

LOUISIANA BOARD OF REGENTS
FOR HIGHER EDUCATION

STATE OF LOUISIANA



FINANCIAL AUDIT SERVICES
PROCEDURAL REPORT
ISSUED SEPTEMBER 9, 2015

**LOUISIANA LEGISLATIVE AUDITOR
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LOUISIANA LEGISLATIVE AUDITOR
DARYL G. PURPERA, CPA, CFE

September 9, 2015

The Honorable John A. Alario, Jr.,
President of the Senate
The Honorable Charles E. "Chuck" Kleckley
Speaker of the House of Representatives
Dr. Joseph C. Rallo,
Commissioner of Higher Education

Dear Senator Alario, Representative Kleckley, and Dr. Rallo:

This report provides the results of our procedures at the Louisiana Board of Regents for Higher Education (Board) for the period from July 1, 2013, through June 30, 2015. Our objective was to evaluate certain controls that the Board uses to ensure accurate financial reporting, compliance with applicable laws and regulations, and to provide overall accountability over public funds. I hope this report will benefit you in your legislative and operational decision-making processes.

We would like to express our appreciation to the management and staff of the Board for their assistance during our work.

Sincerely,

Daryl G. Purpera, CPA, CFE
Legislative Auditor

RW:JT:WDG:EFS:aa

BOR2015

Louisiana Legislative Auditor

Daryl G. Purpera, CPA, CFE



Louisiana Board of Regents for Higher Education

September 2015

Audit Control # 80150049

Introduction

The primary purpose of our procedures at the Louisiana Board of Regents for Higher Education (Board) was to evaluate certain controls that Board uses to ensure accurate financial reporting, compliance with applicable laws and regulations, and to provide overall accountability over public funds.

The Board was created to act as an oversight body over higher education in the state of Louisiana and plan, coordinate, and have budgetary responsibility for all public post-secondary education. The Board is responsible for reviewing programs at higher education institutions and making appropriate recommendations as to the deletion, continuation, and development of programs. While not involved in overseeing the day-to-day operations of college campuses, the Board is responsible for setting important statewide standards including minimum admissions requirements, as well as benchmarks and targets for the GRAD Act—Louisiana’s signature higher education reform policy. The Board represents the public higher education community before all branches of government and the public.

Results of Our Procedures

We evaluated the Board’s operations and system of internal controls through inquiry, observation, and review of its policies and procedures, including a review of the applicable laws and regulations. Based on the documentation of the Board’s controls and our understanding of related laws and regulations, we performed selected procedures relating to Enhancement and Endowment Programs, the Workforce and Innovation for a Stronger Economy (WISE) Fund, and the Funding Formula.

Statutory Distributions Not Received

We found the Board has not received more than \$15 million for distribution to public and private institutions of higher education, based on available financial records for the period July 1996 through April 2015.

Louisiana Revised Statute (R.S.) 4:218(A) authorizes Louisiana State Racing Commission (LSRC) to collect a license fee of 1.5% of total amounts wagered at off-track wagering facilities

(OTB fees). It further requires LSRC to distribute 33% of the OTB fees to the Board and 14% to horse breeders associations. LSRC is allowed to retain the remaining 53% to cover administrative costs. Auditors confirmed that the required distributions to the horse breeders associations were made; however, since 1990, the distributions to the Board have not been made. See the Legislative Auditor's report on the Louisiana State Racing Commission issued August 20, 2015.

The Board should work with the Office of Planning and Budget and LSRC for adequate resolution of this issue and ensure that the 33% distribution to the Board is included in all future budget requests.

Enhancement and Endowment Programs

The Enhancement and Endowed Programs consist of six components: the Endowed Professorships Subprogram; the Endowed Undergraduate Scholarships for First-Generation College Students Subprogram; the Endowed Chairs for Eminent Scholars program; the Enhancement Subprogram for Two-Year Institutions; the Traditional Enhancement Program; and the Undergraduate Enhancement Subprogram. The Endowment and Enhancement Programs provide support to institutions of higher education and their students through competitive programs for departments and units, non-competitive endowment programs, and matching for federal funds.

