

UNIVERSITY OF LOUISIANA AT MONROE
UNIVERSITY OF LOUISIANA SYSTEM
STATE OF LOUISIANA



MANAGEMENT LETTER
ISSUED FEBRUARY 23, 2011

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

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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 office of the Legislative Auditor and at the office of the parish clerk of court.

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. Six copies of this public document were produced at an approximate cost of \$18.12. 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.la.la.gov. When contacting the office, you may refer to Agency ID No. 3495 or Report ID No. 80100059 for additional information.

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, Administration Manager, at 225-339-3800.

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Our procedures at the University of Louisiana at Monroe (ULM) for the period July 1, 2008, through June 30, 2010, disclosed the following:

- ULM did not compile an accurate Annual Fiscal Report requiring numerous audit adjustments.
- ULM did not have adequate controls to ensure that its bank reconciliation process was complete and accurate. A review of ULM's bank reconciliation process revealed that 63 accounts payable and four payroll checks totaling \$110,426 had been voided but were still included on the outstanding checklists.
- ULM requested and received reimbursements totaling \$72,149 more than the actual expenses it incurred under the Community Development Block Grant Program.
- No significant control deficiencies were identified relating to investments, receivables, capital assets, accounts payable and accrued liabilities, other postemployment benefits payable, bonds payable, tuition and fees revenues, grants and contracts revenues, state appropriations, and education and general expenses.
- No significant control deficiencies or noncompliance issues were identified that would require reporting under Office of Management and Budget (OMB) Circular A-133 for the Student Financial Aid Cluster and the Social Services Block Grant for the fiscal year ended June 30, 2010.

This report is a public report and has been distributed to appropriate state officials. We appreciate ULM's assistance in the successful completion of our work.

Mission

ULM is one of eight Louisiana universities managed under the University of Louisiana System. It is accredited by the Commission on Colleges of the Southern Association of Colleges and Schools to award associate, baccalaureate, master's, and doctoral degrees. ULM strives to distinguish itself in preparing students for meaningful lives and service to humanity by excelling in student-centered learning-turning vision into action.

ULM's stated mission is to serve as a gateway to diverse academic studies for citizens living in the urban and rural regions of the Lower Mississippi Delta. ULM offers a broad array of academic and professional programs from the associate level through the doctoral degree, including the state's only public Pharm D program. Complemented by research and service, these programs address the postsecondary educational needs of the area's citizens, businesses, and industries.

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LOUISIANA LEGISLATIVE AUDITOR
DARYL G. PURPERA, CPA, CFE

January 28, 2011

UNIVERSITY OF LOUISIANA AT MONROE
UNIVERSITY OF LOUISIANA SYSTEM
STATE OF LOUISIANA
Monroe, Louisiana

As required by Louisiana Revised Statute 24:513 and as a part of our audit of the University of Louisiana System's (System) financial statements and Single Audit of the State of Louisiana for the fiscal year ended June 30, 2010, we conducted certain procedures at the University of Louisiana at Monroe (ULM) for the period from July 1, 2008 through June 30, 2010.

- Our auditors obtained and documented an understanding of ULM's operations and system of internal controls through inquiry, observation, and review of its policies and procedures documentation including a review of the related laws and regulations applicable to ULM.
- Our auditors performed analytical procedures consisting of a comparison of the most current and prior year financial activity using ULM's annual fiscal reports and/or system-generated reports and obtained explanations from ULM management of any significant variances.
- Our auditors considered internal control over financial reporting and examined evidence supporting ULM account balances and classes of transactions material to the System's financial statements as follows:

Statement of Net Assets - Cash and cash equivalents, investments, accounts and notes receivable, capital assets, accounts payable and accruals, bonds payable, other postemployment benefits payable, and net assets

Statement of Revenues, Expenses, and Changes in Net Assets - Student tuition and fee revenues, grant and contract revenues, auxiliary revenues, other operating revenues, state appropriations, federal nonoperating revenues, capital appropriations, education and general expenses, and auxiliary expenses

We also tested ULM's compliance with laws and regulations that could have a direct and material effect on the System's financial statements.

- Our auditors considered ULM's internal control over compliance with requirements that could have a direct and material effect on major federal programs, as defined in the Single Audit of the State of Louisiana, and we tested ULM's compliance with laws and regulations that could have a direct and material effect on the Student Financial Aid Cluster and the Social Services Block Grant as required by U.S. Office of Management and Budget Circular A-133 for the fiscal year ended June 30, 2010.

