

SOUTHEASTERN LOUISIANA UNIVERSITY
UNIVERSITY OF LOUISIANA SYSTEM

STATE OF LOUISIANA



FINANCIAL AUDIT SERVICES
MANAGEMENT LETTER
ISSUED NOVEMBER 22, 2017

**LOUISIANA LEGISLATIVE AUDITOR
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Louisiana Legislative Auditor

Daryl G. Purpera, CPA, CFE

Southeastern Louisiana University



November 2017

Audit Control # 80170122

Introduction

As a part of our audit of the University of Louisiana System (System) and the Single Audit of the State of Louisiana (Single Audit) for the fiscal year ended June 30, 2017, we performed procedures at Southeastern Louisiana University (Southeastern) to provide assurances on financial information that is significant to the System's financial statements; evaluate the effectiveness of Southeastern's internal controls over financial reporting and compliance; and determine whether Southeastern complied with applicable laws and regulations.

Southeastern is a part of the System and reported an enrollment of more than 14,499 students for the Fall 2016 semester. Southeastern is primarily a teaching institution whose mission is successful education of undergraduate students and services to the employers and communities in its region. The university's overall mission is to lead the educational, economic, and cultural development of southeast Louisiana.

Results of Our Procedures

Current-year Findings

Failure to Maintain Adequate Inventory of Movable Property

Southeastern's Athletic Department (Department) did not maintain a complete and accurate inventory of its movable property, increasing the risk of loss and unauthorized use. We found that 51 (14%) of 365 items assigned to the Department were not tagged, and another 47 items (13%) did not have an accurate location listed in the inventory system. Additionally, there were four items that could not be located during our property search.

According to Title 34 Chapter 3 §307 of the Louisiana Administrative Code (LAC), all movable property having an acquisition cost of \$1,000 or more, and computers of any value, must be tagged with a unique identification number and placed into inventory in the Louisiana Property Assistance Agency's (LPAA) asset management system, Assetworks. The location of inventoried property should be indexed, and updates or modifications to the location should be sent to the LPAA director (Title 34 Chapter 3 §311). The Department did not implement adequate controls to ensure compliance with the LAC Title 34 requirements and university policy.

Southeastern management should ensure an accurate and complete inventory of movable property is maintained and should enforce controls to ensure that all movable property is adequately secured and monitored in accordance with the LAC and university policy. Southeastern concurred with the finding and outlined a corrective action plan (see Appendix A, page 1).

Inadequate Billing for Child Care Services

Southeastern's Rec Kids program, an afterschool program for youth ages 3-13, did not charge for all services rendered for the fiscal year ended June 30, 2017; failed to collect on unpaid invoices; did not charge the allowed fees for delinquent payments; and allowed children with unpaid balances to continue attending the program. In addition, an internal audit report issued on May 7, 2017, reported that two employees of the university, the former Director of Recreational Sports and Wellness (Program Director) and the former Business Manager, had received 100% discounts for their children attending the Rec Kids program and the summer camp program, Camp Rec, without the university's approval.

In a test of 20 accounts for fiscal year 2017 through May 2017, we noted the following:

- 16 of the 20 accounts tested were invoiced a total of \$3,521 less than the amount of charges calculated using the daily sign-in sheets for the afterschool program. The former Program Director was under-billed \$1,940 for her two children; the former Business Manager was under-billed \$833 for his two children; and the remaining 12 were under-billed a total of \$748.
- As of May 2017, the total of unpaid balances on the accounts tested was more than \$10,000. The \$25 late payment fee was not charged on any accounts, no collection efforts were evident, and all children were allowed to continue to attend the afterschool program.
- During fiscal year 2017, charges per the daily sign-in sheets for the children of the former Program Director and Business Manager were \$2,858; however, the only amount billed and paid was \$85 from the Program Director, which was billed in March 2017 and paid in May 2017. Over a two-year period, these employees received services from the afterschool and summer school programs worth more than \$12,000 at no charge.