Based on risks identified at the Board, we performed procedures to determine if the Board followed all policies and procedures when awarding and monitoring the recipients of the Enhancement and Endowment Programs. As part of the reporting requirements in the Endowed Chair, Endowed Professorship, and Endowed Scholarship Programs Statement of Investment Policy and Objectives, the participating institutions shall contract annually with an independent auditor to make certain representations and certifications regarding each program in an Agreed-Upon Procedure (AUP) Report. The institutions annually submit one AUP Report that is intended to cover all of the programs. We reviewed a selection of AUP Reports for compliance with the Board's policies. None of the AUP Reports reviewed included language that clearly indicated that the Endowed Scholarships were included in the procedures described in these AUP Reports. Based on the results of our procedures, the Board has adequately complied with policies and procedures for awarding and monitoring the Enhancement and Endowment Program recipients, but should clarify the AUP report language to indicate that the Endowment Scholarships were included in the procedures.

WISE Fund

The WISE Fund allocates \$40 million to higher education institutions for the purpose of strategically aligning new investments in higher education with the workforce needs and emerging growth in our economy. The funds are appropriated to the Board to be distributed to and used by postsecondary education institutions in accordance with a statewide workforce demand and gap analysis. The WISE Fund was signed into legislation in June 2014.

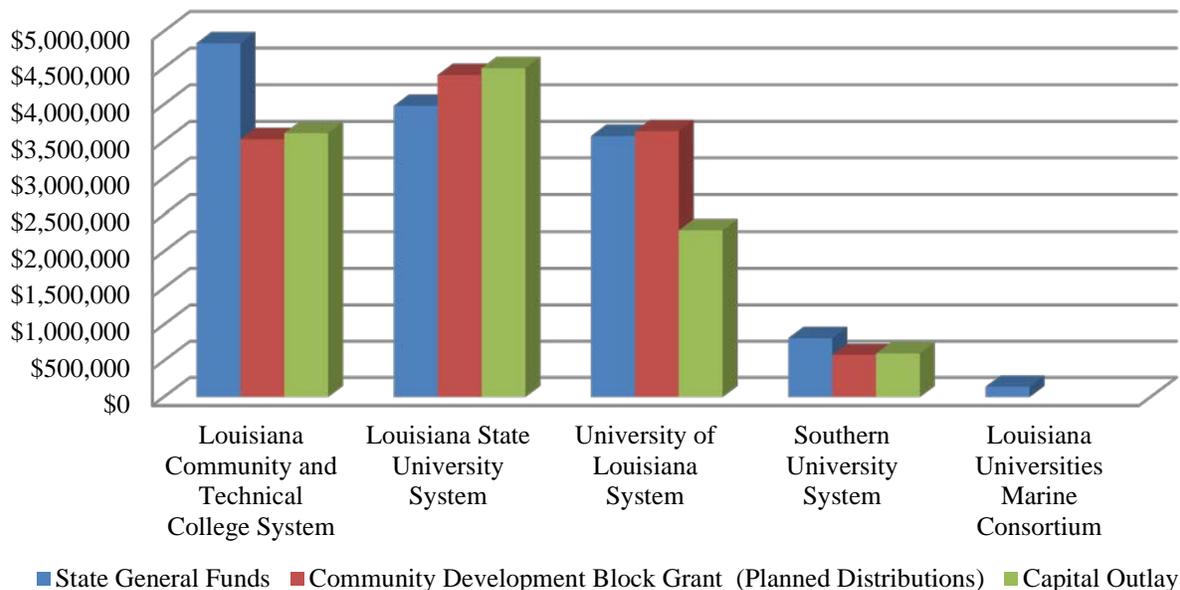
Based on risks identified at the Board, we performed procedures to gain an understanding of the funding distribution, allocation of funds, and monitoring of the funds.

The WISE Fund is funded by three different types of funding which include the state's General Fund, Capital Outlay, and Community Development Block Grant (CDBG) funds. Currently, monies from the General Fund and Capital Outlay have been disbursed to the institutions. The CDBG Cooperative Endeavor Agreement with the Office of Community Development/Disaster Recovery Unit (OCR/DRU) has been approved for the release of funds, and most of the individual contracts with the institutions have been finalized. Once finalized, the institutions can begin submitting reimbursement requests in order to receive the CDBG funds.

