

STATE OF LOUISIANA LEGISLATIVE AUDITOR

Athletic Department
Northwestern State University
State of Louisiana
Natchitoches, Louisiana

January 14, 1998



Financial and Compliance Audit Division

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

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**ATHLETIC DEPARTMENT
NORTHWESTERN STATE UNIVERSITY
STATE OF LOUISIANA
Natchitoches, Louisiana**

**Financial Statement and
Independent Auditor's Report
For the Year Ended June 30, 1997**

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

January 14, 1998



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

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October 27, 1997

Independent Auditor's Report
(including section on internal control)

DR. RANDALL J. WEBB, PRESIDENT
NORTHWESTERN STATE UNIVERSITY
STATE OF LOUISIANA
Natchitoches, Louisiana

We have audited the general purpose financial statements of Northwestern State University, a component unit of the State of Louisiana reporting entity, as of and for the year ended June 30, 1997, and have issued our report thereon dated October 21, 1997. As requested by the university, we have also applied certain minimum agreed-upon procedures contained in the *National Collegiate Athletic Association Financial Audit Guidelines* to the accounting records and internal control structure of the Northwestern State University Athletic Department and to the related outside organization created for or in behalf of the university's Intercollegiate Athletics Program for the year ended June 30, 1997, solely to assist the university in complying with the National Collegiate Athletic Association (NCAA) Bylaw 6.2.3.1. It is understood that this report is solely for your information. However, by provisions of state law, this report is a public document and has been distributed to the appropriate public officials.

Because the following minimum agreed-upon procedures do not constitute an audit made in accordance with generally accepted auditing standards, we do not express an opinion on any of the accounts or items on the accompanying statement of revenues and expenditures of the athletic department or on the financial information of the related outside organization included in this report. Had we performed additional procedures or had we made an audit of any financial statements of the Intercollegiate Athletic Program and related outside organization of Northwestern State University in accordance with generally accepted auditing standards, matters might have come to our attention that would be reported to you. This report relates only to the accounts and items discussed as follows and does not extend to the financial statements of Northwestern State University, its Intercollegiate Athletic Program, or related outside organization taken as a whole. Our minimum agreed-upon procedures follow.

LEGISLATIVE AUDITOR

**DR. RANDALL J. WEBB, PRESIDENT
NORTHWESTERN STATE UNIVERSITY
STATE OF LOUISIANA**
Audit Report, June 30, 1997

STATEMENT OF REVENUES AND EXPENDITURES

Test of Statement

We obtained from management the statement of revenues and expenditures for the year ended June 30, 1997, as shown on Statement A, and requested written representation from management as to its fair presentation. In addition, we verified the mathematical accuracy of the amounts on the statement and traced the amounts to the university's revenue and expenditure ledgers. We noted no differences between the amounts on the statement and the amounts in the revenue and expenditure ledgers.

Comparison of Statements

We compared the statements of revenues and expenditures for June 30, 1996, and June 30, 1997, to determine the percentage of increase or decrease between the two years. The university provided satisfactory responses for any material variances between the two years.

Comparison of Budget to Actual Revenues and Expenditures

We compared the amount of budgeted revenues and expenditures to actual revenues and expenditures for the year ended June 30, 1997, to determine if there were any material budget variances. The university provided satisfactory responses for any material unfavorable variances between budgeted and actual amounts.

Contributions Exceeding Ten Percent of Total Contributions

We obtained from the university a list of contributions received by the athletic department and determined there was no one individual contribution that exceeded 10 percent (\$19,213) of the total contributions.

