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**STATE OF LOUISIANA
LEGISLATIVE AUDITOR**

**Grambling State University
State of Louisiana
Grambling, Louisiana**

March 8, 1995



Financial and Compliance Audit Division

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

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LEGISLATIVE AUDITOR

Daniel G. Kyle, Ph.D., CPA, CFE

DIRECTOR OF FINANCIAL AND COMPLIANCE AUDIT

Albert J. Robinson, Jr., CPA

**GRAMBLING STATE UNIVERSITY
STATE OF LOUISIANA
Grambling, Louisiana**

**General Purpose Financial Statements
and Independent Auditor's Reports
As of and for the Year Ended June 30, 1994**

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.

March 8, 1995

**STATE OF LOUISIANA
GRAMBLING STATE UNIVERSITY**

**General Purpose Financial Statements
and Independent Auditor's Reports
As of and for the Year Ended June 30, 1994**

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LEGISLATIVE AUDITOR

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January 18, 1995

Independent Auditor's Report
on the Financial Statements

GRAMBLING STATE UNIVERSITY
STATE OF LOUISIANA
Grambling, Louisiana

We were authorized to audit the accompanying general purpose financial statements of Grambling State University, a component unit of the State of Louisiana, as of and for the year ended June 30, 1994, as listed in the foregoing table of contents. These financial statements are the responsibility of management of Grambling State University.

As discussed in Exhibits A, B, and C, the university has numerous material weaknesses, reportable conditions, material noncompliance, and violations of laws and regulations reported for the year ended June 30, 1994. These conditions, and the related concerns which arise from them, made it impractical to apply sufficient audit procedures to enable us to express an opinion on the fair presentation of the accompanying general purpose financial statements, and therefore, constitute a limitation on the scope of our engagement.

Because of the significance of the matters described in the second paragraph, the scope of our work was not sufficient to enable us to express, and we do not express, an opinion on the financial statements referred to in the first paragraph.

Respectfully submitted,

Daniel G. Kyle, CPA, CFE
Legislative Auditor

RE:BJJ:dl

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Unaudited

**GRAMBLING STATE UNIVERSITY
STATE OF LOUISIANA
COMBINED BALANCE SHEET - ALL FUNDS
JUNE 30, 1994**

	CURRENT FUNDS		
	GENERAL	AUXILIARY ENTERPRISES	RESTRICTED
ASSETS			
Cash and cash equivalents			\$661,502
Investments at cost	\$4,485,436	\$4,077,383	
Accrued interest	28,158	3,729	318
Accounts receivable (net of allowance for uncollectible)	53,995	2,056,957	1,114,005
Notes receivable			
Deferred charges and prepaid expenses	104,343	45,949	71,609
Inventories at cost	295,134	1,096,855	
Institutional plant			
TOTAL ASSETS	\$4,967,066	\$7,280,873	\$1,847,434
LIABILITIES AND FUND EQUITY			
Liabilities			
Cash overdrafts	\$114,710	\$1,988,612	
Accounts payable	966,604	570,649	\$49,557
Accrued liabilities	593,198		
Due to state treasury	1,410,391		
Due to students	10,245	386,079	
Deposits held for others		28,495	
Deferred revenues	1,576,784	379,114	70,450
Notes payable			
Bonds payable			
Obligations under capital leases			
Total Liabilities	4,671,932	3,352,949	120,007
Fund Equity			
Net investment in plant			
Fund balances			
Reserve for encumbrances		624,858	1,201,255
Reserve for inventories	295,134		
Reserve required - bond indentures			
Reserve for debt service - bonds			
Restricted non-current operations			
Current operations - unrestricted		3,303,066	
Current operations - restricted			526,172
Total Fund Equity	295,134	3,927,924	1,727,427
TOTAL LIABILITIES AND FUND EQUITY	\$4,967,066	\$7,280,873	\$1,847,434

The accompanying notes are an integral part of this statement.

FIDUCIARY FUNDS			PLANT FUNDS			TOTAL (MEMORANDUM ONLY)
AGENCY FUNDS	STUDENT LOAN FUNDS	ENDOWMENT FUNDS	RENEWALS AND REPLACEMENTS	RETIREMENT OF INDEBTEDNESS	NET INVESTMENT IN PLANT	
\$1,009,219	\$41,661		\$1,464,496	\$843,095		\$4,019,973
		\$1,210,729	639,547			10,413,095
	207,194		1,584			240,983
30,468			175,032			3,430,457
	1,052,473					1,052,473
						221,901
						1,391,989
					\$125,684,546	125,684,546
<u>\$1,039,687</u>	<u>\$1,301,328</u>	<u>\$1,210,729</u>	<u>\$2,280,659</u>	<u>\$843,095</u>	<u>\$125,684,546</u>	<u>\$146,455,417</u>
						\$2,103,322
\$47,820						1,634,630
						593,198
						1,410,391
						396,324
891,913						920,408
99,954			\$30,998			2,157,900
					\$3,463,623	3,463,623
					4,478,000	4,478,000
					524,225	524,225
<u>1,039,687</u>	<u>NONE</u>	<u>NONE</u>	<u>30,998</u>	<u>NONE</u>	<u>8,465,848</u>	<u>17,681,421</u>
						117,218,698
						117,218,698
			1,603			1,827,716
						295,134
			600,000	\$593,120		1,193,120
				22,250		22,250
	\$1,301,328	\$1,210,729	1,648,058	227,725		4,387,840
						3,303,066
						526,172
<u>NONE</u>	<u>1,301,328</u>	<u>1,210,729</u>	<u>2,249,661</u>	<u>843,095</u>	<u>117,218,698</u>	<u>128,773,996</u>
<u>\$1,039,687</u>	<u>\$1,301,328</u>	<u>\$1,210,729</u>	<u>\$2,280,659</u>	<u>\$843,095</u>	<u>\$125,684,546</u>	<u>\$146,455,417</u>

Unaudited

**GRAMBLING STATE UNIVERSITY
STATE OF LOUISIANA
COMBINED STATEMENT OF CHANGES IN FUND BALANCES
FOR THE YEAR ENDED JUNE 30, 1994**

	<u>CURRENT FUNDS</u>		
	<u>UNRESTRICTED</u>		
	<u>GENERAL</u>	<u>AUXILIARY ENTERPRISES</u>	<u>RESTRICTED</u>
Revenues and other additions:			
Unrestricted current fund revenues	\$37,890,131	\$14,430,686	
Tuition and fees - restricted			\$450,318
Gifts, grants, and contracts - restricted:			
State			196,781
Federal			15,587,175
Private			306,582
Investment income - restricted			
Sales and service			
Endowment income			
Additions to plant facilities			
Retirement of indebtedness			
Other sources			
Total revenues and other additions	<u>37,890,131</u>	<u>14,430,686</u>	<u>16,540,856</u>
Expenditures and other deductions:			
Educational and general	36,283,325		15,750,293
Auxiliary enterprises		15,053,751	
Indirect costs recovered			316,176
Loan cancellations and write-offs			
Administrative and collection costs			
Expended for plant facilities			
Retirement of indebtedness			
Interest on indebtedness			
Disposal of plant facilities			
Other			
Total expenditures and other deductions	<u>36,283,325</u>	<u>15,053,751</u>	<u>16,066,469</u>
Transfers among funds - additions (deductions):			
Mandatory - principal and interest		(610,974)	
Non-mandatory transfers			(600,000)
Total transfers among funds	<u>NONE</u>	<u>(610,974)</u>	<u>(600,000)</u>
Inventory increase (decrease)	3,583		
Operating transfers - other state funds	(1,606,806)	1,606,806	
Net increase (decrease) for the year	<u>3,583</u>	<u>372,767</u>	<u>(125,613)</u>
Fund balances at beginning of year	291,551	3,544,345	1,853,040
Adjustments of prior year	<u>NONE</u>	<u>10,812</u>	<u>NONE</u>
Fund balances at end of year	<u>\$295,134</u>	<u>\$3,927,924</u>	<u>\$1,727,427</u>

The accompanying notes are an integral part of this statement.

Statement B

FIDUCIARY FUNDS		PLANT FUNDS		NET INVESTMENT IN PLANT	TOTAL (MEMORANDUM ONLY)
STUDENT LOAN FUNDS	ENDOWMENT FUNDS	RENEWALS AND REPLACEMENTS	RETIREMENT OF INDEBTEDNESS		
		\$117,868	\$75,655		\$52,320,817
					643,841
					196,781
					15,587,175
					306,582
\$32		70,514			70,546
17,141					17,141
	\$10,729				10,729
				\$28,158,960	28,158,960
				506,392	506,392
77,103		168,369			245,472
94,276	10,729	356,751	75,655	28,665,352	98,064,436
					52,033,618
					15,053,751
8,207					324,383
13,120					13,120
1,608					1,608
		12,239		912,422	924,661
			467,377		467,377
			196,592		196,592
				18,866,672	18,866,672
(269)		18,633	410		18,774
22,666	NONE	30,872	664,379	19,779,094	87,900,556
			610,974		
	600,000				
NONE	600,000	NONE	610,974	NONE	NONE
					3,583
71,610	610,729	325,879	22,250	8,886,258	10,167,463
1,229,718	NONE	1,923,782	820,845	110,049,817	119,713,098
NONE	600,000	NONE	NONE	(1,717,377)	(1,106,565)
\$1,301,328	\$1,210,729	\$2,249,661	\$843,095	\$117,218,698	\$128,773,996

Unaudited

Statement C

**GRAMBLING STATE UNIVERSITY
STATE OF LOUISIANA
COMBINED STATEMENT OF CURRENT FUNDS' REVENUES,
EXPENDITURES AND OTHER CHANGES - BY FUND
FOR THE YEAR ENDED JUNE 30, 1994**

	UNRESTRICTED		TOTAL (MEMORANDUM ONLY)
	GENERAL	AUXILIARY ENTERPRISES	
Revenues:			
Tuition and fees	\$18,520,385		\$18,959,974
State appropriations	17,601,937		17,601,937
Federal grants and contracts			14,807,341
State grants and contracts			196,781
Local grants and contracts	956,053		956,053
Private gifts, grants, and contracts			306,582
Sales and services of education departments	166,189		166,189
Sales and services of auxiliary departments		\$12,992,244	12,992,244
Administrative expense recovery	315,900		315,900
Investment income	272,844		272,844
Other sources	56,823	1,438,442	1,495,265
Total revenues	37,890,131	14,430,686	68,071,110
Expenditures and transfers:			
Educational and general:			
Instruction	18,320,512		20,888,997
Research	429,917		473,664
Academic support	4,338,359		5,327,004
Student services	2,006,971		2,006,971
Institutional support	4,812,064		5,828,667
Operations and maintenance of plant	4,700,467		4,700,467
Scholarships and fellowships	1,675,035		12,807,848
Total educational and general expenditures	36,283,325	NONE	52,033,618
Mandatory transfers for - principal and interest		610,974	610,974
Auxiliary enterprise expenditures		15,053,751	15,053,751
Total expenditures and transfers	36,283,325	15,664,725	67,698,343
Operating transfers - other state funds	(1,606,806)	1,606,806	
Other additions (deductions):			
Excess (deficiency) of restricted receipts over transfers to revenues			(125,613)
Inventory increase/decrease	3,583		3,583
Net increase (decrease) in fund balances	\$3,583	\$372,767	\$250,737

The accompanying notes are an integral part of this statement.