On October 1, 2015, the Program Director revised the policy and procedures manual to include the following statement, "Note: Children of Southeastern Recreational Sports and Wellness Department Employees [Professional Staff and Graduate Assistants] attending the Rec Kids programs will not be assessed a fee for these services." Per the internal auditor's report dated March 7, 2017, the Program Director admitted that she did not have the approval of senior management to initiate this policy but allowed it anyway to be competitive. The policy only benefitted the Program Director and Business Manager.

The Rec Kids program's policies and procedures clearly define the rules for payment and provide for a \$25 late payment fee for invoices not paid within 15 days after the invoice is mailed. Furthermore, the LAC Title 4, Part XIII, Chapter 1, Section 105 identifies general procedures for the collection process including pursuing delinquent accounts by creating collection letters, applying late charges and interest to accounts, and establishing and maintaining internal controls over the collection process. The LAC also identifies collection follow-up procedures such as discontinuing service and notifying the debtor that service has been discontinued for nonpayment.

Management should develop and implement controls over the billing and collection functions related to the after school and summer camp programs to prevent future loss of revenue and diminish the opportunity for error or fraud. Procedures should focus on separating the billing and cash collection functions and implementing a collections structure that can be followed with all overdue accounts. Management also should seek full restitution from the former Program Director and former Business Manager and ensure that all accounts are properly billed for prior services rendered. Management concurred with the finding and outlined a corrective action plan (see Appendix A, pages 2-3).

Financial Statements - University of Louisiana System

As a part of our audit of the System's financial statements for the year ended June 30, 2017, we considered Southeastern's internal control over financial reporting and examined evidence supporting certain account balances and classes of transactions, as follows:

Statement of Net Position

Assets – Cash and Cash Equivalents, Investments, Due from State Treasury, and Capital Assets

Liabilities – Accounts Payable and Accruals, Unearned Revenue resulting from tuition and fees, and Bonds Payable

Net Position – Net Investment in Capital Assets, Restricted-Expendable, Restricted-Nonexpendable, and Unrestricted

Statement of Revenues, Expenses, and Changes in Net Position

Revenues – Student Tuition and Fees, Auxiliary Revenues, Federal Nonoperating Revenues, State Appropriations, Capital Appropriations, and Capital Grants and Gifts

Expenses – Educational and General, and Auxiliary Enterprises

Based on the results of these procedures on the financial statements, we reported a finding on the failure to maintain adequate inventory of movable property for the Athletic Department, as described previously. In addition, the account balances and classes of transactions tested, as adjusted, are materially correct.

Federal Compliance - Single Audit of the State of Louisiana

As a part of the Single Audit for the year ended June 30, 2017, we performed internal control and compliance testing as required by Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance) on Southeastern's major federal program, as follows:

- Student Financial Assistance Cluster

Those tests included evaluating the effectiveness of Southeastern's internal controls designed to prevent or detect material noncompliance with program requirements and tests to determine whether Southeastern complied with applicable program requirements. In addition, we performed procedures on information submitted by Southeastern to the Division of Administration's Office of Statewide Reporting and Accounting Policy for the preparation of the state's Schedule of Expenditures of Federal Awards (SEFA), as required by Uniform Guidance.

Based on the results of these Single Audit procedures, we did not report any internal control deficiencies or noncompliance with program requirements. In addition, Southeastern's information submitted for the preparation of the state's SEFA is materially correct.

Other Procedures

In addition to the System and Single Audit procedures noted above, we performed certain procedures that included obtaining, documenting, and reviewing Southeastern's internal controls over the Recreational Sports and Wellness's Rec Kids afterschool care program.

Based on the results of these procedures, we reported a finding related to Inadequate Billing for Child Care Services, as described previously.

