

LOUISIANA UNIVERSITIES MARINE CONSORTIUM
FOR RESEARCH AND EDUCATION

BOARD OF REGENTS
STATE OF LOUISIANA



FINANCIAL AUDIT SERVICES
PROCEDURAL REPORT
ISSUED JUNE 22, 2016

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

LEGISLATIVE AUDITOR
DARYL G. PURPERA, CPA, CFE

ASSISTANT LEGISLATIVE AUDITOR
FOR STATE AUDIT SERVICES
NICOLE B. EDMONSON, CIA, CGAP, MPA

DIRECTOR OF FINANCIAL AUDIT
ERNEST F. SUMMERVILLE, JR., CPA

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Louisiana Legislative Auditor

Daryl G. Purpera, CPA, CFE



Louisiana Universities Marine Consortium for Research and Education

June 2016

Audit Control # 80160006

Introduction

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

LUMCON's mission is to increase awareness of the environmental, economic, and cultural value of Louisiana's coastal and marine environments by conducting research and education programs directly relevant to Louisiana's needs in marine science and coastal resources, and to serve as a facility for all Louisiana schools with interest in marine research and education.

Results of Our Procedures

We evaluated LUMCON'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 agency. Based on the documentation of LUMCON's controls and our understanding of related laws and regulations, we performed procedures on selected controls and transactions relating to Gulf of Mexico Research Initiative grants, marine research vessel revenues, and accounts receivable.

Current-Year Finding

Inadequate Controls over Accounts Receivable Collection and Reporting

LUMCON did not establish the terms and conditions, including payment due dates, at the time receivables were created, and has failed to refer delinquent accounts for collection as required by Louisiana Revised Statute (R.S.) 47:1676. In addition, the accounts receivable amount of \$303,105 reported to Office of Statewide Reporting and Accounting Policy (OSRAP) for the quarter ending December 31, 2015, was inaccurate.

Based on our inquiries of management and our review of accounts receivable in fiscal years 2015 and 2016, we noted the following:

- LUMCON does not have a written policy requiring terms and conditions, including payment due dates, for invoices and does not include terms and conditions on invoices. Invoices should include terms and conditions of sale as well as the due date of a payment. Invoices without a payment due date are less likely to be paid promptly, which could result in inadequate cash flow.
- LUMCON has not established procedures to determine final delinquent debt and has not referred delinquent debts older than 60 days to the Office of Debt Recovery as required by R.S. 47:1676. In addition, LUMCON does not have a written bad debt write-off policy to identify accounts that have been determined to be uncollectible. The failure to establish policies and procedures related to debt collection increases the risk that accounts will become uncollectible, even as they remain as assets on LUMCON's books, and may impair funding for ongoing operations. According to LUMCON, of the receivable balance of \$770,203 as of January 31, 2016, \$286,948 is older than 90 days past due.
- The Quarterly Accounts Receivable report submitted to OSRAP for the quarter ending December 31, 2015, was inaccurate. R.S. 39:79 requires that LUMCON submit to OSRAP quarterly reports of its current and long-term accounts receivable, excluding receivables from federal and other state agencies as well as intra-agency departments. Based on the aging schedule prepared by LUMCON following the required OSRAP reporting requirements, the report submitted to OSRAP was understated by \$276,583, or 48%. However, the amounts reported on the aging schedule are not reliable based on our discussions with the preparer of the schedule. LUMCON's process for preparing the quarterly Accounts Receivable reports for OSRAP is manual, and there is no review process to ensure that these reports are complete and accurate. Failure to report accurate receivable information to OSRAP could impact monitoring at the statewide level.

LUMCON should develop written policies to determine terms and conditions, including due dates, on its invoices; refer delinquent accounts to the Office of Debt Recovery; and establish a review process over the preparation and submission to OSRAP of its quarterly accounts receivable reports to ensure that the information is accurate and complete. Management concurred with the finding and provided a plan of corrective action (see Appendix A).