**GRAMBLING STATE UNIVERSITY
STATE OF LOUISIANA
COMBINED STATEMENT OF REVENUES, EXPENDITURES
AND UNEXPENDED APPROPRIATION
BUDGETARY COMPARISON OF CURRENT YEAR
APPROPRIATION - BUDGET (NON-GAAP BASIS)
GOVERNMENTAL FUND TYPE - UNRESTRICTED -
GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 1994**

	<u>ACTUAL</u>	<u>ADJUSTMENT TO BUDGET BASIS</u>	<u>ACTUAL ON BUDGET BASIS</u>	<u>BUDGET</u>	<u>VARIANCE FAVORABLE (UNFAVORABLE)</u>
REVENUES					
Appropriated by Legislature:					
State General Fund	\$17,821,864	(\$990,045)	\$16,831,819	\$17,821,864	(\$990,045)
Interim Emergency Board					
State General Fund by self - generated revenues	20,167,520		20,167,520	20,296,552	(129,032)
State General Fund by interagency transfers	242,824		242,824	242,994	(170)
Federal funds	315,900		315,900	250,000	65,900
Other (lottery proceeds)	332,068		332,068	332,068	
Total revenues	<u>38,880,176</u>	<u>(990,045)</u>	<u>37,890,131</u>	<u>38,943,478</u>	<u>(1,053,347)</u>
EXPENDITURES					
Education and general and other	<u>37,890,131</u>	<u>NONE</u>	<u>37,890,131</u>	<u>38,943,478</u>	<u>1,053,347</u>
UNEXPENDED APPROPRIATION - CURRENT YEAR					
	<u>\$990,045</u>	<u>(\$990,045)</u>	<u>NONE</u>	<u>NONE</u>	<u>NONE</u>

The accompanying notes are an integral part of this statement.

**GRAMBLING STATE UNIVERSITY
STATE OF LOUISIANA
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 1994**

A. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Grambling State University is a publicly supported institution of higher education. The university is a component unit of the State of Louisiana, within the executive branch of government. The university is under the management and supervision of the Board of Trustees for State Colleges and Universities; however, the annual budget of the university and proposed changes to the degree programs, departments of instruction, et cetera, require the approval of the Board of Regents. As a State agency, operations of the university's instructional programs are funded through annual lapsing appropriations made by the Louisiana Legislature.

In April of 1984, the Financial Accounting Foundation established the Governmental Accounting Standards Board (GASB) to promulgate generally accepted accounting principles and reporting standards with respect to activities and transactions of state and local governmental entities. In July of 1984, the GASB issued Statement 1 which provided that all statements and interpretations issued by the National Council on Governmental Accounting (NCGA) continue as generally accepted accounting principles until altered, amended, supplemented, revoked or superseded by subsequent GASB pronouncements.

The GASB recognized two models for college and university accounting and financial reporting in GASB Pronouncement 15: the AICPA College Guide and the Governmental Model. For financial reporting, the Division of Administration has chosen the former. The accompanying financial statements have been prepared in accordance with the AICPA College Guide except for the recognition of compensated absences. The university recognizes the liability for unused annual and sick leave when paid because major portions of the liability will be paid from the university's General Fund from future appropriations made by the Louisiana Legislature.

The GASB, Code Section 2100 has defined the governmental reporting entity to be the State of Louisiana. Therefore, the accompanying financial statements of the university contain sub-account information of the various funds of the State of Louisiana. As such, the accompanying financial statements present information only as to the transactions of the programs of the university as authorized by Louisiana statutes and administrative regulations.

Annually, the State of Louisiana issues comprehensive financial statements which include the activity contained in the accompanying financial statements. The general purpose financial statements are audited by the Legislative Auditor.

Unaudited

GRAMBLING STATE UNIVERSITY
STATE OF LOUISIANA
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 1994

1. FUND ACCOUNTING

In order to insure observance of limitations and restrictions placed on the use of the resources available, the accounts of the university are maintained in accordance with the principles of "fund accounting." Such principles proscribe the manner in which resources for various purposes are classified for accounting and reporting purposes into funds that are in accordance with the activities or objectives specified. Accounts are separately maintained for each fund; however, in the accompanying financial statements, funds having similar characteristics have been combined into fund groups. Accordingly, all financial transactions have been recorded and reported by fund groups. A brief description of each of the fund groups follows:

Current Funds

Current Funds means operating funds that will be expended in the near term. Such funds have two basic sub-groups - unrestricted and restricted.

Unrestricted current funds include all funds for operating purposes on which there are no restrictions, except the budgetary control provisions included in the annual Legislative Appropriations Act, and include the General Fund and Auxiliary Enterprise Fund. Restricted current funds represent those operating funds on which restrictions have been imposed which limit the purposes for which such funds can be used, and include the Federal College Workstudy Program (CWS), Supplemental Educational Opportunity Grant (SEOG), the Federal Pell Grant, et cetera.

Student Loan Funds

The purpose of this fund group is to account for resources available for loans to students.

Endowment Funds

Endowment Funds are funds with respect to which donors or other outside agencies have stipulated, as a condition of the gift instrument, that the principal is to be maintained inviolate and in perpetuity and invested for the purpose of producing present and future income which may either be expended or added to

Unaudited

**GRAMBLING STATE UNIVERSITY
STATE OF LOUISIANA
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 1994**

principal. Income derived from investments of endowments is accounted for in this fund or if unrestricted, as revenues in unrestricted current funds.

Plant Funds

The Plant Funds group contains three self-balancing sub-groups. Funds for Renewals and Replacements are set aside from current operating revenues for the renewal and replacement of auxiliary enterprise properties. Funds for Retirement of Indebtedness are to service plant indebtedness of the university. Investment in Plant includes all long-lived assets of the university.

Agency Funds

This fund group represents funds in which the university acts as custodian or fiscal agent on behalf of others, such as student or faculty organizations and workshops.

2. BASIS OF ACCOUNTING

The financial statements of the university have been prepared on the accrual basis of accounting, except that: (1) depreciation is not recognized, (2) annual and sick leave is recognized when paid, (3) summer school tuition and fees and faculty salaries and related benefits for June are not prorated, but deferred to the succeeding year when the summer session is held predominantly in the succeeding fiscal year, and (4) inventories for the General Fund are recorded as expenditures at the time of purchase.

The Statement of Current Funds' Revenues, Expenditures and Other Changes is a statement of financial activities of current funds related to the current reporting period. It does not purport to present the results of operations or net income or loss for the period as would a statement of revenues and expenses.

To the extent that current funds are used to finance plant assets, the amounts so provided are accounted for as expenditures in the case of normal acquisitions, repairs and renovations; mandatory transfers in the case of required provisions for debt amortization and interest; and as transfers of a nonmandatory nature for all other cases.

Unaudited

GRAMBLING STATE UNIVERSITY
STATE OF LOUISIANA
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 1994

3. BUDGETARY PRACTICES

The annual budget for the General Fund of the university is established by annual Legislative action and by Title 39 of the Louisiana Revised Statutes. The submission of the budget for approval by the Board of Regents and the Legislative budget process is required. State law provides that any encumbered appropriation lapses at the end of the fiscal year. In compliance with the above legal restriction, budgets are adopted on the accrual basis of accounting, except that leave costs are treated as budgeted expenditures to the extent that they are expected to be paid and summer school tuition and fees and summer school faculty salaries and related benefits for June are not prorated, but are recognized in the succeeding year, on the budget comparison statement.

The budget amounts shown on Statement D include the original approved budget plus subsequent adjustments approved as follows:

Original approved budget		\$36,499,164
Amendments:		
Self-Generated Revenues	\$2,032,417	
Carry-Forward	84,126	
Legislative Auditors Fees	77,771	
Self-Generated Revenues	250,000	
Total Budgeted Amount		\$38,943,478

The other funds of the university, although subject to internal budgeting, are not required to submit budgets for approval through the Legislative budget process, and therefore are not presented in Statement D.

4. ENCUMBRANCES

Encumbrance accounting, under which purchase orders, contracts and other commitments for the expenditure of monies are recorded in order to reserve fund balances, is employed by the university. Encumbrances outstanding at year end in all funds, except for the General Fund, are reported as reservations of fund balance since they do not constitute expenditures or liabilities in the year encumbered. Encumbrances of the General Fund are not included in the financial statements because the university does not have the ability to finance the liquidation of encumbrances after

**GRAMBLING STATE UNIVERSITY
STATE OF LOUISIANA
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 1994**

June 30, 1994, as provided by Louisiana Revised Statute 39:82. These encumbrances, which are included in the general purpose financial statements of the State of Louisiana, totaled \$1,827,716 at June 30, 1994.

5. CASH AND CASH EQUIVALENTS

For reporting purposes, cash and cash equivalents include petty cash, demand deposits, time deposits, and certificates of deposit. Cash and cash equivalents are stated at cost, which approximates market. Under state law, these deposits must be secured by federal deposit insurance or the pledge of securities owned by the bank. These pledged securities are held in the name of the pledging bank in a custodial bank that is mutually acceptable to the parties involved.

