

# STATE OF LOUISIANA LEGISLATIVE AUDITOR

Louisiana Technical College  
Shelby Jackson Campus  
Department of Education  
Board of Elementary and  
Secondary Education  
State of Louisiana  
Ferriday, Louisiana

June 25, 1997



***Financial and Compliance Audit Division***

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***Daniel G. Kyle, Ph.D., CPA, CFE  
Legislative Auditor***

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STATE OF LOUISIANA  
Ferriday, Louisiana**

**Management Letter  
Dated April 9, 1997**

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 and Shreveport offices of the Legislative Auditor and at the office of the parish clerk of court.

**June 25, 1997**



OFFICE OF  
**LEGISLATIVE AUDITOR**  
STATE OF LOUISIANA  
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April 9, 1997

**LOUISIANA TECHNICAL COLLEGE,  
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DEPARTMENT OF EDUCATION  
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Ferriday, Louisiana**

As part of our audit of the State of Louisiana's financial statements for the year ending June 30, 1997, we conducted certain procedures at Louisiana Technical College, Shelby Jackson Campus. Our procedures included (1) a review of the technical college's internal control structure; (2) tests of financial transactions for the years ending June 30, 1997, and June 30, 1996; (3) tests of adherence to applicable laws, regulations, policies, and procedures governing financial activities for the years ending June 30, 1997, and June 30, 1996; and (4) a review of compliance with prior report recommendations.

The Annual Fiscal Reports of Louisiana Technical College, Shelby Jackson Campus are not within the scope of our procedures, and, accordingly, we do not express an opinion or any other form of assurance on those reports. The technical college's accounts are an integral part of the State of Louisiana's financial statements, upon which the Louisiana Legislative Auditor expresses an opinion.

Our procedures included interviews with selected technical college personnel. We also evaluated selected documents, files, reports, systems, procedures, and policies as we considered necessary. After analyzing the data, we developed recommendations for improvements. We then discussed our findings and recommendations with appropriate management personnel before submitting this written report.

In our prior management letter of the Regional Management Center 6, Alexandria dated July 19, 1995, we reported findings specific to the Shelby Jackson Campus relating to certain controls over revenues, electronic data processing access controls, bid requirements for book purchases, and movable property. These findings have been resolved by management.

Based upon the application of the procedures referred to previously, all significant findings are included in this report for management's consideration.

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**Inadequate Controls Over Cash Receipts**

Louisiana Technical College, Shelby Jackson Campus has not developed or implemented adequate internal control policies and procedures over its cash receipts. A good internal control structure should provide for a segregation of duties so that no one employee is in a position to both initiate and conceal errors and irregularities. In our review of the controls over cash receipts, we noted the following weaknesses:

- The same person collects tuition and book fees from students, prepares the cash receipts, and reconciles enrollment to receipts.
- The same person handles cash receipts and disbursements and prepares the monthly bank reconciliations for local bank accounts.

The accounting staff is limited; therefore, all functions relating to cash receipts is assigned to the accountant. This lack of segregation of duties increases the risk that cash could be misappropriated or that financial statements and receivable records could be *inaccurate and remain undetected*.

Louisiana Technical College, Shelby Jackson Campus should develop and implement written policies and procedures to achieve adequate segregation of duties relating to cash receipts. This could be accomplished by having the director or his assistant become more actively involved in the cash receipts and bank reconciliation process. There should be procedures for an independent review of the reconciliation of tuition and book fees receipts to enrollment records. The review should include a comparison of aggregate tuition and book sales revenues per the general ledger to aggregate receipts per the cash receipts records. In addition, there should be an independent review of the bank reconciliations and verification of reconciling items. In a letter dated January 30, 1997, Mr. A. R. King, Director, stated that the school will write policy and procedure that requires more involvement of the director in the cash receipt and bank reconciliation process.

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**Inadequate Controls Over Payroll Functions**

Louisiana Technical College, Shelby Jackson Campus has not developed or implemented adequate internal control policies and procedures over its payroll functions. A good internal control structure should provide for segregation of duties so that no one employee is in a position to both initiate and conceal errors and irregularities. In our review of the controls over payroll, we noted the following weaknesses:

- The accountant performs general ledger functions, enters changes to employees' master records, and also has access to enter time for processing payroll.
- Termination pay and supplemental payroll checks are received and distributed by the accountant who also performs payroll functions.
- The accountant directly receives the W-2 forms, compares them to payroll records, and mails or hand delivers them to employees. In addition, she receives and investigates returned W-2 forms.
- There are no independent reviews performed of the detail time entry and master record change transactions by persons not involved in the payroll process.
- The same person who enters leave data also receives and reviews the leave reports. Unauthorized changes to leave balances may not be detected timely.

The accounting staff is limited to the accountant and a secretary. Therefore, all accounting, payroll, and personnel functions are assigned to these two employees. As a result of this lack of segregation of duties, errors or irregularities could occur when entering data into the payroll system which may not be detected timely.

Management should develop and implement written policies and procedures to achieve adequate segregation of duties relating to the payroll function. This could be accomplished by having the director become more actively involved in the payroll process. The director or his assistant could directly receive and review all reports and documents generated by the state payroll system for any unusual transactions. There should also be evidence that an independent review was performed. In a letter dated

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January 30, 1997, Mr. A. R. King, Director, stated that the school will develop a written payroll review procedure whereby the director will receive, review, and initial all reports and documents generated by the state payroll system.

