LOUISIANA STATE UNIVERSITY
AND RELATED CAMPUSES
LOUISIANA STATE UNIVERSITY SYSTEM
STATE OF LOUISIANA

LOUISIANA LEGISLATIVE AUDITOR

MANAGEMENT LETTER
ISSUED APRIL 25, 2007

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

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. Seven copies of this public document were produced at an approximate cost of $15.54. 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.lla.state.la.us. When contacting the office, you may refer to Agency ID No. 3478 or Report ID No. 06301706 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 Wayne "Skip" Irwin, Director of Administration, at 225/339-3800.

OFFICE OF
LEGISLATIVE AUDITOR
STATE OF LOUISIANA
BATON ROUGE, LOUISIANA 70804-9397

STEVE J. THERIOT, CPA
LEGISLATIVE AUDITOR

1600 NORTH THIRD STREET
POST OFFICE BOX 94397
TELEPHONE: (225) 339-3800
FACSIMILE: (225) 339-3870

April 17, 2007

LOUISIANA STATE UNIVERSITY BOARD OF SUPERVISORS,
LOUISIANA STATE UNIVERSITY,
LOUISIANA STATE UNIVERSITY AGRICULTURAL CENTER,
PENNINGTON BIOMEDICAL RESEARCH CENTER,
PAUL M. HEBERT LAW CENTER,
LOUISIANA STATE UNIVERSITY AT ALEXANDRIA,
AND LOUISIANA STATE UNIVERSITY AT EUNICE
LOUISIANA STATE UNIVERSITY SYSTEM
STATE OF LOUISIANA
Baton Rouge, Louisiana

As part of our audit of the Louisiana State University System's financial statements for the year ended June 30, 2006, we considered the internal control over financial reporting for the LSU Board of Supervisors, LSU and A&M College (LSU), LSU Agricultural Center, Pennington Biomedical Research Center, Paul M. Hebert Law Center, LSU at Alexandria, and LSU at Eunice (hereafter referred to as LSU and Related Campuses); we examined evidence supporting certain accounts and balances material to the System's financial statements; and we tested LSU and Related Campuses' 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 LSU and Related Campuses' 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 LSU and Related Campuses' 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 Louisiana State University System by LSU and Related Campuses is not audited or reviewed by us, and, accordingly, we do not express an opinion on that financial information. LSU and Related Campuses' accounts are an integral part of the Louisiana State University System's financial statements, upon which the Louisiana Legislative Auditor expresses opinions.

In our prior management letter on LSU and Related Campuses for the year ended June 30, 2005, we reported findings relating to unlocated movable property and no formal disaster recovery plan. The unlocated movable property finding is repeated in this letter. The disaster recovery plan finding was 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. The finding included in this management letter that is 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, 2006.

Unlocated Movable Property

For the second consecutive year, Louisiana State University and A&M College (LSU) did not have adequate internal control over movable property. As required by state movable property regulations, LSU conducted a physical inventory and reported unlocated movable property items totaling $5,875,995. Of that amount, items totaling $1,508,171 were removed from the property records because they had not been located for the three previous consecutive years. Of the unlocated property reported on LSU's physical inventory certification, the amount of unlocated computers and computer-related equipment totaled $3,383,641. The certification of property inventory disclosed $322,794,374 in total movable property administered by LSU. LSU submitted its annual certification of property inventory to the Louisiana Property Assistance Agency on December 19, 2006.

Good internal control and the Louisiana Administrative Code prescribe that efforts should be made to locate all movable property items for which there are no explanations available for their disappearance. Assets should be adequately monitored to safeguard against loss or theft, and periodic counts of property inventory, as well as the search for missing items, should be thorough.

Failure to thoroughly secure, locate, and account for movable property increases the risk of loss arising from unauthorized use of the property and could subject LSU to noncompliance with state laws and regulations. Also, the risk exists that sensitive information could be improperly retrieved from the missing computers and/or computer-related equipment, which could compromise LSU's data integrity.

Management of LSU should strengthen its internal controls over movable property, including the procedures for securing its movable assets and conducting its physical inventory, and should devote additional efforts to locating movable property reported as unlocated in previous years. Management concurred with the finding in general and outlined a plan of corrective action (see Appendix A, pages 1-3).

