

LOUISIANA BOARD OF REGENTS
FOR HIGHER EDUCATION
STATE OF LOUISIANA



PROCEDURAL REPORT
ISSUED AUGUST 10, 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.

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. Five copies of this public document were produced at an approximate cost of \$21.55. 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. 3306 or Report ID No. 80110050 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 Kerry Fitzgerald, Chief Administrative Officer, at 225-339-3800.

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Our procedures at the Louisiana Board of Regents for Higher Education (Board) for the period July 1, 2009, through June 3, 2011, disclosed the following:

- The Board did not ensure that its subrecipients received the required Office of Management and Budget (OMB) Circular A-133 audits and did not identify the CFDA federal award number in subrecipient contracts for certain grant programs for the fiscal year ending June 30, 2011.
- Based on work performed by Tulane University Internal Audit, approximately \$29,518 of federal Community Development Block Grant funds awarded to Tulane University Health Sciences Center by the Board was misappropriated and used for the program manager's personal purchases.
- No significant control deficiencies or errors related to non-payroll expenditures and related revenues were identified.

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

Vision Statement

The vision of the Board is to formulate, establish and provide statewide oversight for a comprehensive, well-balanced postsecondary education system designed to raise the educational attainment level and subsequent quality of life for all Louisiana citizens.

Mission Statement

The mission of the Board is to plan, coordinate and have budgetary responsibility for all public postsecondary education as constitutionally prescribed in a manner that is effective and efficient, quality driven, and responsive to the needs of citizens, business, industry, and government.

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LOUISIANA LEGISLATIVE AUDITOR
DARYL G. PURPERA, CPA, CFE

June 3, 2011

**LOUISIANA BOARD OF REGENTS
FOR HIGHER EDUCATION
STATE OF LOUISIANA**
Baton Rouge, Louisiana

As required by Louisiana Revised Statute 24:513, we conducted certain procedures at the Louisiana Board of Regents for Higher Education (Board) for the period from July 1, 2009, through June 3, 2011.

- Our auditors obtained and documented a basic understanding of the Board's operations and system of internal controls, including internal controls over major federal award programs administered by the Board, through inquiry, observation, and review of its policies and procedures documentation, including a review of the related laws and regulations applicable to the Board.
- Our auditors performed analytical procedures consisting of a comparison of the most current and prior year financial activity using the Board's annual fiscal reports and/or system-generated reports and obtained explanations from Board management of any significant variances.
- Based on the documentation of the Board's controls and our understanding of related laws and regulations, procedures were performed on selected controls and transactions relating to non-payroll expenditures (other charges) and related revenues.
- Our auditors performed internal control and compliance testing in accordance with Office of Management and Budget (OMB) Circular A-133 on the federal Research and Development Cluster for the fiscal year ending June 30, 2011, as part of the Single Audit for the State of Louisiana.

The Annual Fiscal Reports of the Board were not audited or reviewed by us, and, accordingly, we do not express an opinion on these reports. The Board's accounts are an integral part of the State of Louisiana's financial statements, upon which the Louisiana Legislative Auditor expresses opinions.

Based on the application of the procedures referred to previously, all significant findings are included in this report for management's consideration. Other than these findings, we found no significant control deficiencies, noncompliance, or errors relating to our analytical procedures or our other audit procedures including our procedures on federal programs that should be communicated to management.

The following significant findings are included in this report for management's consideration:

Inadequate Controls Over Subrecipient Monitoring

The Board did not adequately monitor subrecipients of the Community Development Block Grants/States program and Non-Entitlement Grants in Hawaii program (CDBG, CFDA 14.228, award B-06-DG-22-0001), a part of the Research and Development (R&D) Cluster of programs administered by the Board. The Board did not ensure that its subrecipients received the required OMB Circular A-133 audits and did not identify the CFDA federal award number in subrecipient contracts.

OMB A-133, Subpart D, Section 400 (d) requires pass-through entities to (1) ensure subrecipients expending \$500,000 or more in federal awards during the subrecipients' fiscal year have a single audit and the required audits are completed within nine months of the end of the subrecipients' audit period and (2) identify federal awards made by informing each subrecipient of the CFDA title and number of the grant awards.