GoMRI Grants

The Gulf of Mexico Research Initiative (GoMRI) is an independent body established by BP to administer a 10-year, \$500 million commitment for independent research into the effects of the Deepwater Horizon incident. LUMCON has received and manages two GoMRI grants.

We obtained a basic understanding of internal controls related to the GoMRI grant at LUMCON, including drawdowns of grant funds, payments to sub-awardees, sub-awardee monitoring, and submission of quarterly reports to Ocean Leadership, the “Grant Unit” or administrator appointed by BP. We performed procedures on selected invoices and quarterly reports submitted by sub-awardees to LUMCON during fiscal years 2015 and 2016, to ensure that relevant controls were in place and operating effectively. Based on the results of these procedures, we determined that LUMCON has implemented adequate controls over the GoMRI grant program.

Marine Research Vessel Revenue

LUMCON leases marine vessels to scientists, research groups, and educational organizations for marine research and educational purposes. In addition to leasing its own vessels, LUMCON also leases out a large marine vessel owned by the University of Southern Mississippi (USM) under a Vessel Management Agreement.

We obtained a basic understanding of LUMCON’s policies and controls over scheduling, operating, and invoicing research and educational cruises. We performed procedures on selected cruises to ensure the controls were in place and operating effectively. Based on the results of our procedures, we determined that LUMCON has properly implemented controls over self-generated revenues from leasing of marine research vessels.

Exhibit 1 lists the number of cruises and billings for the three largest marine research vessels leased by LUMCON during the period July 1, 2014, through December 31, 2015.

Exhibit 1 – Self-generated Revenues from Leasing of Vessels in FY 2015 and FY 2016			
Marine Research Vessel	Total Billings	Percent of Billings	Total Cruises
R/V Pelican	\$2,680,604	64%	48
R/V Point Sur (Owned by USM)	1,258,715	30%	28
R/V Acadiana	234,940	6%	88
Total	\$4,174,259	100%	164
Source: LUMCON’s FY2015 and FY2016 Vessel Operations Revenues and Expenses Reports.			

Accounts Receivable

We obtained a basic understanding of LUMCON's policies and controls over recording, collecting, monitoring, and reporting accounts receivable. LUMCON mainly provides services to researchers and scientists from universities in the Consortium, other in-state and out-of-state institutions of higher learning, private research organizations, and schools. LUMCON usually invoices for services after the completion of a cruise or field trip.

We examined the accounts receivable records and aging schedule as of January 31, 2016, from management, and noted that approximately two-thirds of the total accounts receivable were for revenue earned from leasing the marine research vessels, and that overall, more than one-third of LUMCON's receivables were 91 days or more overdue. See Exhibit 2 below:

Exhibit 2 – Current and Long-term Accounts Receivables as of January 31, 2016			
Invoice Type	Total Due	Percent of Total Receivables	Percent 91 days or over
Marine Vessel Leasings	\$535,247	69%	34%
Cafeteria/Dormitory Charges	45,908	6%	58%
Due from Private Grants	189,048	25%	42%
Total	\$770,203	100%	37%
Source: LUMCON's January 31, 2016, Aging Schedule.			

Our examination included determining if delinquent debts had been referred in accordance with R.S. 47:1676 to the Office of Debt Recovery. To do this we attempted to establish when outstanding debts became overdue; however, we noted that invoices did not include terms and conditions of sale.

We also reviewed the accounts receivable reports submitted by LUMCON to OSRAP for the quarter ending December 31, 2015, and reviewed the report preparation process with agency personnel. We noted that the process involved manual adjustments without a control in place to detect errors or omissions. Our review of the submitted reports to the accounts receivable records and aging schedule at December 31, 2015, noted the following discrepancies:

Exhibit 3 – Quarterly Reporting of Accounts Receivables to OSRAP			
Report or Schedule	Current AR (0-180 Days)	Long-term AR (>181 Days)	Total AR
LUMCON Aging Schedule	\$405,391	\$174,297	\$579,688
Quarterly Reports to OSRAP	233,843	69,262	303,105
Difference	\$171,548	\$105,035	\$276,583
Source: LUMCON's December 31, 2015, Aging Schedule and Quarterly Reports to OSRAP.			