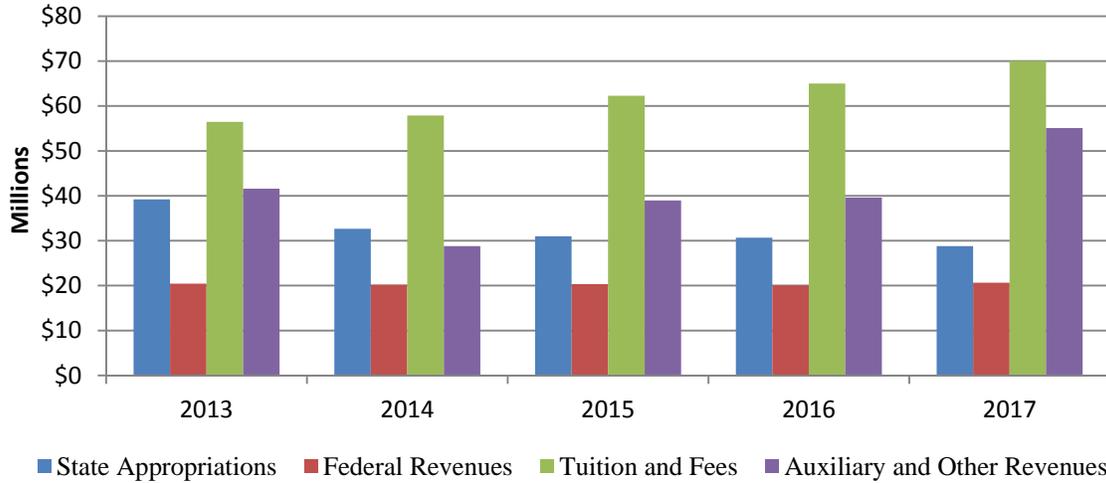
Trend Analysis

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

In analyzing financial trends of Southeastern over the previous four fiscal years, expenses have remained fairly consistent, but in fiscal year 2017 Southeastern did not have a mid-year budget cut for the first time in many years, resulting in an increase in total expenses. Since fiscal year 2013, state appropriations have decreased by 27%. As these revenues continue to become a smaller portion of total revenues, the university's operations are becoming more dependent on student tuition and fees, auxiliary, and other revenue. Over the same period, tuition and fees have increased by 24%, mainly due to the increases in tuition permitted by the GRAD Act (Act

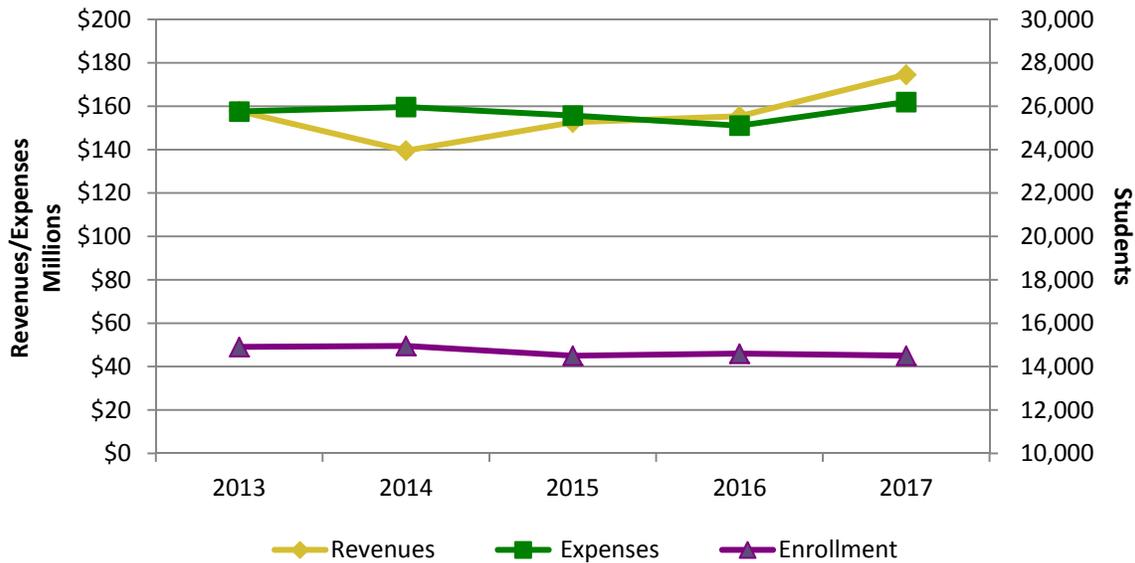
741 of the 2010 Regular Session of the Louisiana Legislature). Auxiliary and other revenues have increased by 32%.