6. INVESTMENTS

University investments include repurchase agreements, federated funds, registered common and preferred stock, registered bonds, and U.S. Government securities. Investments are stated at cost or amortized cost, and investments received as gifts are recorded initially at market value at date of acquisition.

7. INVENTORIES

Inventories are valued at the lower of cost or market. Inventories in the General Fund are recorded as expenditures at the time of purchase. Year-end balances are offset by a fund balance reserve which indicates that this portion of the fund balance does not constitute available spendable resources.

The inventories of the Auxiliary Enterprise Funds are expensed when sold or used.

8. ANNUAL AND SICK LEAVE

Employees accrue and accumulate annual and sick leave in accordance with state law and administrative regulations. The leave is accumulated without limitation; however, nine month faculty members do not accrue annual leave, but are granted faculty leave during holiday periods when students are not in classes.

Unaudited

**GRAMBLING STATE UNIVERSITY
STATE OF LOUISIANA
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 1994**

Upon separation of employment, both classified and non-classified personnel or their heirs are compensated for accumulated annual leave not to exceed 300 hours. In addition, academic personnel or their heirs are compensated for accumulated sick leave not to exceed 25 days upon retirement or death. Act 343 of 1993 allows members of the Louisiana State Employees' Retirement System, upon application for retirement, the option of receiving an actuarially determined lump sum payment for annual and sick leave which would otherwise have been used to compute years of service for retirement. Unused annual leave in excess of 300 hours plus unused sick leave are used to compute retirement benefits in either the Louisiana Teachers' Retirement System or the Louisiana State Employees' Retirement System.

The liability for unused annual leave and unused sick leave at June 30, 1994, computed in accordance with the Codification of Governmental Accounting and Financial Reporting Standards Section C60.105, is estimated to be \$1,898,174 and \$395,126 respectively. The leave payable is not recorded in the accompanying financial statements.

If the amounts noted above were recorded in the accompanying financial statements, \$1,669,400 would be reported in current funds-unrestricted general fund, \$527,674 would be reported in current funds-unrestricted auxiliary funds and \$96,226 would be reported, subject to specific criteria being met, in restricted funds.

The university has not implemented GASB 16 - Accounting for Compensated Absences.

9. DEFERRED REVENUES/CREDITS

Tuition and fees collected at June 30, 1994, but applicable to the 1994 summer session, and certain revenues for other programs or activities to be conducted primarily in the subsequent fiscal year, are reported as deferred revenues/credits. Expenses related to this session's programs and activities are reported in the period the tuition and fees are recognized as revenues.

Unaudited

GRAMBLING STATE UNIVERSITY
STATE OF LOUISIANA
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 1994

B. GENERAL FUND

At June 30, 1994, the General Fund had an unexpended appropriation of \$990,045 which is included in due to the State Treasury (Statement A). This amount, after adjustment, should be remitted to the State Treasury.

The General Fund contributed or provided general support to the Athletic Department totaling \$1,606,806 for the year ended June 30, 1994.

As provided by Louisiana Revised Statute 17:3886(A), the university adopted a building and facility preventative maintenance program which was approved by the Louisiana Board of Regents. This program allows the university to retain any funds appropriated or allocated which were unexpended and unobligated at the end of the fiscal year. At least fifty per cent of the retained funds will be maintained in a preventative maintenance reserve fund in the restricted fund and will be used solely for preventative maintenance purposes in accordance with the approved plan, subject to approval by the Supervisory Board, the Louisiana Board of Regents, and the Joint Legislative Committee on the Budget. All retained funds will be spent for non-recurring projects. \$465,817 of the \$526,172 of restricted-current funds on Statement A, at June 30, 1994, will be retained for these purposes.

C. ACCOUNTING CHANGES

The university initiated no accounting changes during the year.

D. PLANT FUNDS

Physical plant and equipment are stated at cost at the date of acquisition, estimated historical cost if actual cost is not known, or fair market value at the date of donation in the case of gifts, or for livestock. Depreciation on physical plant equipment is not recorded.

A summary of investments in plant follows:

Unaudited

**GRAMBLING STATE UNIVERSITY
STATE OF LOUISIANA
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 1994**

Description	July 1, 1993 Balance (Adjusted)	Additions	Deductions	Balance June 30, 1994
Land and improvements	\$6,030,247			\$6,030,247
Buildings	53,350,765	\$17,501,488	\$1,554,975	69,297,278
Improvements - other	2,352,427			2,352,427
Equipment	19,497,553	3,803,218		23,300,771
Library books	10,226,232	979,586		11,205,818
Construction in progress	24,935,033	5,874,668	17,311,696	13,498,005
TOTAL	\$116,392,257	\$28,158,960	\$18,866,671	\$125,684,546

In accordance with Louisiana Revised Statutes 39:321-332, the university has complied with the Louisiana movable property statutes.

The schedule below is a summary of the debt service requirements of the various bond issues and reimbursement contracts payable at June 30, 1994 and the amounts available to meet those requirements.

Bond Issue	Cash Reserves Available	Reserve Requirements	Excess (Deficiency)
Student Housing System Revenue Bonds	\$511,700	\$511,700	NONE
Academic Facilities Building Use Fee Revenue Bonds	81,420	81,420	NONE
Total	\$593,120	\$593,120	NONE

E. CHANGES IN LONG-TERM DEBT

The following is a summary of bond reimbursement contracts and other long-term debt transactions of the university for the year ended June 30, 1994:

	Bonds Payable	Housing Loan	Totals
Outstanding at July 1, 1993	\$4,909,000	\$3,500,000	\$8,409,000
Added	NONE	NONE	NONE
Retired	431,000	36,377	467,377
Outstanding at June 30, 1994	\$4,478,000	\$3,463,623	\$7,941,623

Unaudited

**GRAMBLING STATE UNIVERSITY
STATE OF LOUISIANA
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 1994**

A detailed summary, by issues, of all bonded indebtedness outstanding at June 30, 1994, including interest payments of \$848,423, follows:

<u>Issue</u>	<u>Date of Issue</u>	<u>Original Issue</u>	<u>Outstanding June 30, 1993</u>
Student Housing System Revenue Bonds:			
1965 Series A	Oct. 1, 1965	\$2,649,000	\$609,000
1965 Series B	Oct. 1, 1965	4,000,000	1,965,000
1968 Series A	Oct. 1, 1968	625,000	235,000
1968 Series B	Oct. 1, 1968	3,000,000	1,581,000
Academic Facilities Building Use Fee Revenue Bonds:			
1969 Series G	Nov. 1, 1969	472,000	162,000
1969 Series H	Nov. 1, 1969	125,000	43,000
1970 Series I	July 1, 1970	800,000	314,000
Total		<u>\$11,671,000</u>	<u>\$4,909,000</u>

<u>Redeemed (Issued)</u>	<u>Outstanding June 30, 1994</u>	<u>Maturities</u>	<u>Interest Rate</u>	<u>Outstanding Interest June 30, 1994</u>
\$120,000	\$489,000	1994-1997	3%	\$29,595
130,000	1,835,000	1994-2005	3 - 3.75%	397,688
35,000	200,000	1994-1998	6%	31,200
85,000	1,496,000	1994-2008	3%	343,410
20,000	142,000	1994-1999	3%	12,930
6,000	37,000	1994-1999	3%	3,375
35,000	279,000	1994-2000	3%	30,225
<u>\$431,000</u>	<u>\$4,478,000</u>			<u>\$848,423</u>

Unaudited

GRAMBLING STATE UNIVERSITY
STATE OF LOUISIANA
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 1994

The annual requirements to amortize all outstanding debt at June 30, 1994, follows:

<u>Fiscal Year Ending</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
Bonds:			
1995	\$432,000	\$143,122	\$575,122
1996	444,000	127,882	571,882
1997	475,000	111,866	586,866
1998	475,000	95,329	570,329
1999	358,000	80,471	438,471
2000	310,000	68,689	378,689
2001	308,000	58,275	366,275
2002	265,000	48,480	313,480
2003	265,000	39,330	304,330
2004	285,000	30,293	315,293
2005	285,000	21,555	306,555
2006	290,000	12,930	302,930
2007	125,000	6,705	131,705
2008	125,000	2,955	127,955
2009	36,000	541	36,541
Thereafter	NONE	NONE	NONE
Total	\$4,478,000	\$848,423	\$5,326,423

Additionally, the Board of Trustees for State Colleges and Universities has signed a loan agreement, on behalf of the university, with the United States Secretary of Education in the amount of \$3,500,000. These funds were used to finance the construction of four new dormitories pursuant to Title IV of the Housing Act of 1950. The loan shall bear interest at the rate of 3% per annum on the unpaid balance. The principal and interest shall be payable in semiannual installments of \$88,877 over a term of 30 years. This project (designated Project Number CH-LA-1001) required the university to establish a Debt Service Reserve Account and make semiannual deposits of \$22,250 until \$178,000 has been accumulated. Once this reserve requirement is satisfied, the university is required to establish a Repair and Replacement Reserve Account and make at least annual deposits of \$35,000 until \$350,000 has been accumulated.

Unaudited

GRAMBLING STATE UNIVERSITY
STATE OF LOUISIANA
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 1994

F. AUXILIARY ENTERPRISES

A summary of the net increase of \$372,767 in the Auxiliary Enterprise Funds for the year ended June 30, 1994 is as follows:

Net Increase in Fund Balances	\$372,767
Net Assets	3,927,924
Outstanding principal and interest on debt (bonds)	5,326,423
Annual principal and interest on debt (bonds)	513,438

The present accounting system does not provide for individual accounting of balance sheet and fixed asset accounts for each auxiliary. A summary of net income (loss) for the year ended June 30, 1994, is as follows:

Food Service	\$668,625
Housing	1,501,044
Bookstore	358,107
Student Union	(252,114)
Other	<u>(1,902,895)</u>
Total	<u>\$372,767</u>

G. FEDERAL GRANTS

The university participates in a number of federally assisted grant programs reported in the Restricted Fund. These programs are subject to program compliance audits by the grantors, but all such audits for 1994 have not been conducted. The amount, if any, of expenditures which may be disallowed by the granting agencies cannot be determined at this time. Based on prior experience, the university's management feels such disallowances, if any, will be immaterial.

