LEGISLATIVE AUDITOR

STATE OF LOUISIANA

GRAMBLING STATE UNIVERSITY
UNIVERSITY OF LOUISIANA SYSTEM
STATE OF LOUISIANA

FINANCIAL STATEMENT AUDIT
ISSUED FEBRUARY 2, 2005

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

Under the provisions of state law, this report is a public document. A copy of this report has been submitted to the Governor, to the Attorney General, and to other public officials as required by state law. A copy of this report has been made available for public inspection at the Baton Rouge office of the Legislative Auditor and at the office of the parish clerk of court.

This document is produced by the Legislative Auditor, State of Louisiana, Post Office Box 94397, Baton Rouge, Louisiana 70804-9397 in accordance with Louisiana Revised Statute 24:513. Fourteen copies of this public document were produced at an approximate cost of $48.58. This material was produced in accordance with the standards for state agencies established pursuant to R.S. 43:31. This report is available on the Legislative Auditor's Web site at www.lla.state.la.us. When contacting the office, you may refer to Agency ID No. 3394 or Report ID No. 04401654 for additional information.

In compliance with the Americans With Disabilities Act, if you need special assistance relative to this document, or any documents of the Legislative Auditor, please contact Wayne "Skip" Irwin, Director of Administration, at 225/339-3800.

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

STEVE J. THERIOT, CPA
LEGISLATIVE AUDITOR

1600 NORTH THIRD STREET
POST OFFICE BOX 94397
TELEPHONE: (225) 339-3800
FACSIMILE: (225) 339-3870
www.lla.state.la.us

January 18, 2005

Independent Auditor's Report
on the Financial Statements

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

We have audited the accompanying basic financial statements of Grambling State University, a university within the University of Louisiana System, which is a component unit of the State of Louisiana, as of and for the year ended June 30, 2004, as listed in the table of contents. These financial statements are the responsibility of Grambling State University's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and standards applicable to financial audits contained in *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. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall basic financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As discussed in note 1-B, the accompanying financial statements of Grambling State University are intended to present the financial position and the changes in financial position and cash flows of only that portion of the business-type activities of the University of Louisiana System that is attributable to the transactions of Grambling State University. They do not purport to, and do not, present fairly the financial position of the University of Louisiana System or the State of Louisiana as of June 30, 2004, and the respective changes in financial position and cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the financial position of Grambling State University as of June 30, 2004, and the changes in its financial position and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated January 18, 2005, on our consideration of Grambling State University's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Management's discussion and analysis on pages 5 through 10 is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplemental information. However, we did not audit the information and express no opinion on it.

This report is intended solely for the information and use of Grambling State University and its management and is not intended to be, and should not be, used by anyone other than these specified parties. Under Louisiana Revised Statute 24:513, this report is distributed by the Legislative Auditor as a public document.

Respectfully submitted,

Steve J. Theriot, CPA
Legislative Auditor

WMS:WJR.AJR:ss

[GSU04]

This section of Grambling State University's (GSU) annual financial report presents a discussion and analysis of GSU's financial performance during the fiscal year that ended June 30, 2004. Please read this section in conjunction with GSU's financial statements, which follow this section.

FINANCIAL HIGHLIGHTS

GSU's net assets overall changed from $67.81 million to $70.81 million or 4.42% from June 30, 2003, to June 30, 2004. The overall reasons for the changes included:

- New facility and renovations
- New endowments
- Increase in fees and tuition

Enrollment changed from 4,462 to 4,673 from June 30, 2003, to June 30, 2004, a change of 4.73%. The reason for the change is attributed to enhanced recruitment effort consisting of an increase in recruiting staff and a new enrollment management plan.

GSU's operating revenues changed from $41.2 million to $44.9 million or 9.00% from June 30, 2003, to June 30, 2004. Operating expenses, however, changed by 2.20% to $72.2 million for the year ended June 30, 2004. An increase in student fees of $2,028,000, auxiliary revenues of $2,285,000, offset by a decrease in various other revenues of $616,000, are the primary reasons for the increase in revenues.

Nonoperating revenues (expenses) fluctuate depending upon levels of state operating and capital appropriations. The change to $26.5 million in 2004 from $26.3 million in 2003 is attributed to an increase in state appropriations for mandated expenses, a decrease in gift income, and an increase in other nonoperating expenses.

OVERVIEW OF THE FINANCIAL STATEMENTS

This financial report consists of three parts: management's discussion and analysis (this section), the basic financial statements, and the notes to the financial statements.

Basic Financial Statements

The basic financial statements present information for GSU as a whole, in a format designed to make the statements easier for the reader to understand. The statements in this section include the Statement of Net Assets; the Statement of Revenues, Expenses, and Changes in Net Assets; and the Statement of Cash Flows.

The Statement of Net Assets (page 11) presents the current and long-term portions of assets and liabilities separately. The difference between total assets and total liabilities is net assets and may provide a useful indicator of whether the financial position of GSU is improving or deteriorating.

The Statement of Revenues, Expenses, and Changes in Net Assets (page 13) presents information showing how GSU's assets changed as a result of current year operations. Regardless of when cash is affected, all changes in net assets are reported when the underlying transactions occur. As a result, there are transactions included that will not affect cash until future fiscal periods.

The Statement of Cash Flows (page 15) presents information showing how GSU's cash changed as a result of current year operations. The Statement of Cash Flows is prepared using the direct method and includes the reconciliation of operating income (loss) to net cash provided (used) by operating activities (indirect method) as required by GASB 34.

The financial statements provide both long-term and short-term information about GSU's overall financial status. The financial statements also include notes that explain some of the information in the financial statements and provide more detailed data.

GSU's financial statements are prepared on an accrual basis in conformity with accounting principles generally accepted in the United States of America as applied to government units. Under this basis of accounting, revenues are recognized in the period in which they are earned, expenses are recognized in the period in which they are incurred, and depreciation of assets is recognized in the Statement of Revenues, Expenses, and Changes in Net Assets. All assets and liabilities associated with the operation of the university are included in the Statement of Net Assets.

FINANCIAL ANALYSIS

Statement of Net Assets
(in thousands)

	Total	
	2004	2003
Current and other assets	$12,422	$12,490
Noncurrent assets	6,436	5,288
Capital assets	63,489	62,161
Total assets	82,347	79,939
Current liabilities	5,630	5,772
Long-term debt outstanding	5,909	6,362
Total liabilities	11,539	12,134
Net assets:		
Invested in capital assets, net of debt	59,284	57,415
Restricted	11,174	11,763
Unrestricted	350	(1,373)
Total net assets	$70,808	$67,805

Net Assets

This schedule is prepared from GSU's Statement of Net Assets as shown on page 11, which is presented on an accrual basis of accounting whereby assets are capitalized and depreciated. Significant statement of net asset changes from 2004 include the following:

The decrease in current and other assets of $68,000 is primarily due to the following changes:

- Cash and cash equivalents increase of $1,553,000 is primarily due to increased reserves of $2,582,000 and cash held to process $1,026,000 in Title IV student credit balance payments.