**Exhibit 1
Five-Year Revenue Trends**



Source: Fiscal Year 2013-2017 Southeastern Annual Fiscal Reports

**Exhibit 2
Fiscal/Enrollment Trends**



Source: Fiscal Year 2013-2017 Southeastern Annual Fiscal Reports

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

Under Louisiana Revised Statute 24:513, this letter is a public document, and it has been distributed to appropriate public officials.

Respectfully submitted,

A handwritten signature in blue ink that reads "Daryl G. Purpera". The signature is fluid and cursive, with the first letters of the first and last names being capitalized and prominent.

Daryl G. Purpera, CPA, CFE
Legislative Auditor

LMF:EMS:BQD:EFS:aa

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APPENDIX A: MANAGEMENT'S RESPONSES



October 26, 2017

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

Re: Failure to Maintain Adequate Inventory of Movable Property

Dear Mr. Purpera:

I am in receipt of a letter dated October 5, 2017 from Leah Falgout, Senior Auditor I, regarding an audit finding relating to a failure to maintain adequate inventory of movable property. The finding, related to the audit of movable property in the Athletics Department, stated that the Athletics Department did not maintain a complete and accurate inventory of its movable property. The University concurs with this finding.

While the University has procedures in place to maintain an accurate and complete inventory, the Athletics Department failed to follow established procedures, specifically those related to ensuring that items are appropriately tagged and are identified in the asset management system with the correct physical location. As of the date of this letter, all moveable property items listed in the wrong location have been updated in the Asset Management System with the correct location. In addition, all items noted as missing a tag have been tagged.

The Vice President of Administration and Finance has also held a meeting with Athletics and Property Control personnel to discuss the specific issues associated with this finding and reiterate the importance of adherence to all policies and requirements associated with movable property. The University will continue to stress the importance of this in communications and checklists established to ensure compliance with all LAC Title 34 requirements and university policies.

The Director of Purchasing and Property Control, Mr. Richard Himber, has confirmed that the above referenced actions have been fully implemented and will be responsible for ensuring all future compliance as outlined. This will be done with oversight by the Vice President for Administration and Finance.

If you have any questions or need additional information regarding this audit issue, please feel free to contact me at (985)549-2282.

Sincerely,

Sam Domiano
Vice President for Administration & Finance



November 6, 2017

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

Re: Inadequate Billing for Child Care Services

Dear Mr. Purpera:

I am in receipt of a letter dated October 25, 2017 from Leah Falgout, Senior Auditor I, regarding an audit finding relating to inadequate billing for child care services in the Recreational Sports & Wellness Department. The University concurs with this finding.

Concerns originally surfaced through the work of an internal review process initiated by the Vice President for Student Affairs on December 5, 2016. Subsequent to that review, the University engaged the Office of Internal Audit. The Internal Auditor made management aware of potential issues in the Recreational Sports & Wellness Department, and more specifically, the Rec Kids program on February 15, 2017. The University moved quickly to address concerns and deficiencies. The following corrective actions were taken:

- February 6, 2017: An Interim Business Manager was appointed with a strong background in business, including a degree in Accounting. The former Business Manager had previously resigned as of January 3, 2017.
- March 16, 2017: The unapproved 100% percent discount practice was discontinued.
- May 1, 2017: Final report issued by the Office of Internal Audit.
- May 3, 2017: The former Director for Recreational Sports & Wellness was separated from the University. Recreational Sports & Wellness Department, the department where Rec Kids is housed, was moved under the Vice President for Student Affairs' direct line of supervision.
- May 8, 2017: The Vice President for Student Affairs appointed an Interim Director. The interim appointment was a retiree with extensive experience in facilities management.
- May 18, 2017: The University pursued full restitution for the improperly waived and uncollected fees for services rendered from the former Director and former Business Manager, including filing a claim with the Office of Risk Management.
- May 23, 2017: A Management Review Team was established to conduct a comprehensive review of Recreational Sports & Wellness' operational and financial matters specifically related to the Rec Kids program. The team was comprised of individuals with expertise in the areas of accounting, management, facilities and operations. The team immediately began identifying and addressing areas where deficiencies existed. Following are some of the outcomes associated with their work:

- July 26, 2017: A new billing methodology, calculated on a flat daily rate, was approved by the Vice President for Student Affairs and implemented effective August 7, 2017. The new formula has simplified billing and reduced billing errors.
 - August 7, 2017: Program participants were no longer billed on a monthly basis. Instead, they are billed on a weekly basis with payment being due the following week. The new Business Manager assesses a late fee to accounts if payment is not received by the due date. Once a payment is two weeks past due, the Assistant Director for Youth Services ensures that patrons with a past due account are not allowed to participate in the Rec Kids program until the bill is paid in full.
 - August 10, 2017: Step-by-step guidelines for handling sign-in sheets, payments, receipt documentation and membership verification documentation were implemented.
 - October 11, 2017: A total of \$5,388 of the 2016-2017 past due revenue had been collected. The Business Manager worked with patrons to establish payment plans for past due accounts. Notices were sent to the remaining patrons with unpaid balances informing them that service had been discontinued until their balances are paid in full.
 - October 16, 2017: Segregation of duties were established and fully implemented.
 - October 31, 2017: Meeting was held with Recreational Sports & Wellness and Controller's Office staff to ensure that Recreational Sports & Wellness collection procedures are consistent with established University procedures.
- September 29, 2017: Following a national search, a new Director for Recreational Sports & Wellness, with extensive experience in the field, was employed. The new Director has been made aware that any changes to Recreational Sports & Wellness policies and the new Rec Kids Program Manual must be submitted in writing to the Vice President for Student Affairs for approval. A detailed report of all changes to Recreational Sports & Wellness' policies and procedures will be submitted by the new Director to the Vice President for Student Affairs on or before December 1, 2017. The new Director has also been made aware of their responsibility to maintain proper controls and will be responsible for ensuring that all employees are trained and knowledgeable of their responsibilities related to these matters.

The Director of the Recreational Sports & Wellness will be responsible for ensuring all future compliance as outlined. This will be done with the oversight of the Vice President for Student Affairs.

If you have any questions or need additional information regarding this audit, please feel free to contact me at (985)549-2282.

Sincerely,



Sam Domiano
Vice President for Administration & Finance

APPENDIX B: SCOPE AND METHODOLOGY

We performed certain procedures at the Southeastern Louisiana University (Southeastern) for the period from July 1, 2016, through June 30, 2017, to provide assurances on financial information significant to the University of Louisiana System (System), and to evaluate relevant systems of internal control in accordance with *Government Auditing Standards*, issued by the Comptroller General of the United States. The procedures included inquiry, observation, review of policies and procedures, and a review of relevant laws and regulations. Our procedures, summarized below, are a part of the audit of the System's financial statements and the Single Audit of the State of Louisiana (Single Audit) for the year ended June 30, 2017.

- We evaluated Southeastern's operations and system of internal controls through inquiry, observation, and review of its policies and procedures, including a review of the laws and regulations applicable to Southeastern.
- Based on the documentation of Southeastern's controls and our understanding of related laws and regulations, we performed procedures to provide assurances on certain account balances and classes of transactions to support our opinions on the System's financial statements.
- We performed procedures on the Student Financial Assistance Cluster for the year ended June 30, 2017, as a part of the 2017 Single Audit.
- We performed procedures on information for the preparation of the state's Schedule of Expenditures of Federal Awards for the year ended June 30, 2017, as a part of the 2017 Single Audit.
- We compared the most current and prior-year financial activity using Southeastern's Annual Fiscal Reports and/or system-generated reports to identify trends and obtained explanations from Southeastern's management for significant variances.

In addition, we performed procedures on Southeastern's internal controls over the Recreational Sports and Wellness's Rec Kids afterschool care program. The scope of these procedures was significantly less than an audit conducted in accordance with *Government Auditing Standards*, issued by the Comptroller General of the United States.

The purpose of this report is solely to describe the scope of our work at Southeastern and not to provide an opinion on the effectiveness of Southeastern's internal control over financial reporting or on compliance. Accordingly, this report is not intended to be, and should not be, used for any other purposes.

We did not audit or review Southeastern's Annual Fiscal Report, and accordingly, we do not express an opinion on that report. Southeastern's accounts are an integral part of the System's financial statements, upon which the Louisiana Legislative Auditor expresses opinions.