**Inventory Controls Not Adequate**

Louisiana Technical College, Shelby Jackson Campus does not have the necessary internal controls to ensure that its materials and supplies inventories are adequately accounted for, and that errors and/or irregularities would be prevented or detected in a timely manner. A system of internal controls dictates that adequate measures are taken to ensure proper and accurate accountability of all inventoried items. Management is responsible for implementing a system of internal controls that provides for the safeguarding of assets. Our control work revealed the following weaknesses:

- For the basic skills and office occupation book inventories, which totaled \$137 and \$3,636, respectively, at June 30, 1996, the same person requests, receives, issues, and posts to manual perpetual records, has custodial responsibility, and performs the annual physical count. There is no independent review of the perpetual records and these records are not balanced to a control account balance. Also, there are no procedures for an independent investigation or review of the discrepancies that exists between the physical counts and the perpetual record balances of the basic skills and office occupation inventories.
- The same persons perform the annual physical count and have custodial responsibility over the periodic inventories of Nursing Department books and departmental materials and supplies, which totaled \$19,683, as of June 30, 1996.
- There are no formal written procedures for accounting for the issuance, distribution, and record keeping for both the perpetual book and the periodic materials and supplies inventories that was reported at \$23,456 as of June 30, 1996.

These weaknesses exist because there are no formal written policies and procedures. Management's failure to have adequate controls subjects inventory items to possible loss, misuse, and/or theft that would not be detected timely, if at all.

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Management should develop and implement written policies and procedures for controlling the receipt, distribution, record keeping, custody, and year-end physical inventory process for its books and materials and supplies. Moreover, management should monitor personnel's adherence to these policies and procedures. In a letter dated January 30, 1997, Mr. A. R. King, Director, stated that the school administrative staff will develop and implement written policies and procedures for handling the materials and supplies inventories.

**Weaknesses in Electronic Data Processing User Controls**

Louisiana Technical College, Shelby Jackson Campus has weaknesses in its electronic data processing (EDP) control system under the Integrated Statewide Information System (ISIS). A good internal control structure provides for segregation of duties so that no one employee is in a position to both initiate and conceal errors and/or irregularities electronically. During our test of the EDP user controls for the Advanced Governmental Purchasing System (AGPS) and Governmental Financial System (GFS), we found that:

- The accountant has access to enter purchasing, receiving, and invoice data on-line for disbursement transactions. The accountant also performs all accounts payable and general ledger functions.
- No one other than the accountant compares the output data generated by ISIS to source input documents. Source documents include expenditure vouchers and purchase orders. The director informed us that he scans the reports for unusual items, but does not verify the report data to source documents. There was no evidence of this review.

This lack of segregation of duties increases the risk that financial statements and records could be inaccurate and remain undetected.

Louisiana Technical College, Shelby Jackson Campus should develop and implement written policies and procedures to address the weaknesses noted in its electronic data processing control system under the ISIS. This could be accomplished by having the director become more familiar with the types of reports that can be generated by the ISIS. There should be procedures for an independent review of these reports to include a comparison of source documents to the detailed transaction listings. Also, the reports should be marked and initialed indicating that such a review occurred. In a letter dated



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February 11, 1997, Mr. A. R. King, Director, stated that the school will develop and implement written policies and procedures to correct the identified weaknesses in the electronic data processing controls system.

**Unsecured Deposits**

Louisiana Technical College, Shelby Jackson Campus did not comply with the revised statutes when it failed to obtain collateral to secure public funds in excess of \$100,000 on deposit in a local bank. Louisiana Revised Statute (R.S.) 49:321 requires all state funds on deposit in bank accounts to be secured 100 percent by pledged collateral.

*In our review of the controls over cash, we noted that the technical college received a \$100,000 donation on November 29, 1995, which was invested in a certificate of deposit (CD) payable to the technical college. The interest is added to the principal quarterly. Since the date the first interest payment was added to the CD, the technical college has maintained deposits in excess of \$100,000 in that bank. No pledged securities were obtained to secure the deposits in excess of the \$100,000 FDIC coverage. At November 30, 1996, the amounts on deposit totaled \$105,771 leaving \$5,771 unsecured.*

The director was unaware of the provision of the statutes relating to the collateralization of 100 percent of state funds. As a result, public funds have been placed at risk of loss, in the event of bank failure.

Management should become thoroughly familiar with and follow the requirements of state laws relating to deposits of state funds. In a letter dated January 30, 1997, Mr. A. R. King, Director, stated that the \$5,771 in question has been secured and that he will become familiar with the requirements of the applicable laws relating to deposits of public funds.

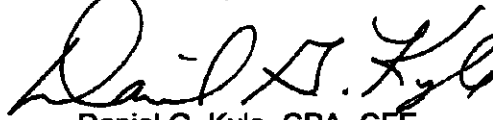
The recommendations in this report represent, in our judgment, those most likely to bring about beneficial improvements to the operations of the technical college. The nature of the recommendations, their implementation costs, and their potential impact on operations of the technical college should be considered in reaching decisions on courses of action. Findings relating to the technical college's compliance with laws and regulations should be addressed immediately by management.

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By provisions of state law, this report is a public document, and it has been distributed to appropriate public officials.

Respectfully submitted,

A handwritten signature in cursive script, appearing to read "Daniel G. Kyle".

Daniel G. Kyle, CPA, CFE  
Legislative Auditor

INY:MAN:dl

[LTC-SJC]