- Accounts receivable net decrease of $1,430,000 is primarily due to a decrease of $523,000 of gifts and grants for restricted purposes; $346,000 of athletic receivable; and other receivables primarily from Lincoln Parish School Board and Aramark of $185,000. A $317,000 reduction is attributable to the collection of other receivables. Due from State Treasury decreased by $1,854,000 because of collections.

- Deferred charges and prepaid expenses decreased by $118,000 because of the expensing of 2004 payments made in 2003.

- Notes receivable - current decreased by $55,000 because of the turnover of defaulted loans to the Department of Education.

Net assets invested in capital assets, net of related debt, consist of capital assets net of accumulated depreciation, and reduced by the amount of outstanding indebtedness attributable to the acquisition, construction, or improvement of those assets. Restricted net assets represent those assets that are not available for spending as a result of legislative requirements, donor agreements, or grant requirements. Conversely, unrestricted net assets are those that do not have any limitations on what these amounts may be spent for.

Statement of Revenues, Expenses, and Changes in Net Assets
(in thousands)

	2004	2003
Operating Revenues:		
Student tuition and fees, net	$10,279	$8,251
Grants and contracts	20,871	21,219
Auxiliary	12,413	10,128
Other	1,351	1,619
Total operating revenues	44,914	41,217
Operating Expenses:		
Education and general:		
Instruction	19,754	20,641
Research	270	381
Public service	52	1
Academic support	7,573	6,346
Student services	3,636	3,471
Institutional support	13,563	12,865
Operations and maintenance of plant	3,815	4,308
Depreciation	3,825	3,010
Scholarships and fellowships	6,567	7,000
Other operating expenses	13,176	12,651
Total operating expenses	72,231	70,674
Operating Loss	(27,317)	(29,457)
Nonoperating Revenues (Expenses)		
State appropriations	25,852	25,430
Gifts	800	958
Other nonoperating revenues (expenses)	(187)	(103)
Net nonoperating revenues	26,465	26,285
Loss before other revenues and expenses	(852)	(3,172)
Capital appropriations	3,795	4,839
Additions to permanent endowments	60	147
Increase in Net Assets	3,003	1,814
Net assets at beginning of year	67,805	65,991
Net assets at end of year	$70,808	$67,805

Nonoperating revenues increased by 1.0% to $26.5 million is primarily attributable to an increase in state appropriations.

State appropriations changed from $25.4 to $25.9 million because of an increase in mandated expenses for risk management, health insurance, and merit increases for classified staff.

GSU's total revenues increased by $2.75 million or 3.8%.

Statement of Cash Flows

Another way to assess the financial health of GSU is to look at the Statement of Cash Flows. The Statement of Cash Flows assists readers of this statement to assess:

- The ability to generate future cash flows
- The ability to meet obligations as they come due
- A need for external financing

Statement of Cash Flows
(in thousands)

	2004	2003
Cash and cash equivalents provided (used) by:		
Operating activities	($23,496)	($24,050)
Capital financing activities	(2,043)	(1,585)
Noncapital financing activities	28,567	25,719
Investing activities	(986)	(2,058)
Net increase (decrease) in cash and cash equivalents	2,042	(1,974)
Cash and cash equivalents -		
Beginning of year	10,110	12,084
End of year	$12,152	$10,110

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

As of June 30, 2004, GSU had invested approximately $63.5 million in capital assets, net of accumulated depreciation. This amount represents a net increase (including additions and disposals, net of depreciation) of approximately $1.3 million or 2.1% over the previous fiscal year. More detailed information about the university's capital assets is presented in the notes to the financial statements.

Capital Assets at Year-end
(Net of Depreciation, in thousands)

	2004	2003
Land	$992	$992
Buildings	58,951	57,487
Equipment	2,886	3,015
Library materials	660	667
Total	$63,489	$62,161

This year's major additions included (in thousands):

- $1 million - Buildings - Carver Hall renovations
- $5.5 million - Buildings - Completion of Drew Hall Dormitory

Debt Administration

GSU had $4.21 million in bonds and notes outstanding at year-end, compared to $4.75 million last year, a decrease of 11.38% in bonds and notes payable as shown in the table below. Furthermore, compensated absences payable at June 30, 2004, is $2.45 million, which is a decrease of 15% from the $2.88 million at June 30, 2003. More detailed information about the university's debt is presented in the notes to the financial statements.

Outstanding Debt at Year-end
(in thousands)

	2004	2003
Revenue bonds and notes	$4,205	$4,745
Compensated absences	2,446	2,883
Total	$6,651	$7,628

CONTACTING GRAMBLING STATE UNIVERSITY'S MANAGEMENT

This financial report is intended to provide the Louisiana Legislature and other state officials, the Louisiana Legislative Auditor's Office, patrons, and other interested parties with a general overview of GSU's finances and demonstrates GSU's financial accountability. If you have questions about this report or need additional financial information, contact the Vice President for Finance at (318) 274-6406.

GRAMBLING STATE UNIVERSITY
UNIVERSITY OF LOUISIANA SYSTEM
STATE OF LOUISIANA

Statement of Net Assets, June 30, 2004

ASSETS	
Current assets:	
Cash and cash equivalents (note 2)	$9,242,260
Receivables, net (note 4)	2,703,961
Inventories	434,811
Deferred charges and prepaid expenses	10,730
Notes receivable, net (note 5)	30,429
Total current assets	12,422,191
Noncurrent assets:	
Restricted assets:	
Cash and cash equivalents (note 2)	2,910,379
Investments (note 3)	3,366,224
Notes receivable, net (note 5)	159,255
Capital assets, net (note 6)	63,488,794
Total noncurrent assets	69,924,652
TOTAL ASSETS	82,346,843
LIABILITIES	
Current liabilities:	
Accounts payable and accruals (note 10)	3,314,295
Due to state treasury (note 15)	779
Deferred revenues (note 11)	1,051,857
Compensated absences (note 12)	191,586
Amounts held in custody for others	463,913
Notes payable (note 12)	265,094
Bonds payable (note 12)	285,000
Other current liabilities	57,316
Total current liabilities	5,629,840

(Continued)

The accompanying notes are an integral part of this statement.

