

SOUTHEASTERN LOUISIANA UNIVERSITY
UNIVERSITY OF LOUISIANA SYSTEM
STATE OF LOUISIANA



MANAGEMENT LETTER
ISSUED JANUARY 4, 2012

**LOUISIANA LEGISLATIVE AUDITOR
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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. Two copies of this public document were produced at an approximate cost of \$8.02. 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. 3576 or Report ID No. 80110082 for additional information.

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LOUISIANA LEGISLATIVE AUDITOR
DARYL G. PURPERA, CPA, CFE

December 12, 2011

SOUTHEASTERN LOUISIANA UNIVERSITY
UNIVERSITY OF LOUISIANA SYSTEM
STATE OF LOUISIANA
Hammond, Louisiana

As required by Louisiana Revised Statute 24:513 and as part of our audit of the University of Louisiana System's (System) financial statements for the year ended June 30, 2011, we conducted certain procedures at Southeastern Louisiana University (university) for the period from July 1, 2010, through June 30, 2011.

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

Cash and cash equivalents, investments, capital assets, accounts payable and accruals, long-term obligations, and net assets
 - Statement of Revenues, Expenses, and Changes in Net Assets

Student tuition and fee revenues, grant and contract revenues, auxiliary revenues, state appropriations, federal nonoperating revenues, education and general expenses, auxiliary expenses, and interest expense

We also tested the university's compliance with laws and regulations that could have a direct and material effect on the System's financial statements. 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, 2011.

- Our auditors performed internal control and compliance testing in accordance with Office of Management and Budget Circular A-133 and the following federal programs for the fiscal year ended June 30, 2011, as part of the Single Audit for the State of Louisiana:
 - State Fiscal Stabilization Fund (SFSF) - Education State Grants, Recovery Act (CFDA 84.394)
 - Student Financial Assistance Cluster

The financial information provided to the System by the university was not audited or reviewed by us, and, accordingly, we do not express an opinion on that financial information. The university'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 procedures referred to previously, all significant findings are included in this letter for management's consideration. The finding included in this management letter is required to be reported by *Government Auditing Standards* and will also be included in the State of Louisiana's Single Audit Report for the year ended June 30, 2011.

Noncompliance With Procurement Credit Card and Computer Equipment Policies

Two university principal investigators (PIs) failed to follow state and university regulations and policies for purchases totaling \$20,465 under federal grants. In addition, one PI failed to report to university personnel a stolen iPad as required by university policy.

Audit procedures disclosed the following for two grants under the Special Education Technology and Media Services for Individuals with Disabilities (CFDA 84.327) program - Stepping Stones of Technology Innovation program (Stepping Stones) and NCTI Tech in the Works Grant (NCTI - as a subrecipient through the American Institutes for Research):

- During fiscal year 2010, the PIs had 10 purchases shipped to their home addresses, while in fiscal year 2011, 13 purchases were shipped to one of the PI's home address. The purchases totaled \$8,425 for the two years, of which \$6,513 and \$1,912 were spent for Stepping Stones and NCTI, respectively. The PIs provided computer screen prints of the merchandise purchased, but original invoices were not submitted. Among the items purchased and shipped to the PIs' home addresses (not all-inclusive) were

a digital Polaroid camera, two iPads, a Dell laptop computer, a wrought iron tree, copies of Microsoft Windows 7 Home Premium, and a room tidying robot.

Though the receipts clearly showed the purchases were shipped to addresses outside the university, the university's procurement card administrator (administrator) did not identify the potential violations of its procurement card policy that requires shipped merchandise to be sent to the university and policies that require computer equipment purchases to be forwarded to or acknowledged by the university's Basic Computing Services.

- On 20 occasions from July 2, 2009, through February 2, 2011, the PIs purchased computer-related equipment totaling \$12,040, of which \$9,550 and \$2,490 were spent for Stepping Stones and NCTI, respectively, and included Apple's MacBook and iPad laptop and tablet computers, on their procurement cards. These purchases were not forwarded to or acknowledged by Basic Computing Services. The MacBooks and iPads could have been purchased under the Division of Administration's Office of State Purchasing's Apple, Inc., contract; however, the purchases were made at other vendors (e.g., Best Buy). The administrator did not identify the potential violations of the university's computer equipment purchase policies.
- On July 2, 2010, the PIs made two purchases at the same Best Buy with their respective procurement cards. On one card, the PI purchased a MacBook totaling \$1,000. Five minutes later, the other PI purchased a MacBook and an accessory totaling \$920. These separate purchases could have been made under the Apple contract and appeared to circumvent the provisions of Executive Order BJ 08-67, effective through August 26, 2010, which required three quotes from vendors for purchases exceeding \$1,000. In addition, the purchases appeared to circumvent the PIs' transaction spending limits as the PIs were assigned procurement cards with individual transaction limits of \$1,000 each. The administrator did not identify the potential violations.
- On July 16, 2010, one PI made two purchases totaling over \$1,000 at Best Buy with the same procurement card, which appeared to violate Executive Order BJ 08-67 and appeared to circumvent his authorized transaction limit. One purchase for an iPad totaled \$830. Four minutes later, a purchase was made for miscellaneous items totaling \$290. The administrator identified the potential violation and questioned the PI who responded he had possibly forgotten the prohibition that a transaction could not exceed \$1,000. The transactions were allowed.