H. GRANT AWARDS

Grant awards not yet funded and for which the institution has not yet performed services, have not been considered as assets in the financial statements. The total amount of such uncollected grant awards at June 30, 1994 equals \$3,756,187.

Unaudited

**GRAMBLING STATE UNIVERSITY
STATE OF LOUISIANA
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 1994**

I. STUDENT LOAN FUNDS

The fund balances of the Student Loan Funds at June 30, 1994, are comprised of the following:

Federal Perkins Loan Program	\$1,065,629
Federal Nursing Student Loan Program	<u>235,699</u>
Total	<u><u>\$1,301,328</u></u>

J. PENSION PLANS

Substantially all employees are members of the Louisiana Teachers Retirement System (TRS) or the Louisiana State Employees Retirement System (LSERS). In addition to the employee contribution withheld at 8.0% and 7.5% of gross salary, the State contributes an additional 16.4% and 11.9% of gross salary to the Louisiana Teachers Retirement System and the Louisiana State Employees Retirement Systems, respectively. Contributions to the system are funded through employee and employer contributions of \$2,063,519 and \$3,884,289 respectively. The total current-year payroll of the agency was \$26,879,187 and its current-year payroll covered by the retirement systems was \$26,592,973. Under present statutes, the agency does not guarantee any of the benefits granted by the retirement systems.

K. CONTINGENT LIABILITIES

Losses arising from judgments, claims, and similar contingencies are considered state liabilities and paid upon appropriation by the Legislature and not the university. The university was involved in 13 lawsuits at June 30, 1994.

L. LEASES

The university records items under capital leases as an asset and an obligation in the accompanying financial statements. The amounts accrued for capital leases and the disclosures required by FASB 13 are presented below.

Lease agreements have non-appropriation exculpatory clauses that allow lease cancellation if the Legislature does not make an appropriation for its continuation during any future fiscal period.

Unaudited

**GRAMBLING STATE UNIVERSITY
STATE OF LOUISIANA
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 1994**

1. OPERATING LEASES

Operating leases are all leases which do not meet the criteria of a capital lease. Operating leases are grouped by nature (i.e. office space, equipment, etc.) and the annual rental payments for the next five fiscal years are presented in the following schedule.

2. CAPITAL LEASES

Capital leases are defined as an arrangement in which any one of the following conditions apply (1) ownership transfers at the end of the lease, (2) the lease contains a bargain purchase option, (3) the lease term is 75% of the asset life or (4) the discounted minimum lease payments are 90% of the fair market value of the asset.

SCHEDULE A					
Nature of Lease	Date of Lease	Last Pmt Date	Remaining Interest	Remaining Principal	Fund
Cable Equipment	03/23/88	03/28/98	\$126,565	\$478,631	Agency
Copier	06/30/89	08/30/94	960	342	Auxiliary
Copier	07/30/90	07/30/95	9,576	45,252	Auxiliary
TOTAL			\$137,101	\$524,225	

The following is a schedule by years of future minimum lease payments under capital leases together with the present value of the net minimum lease payments as of June 30, 1994:

Year ending June 30:	
1995	\$187,671
1996	158,952
1997	145,248
1998	145,248
1999	24,207
Total minimum lease payments	661,326
Less: Amounts representing executory costs	NONE
Net minimum lease payments	661,326
Less: Amount representing interest	(137,101)
Present value of net minimum lease payments	\$524,225

Unaudited

**GRAMBLING STATE UNIVERSITY
STATE OF LOUISIANA
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 1994**

M. FUND DEFICITS

The university did not incur any deficits in unreserved fund balance at June 30, 1994.

**N. POSTRETIREMENT HEALTH CARE
AND LIFE INSURANCE BENEFITS**

The university provides certain continuing health care and life insurance benefits for its retired employees. Substantially all of the university's employees become eligible for those benefits if they reach normal retirement age while working for the university. Those benefits for retirees and similar benefits for active employees are provided through a state operated group insurance company and various insurance companies whose monthly premiums are paid jointly by the employee and by the university. The university recognizes the cost of providing these benefits (university's portion of premiums) as an expenditure when paid during the year, which totaled \$625,740 for the year ended June 30, 1994. The university's cost of providing retiree health care and life insurance benefits are recognized as expenditures when monthly premiums are paid. For the year ended June 30, 1994, the costs of retiree benefits for 182 retirees totaled \$419,869. As defined by GASB 12, the dependents of the retiree should be counted as a single unit if the retiree is deceased and should not be counted if the retiree is alive. The cost of retirees' benefits is net of participant's contribution.

O. CASH AND INVESTMENTS

1. CASH AND CASH EQUIVALENTS

At June 30, 1994, the university has cash and cash equivalents (book balances - net of overdrafts of \$2,103,322) totaling \$1,916,651 as follows:

Cash on hand	\$14,050
Interest-bearing demand deposits	427,163
Time deposits	<u>1,475,438</u>
Total	<u>\$1,916,651</u>

These deposits are stated at cost, which approximates market. Under state law, these deposits (or the resulting bank balances) must be secured by federal deposit insurance or the pledge of securities owned by the fiscal agent bank. The market value of the

Unaudited

**GRAMBLING STATE UNIVERSITY
STATE OF LOUISIANA
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 1994**

pledged securities plus the federal deposit insurance must at all times equal the amount on deposit with the fiscal agent. These securities are held in the name of the pledging fiscal agent bank in a holding or custodial bank that is mutually acceptable to both parties. At June 30, 1994, the university has \$4,846,487 in deposits (collected bank balances). These deposits are secured from risk by \$597,649 of federal deposit insurance and \$4,248,838 of pledged securities held by the custodial bank in the name of the fiscal agent bank (GASB Category 3).

2. INVESTMENTS

Grambling State University maintains investment accounts as authorized by Revised Statute 49:327(B).

Investments can be classified according to the level of risk to the entity. The categories of risk are as follows:

Category 1 - Insured or registered in the entity's name, or securities held by the entity or its agent in the entity's name.

Category 2 - Uninsured and unregistered with securities held by the counterparty's trust department or agent in the entity's name.

Category 3 - Unsecured and unregistered with securities held by the counterparty, or by its trust department or agent but not in the entity's name.

Category of Risk

Type of Investment	Category of Risk			Carrying Amount	Market Value
	1	2	3		
Repurchase Agreements					
U.S. Gov't Securities	\$10,413,095			\$10,413,095	\$10,297,771
Common & Preferred Stock					
Commercial Paper					
Corporate Bonds					
Others					
Total	\$10,413,095			\$10,413,095	\$10,297,771

Unaudited

**GRAMBLING STATE UNIVERSITY
STATE OF LOUISIANA
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 1994**

P. FOUNDATIONS

The accompanying financial statements do not include the accounts of the Grambling State University Athletic Foundation, the Grambling State University Foundation, or the Grambling State University Alumni Association. These foundations are separate corporations whose financial statements are subject to audit by independent certified public accountants.

Q. PLEDGES OF GIFTS

Grambling State University did not have any pledges of gifts such as uncollected subscriptions, subscriptions notes, and estate notes to report in the financial statements for the fiscal year ended June 30, 1994.

R. TOTAL COLUMNS ON STATEMENTS - OVERVIEW

The total column on the statements are captioned "Memorandum Only" to indicate that they are presented only to facilitate financial analysis. Data in these columns do not necessarily present financial position or results of operations in conformity with generally accepted accounting principles. Neither is such data comparable to a consolidation.

S. RELATED PARTY TRANSACTIONS

FASB 57 requires disclosure of the description of the relationship, the transaction, the dollar amount of the transactions and any amounts due to or from which result from related party transactions.

T. SUBSEQUENT EVENTS

The university has no material events to report subsequent to the close of the fiscal year.

**OTHER REPORTS REQUIRED BY
GOVERNMENT AUDITING STANDARDS**

The following pages contain reports on internal control structure and compliance with laws and regulations required by *Government Auditing Standards*, issued by the Comptroller General of the United States. The report on internal control structure includes, where appropriate, any reportable conditions and/or material weaknesses. The report on compliance with laws and regulations presents, where applicable, compliance matters that would be material to the presented financial statements.



DANIEL G. KYLE, PH.D., CPA, CFE
LEGISLATIVE AUDITOR

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January 18, 1995

Independent Auditor's Report
on Internal Control Structure

GRAMBLING STATE UNIVERSITY
STATE OF LOUISIANA
Grambling, Louisiana

We were authorized to audit the general purpose financial statements of Grambling State University, a component unit of the State of Louisiana, as of and for the year ended June 30, 1994, in accordance with generally accepted auditing standards and *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. Our report dated January 18, 1995, stated that, because of numerous material weaknesses; reportable conditions; material noncompliance; violations of laws and regulations; and the related concerns that arise from them, as discussed in Exhibit C, the scope of our work was not sufficient to enable us to express, and we did not express an opinion on the financial statements.

In planning and performing our tests of Grambling State University at June 30, 1994, and for the year then ended, we considered its internal control structure in order to determine the nature, timing, and extent of our procedures and not to provide assurance on the internal control structure.

Internal control structure consists of the control environment, accounting system, and control procedures used by the university. The internal control structure is the responsibility of management and is used to provide the university with a reasonable, but not absolute, ability to record, process, summarize, and report financial data consistent with the assertions embodied in the accompanying financial statements; to safeguard public assets; and to comply with laws and regulations. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of internal control structure policies and procedures.

For the purpose of this report, we have classified the significant internal control structure policies and procedures into the following categories:

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LEGISLATIVE AUDITOR

**GRAMBLING STATE UNIVERSITY
STATE OF LOUISIANA
Internal Control Report
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Revenues/receipts
Purchases/disbursements
Payables/encumbrances
Payroll/personnel
Inventory of materials and supplies
Fixed and movable property
Financial reporting
Budgeting/budget reporting
Electronic data processing activities
Internal audit function

For all of the internal control structure categories listed previously, we obtained an understanding of the design of relevant policies and procedures and whether they have been placed in operation, and we assessed control risk. We did not evaluate the effectiveness of the internal control structure categories because our preliminary work identified areas of concern and we concluded the audit could be performed more efficiently by expanding our substantive tests. Accordingly, we assessed control risk at a very high level (maximum) and expanded our substantive audit tests.