GRAMBLING STATE UNIVERSITY
UNIVERSITY OF LOUISIANA SYSTEM
STATE OF LOUISIANA
Statement of Net Assets, June 30, 2004

LIABILITIES (CONT.)	
Noncurrent liabilities:	
Compensated absences (note 12)	$2,254,548
Notes payable (note 12)	3,078,737
Bonds payable (note 12)	576,000
Total noncurrent liabilities	5,909,285
TOTAL LIABILITIES	11,539,125
NET ASSETS	
Invested in capital assets, net of related debt	59,284,097
Restricted:	
Nonexpendable (note 16)	6,567,343
Expendable (note 16)	4,606,157
Unrestricted	350,121
TOTAL NET ASSETS	$70,807,718

(Concluded)

The accompanying notes are an integral part of this statement.

GRAMBLING STATE UNIVERSITY
UNIVERSITY OF LOUISIANA SYSTEM
STATE OF LOUISIANA

Statement of Revenues, Expenses,
and Changes in Net Assets
For the Year Ended June 30, 2004

OPERATING REVENUES	
Student tuition and fees (net of scholarship allowances of $9,448,304)	$10,278,996
Federal grants and contracts	18,127,803
State and local grants and contracts	2,499,414
Nongovernmental grants and contracts	243,778
Sales and services of educational departments	200,542
Auxiliary enterprise revenues (net of scholarship allowances of $453,296)	12,412,638
Other operating revenues	1,151,092
Total operating revenues	44,914,263
OPERATING EXPENSES	
Education and general:	
Instruction	19,754,753
Research	269,710
Public service	52,413
Academic support	7,572,938
Student services	3,636,073
Institutional support	13,563,502
Operations and maintenance of plant	3,814,528
Depreciation (note 6)	3,825,063
Scholarships and fellowships	6,567,409
Auxiliary enterprises	12,652,931
Other operating expenses	522,592
Total operating expenses	72,231,912
Operating Loss	(27,317,649)

(Continued)

The accompanying notes are an integral part of this statement.

GRAMBLING STATE UNIVERSITY
UNIVERSITY OF LOUISIANA SYSTEM
STATE OF LOUISIANA
Statement of Revenues, Expenses,
and Changes in Net Assets, 2004

NONOPERATING REVENUES (Expenses)	
State appropriations	$25,852,010
Gifts	800,420
Net investment income (loss)	(42,711)
Interest expense	(144,494)
Net nonoperating revenues (expenses)	26,465,225
Loss before contributions and other revenues	(852,424)
Capital appropriations	3,794,735
Additions to permanent endowments	60,000
Increase in net assets	3,002,311
Net assets - beginning of year	67,805,407
Net assets - end of year	$70,807,718

(Concluded)

The accompanying notes are an integral part of this statement.

GRAMBLING STATE UNIVERSITY
UNIVERSITY OF LOUISIANA SYSTEM
STATE OF LOUISIANA

Statement of Cash Flows
For the Year Ended June 30, 2004

Cash flows from operating activities:	
Tuition and fees	$18,985,803
Grants and contracts	21,390,860
Sales and services of educational departments	200,542
Auxiliary enterprise receipts	12,865,934
Payments for employee compensation	(34,611,543)
Payments for benefits	(9,141,480)
Payments for utilities	(2,342,784)
Payments for supplies and services	(15,864,239)
Payments for scholarships and fellowships	(16,469,009)
Other receipts	1,491,052
Net cash used by operating activities	(23,494,864)
Cash flows from noncapital financing activities:	
State appropriations	27,706,368
Gifts and grants for other than capital purposes	800,420
Private gifts and grants for endowment purposes	60,000
Net cash provided by noncapital financing sources	28,566,788
Cash flows from capital financing activities:	
Capital appropriations received	3,794,735
Purchase of capital assets	(4,995,624)
Principal paid on capital debt and leases	(540,528)
Interest paid on capital debt and leases	(144,494)
Other uses	(157,521)
Net cash used by capital financing activities	(2,043,432)

(Continued)

The accompanying notes are an integral part of this statement.

GRAMBLING STATE UNIVERSITY
UNIVERSITY OF LOUISIANA SYSTEM
STATE OF LOUISIANA
Statement of Cash Flows, 2004

Cash flows from investing activities:	
Proceeds from sales and maturities of investments	$8,058,462
Interest received on investments	130,249
Purchase of investments	(9,174,611)
Net cash used by investing activities	(985,900)
Net increase in cash and cash equivalents	2,042,592
Cash at beginning of year	10,110,047
Cash at end of year	$12,152,639
Reconciliation of operating loss to net cash used by operating activities:	
Operating loss	($27,317,649)
Adjustments to reconcile operating loss to net cash used by operating activities:	
Depreciation expense	3,825,063
Changes in assets and liabilities:	
Increase in accounts receivable, net	(741,497)
Decrease in receivables from grants and contracts	316,970
Decrease in inventories	18,010
Decrease in deferred charges and prepaid expenses	118,035
Decrease in notes receivable	339,960
Increase in accounts payable and accrued liabilities	184,001
Increase in deferred revenue	202,895
Increase in amounts held in custody for others	89,227
Decrease in compensated absences	(437,143)
Decrease in other liabilities	(92,736)
Net cash used by operating activities	($23,494,864)

(Concluded)

The accompanying notes are an integral part of this statement.

INTRODUCTION

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 University of Louisiana System Board of Supervisors; however, the annual budget of the university and changes to the degree programs, department of instruction, et cetera, require the approval of the Board of Regents for Higher Education. As a state university, operations of the university's instructional programs are funded through annual lapsing appropriations made by the Louisiana Legislature.

Grambling State University is located in Grambling, Louisiana, and serves as a cultural and educational center for north Louisiana. The university offers associate, baccalaureate, and selected masters and specialist degrees in the areas of liberal arts, education, business administration, the sciences and science-related technologies, nursing, and social work. Enrollment at the university was 2,018; 4,673; and 4,560, respectively, during the summer, fall, and spring semesters of fiscal year 2004. At June 30, 2004, the university has approximately 841 full-time faculty and staff members.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. BASIS OF PRESENTATION

The Governmental Accounting Standards Board (GASB) promulgates accounting principles generally accepted in the United States of America and reporting standards for state and local governments. These principles are found in the *Codification of Governmental Accounting and Financial Reporting Standards*, published by the GASB. The accompanying financial statements have been prepared in accordance with such principles.

B. REPORTING ENTITY

GASB Codification Section 2100 has defined the governmental reporting entity to be the State of Louisiana. Grambling State University is part of the University of Louisiana System, which is considered a component unit of the State of Louisiana because the state exercises oversight responsibility and has accountability for fiscal matters as follows: (1) the majority of the members of the governing boards are appointed by the governor; (2) the state has control and exercises authority over budget matters; (3) state appropriations provide the largest percentage of total revenues; (4) the state issues bonds to finance certain construction; and (5) the universities within the system primarily serve state residents. The accompanying financial statements present information only as to the transactions of the programs of Grambling State University as authorized by Louisiana statutes and administrative regulations.