- In a meeting on July 18, 2011, we were informed that the PI's university-owned Apple iPad tablet computer with an acquisition cost of \$829 had been stolen. The PI stated that he was not aware of the reporting requirements for misappropriated assets contained in Louisiana Revised Statute 24:523 or as required by the university's equipment policies. Our review of the police report filed on August 1, 2011, disclosed that the iPad was likely stolen on October 2, 2010. The required misappropriation notice was submitted by the university on September 15, 2011.

The PIs failed to follow state and university procurement card and computer equipment purchase policies for purchases under these grants, which increases the risk of errors and fraud. The PIs' failure to follow university procurement card policies and the administrator's failure to thoroughly review procurement card transactions subject the university to noncompliance with Part 3 of the *Compliance Supplement*. Questioned costs totaled \$20,465.

Management should establish and/or strengthen controls to ensure (1) PIs are aware of university policies and procedures for procurement card purchases and reporting stolen equipment; (2) procurement card holders submit original invoices for purchases; and (3) the procurement card program administrator performs a more thorough review of procurement card purchases for compliance with applicable state and university rules and regulations. Management concurred with the finding and provided a plan of corrective action (see Appendix A).

The recommendation in this letter represents, in our judgment, one which is most likely to bring about beneficial improvements to the operations of the university. The nature of the recommendation, the implementation costs, and the potential impact on the operation of the university should be considered in reaching decisions on courses of action. The finding relating to the university's compliance with applicable laws and regulations should be addressed immediately by management.

This letter is intended for the information and use of the university and its management, others within the university, 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,



Daryl G. Purpera, CPA, CFE
Legislative Auditor

LMF:CGEW:EFS:THC:dl

APPENDIX A

Management's Corrective Action Plan and Response to the Finding and Recommendation



December 12, 2011

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

Re: Noncompliance with Procurement Credit Card and
Computer Equipment Policies

Dear Mr. Purpera:

I am in receipt of a letter dated October 6, 2011 (revised December 9, 2011) from your office regarding an audit finding relating to noncompliance with Procurement Credit Card and Computer Equipment Policies by two Principal Investigators (faculty members) administering federal grants. The University concurs with this finding.

This finding was created when two Principal Investigators on the same grant failed to follow the 2008 Small Purchase Executive Order and University policies/procedures as it relates to the following:

1. Delivery of purchases to locations other than the University,
2. Artificial division of purchases in violation of BJ 08-67 and the University PCard policy, and
3. Purchasing data processing equipment without the prior review and approval of Southeastern's Department of Basic Computing Services.

Because of the activities mentioned above, the Principal Investigators has lost the privilege of future use of the University's PCard system.

In addition, one of the Principal Investigators failed to report the theft of an Apple iPad as required by University Policies and Procedures.

The University has documentation to support these faculty members were notified of the appropriate policies through the following departments/activities:

1. The Human Resources Department through Faculty/Staff Orientation,
2. The Purchasing Department through PCard training required to obtain a PCard, and

3. The Office of Sponsored Research and Programs when they were provided information which all Principal Investigators receive before they are allowed to expend grant funds.

While procedures and training opportunities are in place to ensure Principal Investigators are knowledgeable of the rules and regulations, Dr. Cheryl Hall, Director of Sponsored Research and Programs, will work with Ed Gautier, Director of Purchasing and Ms. Jan Ortego, Human Resource Training Coordinator, to implement online training modules focused on further enhancing grant administrator awareness of procurement and property laws and regulations, and University policies/procedures.

In addition, to increase the awareness of faculty and staff of the issue of misappropriation of University assets, the President's Office will update the annual fraud notice sent to all employees to include the importance of timely reporting the theft of any University property.

The second major issue mentioned in this finding involves a more detail review of the documentation for purchases made by University PCard users. This was identified by the University as a problem during last fiscal year. Given the University has over 400 PCards users and over 12,000 transactions per year, the University reallocated resources and added a .5 FTE position to assist with the PCard process. This half time position has provided sufficient support to the PCard Administrator which now allows for time to review 100% of the documentation for PCard transactions. The transactions noted in this finding as issues occurred before this additional support was provided. Given the ever evolving use of PCards across the country and the creative ways individuals are finding to circumvent the system, the PCard Administrator will be required to attend additional training in an effort to prevent such losses at Southeastern.

The finding indicates there is a total of \$20,465 in questioned costs. In order to ensure there was no fraudulent activity regarding the purchases cited in this finding, the Director of Sponsored Research and Programs, the Director of Purchasing and Property Control, and the Property Control Coordinator worked with auditors from your office and the Principal Investigators to view and verify the existence of all items purchased. The tag data processing items on-campus and located with grant participating schools were also tagged as consistent with University policy. In addition, the Director of Sponsored Research and Programs reviewed the requirements of the grants and verified the purchases were appropriate to fulfill the requirements of the grant.

If you require any additional information regarding this audit issue, please feel free to contact me.

Sincerely,



Stephen Smith

Vice President for Administration & Finance