In accordance with the standards mentioned previously and provisions of state law, we are required to communicate to management, and include in our report, any reportable conditions and/or material weaknesses. Reportable conditions are matters that come to our attention relating to significant deficiencies in the design or operation of the internal control structure that, in our judgment, could adversely affect the university's ability to (1) record, process, summarize, and report financial data consistent with the assertions of management in the financial statements or (2) comply with laws and regulations that could have a material impact on the financial statements. A material weakness is a reportable condition in which the design or operation of one or more of the internal control structure elements, including those relating to compliance with laws and regulations, does not reduce to a relatively low level the risk that errors or irregularities, in amounts that would be material in relation to the financial statements being audited, may occur and not be detected within a timely period by employees in the normal course of performing their assigned duties.

The number of findings, in this report and our other report (Exhibit B), and the nature of the findings indicate a serious breakdown of the university's control environment, leading to a failure of the controls embodied in the accounting and related systems, which we consider to

EXHIBIT A

LEGISLATIVE AUDITOR

GRAMBLING STATE UNIVERSITY
STATE OF LOUISIANA
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January 18, 1995
Page 3

be a material weakness. We recommend that the administration attempt to reestablish its control environment through written detailed control procedures that are strongly enforced by management.

In our consideration of the internal control structure, we noted the matters contained in Exhibit C that we consider to be reportable conditions. The matters relating to student receivables, Act 971 funds, internal control over disbursements, access controls, and internal audit function are also considered to be material weaknesses and/or material instances of noncompliance.

These conditions were considered in determining the nature, timing, and extent of tests applied to the accompanying general purpose financial statements and our tests of compliance with laws and regulations.

Our consideration of the internal control structure would not necessarily disclose all matters in the internal control structure that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. Because of inherent limitations in any internal control structure, errors and irregularities may, nevertheless, occur and not be detected. Also, projection of any evaluation of the control structure to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or that the degree of compliance with the procedures may deteriorate.

In our prior report for the year ended June 30, 1993, we reported internal control findings relating to material and supplies inventories, delinquent accounts receivable, access controls, investment controls, internal controls over disbursements, duplicate payments, EDP general control, control over traffic tickets, and unrecorded credit memos. The findings relating to control over traffic tickets and unrecorded credit memos have been satisfactorily resolved by management, but the findings relating to material and supplies inventories, delinquent accounts receivable, access controls, investment controls, internal control over disbursements, and EDP general control are addressed again in Exhibit C. In addition, the finding on duplicate payments has been included in the current finding on internal control over disbursements.

EXHIBIT A

LEGISLATIVE AUDITOR

GRAMBLING STATE UNIVERSITY
STATE OF LOUISIANA
Internal Control Report
January 18, 1995
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During our exit conference on January 18, 1995, we discussed with management certain policy and procedural matters that, in our judgment, are not reportable conditions. Our comments on internal control structure are intended for the information and use of management of the university. By provisions of state law, this report is a public document, and it has been distributed to appropriate public officials.

Respectfully submitted,



Daniel G. Kyle, CPA, CFE
Legislative Auditor

RE:BJJ:dl

msv:

EXHIBIT A



DANIEL G. KYLE, PH.D., CPA, CFE
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January 18, 1995

Independent Auditor's Report on Compliance With Laws and
Regulations Material to the General Purpose Financial Statements

GRAMBLING STATE UNIVERSITY
STATE OF LOUISIANA
Grambling, Louisiana

We were authorized to audit the general purpose financial statements of Grambling State University, a component unit of the State of Louisiana, as of and for the year ended June 30, 1994, in accordance with generally accepted auditing standards and *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. Our report dated January 18, 1995, stated that, because of numerous material weaknesses; reportable conditions; material noncompliance; violations of laws and regulations; and the related concerns that arise from them, as discussed in Exhibit C, the scope of our work was not sufficient to enable us to express, and we did not express an opinion on the financial statements.

Compliance with laws and regulations applicable to Grambling State University is the responsibility of management of the university. As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, we performed tests of the university's compliance with certain provisions of laws and regulations. However, our objective was not to provide an opinion on overall compliance with such provisions.

Material instances of noncompliance are failures to follow requirements or violations of prohibitions contained in statutes, regulations, contracts, or grants that cause us to conclude that the aggregation of the misstatements resulting from those failures or violations is material to the financial statements. The results of our tests of compliance indicate matters disclosed in Exhibit C that we consider to be violations of laws and regulations. The matters relating to student receivables, and Act 971 funds are also considered to be material instances of noncompliance, the effects of which have not been adjusted in the university's 1994 financial statements.

We considered these instances of noncompliance in reporting on our engagement to audit Grambling State University's 1994 general purpose financial statements. This report affects our report dated January 18, 1995, on those financial statements.

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GRAMBLING STATE UNIVERSITY
STATE OF LOUISIANA

Compliance Report

January 18, 1995

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Except as described above, the results of our tests of compliance indicate that, with respect to the items tested, Grambling State University complied, in all material respects, with the provisions referred to in the preceding paragraphs. However, the extent of noncompliance noted in our testing indicates that, with respect to the transactions that occurred that were not tested by us, there is more than a relatively low risk that Grambling State University may have violated other applicable laws and regulations.

In our prior report for the year ended June 30, 1993, we reported compliance with laws and regulations findings relating to competitive bids, use of public funds, completion and maintenance of federal and state employment forms, Code of Governmental Ethics, movable property, student receivables, advance salary payments, Act 971 funds, Louisiana Procurement Code, reporting to Civil Service, and Board of Regents' policies and procedures. The findings relating to competitive bids, use of public funds, completion and maintenance of federal and state employment forms, and Code of Governmental Ethics have been resolved by management, but the findings relating to movable property, student receivables, advance salary payments, Act 971 funds, Louisiana Procurement Code, reporting to Civil Service, and Board of Regents' policies and procedures are addressed again in Exhibit C of this report.

During our exit conference on January 18, 1995, we discussed with management certain policy and procedural matters that, in our judgment, are not reportable conditions. Our comments on compliance with laws and regulations are intended for the information and use of management of the university. By provisions of state law, this report is a public document, and it has been distributed to appropriate public officials.

Respectfully submitted,



Daniel G. Kyle, CPA, CFE
Legislative Auditor

RE:BJJ:dl

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EXHIBIT B

**GRAMBLING STATE UNIVERSITY
STATE OF LOUISIANA**

*Internal Control and Compliance Comments
As of and for the Year Ended June 30, 1994*

In our consideration of the internal control structure of Grambling State University as of and for the year ended June 30, 1994, we noted the matters contained in the following paragraphs that we consider to be weaknesses in the university's system of internal control and instances of noncompliance with laws and regulations.

**MATERIAL WEAKNESSES/
MATERIAL NONCOMPLIANCE**

Student Receivables

For the second consecutive year, Grambling State University granted credit to students for extended periods of time without having controls in place to ensure collection of these accounts. We tested 30 student accounts with outstanding balances from the 1994 spring semester, of which 23 were nonresidents. At June 30, 1994, these students owed a total of \$83,607 in tuition and fees, of which 14 students owed a total of \$11,277 for semesters before the 1994 spring semester. These 14 students were allowed to register and continue in school without paying off the previous semester's balances. In addition, of the 30 student accounts mentioned previously, there were 7 instances where the student was permitted to register based on the presumption of eligibility for student aid, which was subsequently denied because of errors made in the Financial Aid Office or because of academic ineligibility, adverse credit, or delinquency. These 7 students were also allowed to continue in school.

Article 7, Section 14 of the Louisiana Constitution of 1974 provides that the funds, credit, property, or things of value of the state or of any political subdivision shall not be loaned, pledged, or donated to or for any person, association, or corporation, public or private. In addition, an adequate internal control structure should include procedures to ensure compliance with laws and regulations, including the state constitution. The university does not have adequate controls in place to require students to pay all tuition and fees before the end of the semester. In such cases, if the student should leave school, the university is left with a receivable that is difficult to collect.

As a result of these deficiencies, student accounts receivable have increased to \$1,643,548 at June 30, 1994, net of accounts written off. Over the past five years, the university has written off approximately \$2.5 million of student receivables as uncollectible. It is our opinion that

EXHIBIT C

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GRAMBLING STATE UNIVERSITY

STATE OF LOUISIANA

Internal Control and Compliance Comments

January 18, 1995

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the large balance of student receivables coupled with the large write-off of those accounts appears to violate Article 7, Section 14 of the Louisiana Constitution of 1974, in that the credit of the State of Louisiana has been extended inappropriately, resulting in a donation of public funds.

Grambling State University should immediately pursue collection of student receivables to comply with the requirements of the Louisiana Constitution of 1974, and strengthen policies and procedures to control the student receivables in the future. In addition, we recommend that these policies and procedures specifically address the deficiencies identified previously. In a letter dated January 18, 1995, Mr. Howard J. Craig, Acting Vice President for Finance, concurred with the finding and recommendation and stated corrective action has been taken.

Act 971 Funds

For the second consecutive year, Grambling State University did not establish a separate preventative maintenance reserve fund and did not receive formal final approval from the Board of Regents for the carry-over fund projects for the fiscal years ended June 30, 1992 and 1993. In addition, management has not responded to the Board of Regents' requests of August and December of 1993 for appropriate accounting to verify, over the past five years, operating budgets, relevant carry-over funds, preventative maintenance account activity, and non-recurring account activity.

LSA-R.S. 17:3386(A), established by Act 971 of 1985, provides that any university which adopts a building and facility preventative maintenance program approved by the Board of Regents may retain unexpended state General Fund appropriations at fiscal year end. At least 50 per cent of such retained funds shall be maintained by the university in a preventative maintenance reserve fund and shall be used solely for preventative maintenance purposes in accordance with the approved program. Retained funds shall only be spent on nonrecurring projects, subject to approval by the appropriate higher education management board, the Board of Regents, and the Joint Legislative Committee on the Budget.