Annually, the State of Louisiana issues a comprehensive financial report, which includes the activity contained in the accompanying financial statements within the University of Louisiana System amounts. The Louisiana Legislative Auditor audits the basic financial statements of the University of Louisiana System.

C. BASIS OF ACCOUNTING

For financial reporting purposes, the university is considered a special-purpose government engaged only in business-type activities. Accordingly, Grambling State University's financial statements have been presented using the economic resources measurement focus and the accrual basis of accounting. Under the accrual basis, revenues are recognized when earned, and expenses are recorded when an obligation has been incurred. All significant intra-agency transactions have been eliminated.

The university has the option to apply all Financial Accounting Standards Board (FASB) pronouncements issued after November 30, 1989, unless FASB conflicts with GASB. The institution has elected to not apply FASB pronouncements issued after the applicable date.

D. BUDGET PRACTICES

The State of Louisiana's appropriation is an annual lapsing appropriation established by legislative action and by Title 39 of the Louisiana Revised Statutes. The statute requires that the budget be approved by the Board of Regents for Higher Education and certain legislative and executive branches of state government. The Joint Legislative Committee on the Budget grants budget revisions. In compliance with these legal restrictions, budgets are adopted on the accrual basis of accounting, except that (1) depreciation is not recognized; (2) leave costs are treated as budgeted expenditures to the extent that they are expected to be paid; (3) summer school tuition and fees and summer school faculty salaries and related benefits for June are prorated to the year earned; (4) certain capital leases are not recorded; and (5) certain inventories are recorded as expenditures at the time of purchase.

The budget amounts for fiscal year 2004 include the original approved budget and subsequent amendments approved as follows:

Original Approved Budget	$46,321,522
Amendments:	
State General Fund (Direct)	(171,602)
State General Fund (Direct)	73,414
Increase from UL Board of Supervisors	1,554,063
Final Budget	$47,777,397

The other funds of the university, although subject to internal budgeting, are not required to submit budgets for approval through the legislative budget process.

E. CASH AND CASH EQUIVALENTS AND INVESTMENTS

The university defines cash and cash equivalents as cash on hand, demand deposits, interest-bearing demand deposits, and all highly liquid investments with a maturity of three months or less when purchased. Under state law, the university may deposit funds within a fiscal agent bank organized under the laws of the State of Louisiana, the laws of any other state in the Union, or the laws of the United States. Furthermore, the university may invest in certificates of deposit of state banks organized under Louisiana law and national banks having their principal offices in Louisiana. Cash equivalents reported on the Statement of Net Assets include all negotiable certificates of deposit, regardless of maturity. These terms are also used in preparing the Statement of Cash Flows.

In accordance with Louisiana Revised Statute (R.S.) 49:327, the university is authorized to invest funds in direct United States Treasury obligations, United States government agency obligations, and money market funds. In addition, funds derived from gifts and grants, endowments, and reserve funds established in accordance with bond issues may be invested as stipulated by the conditions of the gift instrument or bond indenture. The majority of these investments are United States government agency obligations and are reported at fair value in accordance with GASB Statement No. 31. Changes in the carrying value of investments, resulting from unrealized gains or losses, are reported as a component of investment income in the Statement of Revenues, Expenses, and Changes in Net Assets. For purposes of the Statement of Cash Flows, the university considers all highly liquid investments (including restricted assets) with a maturity of three months or less when purchased to be cash equivalents.

F. INVENTORY

Inventories are valued at the lower of cost or market on the weighted-average basis. The university uses periodic and perpetual inventory systems and accounts for its inventories using the consumption method.

G. NONCURRENT RESTRICTED ASSETS

Cash and investments that are externally restricted to make debt service payments, to maintain sinking or reserve funds, or to purchase or construct capital or other noncurrent assets are classified as noncurrent assets in the Statement of Net Assets.

H. CAPITAL ASSETS

Capital assets are reported at cost at the date of acquisition or their estimated fair value at the date of donation. For movable property, the institution's capitalization policy includes all items with a unit cost of $5,000 or more and an estimated useful life greater than one year. Renovations to buildings, infrastructure, and land improvements that significantly increase the value or extend the useful life of the structure are capitalized if they exceed $100,000. Any infrastructure exceeding $3 million must be capitalized, but the university does not have any infrastructure that meets that criterion. Routine repairs and maintenance are charged to operating expense in the year in which the expense is incurred. Depreciation is computed using the straight-line method over the estimated useful life of the assets, generally 40 years for buildings and infrastructure, 20 years for depreciable land improvements, and 3 to 10 years for most movable property.

I. DEFERRED REVENUES

Deferred revenues include amounts received for tuition and fees and certain auxiliary activities prior to the end of the fiscal year but are related to the subsequent accounting period. Deferred revenues also include amounts received from grant and contract sponsors that have not yet been earned.

J. COMPENSATED ABSENCES

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. Employees who are considered having non-exempt status according to the guidelines contained in the Fair Labor Standards Act may be paid for compensatory leave earned.

Upon separation of employment, both classified and nonclassified personnel or their heirs are compensated for accumulated annual leave not to exceed 300 hours. In addition, academic and nonclassified 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 that 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.

Upon termination or transfer, a classified employee will be paid for any one and one-half hour compensatory leave earned and may or may not be paid for any straight hour-for-hour compensatory leave earned. Compensation paid will be based on the classified employee's hourly rate of pay at termination or transfer.

K. NONCURRENT LIABILITIES

Noncurrent liabilities include (1) principal amounts of revenue bonds payable and notes payable with maturities greater than one year; (2) estimated amounts for accrued compensated absences and other liabilities that will not be paid within the next fiscal year; and (3) other liabilities that, although payable within one year, are to be paid from funds that are classified as noncurrent assets. Revenue bonds and notes payable are reported at face value.

L. POSTEMPLOYMENT HEALTH CARE AND LIFE INSURANCE BENEFITS

Grambling State University provides certain continuing health care and life insurance benefits for its retired employees. The university recognizes the cost of providing these retiree benefits as an expense when paid during the year.

M. NET ASSETS

Net assets comprise the various net earnings from operation, nonoperating revenues, expenses, and contributions of capital. Net assets are classified in the following components:

(a) Invested in capital assets, net of related debt consists of the university's total investment in capital assets, net of accumulated depreciation, and reduced by the outstanding balances of any bonds or other borrowings attributable to the acquisition, construction, or improvement of those assets.

(b) Restricted net assets - nonexpendable consist of endowments and similar type funds for which donors or other outside sources have stipulated that, as a condition of the gift instrument, 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 principal.