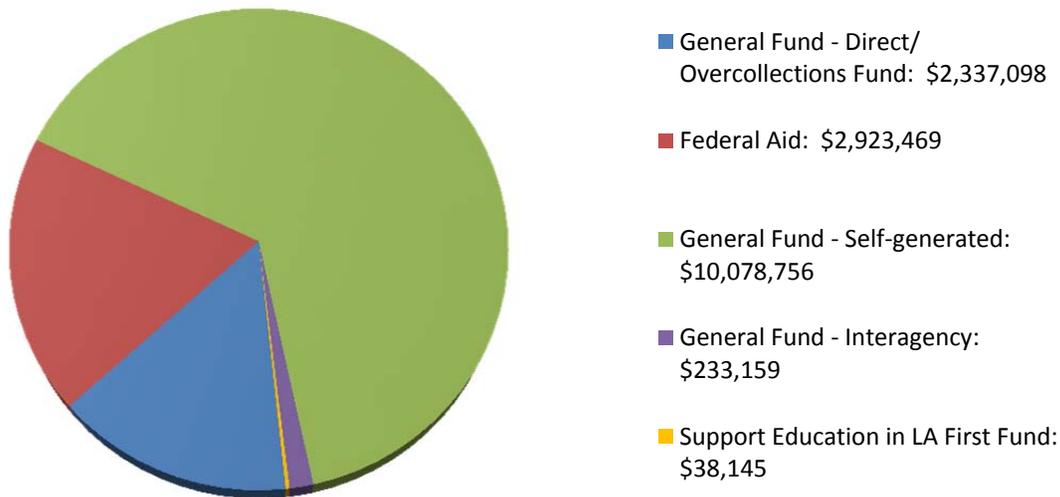
Based on the results of our procedures, we reported a finding on Inadequate Controls over Accounts Receivable Collection and Reporting (see Current-Year Finding section).

Comparison of Activity between Years

We compared the most current and prior-year financial activity using LUMCON's annual fiscal reports and/or system-generated reports, and obtained explanations from management for any significant variances that could potentially indicate areas of risk. Management provided reasonable explanations for all significant variances.

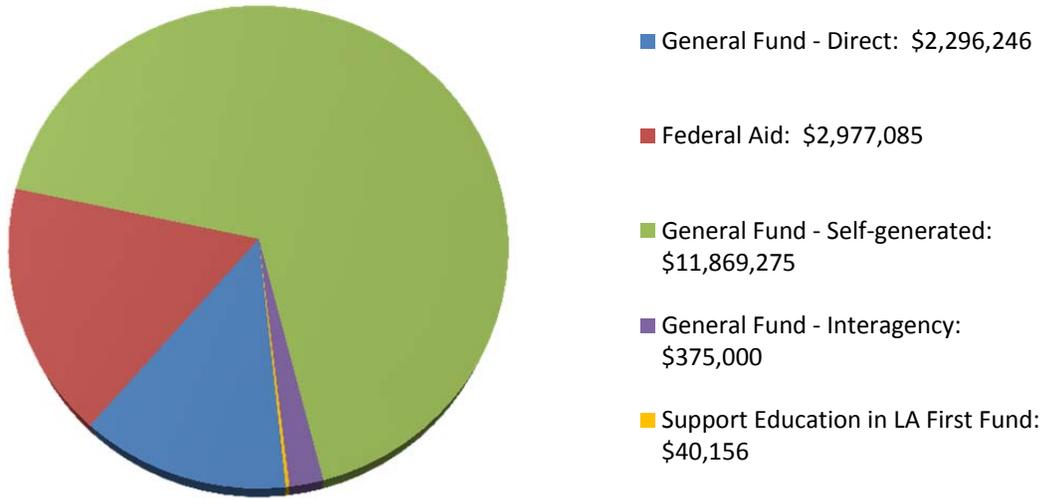
Revenues for fiscal years 2014 and 2015 totaled \$15,610,627 and \$17,557,762, respectively. Of these amounts, \$10,078,756 (65%) in fiscal year 2014 and \$11,869,275 (68%) in fiscal year 2015 were self-generated. Increases in self-generated revenues were due to the receipt of one grant of \$12.2 million ending on December 2015, as well as a second three-year grant of \$16 million ending on December 2017, from the Gulf of Mexico Research Initiative (BP-funded research). These funds are used to research the effects of the Deepwater Horizon oil spill on coastal habitats.