These procedures were performed in accordance with *Government Auditing Standards* as part of our audit of the System's financial statements for the fiscal year ended June 30, 2010. The Annual Fiscal Report of ULM is not audited or reviewed by us, and, accordingly, we do not express an opinion on that report. ULM's accounts are an integral part of the System's financial statements, upon which the Louisiana Legislative Auditor expresses opinions.

Based on the application of the procedures referred to previously, three significant findings are included in this letter for management's consideration. We found no significant control deficiencies or noncompliance relating to our analytical procedures or our procedures on ULM's investments; receivables; capital assets; accounts payable and accrued liabilities; other postemployment benefits payable; bonds payable; tuition and fees revenues; grants and contract revenues; state appropriations; and education and general expenses that should be communicated to management.

Inaccurate Annual Fiscal Report

ULM did not compile an accurate Annual Fiscal Report (AFR). As authorized by Louisiana Revised Statute 39:79, the commissioner of administration through the Division of Administration's Office of Statewide Reporting and Accounting Policy (OSRAP) prescribes the content and format for the preparation of ULM's AFR, which is then submitted to the Louisiana Legislative Auditor for audit and to the System office for inclusion in the AFR for the System.

Good internal control and sound business practices require that (1) accounting records and reports reflect all financial transactions incurred by an entity for the reporting cycle and these transactions be properly classified in accordance with applicable standards; (2) subsidiary records be analyzed before closing the books to ensure financial information is consistently and properly reported; and (3) reports be reviewed by competent members of management for accuracy and compliance with applicable requirements.

A review of ULM's AFR for the fiscal year ended June 30, 2010, disclosed the following errors, which resulted in significant adjustments to the financial statements:

- Management did not eliminate \$2,240,337 of auxiliary interagency transactions during the blending process between ULM and University of Louisiana at Monroe Facilities, Inc.
- Management inadvertently reported \$13,903,677 of Pell receipts on the Statement of Cash Flows as Federal Non-operating Receipts but later determined that these receipts should have been reported as Gifts and Grants for Other than Capital Purposes in the same section of the Statement of Cash Flows.
- Management did not thoroughly analyze its accounts payable, resulting in an overstatement of \$303,038. The overstatement consisted of \$265,878 of deferred revenues and \$37,160 of fiscal year 2011 expenses. This adjustment also required adjustment to the related note disclosure.
- Management incorrectly reported \$4,467,869 of Capital Appropriations on the Statement of Cash Flows as a capital financing activity instead of a non-cash transaction.
- Management overstated Other Operating Revenues by \$1,611,113 when it included electronic course fees, proceeds from the sale of cattle, Federal Emergency Management Agency reimbursements, and principal amounts collected on Perkins and Pharmacy loans.
- Management incorrectly reported a negative \$1,363,625 for its Restricted Expendable Net Assets instead of reducing Unrestricted Net Assets by this amount. This error also required adjustment to the related note disclosure.
- Management understated current cash by \$110,426 by not removing void checks from its outstanding checklists on its bank reconciliation. This error caused the overstatement of accounts payable by \$105,704; the understatement of Unrestricted Net Assets by \$4,722; the overstatement of various expenses by \$2,027; and the understatement of beginning net assets by \$2,695.
- Management incorrectly reported bank balances of \$1,039,161 that were uninsured and collateralized with securities held by the pledging institution's trust department or agent, but not in the entity's name. This error required adjustment to note C.1 - Deposits with Financial Institutions.
- Management incorrectly calculated the other postemployment benefits expense allocation by function, using total employee salaries instead of the salaries of only those employees who participated in the Office of Group Benefits. This error overstated and understated the functional expense categories and overstated nonoperating revenue by \$101,510.

Several different factors contributed to these problems, including implementation of ULM's new accounting system. Also, management did not analyze and adjust the accounts before closing the system, made errors in the blending of the financial information of the university and its component unit, did not strictly enforce its policies and procedures, and did not follow established reporting guidelines and requirements. As a result, ULM's financial information submitted to the auditors and the System required significant time and effort by the auditors to identify errors that should have been detected by management. Furthermore, failure to timely analyze accounts and identify errors subjects university assets to potential fraud and/or abuse.

ULM management should begin analyzing and reconciling all accounts and should make all adjustments necessary to the records to reflect current, accurate financial information. In addition, management should develop a compilation process that requires the timely reconciliation of all general ledger accounts to subsidiary or supporting records and schedules. The compilation process should include the performance of analytical procedures and a high level supervisory review of financial information and note disclosures to detect and correct errors in a timely manner before submitting that information to the System and the Louisiana Legislative Auditor. Finally, management should strictly enforce its existing policies and procedures and also become more familiar with authoritative financial recording and reporting guidance. Management concurred with the finding and recommendations and outlined a plan of corrective action (see Appendix A, page 1).