(c) Restricted net assets - expendable consist of resources that the university is legally or contractually obligated to spend in accordance with restrictions imposed by external third parties.

(d) Unrestricted net assets consist of resources derived from student tuition and fees, state appropriations, and sales and services of educational departments and auxiliary enterprises. These resources are used for transactions relating to the educational and general operations of the university and may be used at the discretion of the governing board to meet current expenses and for any purpose.

When an expense is incurred that can be paid using either restricted or unrestricted resources, the university's policy is to first apply the expense toward unrestricted resources, then toward restricted resources.

N. CLASSIFICATION OF REVENUES

The university has classified its revenues as either operating or nonoperating according to the following criteria:

(a) Operating revenue includes activities that have the characteristics of exchange transactions, such as (1) student tuition and fees, net of scholarship discounts and allowances; (2) sales and services of auxiliary enterprises, net of scholarship discounts and allowances; and (3) most federal, state, and local grants and contracts.

(b) Nonoperating revenue includes activities that have the characteristics of nonexchange transactions, such as gifts and contributions, state appropriations, and investment income.

O. SCHOLARSHIP DISCOUNTS AND ALLOWANCES

Student tuition and fee revenues and certain other revenues from students are reported net of scholarship discounts and allowances in the Statement of Revenues, Expenses, and Changes in Net Assets. Scholarship discounts and allowances are the difference between the stated charge for services (tuition and fees) provided by the university and the amount that is paid by students and/or third parties making payments on the students' behalf.

2. CASH

At June 30, 2004, the university has cash (book balances) totaling $12,152,639 as follows:

Demand deposits:	
Interest-bearing	$9,631,883
Noninterest-bearing	(316,703)
Time certificates of deposit	2,835,759
Petty cash	1,700
Total	$12,152,639

These cash and cash equivalents are reported as follows on the Statement of Net Assets:

Current assets	$9,242,260
Noncurrent assets	2,910,379
Total	$12,152,639

Under state law, these deposits (or the resulting bank balances) must be secured by federal deposit insurance or similar federal security or the pledge of securities owned by the fiscal agent bank. The fair market value of the 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 university or the pledging bank by a holding or custodial bank that is mutually acceptable to both parties. At June 30, 2004, the university has $13,608,190, in deposits (collected bank balances), which is secured from risk by federal deposit insurance plus pledged securities.

3. INVESTMENTS

At June 30, 2004, the university has investments totaling $3,366,224. The investments are reported at fair value as required by GASB Statement 31. These investments were secured from risk by federal deposit insurance or other appropriate pledged securities.

The following is a summary of university investments:

Type of Investment	Reported Amount	Fair Value
U.S. government securities	$3,361,417	$3,361,417
Common and preferred stock	4,807	4,807
Total	$3,366,224	$3,366,224

4. RECEIVABLES

Receivables are shown on Statement A net of an allowance for doubtful accounts as follows:

Type	Accounts Receivable	Allowance for Doubtful Accounts	Net Accounts Receivable
Student tuition and fees	$4,981,092	($4,287,779)	$693,313
Federal, state, and private grants and contracts	587,711	(30,340)	557,371
Due from State of Louisiana	586,003		586,003
Auxiliary enterprises	518,778		518,778
Other	348,496		348,496
Total	$7,022,080	($4,318,119)	$2,703,961

5. NOTES RECEIVABLE

Notes receivables are comprised of loans to students under the Federal Perkins Loan and Nursing Student Loan programs. The university administers the Perkins and Nursing Student Loan programs. Restricted federal and state contributions and interest on the loans provide the funding for the Perkins Loan program. The Perkins program provides for the cancellation of a loan at rates of 10% to 30% per year up to a maximum of 100% if the participant complies with certain provisions. If loans are determined to be uncollectible and not eligible for reimbursement by the federal government, the loans can be written off and assigned to the U.S. Department of Education. Loans are no longer issued under the Perkins Loan and Nursing Student Loan programs, but collections are still made on outstanding loans. Notes receivable are shown on Statement A net of an allowance for doubtful accounts. These receivables are composed of the following:

Type	Notes Receivable	Allowance for Doubtful Accounts	Notes Receivable (Net)	Noncurrent Portion
Federal Perkins Loans	$695,864	($512,223)	$183,641	$154,181
Nursing Student Loans	98,393	(92,350)	6,043	5,074
Total	$794,257	($604,573)	$189,684	$159,255

6. CHANGES IN CAPITAL ASSETS

	Balance, July 1, 2003	Additions	Transfers	Retirements	Balance, June 30, 2004
Capital assets not being depreciated:					
Land	$992,089				$992,089
Construction-in-progress	5,073,199	$3,551,336		($6,475,117)	2,149,418
Total capital assets not being depreciated	$6,065,288	$3,551,336	NONE	($6,475,117)	$3,141,507
Other capital assets:					
Land improvements	$467,099				$467,099
Less accumulated depreciation	(467,099)				(467,099)
Total land improvements	NONE	NONE	NONE	NONE	NONE
Buildings	105,682,210	$6,678,334			112,360,544
Less accumulated depreciation	(53,268,719)	(2,290,583)			(55,559,302)
Total buildings	52,413,491	4,387,751	NONE	NONE	56,801,242
Equipment	15,768,800	1,047,576		($5,106,235)	11,710,141
Less accumulated depreciation	(12,753,938)	(1,130,498)		5,060,539	(8,823,897)
Total equipment	3,014,862	(82,922)	NONE	(45,696)	2,886,244
Library books	13,428,949	396,712		(61,626)	13,764,035
Less accumulated depreciation	(12,761,878)	(403,982)		61,626	(13,104,234)
Total library books	667,071	(7,270)	NONE	NONE	659,801
Total other capital assets	$56,095,424	$4,297,559	NONE	($45,696)	$60,347,287
Capital Asset Summary:					
Capital assets not being depreciated	$6,065,288	$3,551,336		($6,475,117)	$3,141,507
Other capital assets, at cost	135,347,058	8,122,622		(5,167,861)	138,301,819
Total cost of capital assets	141,412,346	11,673,958	NONE	(11,642,978)	141,443,326
Less accumulated depreciation	(79,251,634)	(3,825,063)		5,122,165	(77,954,532)
Capital assets, net	$62,160,712	$7,848,895	NONE	($6,520,813)	$63,488,794

7. PENSION PLANS

Plan Description. Substantially all employees of the university are members of two statewide, public employee retirement systems. Academic employees are generally members of the Louisiana Teachers Retirement System (TRS), and classified/unclassified state employees are members of the Louisiana State Employees Retirement System (LASERS). Both plans are cost-sharing, multiple-employer defined benefit pension plans administered by separate boards of trustees. TRS and LASERS provide retirement, disability, and survivors' benefits to plan members and beneficiaries. The State of Louisiana guarantees benefits granted by the retirement systems by provisions of the Louisiana Constitution of 1974. Generally, all full-time employees are eligible to participate in the systems; employee benefits vest with TRS after five years of service and with LASERS after 10 years of service. Article 10, Section 29 of the Louisiana Constitution of 1974 assigns the authority to establish and amend benefit provisions to the state legislature. The systems issue annual publicly available financial reports that include financial statements and required supplementary information for the systems. The reports may be obtained by writing to the Teachers Retirement System of Louisiana, Post Office Box 94123, Baton Rouge, Louisiana 70804-9123, or by calling (225) 925-6446 and/or the Louisiana State Employees Retirement System, Post Office Box 44213, Baton Rouge, Louisiana 70804, or by calling (225) 922-0600.