In interviews, management stated that the university has delayed establishing and funding the separate preventative maintenance reserve fund and submitting the requested information to the Board of Regents for approval, until the fiscal year 1994 carry-over could be determined and submitted to the board.

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LEGISLATIVE AUDITOR

GRAMBLING STATE UNIVERSITY
STATE OF LOUISIANA
Internal Control and Compliance Comments
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We recommend that management of the university immediately submit the requested information to the Board of Regents, establish the separate preventative maintenance reserve fund, and transfer the appropriate funds accordingly. In a letter dated January 18, 1995, Mr. Howard J. Craig, Acting Vice President for Finance, concurred with the finding and recommendation and stated corrective action has been taken.

MATERIAL WEAKNESSES

Internal Controls Over Disbursements

For the second consecutive year, Grambling State University has material control weaknesses in its accounts payable department relating to disbursement of funds. Management is responsible for establishing and maintaining an adequate control structure to process disbursements. However, we noted the following in our various tests of disbursements:

1. We selected 60 non-payroll items at random and found that:
 - Twelve invoices had not been cancelled after payment.
 - Two disbursements were paid based on the purchase order without an original invoice.
 - One disbursement was paid from only a copy of the original invoice.
 - One disbursement for a student loan was not authorized by the Vice-President for Finance as required by university policy.
 - Two disbursements were supported by an invoice without a receiving report or documentation to verify that the university received the goods.
 - One check did not agree to the amount of the invoices attached to the vouchers.
2. Our test for duplicate payments of specifically selected items revealed that four duplicate payments totaling \$553 were made by the university and three disbursements were based on copies of invoices.

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3. Our examination of 35 checks of \$15,000 or greater selected at random disclosed that:
- One check contained a duplicate payment of \$70.
 - Eighteen invoices had not been cancelled after payment.
 - One disbursement was paid based on the purchase order without an original invoice.
 - One disbursement was paid from the statement without an original invoice.
 - Two disbursements were supported by an invoice without a purchase order to indicate authorization for purchase of goods.
 - Two checks written for \$15,000 and above appeared to be initialed by someone other than the president, in violation of the university's informal policy.
 - Two checks did not agree to the amount of the invoices attached to the vouchers.
 - One disbursement was not classified properly.
 - Two disbursements were made more than 90 days after the invoice date.

A good internal control structure incorporates policies and procedures to ensure that expenditures are properly recorded and reduces the risk of errors and irregularities. Because of management's lack of emphasis in establishing controls over the accounts payable department, errors and/or irregularities may occur and not be detected in a timely manner. Subsequent to May 11, 1994, the university implemented additional policies and procedures that should reduce the likelihood of material disbursement errors and/or irregularities.

We recommend that management continue to maintain and monitor its controls over disbursements to ensure that the recently established policies and procedures are implemented

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by university personnel. In addition, management should immediately review its vendor files for other duplicate payments and request refunds for any found. Finally, management should formally adopt a policy that the president, or his assignee, initial all checks over a specified amount. In a letter dated January 18, 1995, Mr. Howard J. Craig, Acting Vice President for Finance, concurred with the finding and recommendation and stated corrective action has been taken.

Access Controls

For the second consecutive year, Grambling State University has not established adequate internal control over its financial accounting records. Our review of internal control over the university's computerized accounting system revealed that access to many of the financial application data files was available to an unknown number of persons. This occurred because, for certain accounts, the university assigned access capabilities to one or more individuals within a department by use of a single or shared password. Furthermore, no formal records exist that would indicate who has access to these files or who is responsible for establishing the password for these files.

Management has the responsibility to establish and maintain an internal control structure that safeguards the financial data contained in its computerized financial application system. A basic tenet of an adequate internal control structure is segregation of duties, so that one person is not in a position to both perpetrate and conceal errors and/or irregularities. Having multiple users of undocumented, shared passwords does just that.

Management of the university felt it had adequate controls since access was limited to personnel within the various departments. Management's failure to establish and maintain adequate control over access to these files could result in the unauthorized use, possible alteration, or elimination of information contained in these files.

We recommend that access to application data files be assigned to individuals rather than groups of individuals (i.e., departments) on a business-need-only basis. Furthermore, supervisory personnel should review and authorize all requests for access to financial application data files before the Information Resource Center grants the access. A permanent record of these authorizations should be maintained for future reference. In a letter dated January 18, 1995, Mr. Howard J. Craig, Acting Vice President for Finance, concurred with the finding and recommendation and stated corrective action has been taken.

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Internal Audit Function

Grambling State University does not have a fully operational internal audit function. The internal audit function should serve management of the university by examining, evaluating, and reporting on the internal control structure, including electronic data processing, and to ensure compliance with the policies and procedures that comprise the control structure. Given the size of the university, its assets of \$146,455,417 and revenues of \$98,064,436, we believe that an effective internal audit function is important to ensure the university's assets are safeguarded and policies and procedures are uniformly applied.

The university does have, as a part of its organizational structure, an internal audit department. However, the level of staffing is inadequate for the needs of the university because of the number of reported findings in the prior audit (20), the number of findings identified in the current year, and that only one person was employed in the position of internal auditor. In addition, our review of the work performed by the internal auditor noted a lack of evidence of due professional care, adequate planning, and follow-up work, as defined by the *Standards for the Professional Practice of Internal Auditing*, issued by the Institute of Internal Auditors.

The university's failure to emphasize a strong internal audit function resulted in inadequate safeguarding of assets, inconsistent application of policies and procedures, and noncompliance with state and federal laws and regulations.

We recommend that Grambling State University take the necessary steps to establish an effective internal audit function by providing the necessary resources and staff. In addition, management should review, adopt, and implement the standards of the Institute of Internal Auditors, as appropriate. In a letter dated December 13, 1994, Mr. Howard J. Craig, Acting Vice President of Finance, concurred with the finding and recommendation and stated corrective action has been taken.

REPORTABLE CONDITIONS

Investment Controls

For the second consecutive year, Grambling State University did not provide an adequate internal control structure over investment transactions. The senior business manager has responsibility for the purchase, redemption, and recordation of all investments for the

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university. All original records of transactions involving investments are initiated and received by him.

A proper internal control structure should provide for the separation of duties such that one person would not be in a position to both initiate and conceal errors or irregularities. Management has the responsibility to develop and maintain a good internal control structure that safeguards assets, ensures all transactions are recorded in a timely manner, and aids in the timely detection of errors and irregularities. Management's lack of emphasis in developing and maintaining an adequate internal control structure for investments has subjected these assets to unnecessary risk.

In our prior report, we recommended that all investment data, such as confirmations of wire transfers, et cetera, be received first by the comptroller and, when necessary, the comptroller should provide the senior business manager with a copy of the document for his records. Furthermore, all purchases of investments should be approved first by a party independent of the senior business manager and this information should be forwarded to the comptroller so the transaction can be properly recorded. In this manner, transaction documentation would be received and examined by an independent party before the person responsible for initiating the transaction receives it. Also, all safekeeping receipts for investments owned by the university as well as certificates of deposit should be secured in the safe of the cashier's office with limited access and procedures for the removal and/or examination of such assets. A log could be established and maintained by another independent party, such as the head cashier, that would reflect the instruments in the safe and the person examining or taking control of the instruments. In December 1993, the university began implementing procedures that provide for adequate segregation of duties in the approval for purchases, recording, and custody of investments. However, the university should further strengthen its segregation of authority in redemptions.

We recommend that Grambling State University continue its progress in establishing and implementing policies and procedures relating to its controls over investment activities so as to ensure proper financial presentation and adequate safeguarding of its investments. In a letter dated January 18, 1995, Mr. Howard J. Craig, Acting Vice President for Finance, concurred with the finding and recommendation and stated corrective action has been taken.

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Materials and Supplies Inventories

For the second consecutive year, Grambling State University has not maintained adequate control over its materials and supplies inventories, valued at \$1,391,989 at June 30, 1994. An adequate internal control structure provides management with the basis to accurately account for the receipt, disbursement, valuation, and year-end physical inventory count of its inventory. In our test of inventory, we noted 20 errors (67 per cent) in unit costs in the 30 inventory items for which we tested valuation. These errors included items where the unit cost was derived from purchase orders instead of invoices, generally because the items had been there for a few years and information was not available to document the cost and clerical inaccuracy in posting prices from invoices. In addition, the entire fish inventory was valued at the higher of cost or market. Generally accepted accounting principles require that inventories be valued at the lower of cost or market. This error in accounting application resulted in adjustments of \$51,314 subsequent to June 30, 1994, which have been included in the accompanying financial statements.

In addition, we made test counts of 176 items and found the following errors:

- Sixteen instances (9 per cent) of errors in the counts.
- Four occurrences where inventories were not properly carried forward into the final inventory listing.
- Four occurrences of not properly adjusting the perpetual inventory records to properly reflect the physical count at the fiscal year end.
- Seven items totaling \$4,017 that should not be included in inventory.
- Ten errors totaling \$4,267 that resulted from inaccurate extensions of physical count times unit price.

The university had inventories of materials and supplies totaling \$22,800 that had not been reported in the past. Upon our recommendation, the university reported these inventories at June 30, 1994. In addition, there are no perpetual records maintained in many of the departments and some stocks of inventory are old and original costs may not be available.

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Inadequate guidance and supervision in the application of newly revised policies and procedures may lead to material misstatements in the university's inventory.

Grambling State University should establish and maintain adequate controls and procedures over the receipt, disbursement, valuation, and year-end physical inventory process for all of its materials and supplies inventories, as well as review the level and methods of supervision given in the implementation of its policies and procedures. Also, management should require university personnel responsible for maintaining these inventories to become familiar with these controls and procedures. In a letter dated January 18, 1995, Mr. Howard J. Craig, Acting Vice President for Finance, concurred with the finding and recommendation and stated corrective action will be taken.