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DR. RANDALL J. WEBB, PRESIDENT
NORTHWESTERN STATE UNIVERSITY
STATE OF LOUISIANA
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EXPENDITURES OF OUTSIDE ORGANIZATION MADE
FOR OR IN BEHALF OF THE NORTHWESTERN STATE
UNIVERSITY INTERCOLLEGIATE ATHLETICS
PROGRAM

Review of Financial Activities
of the Outside Organization

We obtained written representation from management of the university that the Northwestern Athletic Association, a part of the Northwestern State University Foundation, Incorporated, was the only outside organization created for or in behalf of the athletic department. In addition, we obtained written representation from an official of the Northwestern State University Foundation, Incorporated, that the following summary of cash receipts and disbursements of the Northwestern Athletic Association reflects fairly the financial activity for the year ended June 30, 1997. Finally, we verified the mathematical accuracy of the amounts on the summary of cash receipts and disbursements and traced the amount of cash disbursements made for or in behalf of the Northwestern State University Athletic Department to the statement of revenues and expenditures (Statement A).

Cash balance, July 1, 1996	\$216,493
Cash receipts (donations, fund raisers, etc.)	515,073
Cash disbursements:	
Administrative/overhead expenses	(187,197)
For or in behalf of the athletic department:	
Personal services	(9,357)
Travel	(67,184)
Professional services	(4,753)
Scholarships	(27,917)
Sports camp	(88,974)
Equipment	(38,833)
Capital projects	(159,978)
	<hr/>
Cash balance, June 30, 1997	<u>\$147,373</u>

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**DR. RANDALL J. WEBB, PRESIDENT
NORTHWESTERN STATE UNIVERSITY
STATE OF LOUISIANA**

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INTERNAL CONTROLS - POLICIES AND PROCEDURES RELATING TO INTERCOLLEGIATE ATHLETICS - AGREED-UPON PROCEDURES

Management of Northwestern State University is responsible for establishing and maintaining internal controls. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of control procedures. The objectives of controls are to provide management with reasonable, but not absolute, assurance that assets are safeguarded against loss from unauthorized use or disposition and that transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of financial statements in accordance with generally accepted accounting principles.

Because of inherent limitations in internal controls, errors or fraud may, nevertheless, occur and not be detected. Also, projection of any evaluation of the controls 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.

The minimum agreed-upon procedures, applied to certain aspects of the university's internal controls, were more limited than would be necessary to express an opinion on the system of internal accounting control taken as a whole. Because our study and evaluation was limited to applying minimum agreed-upon procedures discussed in the preceding paragraphs to certain aspects of the controls, we do not express an opinion on whether the internal controls of Northwestern State University, in effect for the year ended June 30, 1997, taken as a whole, were sufficient to meet the objectives stated above. In connection with our applied procedures, we did note certain opportunities for improvement in internal accounting controls. Our minimum agreed-upon procedures and findings are as follows:

Test of the Internal Controls

We performed a preliminary review of the internal controls of the athletic department by reviewing the organizational chart, written athletic department policies and procedures, and by performing tests on the extent of documentation and the flow of transactions through the accounting system. We noted the following weaknesses:

1. For the second consecutive audit, Northwestern State University has deficiencies relating to access to its electronic data processing (EDP) system and data files. An adequate internal control structure requires that individuals be permitted access only to the data files and programs necessary to perform their duties. Duties should be segregated so that no one employee is in a position to both initiate and conceal errors or irregularities. During our review of the EDP controls, we noted the

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**DR. RANDALL J. WEBB, PRESIDENT
NORTHWESTERN STATE UNIVERSITY
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following types of control deficiencies, which were identified in the last audit and still have not been resolved:

- The Director of Student Financial Aid has write access to data files that is incompatible with his job responsibilities.
- Eleven of 22 employees tested had access to the system from 2 to 39 days after they were terminated or transferred.
- Two employees went on extended leave until their effective dates of resignation. Access to the system was not denied these two employees until their effective dates of resignation, which allowed them to have access to the system and data files for 11 and 26 days while they were on leave before their resignation.

Management felt that since the Director of Student Financial Aid works directly with students he should have write access to the data files. The personnel department failed to notify the Security Administrator in a timely manner of employees that were terminating as required by university policy. Furthermore, the policy does not address who is required to notify the Security Administrator when an employee is going on leave prior to termination or transfer. Inadequate segregation of duties and failure to restrict access to the system in a timely manner, places the information in the system at risk of unauthorized access and/or the alteration of information that may not be detected in a timely manner, if at all.