Funding Policy. The contribution requirements of plan members and the university are established and may be amended by the state legislature. The legislature annually sets the required employer contribution rate equal to the actuarially required employer contribution as set forth in R.S. 11:1102. Employees contribute 8% (TRS) and 7.5% (LASERS) of covered salaries. The state is required to contribute 13.8% of covered salaries to TRS and 15.8% of covered salaries to LASERS for fiscal year 2004. The State of Louisiana, through the annual appropriation to the university, funds the university's employer contribution. The university's employer contributions to TRS for the years ended June 30, 2004, 2003, and 2002 were $2,100,095, $1,970,591, and $2,511,955, respectively, and to LASERS for years ended June 30, 2004, 2003, and 2002 were $1,125,766, $999,184, and $977,353, respectively, equal to the required contributions for each year.

8. OPTIONAL RETIREMENT SYSTEM

R.S. 11:921 created an optional retirement plan for academic and administrative employees of public institutions of higher education. This program was designed to aid universities in recruiting employees who may not be expected to remain in the TRS for 10 or more years. The purpose of the optional retirement plan is to provide retirement and death benefits to the participants while affording the maximum portability of these benefits to the participants.

The optional retirement plan is a defined contribution plan that provides for full and immediate vesting of all contributions remitted to the participating companies on behalf of the participants. Eligible employees make an irrevocable election to participate in the optional retirement plan rather than the TRS and purchase retirement and death benefits through contracts provided by designated companies.

Total contributions by the university are 13.8% of covered payroll for fiscal year 2004. The participant's contribution (8%), less any monthly fee required to cover the cost of administration and maintenance of the optional retirement plan, is remitted to the designated company or companies. Upon receipt of the employer's contribution, the TRS pays over to the appropriate company or companies, on behalf of the participant, an amount equal to the employer's portion of the normal cost contribution as determined annually by an actuarial committee. The TRS retains the balance of the employer contribution for application to the unfunded accrued liability of the system. Benefits payable to participants are not the obligation of the State of Louisiana or the TRS. Such benefits and other rights of the optional retirement plan are the liability and responsibility solely of the designated company or companies to whom contributions have been made. Employer and employee contributions to the optional retirement plan totaled $859,486 and $507,892 respectively, for the year ended June 30, 2004.

9. POSTEMPLOYMENT 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 these benefits if they reach normal retirement age while working for the university. These benefits for retirees and similar benefits for active employees are provided through a state-operated group insurance program and various insurance companies whose monthly premiums are paid jointly by the employee and the university. The university recognizes the cost of providing these benefits to retirees (university's portion of premiums) as an expense when paid during the year. These retiree benefits totaled $1,499,984 for the year. The total number of retirees at June 30, 2004, is 242.

10. PAYABLES

The following is a summary of payables and accrued expenses on Statement A:

Account Name	
Vendor payables	$1,573,195
Accrued salaries and payroll deductions	1,584,075
Other	157,025
Total payables	$3,314,295

11. DEFERRED REVENUES

The following is a summary of deferred revenues on Statement A:

Account Name	
Prepaid tuition and fees	$559,809
Prepaid athletic ticket sales	40,587
Grants and contract	451,461
Total deferred revenues	$1,051,857

12. COMPENSATED ABSENCES

At June 30, 2004, employees of the university have accumulated and vested annual leave, sick leave, and compensatory leave of $1,646,971, $448,489, and $350,674, respectively. These balances were computed in accordance with GASB Codification Section C60. The leave payable is recorded in the accompanying financial statements.

13. LONG-TERM LIABILITIES

The following is a summary of bond and other long-term debt transactions of the university for the year:

	Balance June 30, 2003	Additions	Reductions	Balance June 30, 2004	Amounts Due Within One Year
Bonds and notes payable:					
Revenue bonds payable	$1,146,000		$285,000	$861,000	$285,000
Notes payable	3,599,359		255,528	3,343,831	265,094
Total bonds and notes payable	4,745,359	NONE	540,528	4,204,831	550,094
Other liabilities - accrued compensated absences payable	2,883,277			2,446,134	191,586
Subtotal	2,883,277	NONE	NONE	2,446,134	191,586
Total long-term liabilities	$7,628,636	NONE	$540,528	$6,650,965	$741,680

The additions and reductions to compensated absences during the fiscal year represent the net change during the year because the additions and deductions could not readily be determined.

14. REVENUE BONDS AND NOTES PAYABLE

Revenue bonds and notes payable consisted of the following:

	Date of Issue	Original Issue	Principal Outstanding June 30, 2003
Revenue Bonds			
Student Housing System:			
1965 Series B	October 1, 1965	$4,000,000	$515,000
1968 Series B	October 1, 1986	3,000,000	631,000
Total Bonds Payable		7,000,000	1,146,000
Notes Payable			
U.S. Department of Education	May 1, 1993	3,500,000	2,707,102
Ford Motor Credit Company for telephone equipment	August 30, 2001	1,165,931	892,257
Total Notes Payable		4,665,931	3,599,359
Total bonds and notes payable		$11,665,931	$4,745,359

All auxiliary enterprise revenues are available as security for the outstanding revenue bonds at June 30, 2004.