The Board has not initiated monitoring procedures for the WISE funding. The Board is still in the process of disbursing all funds to the institutions and anticipates beginning the monitoring process in Fall 2015. We performed a review of the WISE Fund allocation distribution method that was approved by the Board and the WISE Council. We determined that the allocation was reasonable.

Exhibit 1 demonstrates the WISE Fund distribution to each institution by funding source for fiscal year 2015

Exhibit 1
WISE Fund Distribution, by Funding Source
Fiscal Year 2015



Source: Prepared by legislative auditor's staff using agency-generated information.

Funding Formula

The Louisiana Constitution charges the Board with the responsibility of developing a funding formula for the equitable distribution of state funds to the state's public postsecondary education institutions. The formula has been designed to also reflect what is "important" in higher education in an effort to drive public policy and accountability. A performance funding formula was approved by the Board in March 2011.

Based on risks identified at the Board, we performed procedures to gain an understanding of the funding formula calculation. We reviewed the current funding formula calculation to gain an understanding of the elements that comprise the funding formula. We performed a trend analysis over the last 10 years of funding formula appropriations to determine if any of the changes to the formula impacted any institution significantly. No significant variations were noted due to the changes in the funding formula calculation.

Under R.S. 24:513, this report is a public document, and it has been distributed to appropriate public officials.

APPENDIX A: MANAGEMENT'S RESPONSE

Roy O. Martin III
Chair

Richard A. Lipsey
Vice Chair

Joseph P. Farr
Secretary

Joseph C. Rallo, Ph.D.
Commissioner of
Higher Education



Mark T. Abraham
Claudia H. Adley
Raymond J. Brandt
Marty J. Chabert
Joel E. Dupré
William H. Fenstermaker
Chris D. Gorman
Robert W. Levy
Edward D. Markle
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September 4, 2015

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

Dear Mr. Purpera:

The Louisiana Board of Regents has reviewed the Financial Audit Services report of September 2015 which evaluated certain controls the Board uses to ensure accurate financial reporting, compliance with applicable laws and regulations, and to provide overall accountability over public funds. The Board was very pleased that there were no audit findings for the period covering July 1, 2013 through June 30, 2015.

The Board concurs with recommendations to work with the Office of Planning and Budget, the Louisiana State Racing Commission (LSRC) and any other relevant agency to receive the funds due to the Board of Regents, both past and anticipated, in support of public higher education in our state.

Sincerely,

A handwritten signature in blue ink, appearing to read "J. Rallo", is positioned above the typed name of the Commissioner of Higher Education.

Joseph C. Rallo, Ph.D.
Commissioner of Higher Education

JCR:TG:chb

c: John Thiebaud, CPA
Audit Manager

APPENDIX B: SCOPE AND METHODOLOGY

We conducted certain procedures at the Louisiana Board of Regents for Higher Education (Board) for the period from July 1, 2013, through June 30, 2015. Our objective was to evaluate certain internal controls the Board uses to ensure accurate financial reporting, compliance with applicable laws and regulations, and to provide overall accountability over public funds. The scope of our procedures, which are summarized below, was significantly less than an audit conducted in accordance with *Government Auditing Standards* issued by the Comptroller General of the United States. We did not audit or review the Board's Annual Fiscal Reports, and, accordingly, we do not express opinions on those 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.

- We evaluated the Board's operations and system of internal control through inquiry, observation, and review of its policies and procedures, including a review of the laws and regulations applicable to the Board.
- Based on the documentation of the Board's controls and our understanding of related laws and regulations, we performed procedures to gain an understating and determine if the Board was following policies and procedures relating to enhancement and endowment programs, the WISE Fund, and the funding formula.
- We compared the most current and prior-year financial activity using the Board's annual fiscal reports and/or system-generated reports and obtained explanations from the Board's management for any significant variances.

The purpose of this report is solely to describe the scope of our work at the Board and not to provide an opinion on the effectiveness of the Board'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 purpose.