EDP General Controls

For the second consecutive year, Grambling State University does not have adequate electronic data processing (EDP) general controls over its computer system. Good overall internal controls require that adequate EDP general controls be developed and maintained to ensure the integrity of the system and the information it generates. The following are the control deficiencies identified:

1. Duties and responsibilities of the EDP staff were not adequately defined in the organization and written job descriptions. Furthermore, properly approved EDP policy and procedure manuals did not exist.
2. Access control software does not restrict access to critical system software files. Write and delete access levels over these files are not assigned on a business-need-only basis. In addition, the internal user authorization tables of the dial-up security software are not restricted from unauthorized access.
3. Application system images that are installed with privileges do not protect system integrity. Access is not limited on a strict business-need-only basis.
4. A separate security administration function does not exist either within the Information Resource Center or as a totally independent function.

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5. Responsibilities for the investigation and resolution of all attempts of unauthorized system access are not defined.
6. Powerful access control software override privileges are not assigned on a limited and strict business-need-only basis.
7. Logical access control parameters are not defined through execute access control software to ensure that access to significant on-line financial application transactions is restricted on a business-need-only basis.
8. There is not an effective internal audit function that monitors Information Resource Center activities to ensure that the control techniques, which are essential to an effective EDP control structure, are designed effectively, placed into operation, and function consistently to effectively achieve related control objectives.
9. Access control software does not restrict access to production application software files. Write and delete access authorities over these files should be assigned on a business-need-only basis.
10. All application systems development and modifications did not use a standard systems design methodology, programming standards, and documentation standards.
11. No formal documentation exists to indicate that user departments approve all report layouts, input forms, and control reports before the implementation of application systems into production.
12. Formal procedures have not been developed and used to provide top management's authorization, supervision, review, and approval of all application system development and maintenance projects. In addition, procedures are not used that provide the documentation of the review and acceptance of test results by the Information Resource Center management and the user of all application system development and maintenance projects.

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13. Emergency changes, particularly those occurring at night, are not being properly controlled and reported. Procedures are not in effect to ensure that only authorized application programs and changes to existing programs are implemented into production during the normal maintenance process.
14. Supervisory procedures are not in effect to ensure that only authorized processing activities are performed by computer operators.
15. Procedures and responsibilities for the maintenance of user accounts and resource access records are not defined and performed on a timely basis.
16. Access control software global options are not defined in a manner that would promote a well-secured installation.

Management emphasis was not directed toward developing and implementing the necessary controls to safeguard the system. Failure to institute the necessary controls places the integrity of the system and the information generated by it at risk. In addition, if controls are weak, unauthorized individuals may have access to, and the ability to read or alter, information without anyone knowing the information has been accessed or altered.

In our prior report, we recommended that the university establish and implement formal written policies and procedures relating to its EDP general controls to ensure the security of the system and the information in the system. These controls should be implemented at the Information Resource Center and at the user level. We also recommended that management continuously monitor and make periodic changes, as needed, to its EDP general controls. Subsequent to December 1, 1993, it appears Grambling State University has made adequate changes and taken appropriate steps to remedy substantially all weaknesses associated with items 10 through 16 listed previously.

We recommend that Grambling State University continue its progress in establishing and implementing formal written policies and procedures relating to its EDP general controls to ensure the security of the system and the information in the system. In a letter dated January 18, 1995, Mr. Howard J. Craig, Acting Vice President for Finance, concurred with the finding and recommendation and stated corrective action has been taken.

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Delinquent Accounts Receivable

Grambling State University wrote off \$479,621 of uncollectible accounts receivable from its Auxiliary Enterprise Fund for the year ended June 30, 1994. Since 1988, the university has written off \$2,497,055 of uncollectible accounts receivable. None of these accounts were turned over to a collection agency. Good business practice would dictate that management explore all avenues and make every attempt to collect all receivables. As a result of management's lack of emphasis concerning the collection of these receivables, the university is not collecting all of the monies due it. In addition, because of the current collection practice, students are less likely to pay tuition and fees in a timely manner, if at all.

In our prior report, we recommended that management of the university review and evaluate its collection and write-off policies and procedures and amend written policies to allow using the services of a collection agency. Subsequent to January 12, 1994, management revised policies and procedures relating to reserve for bad debts, write-off of accounts receivable, and collection of accounts previously written off. Pending management approval, these policies and procedures should be instituted early in fiscal year 1994-95. In addition, a time table has been established which indicates that a collection agency should be engaged by the university during the month of August 1994.

We recommend that management of Grambling State University continue its progress in reviewing and evaluating its collection and write-off policies and procedures and formally amend written policies to allow using the services of a collection agency. In a letter dated January 18, 1995, Mr. Howard J. Craig, Acting Vice President for Finance, concurred with the finding and recommendation and stated corrective action has been taken.

REPORTABLE CONDITIONS/ COMPLIANCE COMMENTS

Employee Leave Records

Grambling State University has not maintained adequate control over employee leave records and may have allowed employees to be paid for time not worked and leave not charged. An adequate internal control structure provides management with the basis to accurately record, process, summarize, and report employee leave transactions. Management has the responsibility to develop and maintain a good internal control structure that safeguards assets, ensures

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that all leave transactions are recorded in a timely manner, and aids in the timely detection of errors and irregularities. In addition, Article 7, Section 14 of the Louisiana Constitution of 1974 prohibits state agencies from loaning, pledging, or donating public funds to any person, association, or corporation, public or private.

In conjunction with our random test of 30 employee payroll transactions, we tested the activity associated with additions and deletions of annual, sick, and compensatory leave for those entitled to leave privileges. We included one additional employee in this test because of information that came to our attention. Our test revealed of the 31 employees examined, 26 were eligible for leave, and of these, 22 contained errors (exception rate of 84 per cent). We examined 508 time sheets associated with the 26 employees selected [14 biweekly (classified) and 12 monthly (unclassified)] and determined there were 77 instances where the time sheet did not agree with the leave documented on the leave records (exception rate of 15 per cent). These instances included both leave taken per the time sheets but not posted to the leave records, and leave posted to the leave records that was not documented on the time sheets.

In addition, Grambling State University has a policy allowing unclassified employees to take annual leave for up to four hours per day and not have it charged against their accumulated balances. Included in the instances noted previously were three occurrences where the leave taken was below the policy requirement to be deducted. Allowing employees to be paid for time not worked without being charged with leave constitutes a donation of public funds and is a violation of the Louisiana Constitution of 1974.

The university does not have adequate controls in place to ensure that the leave records reflect actual leave earned and taken. Also, the university adopted a policy that allows unclassified employees to be absent from work without being charged annual leave for periods up to four hours per day. As a result of the accumulation of errors in the employee leave balances, the compensated absences liability may be materially misstated at year end. In addition, there is an increased risk that overpayments of termination pay may have been made to employees who have separated from the university. Finally, the university is in noncompliance with the constitution in regard to its annual leave policy for unclassified employees.

We recommend that policies and procedures be implemented and monitored to ensure adequate control over the recording, processing, summarizing, and reporting of employee leave information. In addition, the university should revise its annual leave policy to a one hour minimum charge for its unclassified employees. The policies and procedures should

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specifically address the errors and matters of noncompliance mentioned previously. Finally, the university should immediately make corrections for those instances where leave taken per the time sheets was not posted to the leave records, and leave posted to the leave records was not documented on the time sheets. In a letter dated December 5, 1994, Mr. Howard J. Craig, Acting Vice President for Finance, concurred with the finding and recommendation and stated corrective action has been taken.

Investment Compliance

Grambling State University has invested in securities with maturity dates beyond that allowed by law. Louisiana Revised Statute (LSA-R.S.) 49:327B(2) states, in part, that investments will mature on dates determined by prudent judgment to generate a favorable return and that will allow the monies to be available for use when the monies will be needed. However, the maturity of securities considered general funds cannot exceed 5 years from date of purchase. For monies invested from special funds, the maturities cannot exceed 10 years from date of purchase.

We examined the 21 securities purchased during fiscal year 1994 that remained outstanding at June 30, 1994. There were 7 instances (33 per cent) where the university violated LSA-R.S. 49:327B(2) as identified in the following table. These extended maturity dates, along with fluctuating interest rates, had a direct effect on the decline in market value identified below.

<u>Fund</u>	<u>Maximum Maturity Allowed</u>	<u>Book Value in Violation</u>	<u>Market Value at June 30, 1994</u>	<u>Decline in Market Value</u>	<u>Maturity of Actual Securities Bought</u>
General	5 Years	\$558,058	\$496,342	\$61,716	28-29 Years
Auxiliary	10 Years	849,367	769,965	79,402	25-30 Years
Plant	10 Years	504,750	430,570	74,180	15-24 Years
Total		<u>\$1,912,175</u>	<u>\$1,696,877</u>	<u>\$215,298</u>	

Management has not placed considerable emphasis upon accountability nor adherence to state laws relating to investments. As a result, the university has experienced a decline in the market value in some of its investments and is in noncompliance with state law. In addition, there is an increased risk of other losses due to extended maturity dates and fluctuating interest rates.

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We recommend that Grambling State University review its investment policies and procedures and ensure that all future investments comply with the maturity limitations outlined in the statutes. In addition, we recommend that management examine the existing securities and consider the most prudent action to take to comply with the statutes. In a letter dated December 13, 1994, Mr. Howard J. Craig, Acting Vice President for Finance, concurred with the finding and recommendation and stated corrective action has been taken.

Medicare Taxes

Grambling State University did not withhold the 1.45 per cent Medicare tax from 517 employees' salaries during calendar years 1987 through 1991. In addition, the university did not remit these funds, nor the matching 1.45 per cent employer's tax, to the Internal Revenue Service (IRS). Chapter 21 of the Internal Revenue Code (IRC) imposes a 1.45 per cent tax on wages received with respect to employment, requires that tax be collected by the employer through payroll deductions, requires the employer to remit the withholding to the IRS, and imposes a tax of 1.45 per cent of the wages to be paid by the employer.

As a result of management's lack of emphasis concerning withholding, matching, and remitting Medicare taxes, the university has calculated that it owes the IRS \$63,861 in employee contributions and an additional \$63,861 in employer contributions for these taxes. In addition, the IRS may impose interest on the unpaid taxes for all years and could also impose penalties of up to 25 per cent of the taxes owed for late payment, as well as an additional penalty of up to 25 per cent for failure to file when required. If the university remits the total \$127,722 to the IRS without recouping the employee portion, the university may violate Article 7, Section 14 of the Louisiana Constitution relating to donation of public funds.