Control Weakness Over the Bank Reconciliation Process

ULM does not have adequate controls to ensure that its bank reconciliation process is complete and accurate. Good business practices and internal control dictate that complete and accurate bank reconciliations be prepared, to include the proper handling of voided checks. A review of ULM's bank reconciliation process revealed that 63 accounts payable and four payroll checks totaling \$110,426 had been voided but were still included on the outstanding checklists.

ULM has policies and procedures requiring bank reconciliations, but the void check procedures do not require specific documentation, such as an affidavit, be provided and maintained in a central location in all cases before a stop payment can be issued or a replacement check reissued. Furthermore, the procedures do not require anyone to ensure that the void check was actually removed from the outstanding checklist. These control weaknesses understate cash at June 30, 2010, by \$110,426 and subject cash to an increased risk of loss, misuse, and/or fraud.

ULM management should strengthen its policies and procedures relating to its bank reconciliation process and the process used to void and reissue checks, to include affidavits for all voided checks and periodic internal audits of the entire bank reconciliation process. Management concurred with the finding and recommendation and outlined a plan of corrective action (see Appendix A, page 2).

Reimbursement in Excess of Actual Expenses Incurred

ULM requested and received reimbursements totaling \$72,149 more than the actual expenses it incurred under the Community Development Block Grant (CDBG) program (CFDA 14.228).

In May 2007, ULM entered into a cooperative endeavor agreement with the Louisiana Department of Economic Development (LED) to receive up to \$1,200,000 in CDBG funds to be used to establish a Louisiana Small Business Technical Assistance Program in areas impacted by hurricanes Katrina and Rita. The agreement provided that the university will be compensated on a cost reimbursement basis for actual expenses incurred and that the university shall certify that all services billed have been completed and all expenses incurred are true and correct. During the term of the agreement, ULM incurred \$1,108,917 of actual expenses; however, it requested and received \$1,181,066 of reimbursements. We consider the excess reimbursements over actual expenses of \$72,149 to be questioned costs.

ULM did not comply with the terms of the cooperative endeavor agreement because it did not have controls in place to ensure that only actual expenses were submitted for reimbursement. The excess reimbursement may be disallowed by the grantor and ULM may be required to repay the grantor.

ULM management should implement the controls necessary to ensure that it only requests reimbursement for actual expenses incurred. Furthermore, management should contact the LED to determine if it should repay the excess funds. Management concurred with the finding and recommendations and outlined a plan of corrective action (see Appendix A, page 3). Management also represented that it has subsequently returned the excess funds to LED by check.

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

This letter is intended for the information and use of ULM and its management, others within ULM, the System, and the Louisiana Legislature and is not intended to be, and should not be, used by anyone other than these specified parties. Under Louisiana Revised Statute 24:513, this letter is a public document, and it has been distributed to appropriate public officials.

Respectfully submitted,

A handwritten signature in blue ink, appearing to read "Daryl G. Purpera".

Daryl G. Purpera, CPA, CFE
Legislative Auditor

KVL:BAC:BDC:THC:dl

ULM 2010

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

UNIVERSITY OF LOUISIANA MONROE

November 30, 2010

Mr. Daryl G. Purpera, CPA
Legislative Auditor
1600 Third Street
Baton Rouge, LA 70804-9397

RE: Audit Finding – Inaccurate Annual Fiscal Report

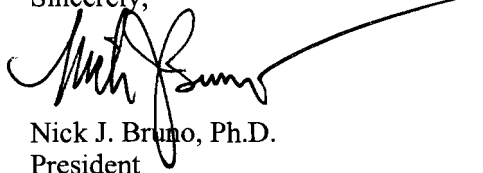
The University concurs with this finding, but notes that most of these adjustments were reclassifications and one elimination that affected both revenues and expenses and had no effect on Net Assets. The adjustments which did affect the net assets were less than 1/10 of 1% of the total Net Assets.