Unsecured Deposits

LSU did not ensure that adequate securities were pledged for all deposits in its bank accounts at all times. Louisiana Revised Statute 49:321 requires that the amount of security pledged be equal to 100% of the amount of collected funds on deposit to the credit of each depositing authority, except that portion of the deposits insured by any governmental agency, such as the Federal Deposit Insurance Corporation (FDIC). In addition, good internal control requires timely monitoring of securities pledged by banks to ensure deposits are adequately secured.

During the period May 1, 2006, through August 16, 2006, the university had uncollateralized balances ranging from $2,578,496 to $4,393,832. Failure to adequately secure deposits subjects public funds to the risk of loss due to bank failure. This condition occurred because management did not timely review the securities pledged for balances in excess of the amounts guaranteed by the FDIC. In a letter dated August 24, 2006, the university's financial institution acknowledged the under collateralization and stated that the deficiency was discovered by LSU employees. Although the under collateralization was detected and corrected by LSU employees, the funds not adequately collateralized were at risk for over three months.

Management should timely monitor its bank accounts to ensure that securities pledged are at all times equal to the balances not insured by FDIC. Management concurred with the finding and recommendation and outlined a plan of corrective action (see Appendix A, page 4).

The recommendations in this letter represent, in our judgment, those most likely to bring about beneficial improvements to the operations of the university. The varying nature of the recommendations, their implementation costs, 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 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

ETM:ES:PEP:dl

LSU&R06

This page is intentionally blank.

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

LSU
LOUISIANA STATE UNIVERSITY
Office of the Chancellor

April 17, 2007

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

Dear Mr. Theriot,

Thank you for meeting this morning in the exit conference for the Legislative Audit of LSU for fiscal year ended June 30, 2006. I very much appreciate your recommendations, and have several additional comments concerning the audit findings as a result of our discussions.

With respect to the finding on unlocated moveable property, we believe we have demonstrated in our letter of March 7, 2007, that the University is appropriately managing our moveable equipment inventory having remaining useful value. Unlocated items often result from useless computer equipment being discarded or several old items being cannibalized to produce a single working item, without appropriate reporting to the proper administrative offices. While we recognize our responsibility to properly account for all of LSU's equipment, including items having little or no remaining value, we also question the utility of accounting for and reporting on the status of worthless moveable property. As such, we want to work with you to devise a useful policy to account for assets which have a remaining service life.

We also share your concerns relative to the proper securing of all University deposits stemming from our internal review. We will continue to diligently monitor and correct any such situations that are not fully in accordance with applicable state statutes.

Cordially,

Sean O'Keefe
Chancellor

cc: Vice Chancellor Baudin

Office of the Chancellor • 156 Thomas Boyd Hall • Baton Rouge, LA • 70803-5710 • 225-578-6977 • Fax 225-578-5982

LSU
LOUISIANA STATE UNIVERSITY
Finance & Administrative Services

March 7, 2007

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

Dear Mr. Theriot,

In conjunction with the legislative audit of LSU and A&M College (LSU) for the fiscal year ended June 30, 2006, we are responding to the audit finding concerning unlocated moveable property. We concur with your finding in general.

It should be noted that this certification of our annual property inventory was submitted on December 19, 2006, approximately six months after the end of the fiscal year under audit. Typically, inventory certifications submitted during the fiscal year under audit are reviewed by the Legislative Auditor, and any resulting findings are presented to the University nine to twelve months after the inventory was originally submitted. This was the case last year during the audit of fiscal year ended June 30, 2005. Historically, LSU locates much of the unaccounted for property during the interval between the certification and the audit. For example, in our response to last years' audit finding, we indicated that items costing over $1 million had been subsequently located and properly accounted for. Due to the unusual timing of the current audit of the inventory, however, we're not yet able to determine how much of the unlocated property will ultimately be located and properly inventoried.

As required by state regulations, after conducting a physical inventory, LSU did report four years of unlocated property items originally costing $5,875,995. In accordance with state regulations, and with the approval of the Louisiana Property Assistance Agency (LPAA), the University then removed items originally costing $1,508,171 from our property records. These items had been held in our "suspense" file for three years, while we continued our attempts to locate or properly account for them. The original cost of the remaining unlocated items was $4,367,824. With respect to these remaining items, a current analysis of our moveable property detail records produces the following results:

- This remaining unlocated balance includes certain equipment items originally costing $5,000 or more individually that had been capitalized and depreciated subsequent to their purchase, with depreciation calculations made by LSU using the state approved guidelines for useful lives. The original cost of these items was $1,230,807, and the book value net of depreciation was only $96,537.

