

MCNEESE STATE UNIVERSITY
UNIVERSITY OF LOUISIANA SYSTEM
STATE OF LOUISIANA



MANAGEMENT LETTER
ISSUED MARCH 8, 2006

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

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STEVE J. THERIOT, CPA
LEGISLATIVE AUDITOR

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BATON ROUGE, LOUISIANA 70804-9397

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February 16, 2006

MCNEESE STATE UNIVERSITY
UNIVERSITY OF LOUISIANA SYSTEM
STATE OF LOUISIANA
Lake Charles, Louisiana

As part of our audit of the University of Louisiana System's financial statements for the year ended June 30, 2005, we considered McNeese State University's internal control over financial reporting; we examined evidence supporting certain accounts and balances material to the System's financial statements; and we tested the university's compliance with laws and regulations that could have a direct and material effect on the System's financial statements as required by *Government Auditing Standards*. In addition, we considered McNeese State University's internal control over compliance with requirements that could have a direct and material effect on a major federal program, as defined in the Single Audit of the State of Louisiana, and we tested the university's compliance with laws and regulations that could have a direct and material effect on the major federal programs as required by U.S. Office of Management and Budget Circular A-133.

The annual financial information provided to the University of Louisiana System by McNeese State University is 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 University of Louisiana System's financial statements, upon which the Louisiana Legislative Auditor expresses an opinion.

In our prior management letter on McNeese State University for the year ended June 30, 2003, we reported a finding relating to the failure to submit a record retention schedule. That finding has been resolved by management.

Based on the application of the procedures referred to previously, all significant findings are included in this letter for management's consideration. All findings included in this management letter that are required to be reported by *Government Auditing Standards* will also be included in the State of Louisiana's Single Audit Report for the year ended June 30, 2005.

Improper Request and Disbursement of Federal Family Education Loans

McNeese State University did not have sufficient controls to ensure that the request and disbursement of Federal Family Education Loans (FFEL) (CFDA 84.032) were performed in compliance with program regulations. The Code of Federal Regulations, [34 CFR 682.303 (b)(4)], as amended by the Dear Colleague Letter GEN-02-06, states if a student is enrolled in the first year of an undergraduate program of study and has not previously received a Federal Stafford, Federal Supplemental Loans for Students, Direct Subsidized, or Direct Unsubsidized Loan, a school may not disburse the proceeds of a Direct Subsidized or Direct Unsubsidized Loan until 30 days after the first day of the student's program of study. Furthermore, 34 CFR 682.167 states in certifying a loan application for a borrower under 34 CFR 682.603, an institution may not request a lender to provide it with loan funds by EFT or master check earlier than 27 days after the first day of classes of the first payment period for a first-year, first-time Federal Stafford Loan Program borrower as defined in 34 CFR 682.604(c)(5).

Audit procedures performed on FFEL disclosed that funds for 235 students totaling \$420,520 were requested earlier than 27 days after the first day of classes and that FFEL funds for 158 students totaling \$260,278 were disbursed before 30 days after the first day of the student's program of study. Failure to properly identify first-time freshmen and/or first-time borrowers in the university's computer system allowed FFEL funds to be requested and disbursed improperly.

Management should establish controls to ensure the request and disbursement of FFEL are performed in compliance with program regulations. Management concurred with the finding and provided a corrective action plan (see Appendix A, page 1).

Weaknesses in Movable Property Controls

McNeese State University does not have adequate internal controls to ensure that movable property is reported to the Louisiana Property Assistance Agency (LPAA) in accordance with state movable property regulations. In addition, the university's property report disclosed \$362,036 of unlocated movable property over the past four years. Of that amount, items totaling \$67,044 were removed from the property records because they had not been located for the fourth consecutive year.

State property control regulations, defined in Title 34, Part VII of the Louisiana Administrative Code (LAC), require all acquisitions of qualified property to be tagged and pertinent information to be entered into the LPAA system within 60 days of receipt of the property. Also, Louisiana Revised Statute 39:325 requires entities to conduct an annual property inventory of movable property and report any unlocated movable property to LPAA. LAC 34.VII.313 states, in part, that efforts must be made to locate all movable property for which there are no explanations available for their disappearance. In addition, good internal control dictates that assets are properly monitored to safeguard

against loss or theft and that thorough periodic physical counts of property inventory be conducted.

- Audit procedures identified 200 computers that were tagged between 74 to 217 days after receipt.
- When conducting its annual physical inventory of movable property, the university could not locate items totaling \$362,036 of which computers and computer-related equipment totaled \$240,216. The annual property report disclosed that the university had movable property items totaling \$14,737,115.