The scheduled maturities of the revenue bonds and notes payable are as follows:

	Bonds Payable		Notes Payable		
Fiscal Year	Principal	Interest	Principal	Interest	Total
2005	$285,000	$21,555	$265,094	$104,633	$676,282
2006	290,000	12,930	275,029	94,699	672,658
2007	125,000	6,705	285,345	84,383	501,433
2008	125,000	2,955	296,055	73,671	497,681
2009	36,000	540	144,712	65,037	246,289
2010-2014			617,688	271,083	888,771
2015-2019			716,851	171,919	888,770
2020-2024			743,057	56,836	799,893
Total	$861,000	$44,685	$3,343,831	$922,261	$5,171,777

Redeemed	Principal Outstanding June 30, 2004	Maturities	Interest Rates	Interest Outstanding June 30, 2004
$170,000	$345,000	2005	3.0%	$10,425
115,000	516,000	2008	3.0%	34,260
285,000	861,000			44,685
97,266	2,609,836	2023	3.0%	856,367
158,262	733,995	2008	4.1%	65,894
255,528	3,343,831			922,261
$540,528	$4,204,831			$966,946

The following is a summary of the debt service reserve requirements of the various bond and note issues outstanding at June 30, 2004:

	Reserves Available	Reserve Requirement	Excess
Student Housing System Repair and Replacement Reserve Account	$1,092,521	$600,000	$492,521
Student Housing System Revenue Bonds	511,700	511,700	
U.S. Department of Education note	388,000	388,000	
Total	$1,992,221	$1,499,700	$492,521

The university is required by the U.S. Department of Education note to establish a Retirement of Indebtedness Account and make semiannual deposits of $22,250 until $178,000 has been reached. Once the debt service reserve account balance is satisfied, the university is to establish a Repair and Replacement Reserve Account and make annual deposits of $35,000 until $350,000 has been accumulated.

15. DUE TO STATE TREASURY

The $779 due to the state treasury at June 30, 2004, is for unclaimed property, which is to be remitted when the appropriate reports are filed.

16. RESTRICTED NET ASSETS

The university has the following restricted net assets at June 30, 2004:

Nonexpendable:	
Student loans	$4,505,844
Endowments	2,061,499
Total nonexpendable	$6,567,343
Expendable:	
Grants and contracts	$5,070,394
Student loans	(4,142,341)
University plant projects	1,685,883
Debt service requirements	1,992,221
Total expendable	$4,606,157

17. CONTINGENT LIABILITIES AND RISK MANAGEMENT

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 is involved in one lawsuit at June 30, 2004. In the opinion of the legal counsel for the university, there is no exposure to the university. This does not include any lawsuits filed with the university system or the Office of Risk Management, the agency responsible for the state's risk management program.

18. FOUNDATIONS

The accompanying financial statements do not include the accounts of the following foundations:

Grambling University National Alumni Association
Grambling University Athletic Foundation

The foundations are not included in the university's financial statements as component units since they do not meet the criteria for inclusion established by the Division of Administration, Office of Statewide Reporting and Accounting Policy. The foundations are separate corporations whose financial statements are subject to audit by independent certified public accountants.

19. ON-BEHALF PAYMENTS FOR SALARIES AND FRINGE BENEFITS

On-behalf payments for salaries and fringe benefits are direct payments made by one entity to a third-party recipient for the employees of another legally separate entity. On-behalf payments include pension plan contributions, employee health and life insurance premiums, and salary supplements or stipends. For example, a nongovernmental fund-raising foundation affiliated with a governmental university (such as Grambling State University) may supplement salaries of certain university employees. Those payments constitute on-behalf payments for purposes of reporting by the university if they are made to the faculty members in their capacity as employees of the university.

The amount of on-behalf payments for salaries and fringe benefits included in the university's accompanying financial statements for fiscal year ended June 30, 2004, is $112,884.

20. DEFERRED COMPENSATION PLAN

Certain employees of the university participate in the Louisiana Public Employees Deferred Compensation Plan adopted under the provisions of the Internal Revenue Code Section 457. Complete disclosures relating to the Plan are included in the separately issued audit report for the Plan, available from the Louisiana Legislative Auditor, Post Office Box 94397, Baton Rouge, Louisiana 70804-9397.

21. DONOR RESTRICTED ENDOWMENTS

If a donor has not provided specific instructions, state law permits the Board of Regents to authorize for expenditure the net appreciation (realized and unrealized) of the investments of endowment funds. Any net appreciation that is spent is required to be spent for the purposes for which the endowment was established.

At June 30, 2004, net appreciation of $65,152 is available to be spent and is restricted to specific purposes. The maximum spending allowed is 5% of the market value of program assets averaged for the previous five-year period. The maximum spending rate may be used if the average annual real total return (investment return less fees less inflation) exceeds the annual spending level.

OTHER REPORT REQUIRED BY

GOVERNMENT AUDITING STANDARDS

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

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

STEVE J. THERIOT, CPA
LEGISLATIVE AUDITOR

1600 NORTH THIRD STREET
POST OFFICE BOX 94397
TELEPHONE: (225) 339-3800
FACSIMILE: (225) 339-3870
www.lla.state.la.us

January 18, 2005

Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of the Financial Statements Performed in Accordance With *Government Auditing Standards*

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

We have audited the basic financial statements of Grambling State University, a university within the University of Louisiana System, which is a component unit of the State of Louisiana, as of and for the year ended June 30, 2004, and have issued our report thereon dated January 18, 2005. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Grambling State University's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the university's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements.

Noncompliance With Movable Property Regulations

For the second consecutive audit, Grambling State University has not developed and implemented adequate internal controls to ensure compliance with the state's movable property regulations. Good internal control requires that adequate control procedures are in place and working to ensure that (1) the acquisition, valuation, and disposition of movable property is accurately reflected in the accounting records; (2) the location of all movable items is monitored and updated frequently; and (3) the amounts recorded in the financial statements are materially correct. In addition, good internal control should ensure that movable property is properly safeguarded against loss arising from theft or unauthorized use and/or abuse.

A review of the university's movable property policies, procedures, accounting records, and correspondence indicated the university performed a property count in October 2003 disclosing 216 items originally costing $505,923 were unlocated. A subsequent count by the university completed in October 2004 disclosed 139 of the 216 items originally costing $342,579 were still unlocated. Furthermore, an additional 79 items originally costing $211,434 were unlocated. The Louisiana Property Assistance Agency (LPAA) performed an audit on the university and issued its report dated July 26, 2004. The LPAA report indicated 207 items costing $636,564 were either unlocated or not in the location reflected on its property control records as required.

University personnel charged with the responsibility of safeguarding movable property from loss or misuse have not taken their responsibilities seriously. They continue not to monitor and report property items that are missing or been moved to other sites to the property control officer and/or campus security in a timely manner. As a result, movable property is at greater risk of being lost, stolen, or misused as indicated by the large amount of unlocated movable property. The university reports $11,710,141 of movable property at June 30, 2004.

Grambling State University should take the appropriate action and hold employees accountable for failure to comply with university policies and procedures relating to the timely reporting of movable property items stolen, missing, or moved to a new location. Management concurred with the finding and recommendation and outlined a plan of corrective action (see Appendix A, pages 1-2).