- The remaining unlocated balance also includes items costing less than $5,000 individually that were expensed for accounting purposes, not capitalized and depreciated, for which the book value does not exist. The original cost of these items was $3,137,017. However, $1,324,003 of these items had been purchased in 1997 or earlier.

330 Thomas Boyd Hall • Baton Rouge, LA • 70803 • 225-578-3386 • Fax 225-578-5403 • www.fas.lsu.edu

- The total inventory value reported by the University, net of the oldest suspense file items removed with the approval of the LPAA, was $321,286,203. Excluding the depreciation taken on capitalized items as well as the expensed items purchased in 1997 or prior, the remaining unlocated items amount to $1,909,551. This amounts to only slightly less than six-tenths of one percent of the total moveable property inventory managed by LSU.

- The audit finding also indicates that $3,383,641 of computers and computer-related equipment was reported as unlocated. However, after removal of the oldest suspense file items from our property records, the balance of computers and related equipment amounted to $2,499,913. Of this amount, $542,789 was more than 10 years old, $631,513 was 8-10 years old, and $641,942 was 6-7 years old. Only $683,669 of the unlocated computer and related items were aged 5 years or less. Moreover, the total book value was only $18,980 for all capitalized computers and related equipment reported as unlocated.

We believe the above data supports the conclusion that LSU is properly managing its inventory of moveable equipment having remaining useful value. However, we recognize our responsibility to properly account for all equipment owned by the University, including those items having little or no remaining value. We believe many unlocated items result from useless equipment being discarded or several old items being cannibalized by departmental staff to produce one working item, without proper reporting to our administrative offices. We will continue reviewing our inventory taking and record keeping procedures, and will initiate changes as appropriate to ensure better results in our inventory reporting in the future.

Please let me know if anything further is needed.

Sincerely,

Jerry J. Baudin

Jerry J. Baudin
Vice Chancellor for Finance and Administrative Services
and Comptroller

xc: Chancellor Sean O'Keefe

LOUISIANA STATE UNIVERSITY
Finance & Administrative Services

March 7, 2007

Steve J. Theriot, CPA
Legislative Auditor
Post Office Box 94397
Baton Rouge, LA 70804-9397

Dear Mr. Theriot,

In conjunction with the legislative audit of LSU and A&M College (LSU) for fiscal year ended June 30, 2006, we are responding to the audit finding concerning undersecured deposits. We concur with your finding, and agree that the market value of collateral securities pledged by our banking institutions must always equal or exceed our uninsured balances at those institutions.

For several years, the University's investment portfolio has included a substantial number of certificates of deposit with the local branch of a highly regarded national bank. During the Spring of 2006, this banking institution was merged with another national institution, and numerous procedures followed by the new banking institution were different from those used by our prior bank. The transition to the new bank took several months to complete, and various changes were necessary. As a result of a bank error occurring on or around May 1, 2006, insufficient collateral was pledged by the bank for LSU's certificates of deposit with the bank.

This bank error occurred when a University employee involved with the reconciliation of collateral was on leave, and due to miscommunication regarding the collateral reconciliation procedures, it was discovered by LSU after June 30. However, when this problem was identified by the University, the bank was immediately notified and the appropriate collateral was immediately pledged. The bank modified their internal procedures to preclude the reoccurrence of this type of error, and they provided LSU with written documentation of these internal changes.

We took immediate steps to change our collateral monitoring and reconciliation procedures to ensure the immediate recognition and resolution of any such bank errors in the future. As a result of this experience, we believe the documentation of our collateral procedures is much improved, our staff is better trained, and our internal controls are stronger.

Please let me know if anything further is needed.

Sincerely,

Jerry J. Baudin
Vice Chancellor for Finance and Administrative Services
and Comptroller

xc: Chancellor Sean O'Keefe

330 Thomas Boyd Hall • Baton Rouge, LA • 70803 • 225-578-3386 • Fax 225-578-5403 • www.fas.lsu.edu