Our review of subrecipient monitoring activities for the R&D Cluster found the following deficiencies:

- For one of six (17%) items tested, the Board did not have a copy of the 2008 or 2009 single audit reports for the entity to which it passed through federal funds.
- Two of six (33%) contracts reviewed between the Board and its subrecipients did not contain the identifying CFDA award number.

Audit personnel did not ensure that all required single audits for its subrecipients of the CDBG program were obtained and reviewed. In addition, the individuals responsible for providing contracts and other awarding documentation to subrecipients were unaware of federal regulations requiring CFDA numbers to be provided to the subrecipients.

Failure to adequately monitor subrecipient audit reports and findings impairs the Board's ability to evaluate the impact of subrecipient activities on overall compliance with laws and regulations, as required by OMB. Failure to supply subrecipients with the federal award information can result in incomplete reporting by the subrecipients and results in the Board's noncompliance with OMB Circular A-133 pass-through entity responsibilities.

The Board should follow prescribed policies on Subrecipient Monitoring for Federally-Sponsored Projects that require reviewing all required single audits for its subrecipients. Management should also strengthen its policies and procedures to ensure that subrecipient awarding documents include all required federal award information. Management concurred with the finding and recommendation and outlined a plan of corrective action (see Appendix A, pages 1-3).

Inappropriate Spending of Federal Grant Award

Based on work performed by Tulane University Internal Audit, approximately \$29,518 of federal Community Development Block Grant (CDBG, CFDA 14.228, award B-06-DG-22-0001) funds awarded to Tulane University Health Sciences Center by the Board was misappropriated and used for the program manager's personal purchases. State and federal regulations prohibit the misappropriation of these program funds.

Tulane Internal Audit reported the following findings and actions:

- Approximately \$29,518 of charges was inappropriate for the grant.
- The employee responsible for the charges was terminated.
- Tulane removed the questionable charges from the grant.
- Tulane Health Sciences Center Police Department completed its investigation and charged the employee with theft over \$500.

The university's purchasing card (p-card) policy allows program managers to approve their own purchases and reconcile the account expenditures back to original receipts without a required second level of approval.

Existing controls were not sufficient to prevent the fraudulent activity from occurring or to identify the fraudulent activity in a timely manner. Failure to establish and follow adequate internal control procedures increases the risk that federal program funds are expended for purposes not allowed under the grant award and that errors and/or fraud could occur. The auditors did not question any costs as a result of this finding.

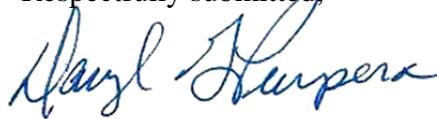
The university is implementing changes to its controls over p-card transactions to prevent users from approving their own transactions.

Board management should continue to investigate the possibility of fraudulent activity among subrecipients and to assess the adequacy of pass-through entities' internal control over funds received from the Board to ensure compliance with all applicable laws and regulations, as well as the terms of the sub-grant agreement. Management concurred with the finding and outlined a plan of corrective action (see Appendix A, see page 4).

The recommendations in this report represent, in our judgment, those most likely to bring about beneficial improvements to the operations of the Board. The varying nature of the recommendations, their implementation costs, and their potential impact on the operations of the Board should be considered in reaching decisions on courses of action. Findings relating to the Board's compliance with applicable laws and regulations should be addressed immediately by management. These findings will also be included in the Single Audit Report for the State of Louisiana.

This report is intended for the information and use of the Board, its management, others within the entity, 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 report is a public document, and it has been distributed to appropriate public officials.