There were many extenuating circumstances during the two years covered by this audit. We were implementing new application software for all major university applications (Finance, Human Resources, Payroll, Student and Financial Aid). This caused double work in maintaining the old system while training, setting up and testing the new system. We spent an extreme amount of overtime to accomplish this major effort. More time was necessary to analyze accounts because data was being used from two different systems. There were also employee turnover issues, multiple budget cuts and additional reporting requirements. ULM management did analyze and adjust accounts prior to closing and even afterwards. However, due to the expedited audit timeline, there was little opportunity for additional management review. We did follow established reporting guidelines and requirements. For example, we were specifically advised by the University of Louisiana System staff to place the PELL receipts on the Federal Non-operating receipts line of the Cash Flow statement. We feel the readers of these financial statements would not have been misled in any way as the financial statements were corrected before being published and presented to the public.

Corrective Action: The Controller's Office employees will continue the process of thoroughly analyzing accounts each quarter as to allow necessary time to make corrections. We also are in the process of making changes to the application set up which will help us to develop more useful reports and will ensure a smoother close for year end. This will allow more time to prepare the statements and adequate time for management review.

Responsible Person: Diane Singletary, Controller
Anticipated Completion Date: Prior to June 30, 2011

Sincerely,



Nick J. Bruno, Ph.D.
President

UNIVERSITY OF LOUISIANA
MONROE

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November 18, 2010

Mr. Daryl G. Purpera, CPA
Legislative Auditor
1600 Third Street
Baton Rouge, LA 70804-9397

RE: Audit Finding – Control Weakness over the Bank Reconciliation Process

The University concurs with this finding. This condition resulted from employee turnover in key positions in two of the areas affected (student account services and general accounting).

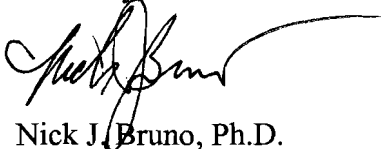
Correction Action: The Controller's Office has updated the void check procedures to ensure the process is completed in order to reflect complete and accurate bank reconciliation. These additions include:

1. Checks that have a stop payment placed on them must have a completed affidavit.
2. All void and stop payment checks are to be placed in a dedicated location for the responsible person in the Controller's Office to review they have been voided in the Banner system and removed from the outstanding check list.
3. After it has been determined that the void check procedure is complete, void and stop payment checks and appropriated paper work will be maintained in a central file.

We will also verify all voided checks in question are properly recorded and are removed from the outstanding check list.

Responsible Person: Diane Singletary, Controller
Anticipated Completion Date: Prior to December 31, 2010

Sincerely,



Nick J. Bruno, Ph.D.
President

UNIVERSITY OF LOUISIANA MONROE

November 29, 2010

Mr. Daryl G. Purpera, CPA
Legislative Auditor
1600 Third Street
Baton Rouge, LA 70804-9397

RE: Audit Finding – Reimbursement in Excess of Actual Expenses Incurred

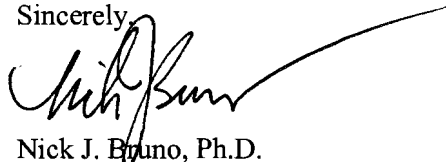
University management concurs with this finding that we did not follow the written requirements as specified in the grant contact agreement. In May 2007, ULM entered into a cooperative endeavor agreement with Louisiana Economic Development (LED) for \$625,000 to provide counseling and training services. This grant was later increased by \$575,000 (to a total of \$1.2 million). The original proposal submitted by ULM contained a cost reimbursable budget; however, we were contacted by LED and asked to send a second proposed budget that was fee based. Both budgets are included in the Cooperative Endeavor Agreement (CEA) with LED. LED required that all information to create an invoice be entered into their database (SBITS) and then that database created the fee-based invoice. LED was aware that the billing amount was fee-based and the invoices were never rejected nor returned for more information. ULM complied with verbal instructions from LED and these instructions were reinforced by the process used to submit the invoice and the fee based budget. Even though there was language indicating this was a cost reimbursable contract and a cost reimbursable budget was included in the CEA along with a second budget that was fee-based; again, no invoice was rejected nor unpaid by LED.

ULM had at the time, and currently has processes and controls in place to ensure that actual expenses are submitted for cost-reimbursement contracts. Due to verbal instructions relating to the project and the billing process itself, as well as the fact that two budgets were part of the CEA, led to mixed interpretation of the billing.

Corrective Action: LED will be contacted to determine the total amount, if any, to repay and the procedure for returning any excess payments to the State. In the future, all contracts and grants will be followed according to the written requirements; and verbal and/or written instructions to the contrary will have to be made a part of a contract by amendment.

Responsible Person: Mary Lynn Wilkerson, LSBDC Director
Anticipated Completion Date: Prior to April 1, 2011

Sincerely,



Nick J. Bruno, Ph.D.
President