Inadequate Controls Over Traffic Tickets and Related Fines

Grambling State University does not have adequate internal controls in place to ensure proper accounting and collection of traffic tickets and associated fines. A good internal control system requires adequate control procedures to ensure proper accounting for all traffic tickets received, issued, and entered into the general ledger. Furthermore, the system should ensure that no one individual is in a position to both perpetrate and conceal errors and/or fraud. A review of the controls over parking and traffic tickets and related fines revealed the following:

- University Police does not reconcile parking and traffic tickets received, issued, or voided. Therefore, the number of actual parking and traffic tickets issued from July 1, 2003, through May 27, 2004, is unknown as of June 28, 2004. Since the university is unable to determine the total number of tickets issued and there has been no reconciliation for this time period, there is no way to determine if all applicable fines have been applied to the appropriate student's or employee's account.

- Two University Police employees can void parking and traffic tickets before they are entered into the general ledger. These same employees can enter parking and traffic tickets into the general ledger and adjust student and employee account balances to eliminate parking and traffic fines with no oversight.

- Two University Police employees are allowed to adjust student and employee accounts for tickets that are voided by a university Appeals Committee.

- From July 1, 2003, through May 27, 2004, a total of $211,731 of student traffic fines were entered into the general ledger. Of this amount, the university voided $19,210 (9%) and reportedly collected $57,748 (27%). However, the university was unable to provide us the account balances including the detail for the remaining $134,773 because of constraints imposed by the university's electronic financial reporting system.

Management personnel have been aware of this problem; however, no corrective action has been taken. Failure to develop, implement, and enforce adequate controls over traffic tickets and fines increase the risk that funds could be lost and fraud could occur and not be detected in a timely manner.

Management should immediately remedy this situation and ensure that all traffic tickets are accounted for and applicable fines are recorded in the general ledger. Periodic reconciliations should be performed and University Police should only have the ability to enter fines but not access student accounts to make adjustments. In addition, once the Appeals Committee makes its determination, someone other than University Police should notify the student or employee and the accounting department of the outcome so if adjustments need to be made, accounting personnel can make the adjustment. Finally, the university should review its financial reporting system and consider making the changes necessary so account balances including the detailed information can be retrieved from its system for a specific period of time at any point in the future. Management concurred with the finding and recommendations and outlined a plan of corrective action (see Appendix A, pages 3-4).

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud 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 functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe none of the reportable conditions described above are material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Grambling State University's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and, accordingly, we do not express such an opinion. The results of our tests disclosed the matter of noncompliance with movable property regulations caused by inadequate controls, as mentioned in the internal control section of this report, that is required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of the university and its management and is not intended to be, and should not be, used by anyone other than these specified parties. Under Louisiana Revised Statute 24:513, this report is distributed by the Legislative Auditor as a public document.

Respectfully submitted,

Steve J. Theriot, CPA
Legislative Auditor

WMS:WJR:AJR:ss

[GSU04]

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

Grambling State University
OFFICE OF THE PRESIDENT
Grambling, Louisiana 71245

P.O. DRAWER 607

(318) 274-6117
FAX: (318) 274-6172

December 6, 2004

Mr. Steve J. Theriot, CPA
Office of the Legislative Auditor
State of Louisiana
1600 North Third Street
Baton Rouge, LA 70804-9397

Dear Mr. Theriot:

We concur with the comment that sufficient controls have not been implemented to ensure compliance with the state's movable property regulations.

Over the past two years, we have rewritten and revised the property policy. Also, we have performed four inventory observations of movable equipment to ascertain the location of all equipment. We have made numerous pleas to employees to follow the movable property policy—at the president's cabinet, council of deans, inter-departmental council meetings and other departmental meetings—to no avail. Nearly every lock has been changed with a new core and keying system developed just for Grambling State University.

Under the directions of the Vice President for Finance, Associate Vice President for Finance/Controller, and the Property Manager, the following new steps will be implemented to ensure compliance with state movable property laws.

1. The State's Property Assistance Manager and Campus Liaison will be invited to several meetings and workshops to explain the state law and the requirements to maintain control of movable property.

2. Department heads will be provided a new listing of all unlocated property assigned to their department. Department heads must show location of all equipment or provide written explanations for unlocated equipment.

3. The movable property policy will be amended effective February 1, 2005 to include a statement that department heads (VPs, deans, unit heads) will be responsible for location of all property assigned to them. Lost or unlocated property, not properly reported to the Campus Police and the University Property Manager, will result in a charge to their budgets equaling the replacement cost of the items.

4. Scanning software to aid in accounting for moveable equipment will be evaluated immediately and purchased by no later than March 1, 2005.

5. Random inventory observations of individual items of equipment and/or entire departments will be implemented by January 31, 2005.

The University Property Manager will continue implementing further procedures to ensure compliance with state laws.

Sincerely yours,

Horace A. Judson

Horace A. Judson
President

Grambling State University
OFFICE OF THE PRESIDENT
Grambling, Louisiana 71245

P.O. DRAWER 607

(318) 274-6117
FAX: (318) 274-6172

August 31, 2004

Mr. Steve J. Theriot, CPA
Office of the Legislative Auditor
State of Louisiana
1600 North Third Street
Baton Rouge, LA 70804-9397

Dear Mr. Theriot:

Management concurs with the finding on Inadequate Controls over Traffic Tickets and Related Fines.

Response:

1. Effective August 15, 2004, the new Vice President for Student Affairs and Enrollment Management is revising the policy to make the Traffic Clerk working under the directions of the Police Chief responsible for accounting for all traffic tickets issued. A logbook will be utilized whereby the traffic officer receiving the ticket book and the issuer will sign. Additionally, the University has recently (August 2, 2004) implemented the first phase of a new traffic software system (UPARK) that can account for all tickets issued, charged to the Banner system for collection, and voided.

2. The Grambling State University (GSU) Police Department will no longer be allowed to void tickets. The Parking Appeals Committee, chaired by a Finance Office representative, was implemented during FY 2003-04 to rule on individual ticket incidents. Effective September 1, 2004, the responsibility of the Appeals Committee has been expanded to include voiding tickets written to visitors and unknown individuals. The Controller's Student Accounts Receivable staff will process changes to student receivables for parking charges as directed by the Appeals Committee.

3. GSU Police Department employees are no longer allowed to void tickets, adjust tickets, or have access to make changes in the Banner system. The traffic clerk will enter traffic fines into Banner. The second phase of the UPARK will allow automatic updates to Banner.

4. GSU's management information system (SCT Banner) reports the total receivable balance by person and not by the type of charges (tuition, fees, parking, etc). While this may be a limitation in the Banner System, policies are implemented to maximize collections.

Management is committed to having a strong system of internal controls and will continue to make changes to strengthen controls to safeguard its assets.

Sincerely,

Horace A. Judson

Horace A. Judson
President

/vcc