the data and information on its management information and communication systems. Mr. Winfred Jones, Director of Network Services, is responsible for developing and monitoring the plan.

Sincerely,

Neari F. Warner

Neari F. Warner
Acting President

NFW:jj

Grambling State University

OFFICE OF THE PRESIDENT

Grambling, Louisiana 71245

P.O. DRAWER 607

(318) 274-6117
FAX: (318) 274-6172

August 13, 2002

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

Dear Dr. Kyle:

In reference to the finding "Signed Game Contracts Not Required For All Sporting Events," management concurs with this finding. However, management did prepare, sign and mail contracts to all opposing team officials in sufficient time to allow contracts to be signed prior to each game. Nevertheless, all opponents did not respond. The University did have fully executed contracts for non-conference football games. The University's Director of Athletics contacted all members of the Southwestern Athletic Conference ("SWAC") and urged them to sign contracts for all sports prior to each athletic event.

Management will make every effort to ensure that fully execute contracts are received by the University prior to each athletic event.

Mr. Albert Dennis, Director of Intercollegiate Athletics, is responsible for ensuring that the University will have fully executed contracts.

Sincerely,

Neari F. Warner

Neari F. Warner
Acting President

NFW:jj

Grambling State University
OFFICE OF THE PRESIDENT
Grambling, Louisiana 71245
P.O. DRAWER 607
(318) 274-6117
FAX: (318) 274-6172

August 13, 2002

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

Dear Dr. Kyle:

In reference to the finding "Unsupported Extra Service Contract Pay," management concurs with this finding.

The University's policy requires the following:

- Request for extra compensation must be completed and approved by the immediate supervisor, budget officer, area vice president and president prior to beginning work.
- The time is reported on the time sheet, an extra compensation form for unclassified staff and an overtime form for classified staff. All forms are approved by the immediate supervisor and the area vice president.

The policy will be amended to require non-faculty to show the beginning and ending hours each day to be paid for extra compensation payments.

The area vice president and Mr. Greg Sykes, Assistant Controller for Disbursement, are responsible for ensuring that hours worked for extra compensation are documented according to policy.

Sincerely,

Neari F. Warner

Neari F. Warner
Acting President

NFW:jj