Grambling State University should file the required returns and remit the unpaid taxes to the IRS immediately. In addition, applicable interest and penalties imposed by the IRS after receiving the tax payment should be paid upon receipt. Finally, the university should consult with legal counsel relating to seeking restitution for the unpaid employee's portion of the taxes. In a letter dated December 5, 1994, Mr. Howard J. Craig, Acting Vice President for Finance, concurred with the finding and recommendation and stated corrective action will be taken.

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Advance Salary Payments

Grambling State University paid its unclassified nonfaculty staff employees' salaries, amounting to \$1,144,000, for the month of December on December 17, 1993. Early payment of these salaries constitutes the loan of public funds since the salaries were not due and payable until December 31. Article 7, Section 14 of the Louisiana Constitution of 1974 prohibits state agencies from loaning, pledging, or donating public funds to any person, association, or corporation, public or private. Furthermore, Attorney General Opinion No. 89-594 opines that advance payment of employee compensation is a violation of the constitution.

Apparently, management did not understand certain provisions of the state constitution when it made the advance payments to employees for work not yet performed. As a result, the university is not in compliance with certain provisions of the state constitution. Also, there are increased risks for cash flow problems and payments being made for work never performed by employees.

We recommend that Grambling State University only pay salaries to its employees after the work has been performed. In a letter dated January 18, 1995, Mr. Howard J. Craig, Acting Vice President for Finance, concurred with the finding and recommendation and stated corrective action will be taken.

Movable Property

For the second consecutive year, Grambling State University did not comply with state law regarding movable property and did not provide adequate control over its movable property. LSA-R.S. 39:321 authorizes the Louisiana Property Assistance Agency (LPAA) to establish property control rules and regulations. Chapter 3, Section 307 through 309 of the Rules and Regulations, Property Control, provide in part that all acquisitions of qualified items must be tagged and all pertinent inventory information must be forwarded to the LPAA director within 45 days after receipt of the items. In addition, the regulations provide that the acquisition cost will be the actual cost incurred by the agency to acquire the item. However, we noted the following in our tests of movable property:

1. We selected 60 movable property items at random and found that 2 items, totaling \$2,004, could not be located, and 3 items, valued at \$1,124, appeared to be damaged beyond repair or obsolete.

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2. Our examination of 24 items selected from the departments' inventory that were traced back to the property listing disclosed that 4 items had not been tagged. Of these, 2 items, valued at approximately \$1,000, had been included in the listing of movable property and the other 2 items, valued at approximately \$4,000, had not been included.
3. In our test of current-year purchases of \$10,000 or greater coded to acquisitions, we found that one item totaling \$934 to upgrade existing equipment had not been added to acquisition cost, and 26 items of computer equipment were duplicated on the movable property listing as of June 30, 1994, for a total of \$28,439.
4. Our test of 60 nonpayroll items, of which 10 items related to movable property, disclosed that one invoice included serial numbers for 4 items of equipment totaling \$16,559, but the list of movable property showed only one item, encompassing the 4 on the invoice, with a serial number not matching any of the numbers on the invoice. In addition, we noted that 5 items totaling \$1,756 to upgrade existing equipment had not been added to the acquisition cost.
5. We noted the following errors resulting from general observations, such as reviewing the movable property listing, being attentive during departmental testing, et cetera:
 - The university continues to pay for equipment leases with Xerox Corporation. This equipment cost approximately \$456,000 based on information we could obtain by reviewing the lease documents. We were unable to determine if these were operating leases (rentals) or capital leases (lease-purchase agreements), the latter of which would require the equipment to be treated as purchased and included in movable property records.

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- The movable property listing identified 24 items valued at \$19,731 that were miscoded as to location as of June 30, 1994. These items were coded to the North Campus, which ceased to exist as of December 31, 1993. The Property Control Manager stated that these items had been relocated to the main campus as of December 31, 1993.
- One item, an industrial dishwasher, valued at approximately \$25,000, had not been added to the property listing consistent with other acquisitions made by the university. Property Control personnel subsequently added the equipment to its inventory listing, when identified by the auditor, before June 30, 1994.

Based upon our tests, the known errors resulted in a net overstatement of movable property of approximately \$16,800. This total does not include the \$456,000 noted previously in item 5.

These conditions exist because management apparently has not placed considerable emphasis upon accountability and adherence to the state property control regulations. Failure to maintain an accurate movable property system increases the risk of loss from unauthorized use and subjects the university to noncompliance with state laws and regulations.

We recommend that procedures be implemented and monitored to ensure adequate control over the university's movable property. These procedures should specifically address the errors and matters of noncompliance mentioned previously. In a letter dated January 18, 1995, Mr. Howard J. Craig, Acting Vice President for Finance, concurred with the finding and recommendation and stated corrective action has been taken.

Louisiana Procurement Code

For the second consecutive year, Grambling State University made lease payments in violation of the state procurement code. Approximately \$97,406 of such payments were made during the year ended June 30, 1994. In the calendar years 1989 and 1990, the university entered into 11 lease agreements for photocopiers with terms of 48 and 60 months with estimated payments totaling \$575,955. While these photocopiers were available on state contract, terms of the state contract provided for 36 monthly installments. Since the university elected not to follow the terms of the 36-month state contract, the leases should have been bid as required by the Louisiana Procurement Code. However, we are unable to determine that bids were taken.

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Louisiana Revised Statute (LSA-R.S.) 39:1594 requires contracts exceeding the amount allowed under the small purchases law (\$5,000) be awarded by competitive sealed bidding.

We were unable to obtain adequate information from the university to make a determination as to whether these are operating or capital leases. We obtained copies of order agreements from the vendor to estimate the total amount of lease agreements in effect during the audit period. An adequate internal control structure should provide management with the basis to accurately account for its assets and contractual obligations.

We recommend that management of Grambling State University become familiar with the Louisiana Procurement Code and comply with it. Furthermore, management should obtain complete records for each photocopier lease and establish the appropriate accounting records and controls for its lease agreements. In a letter dated January 18, 1995, Mr. Howard J. Craig, Acting Vice President for Finance, concurred with the finding and recommendation and stated corrective action has been taken.

Reporting to Civil Service

For the second consecutive year, Grambling State University did not report changes to the Louisiana Department of State Civil Service (Civil Service) for all of its unclassified employees in accordance with state law. LSA-R.S. 42:290(A) requires the university to file with Civil Service the name, address, position, date of employment, place of employment, hours of work, and salary or per diem of each unclassified employee under its jurisdiction. The statute also requires that within 30 days of employment or change in any of the elements of employment, the university shall report such changes to Civil Service. We examined status change forms for 30 of approximately 250 unclassified employees with status changes and found that for 29, the changes had not been reported to Civil Service within the 30 days required by law. Failure of the university to report the required changes places the university in noncompliance with state law.

We recommend that Grambling State University report the required information timely to Civil Service for all of its unclassified employees as required by state law. In a letter dated January 18, 1995, Mr. Howard J. Craig, Acting Vice President for Finance, concurred with the finding and recommendation and stated corrective action has been taken.

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Board of Regents' Policies and Procedures

For the second consecutive year, Grambling State University failed to comply with the Board of Regents' policies and procedures and certain internal accounting controls regarding its off-campus Doctor of Education in Developmental Education Program. The university appointed Dr. Andrea G. Jefferson to the position of Assistant Professor/Coordinator of off-campus courses on October 5, 1992. She was responsible for the overall coordination of the Doctor of Education in Developmental Education Program in the New Orleans area. Her duties included academic advertising and counseling of graduate students enrolled in the masters, specialist, and doctoral programs in developmental education; implementing marketing strategies to enhance recruitment efforts; monitoring the progress of students from the application stage to graduation; conducting transcript analyses; and teaching selected courses consistent with her academic preparation and experience. She is a 10-month employee with an annual salary of \$50,000.

During the year under examination, Dr. Jefferson taught one class with six students who registered and attended in the fall semester of 1993, and one class with one student who registered and attended in the spring semester of 1994. Board of Regents' policy Section II:4.2, Part D, Standard II (D) states, in part, that to assure the efficient use of resources dedicated to off-campus activities, a minimum of 10 students must be enrolled in the first class session in any graduate course offered off-campus.

Dr. Jefferson has not taught any classes on the main campus of Grambling State University. Board of Regents' policy Section II:4.2, Part D, Standard III (B) states that faculty members regularly assigned off-campus instruction must teach from time to time on the main campus.

We also noted that Dr. Jefferson did not consistently certify her time and attendance records. The time and attendance records do not indicate the hours per day worked during the year. We found that time and attendance records for Dr. Jefferson were certified/signed by Dr. Jefferson's supervisor at the main campus after receiving negative confirmation from Dr. Jefferson through March of 1994. After that time, Dr. Jefferson signed her own time sheets. Our review of monthly progress reports and other records do not appear to support a 40-hour week. Therefore, we are unable to determine if the hours reflected on the time and attendance reports are accurate.

EXHIBIT C

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It is management's responsibility to develop and maintain an adequate internal control structure to safeguard assets by preventing or detecting errors or irregularities in a timely manner and to ensure compliance with applicable laws and regulations.

We again recommend that the university's management become familiar and comply with the Board of Regents' policies and procedures regarding off-campus activities. If sufficient enrollment cannot be achieved, the program should be discontinued in that area. The university should monitor more closely the efforts and accomplishments of the coordinator to ensure that the university is maintaining a cost efficient and beneficial program.

At a minimum, management should establish and maintain an adequate system of internal control to properly account for Dr. Jefferson's time and attendance. Dr. Jefferson should continue to certify each of her time and attendance reports and these reports should reflect actual hours worked. Monthly progress reports should disclose, in detail, times and dates of meetings attended, presentations made, names of people contacted, and other relevant information. The report should also include a tentative schedule for the upcoming month. In a letter dated January 18, 1995, Mr. Howard J. Craig, Acting Vice President for Finance, concurred with the finding and recommendation and stated corrective action has been taken. Management has stated that Dr. Jefferson will be teaching classes on the main campus during the fall semester of 1994.

EXHIBIT C