2014 Revenues Total \$15,610,627



Source: 2014 Annual Fiscal Report

2015 Revenues
Total \$17,557,762



Source: 2015 Annual Fiscal Report

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

Respectfully submitted,

Daryl G. Purpera, CPA, CFE
Legislative Auditor

JRH:JT:BH:EFS:aa

LUMCON 2016

APPENDIX A: MANAGEMENT'S RESPONSE



LOUISIANA UNIVERSITIES MARINE CONSORTIUM

DeFelice Marine Center, 8124 Highway 56
Chauvin, Louisiana 70344-2124

May 26, 2016

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

RE: Inadequate Controls over Accounts Receivable Collection and Reporting

Dear Mr. Purpera:

The administration of Louisiana Universities Marine Consortium concurs with the findings regarding the "Inadequate Controls over Accounts Receivable Collection and Reporting."

The Agency would like to address the findings as follows:

LUMCON does not have a written policy concerning accounts receivable and collection: The Agency acknowledges the need for written policies requiring terms and conditions and payment due dates on invoices. LUMCON's Financial Officer, Heidi V. Boudreaux is creating written policies concerning accounts receivable processing and collection efforts to be effective July 1, 2016. Through these policies, invoices will contain payment due dates and terms and conditions for payment of invoices.

LUMCON has not established procedures to determine final delinquent debt and has not referred delinquent debts older than sixty days to the Office of Debt Recovery as required by R.S. 47:1676. In addition, LUMCON does not have a written bad debt write-off policy: The agency is in discussions with the Office of Debt Recovery and has signed a contract awaiting final signature from the Office of Debt Recovery and Attorney General's Office. Along with the agreement with the ODR, LUMCON is creating written policies to establish determination of final delinquent debt and procedures to write-off uncollectible debt. The Chief Financial Officer is currently working on these policies and they will be effective July 1, 2016.

The Quarterly Accounts Receivable report submitted to OSRAP for the quarter ending 12/31/2015 was inaccurate. The Accounts Receivable Officers have contacted OSRAP under the Division of Administration and have been instructed by OSRAP to make the corrections on our next report. LUMCON has also begun the process of switching from a manual accounts receivable system to a commercial Point of Service system. We are currently researching

available brands that will meet our needs. The Chief Financial Officer and Finance Department plan on having this transfer completed by December 31, 2016.

Ms. Heidi V. Boudreaux, Chief Financial Officer (985)851-2812 can be contacted about this finding for the Louisiana Universities Marine Consortium (LUMCON).

Sincerely,

A handwritten signature in cursive script that reads "Nancy Rabalais".

Nancy N. Rabalais
Executive Director

Enc. (3)

APPENDIX B: SCOPE AND METHODOLOGY

We performed certain procedures at LUMCON for the period from July 1, 2014, through June 9, 2016. Our objective was to evaluate certain controls that management uses to ensure accurate financial reporting, compliance with applicable laws and regulations, and 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 LUMCON's annual fiscal report, and, accordingly, we do not express an opinion on that report. LUMCON's accounts are an integral part of the state of Louisiana's financial statements, upon which the Louisiana Legislative Auditor expresses opinions.

- We evaluated LUMCON'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 LUMCON.
- Based on the documentation of LUMCON's controls and our understanding of related laws and regulations, we performed procedures on selected controls and transactions relating to Gulf of Mexico Research Initiative grants, marine research vessel revenues, and accounts receivable.
- We compared the most current and prior-year financial activity using LUMCON's annual fiscal reports and/or system-generated reports to identify trends and obtained explanations from management for significant variances.

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