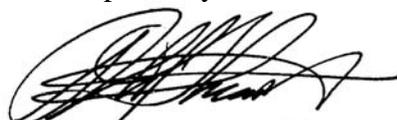
Failure to maintain controls over movable property increases the risk of loss arising from unauthorized use of property and subjects the university to noncompliance with state laws and regulations. In addition, because of the nature of services provided by the university, there is an increased risk that sensitive information could be retrieved improperly from the missing computers and/or computer-related equipment.

Management should maintain adequate internal control and accurate records over movable property to comply with state movable property regulations. In addition, management should strengthen its procedures for safeguarding assets and should devote additional efforts to locating movable property reported as unlocated in previous years. Management concurred with the finding and provided corrective action plans (see Appendix A, pages 2-3).

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 cost, and their potential impact on the operations of the university should be considered in reaching decisions on courses of action. Findings 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 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,



Steve J. Theriot, CPA
Legislative Auditor

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Appendix A

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



February 8, 2006

Mr. Steve J. Theriot, CPA
Legislative Auditor
State of Louisiana
1600 North Third Street
P.O. Box 94397
Baton Rouge, LA 70804-9397

RE: McNeese State University
Improper Request and Disbursement of FFEL

Dear Mr. Theriot:

In response to the findings from the McNeese State University Legislative Audit Review of the Federal Financial Aid programs that was conducted for the 2004-2005 academic year, this office concurs with the findings pertaining to the "Improper Request and Disbursement of Federal Family Education Loans". McNeese State University has established controls to ensure the request and disbursement of Federal Family Education Loans are performed in compliance with program regulations.

University Computing Services has written and implemented a new computer program to ensure that first-time freshman and/or first-time borrowers would not receive their FFEL funds prior to 30 days after the first day of the student's program of study. In addition, the university will not request any FFEL funds earlier than the 27 days after the first day of classes. The Office of Financial Aid has implemented the required corrective actions to ensure that first-time freshman and/or first-time borrowers in the university's computer system will not allow this office to request and/or disburse FFEL funds improperly. The corrective action is being monitored by the Stafford Loan Manager in the Office of Financial Aid.

Please let me know if you need any additional information.

Sincerely,

K. P. Leyoub, Vice President
Administration & Student Affairs

pc: Dr. Robert D. Hebert, President
Taina J. Savoit, Director of Financial Aid



January 17, 2006

Mr. Steve Theriot, CPA
Legislative Auditor
P. O. Box 94397
Baton Rouge, LA 70804-9397

RE: Weaknesses in Movable Property Controls

Dear Mr. Theriot:

McNeese State University concurs with the above referenced finding.

The university has adopted the following internal control procedures to ensure that acquisitions of qualified property are appropriately tagged and entered into the LPAA system within 60 days of receipt.

Copies of purchase orders for qualified movable property will be forwarded to the Property Coordinator. The Property Coordinator will prepare a data card and assign a tag number to each piece of qualified movable property in anticipation of the property's receipt. When the item is received, the Property Coordinator will stamp the date that is 60 days after the date of receipt. The data card, assigned tag, and purchase order will be placed in a file labeled "to be tagged," which will be maintained in date priority order. The Property Coordinator will monitor the file on a daily basis to ensure that all items are tagged and entered into the LPAA system within 60 days of receipt. These procedures are effective now.

The university has adopted the following internal control procedures to reduce the amount of unlocated movable property:

- The university will expand its use of a technology that will allow computers to function only in the buildings where they are assigned. This technology is being currently used in two academic buildings, and other university buildings are being scheduled for implementation.
- Prior to the 2006 physical inventory, the university will schedule training classes for all departments. These classes will entail reviewing university policies and procedures for property custodianship responsibilities and for conducting the annual physical inventory.
- Property Control will send out property policies and procedures to each department to remind the departments of the rules and regulations that must be followed. This action will occur by January 20, 2006.

Letter to Mr. Steve Theriot, CPA, Legislative Auditor

January 17, 2006

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- The university will implement a second search process for departments reporting items that cannot be located. The second search instructions will encourage departments to conduct an extensive search for the items that could not be found. This process will begin immediately in conjunction with the 2005 annual inventory.
- A campus wide search for unlocated items is currently being conducted by Property Department personnel. As of this date, Property Department personnel have located 39 items valued at \$62,183, of which \$40,722 is computer equipment. This search will be completed by March 1, 2006.

We feel that these additional procedures will ensure that movable property is tagged and entered into the LPAA system timely and that the level of unlocated movable property will be reduced.

Should you require additional information, please contact Pam Watkins, Property Control Manager at (337) 475-5883.

Sincerely,



Eddie P. Meche, CPA

Vice President for Business Affairs

CC: Dr. Robert Hebert, President
Pam Watkins, Purchasing & Property Control Director