Respectfully submitted,



Daryl G. Purpera, CPA, CFE
Legislative Auditor

EBT:AD:BQD:THC:dl

BOR 2011

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

Robert W. Levy
Chair

Mary Ellen Roy
Vice Chair

Charlotte A. Bollinger
Secretary

James E. Purcell
Commissioner of
Higher Education



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Donna G. Klein
W. Clinton Raspberry, Jr.
Albert D. Sam II
Victor T. Stelly
Harold M. Stokes
Joseph C. Wiley
Demetrius D. Sumner, Student

May 11, 2011

Daryl G. Purpera, CPA, CFE
Legislative Auditor
Louisiana Legislative Auditor
1600 North Third Street
P.O. Box 94397
Baton Rouge, Louisiana 70804-9397

Dear Mr. Purpera:

We concur with your finding titled, "Inadequate Controls Over Subrecipient Monitoring". The criteria for the first part of the finding, OMB Circular A-133, Subpart D, Section 400 (d) (4), requires pass-through entities to ensure subrecipients expending \$500,000 or more in federal awards during the subrecipient's fiscal year have a single audit and the required audits are completed within nine months of the end of the subrecipient's audit period. In response to this part of the finding, our corrective action plan includes procedures to:

1. identify all subrecipients to whom the Board of Regents passes through federal award funds;
2. contact these subrecipients within the six months following the close of their fiscal year to request a copy of their single audit;
3. review the single audits received and evaluate the impact that any finding contained therein may have on the federal pass through awards from the Board of Regents; and
4. maintain a computer file that records the dates these procedures were accomplished and the results of our evaluation of findings contained in the single audits.

We plan to develop the aforementioned computer file before May 31, 2011 and will begin implementing the other procedures of our corrective action plan immediately. See attachment included.

The criteria for the second part of the finding, OMB Circular A-133, Subpart D, Section 400 (d) (1) requires pass-through entities inform the subrecipient of the CFDA title and CFDA number of the federal grant award passed through. Our corrective action plan for this part of the finding includes procedures as follows:

1. develop a letter to that informs recipients of federal awards of our responsibilities as a pass-through entity as detailed in OMB Circular A-133, Subpart D, Section 400 (d);
2. have the applicable grant administrative employee include information in the letter as required by OMB Circular A-133, Subpart D, Section 400 (d) (1) and (2);
3. include the letter as an attachment to the award contract and request the subrecipient's management sign a second copy of the letter to acknowledge their understanding of the requirement; and
4. retain a copy of the signed letter on file with the contract in the Contract and Administrative Coordinator's office.

We plan to have the letter developed prior to June 30, 2011 and will begin implementing the other procedures of our corrective action plan immediately thereafter. The contact person for our corrective action plan is our Audit Director, Chris Dalton. You can contact Mr. Dalton at 342-4253 should you have any questions regarding our response.

Sincerely,



Todd Barre
Deputy Commissioner for Finance and Administration

SCHEDULE 8 AS OF JUNE 30, 2011

INSTITUTION	CFDA #	DATE OF SINGLE AUDIT	ISSUES NOTED IN SA	DATE BOR AUDIT FOLLOWED UP	ISSUE RESOLVED
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Robert W. Levy
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May 11, 2011

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Daryl G. Purpera, CPA, CFE
Legislative Auditor
Louisiana Legislative Auditor
1600 North Third Street
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Dear Mr. Purpera:

We concur with your finding titled, "Inappropriate Spending of Federal Grant Award". Following the issuance of the Tulane University Internal Audit report related to the theft of Community Development Block Grant (CFDA 14.228) funds, the University deducted the amount of misappropriated funds, \$29,518, from its next reimbursement request. Therefore, the reported expenditures for the grant award do not include any unallowable costs.

In response to our request, the Director of Sponsored Projects Administration, Kathleen Kozar, in a letter dated January 6, 2011 described the procedures the University has implemented in response to the fraud. These procedures include a segregation of duties such that a different employee or employees are responsible for authorizing purchases; using the University purchase card to make purchases; reconciling purchase card transactions to information in PaymentNet, the University's purchase card system; and reconciling purchase card transactions to TAMS, the University's ledger system.

Our corrective action plan, which will become a part of our monitoring procedures, will be the review of the University's purchase card procedures to ensure the procedures are adequate and working. If the problems are found for the procedures, we will respond accordingly. Our reviews will begin immediately and continue for the duration of the grant award and grant close-out period. The contact person for our corrective action plan is our Audit Director, Chris Dalton. You can contact Mr. Dalton at 342-4253 should you have any questions regarding our response.

Sincerely,

A handwritten signature in blue ink, appearing to read "Todd Barre", is written over a horizontal line.

Todd Barre
Deputy Commissioner for Finance and Administration