Management of Northwestern State University should review the security reports periodically to ensure that access is compatible with job responsibilities and that access is being denied promptly upon separation from the university. Furthermore, management should amend its current policy to ensure that it addresses who is responsible for notifying the Security Administrator when an employee is going on leave before actual termination or transfer. In a letter dated October 13, 1997, Dr. Randall J. Webb, President, stated he concurred with the finding and has implemented procedures to resolve the weaknesses noted.

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DR. RANDALL J. WEBB, PRESIDENT
NORTHWESTERN STATE UNIVERSITY
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2. Northwestern State University has a lack of control over accountability of athletic revenues and expenditures. An adequate internal control structure requires those revenues to be deposited in the proper account and expenditures to be made in accordance with applicable laws and regulations. During our audit, we noted the following:

- . \$36,871 of football guarantee funds were received and deposited into the Northwestern Athletic Association, a nonprofit organization, instead of the university's account, although the check was made payable to and originally endorsed for deposit to Northwestern State University. This amount represents the balance remaining from a \$75,000 guarantee agreement between Boise State University and Northwestern State University. The game guarantee was reduced by the cost of Northwestern's airfare to the game, which was paid by Boise State. The Northwestern Athletic Association deposited the \$36,871 in its account and used these funds to pay for Northwestern's air charter services to another football game in Youngstown, Ohio. Because the expenditures for university travel were handled through the Northwestern Athletic Association and by Boise State University, we cannot ensure that state purchasing and travel regulations were followed.
- . Ticket proceeds from the sale of 8 'VIP' football tickets at \$42 each, totaling \$336, were deposited into the Northwestern Athletic Association, a nonprofit organization. These tickets were purchased by persons making donations to the Athletic Association. We were not provided with supporting documentation to determine that these ticket proceeds were remitted back to the university.

There has been a high turnover in key personnel in the athletic department and a lack of supervision from upper management. As a result, the former business manager and the former assistant athletic director decided to deposit \$36,871 of guarantee funds into the Northwestern Athletic Association and to use the funds to pay for air charter services that were not bid for as required by state purchasing regulations. Also, the ticket manager failed to bill the Association for \$336 of football ticket proceeds deposited into its account. In addition,

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DR. RANDALL J. WEBB, PRESIDENT
NORTHWESTERN STATE UNIVERSITY
STATE OF LOUISIANA
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the university's total intercollegiate athletic revenues and expenditures are not properly reflected in the university's financial statements.

Management of Northwestern State University should develop and implement policies and procedures to ensure that all athletic revenues and expenditures of the university are accounted for. The procedure should include reconciling game guarantee contract amounts to deposits and accounting for any differences. In addition, these procedures should require the depositing of all ticket proceeds into university accounts and reimbursing the Northwestern Athletic Association for donations included with the proceeds. In a letter dated October 23, 1997, Dr. Randall J. Webb, President, stated the university concurred with the finding and has implemented controls to resolve the deficiencies noted in our finding.

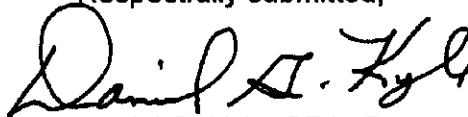
Booster Group Activities

We reviewed the university's procedures for monitoring booster group activities. The accounts of the Northwestern Athletic Association are maintained by the Northwestern State University Foundation, Incorporated. The athletic director and the university's comptroller receive audited annual financial statements from the foundation as a basis to monitor spending of the booster group for athletics.

Independent Audit of Outside Organization

The financial statements of the Northwestern State University Foundation, Incorporated, have been audited by an independent certified public accounting firm for the year ended June 30, 1997.

Respectfully submitted,



Daniel G. Kyle, CPA, CFE
Legislative Auditor

BAC:MAN:sds

[NSU-NCAA]

**ATHLETIC DEPARTMENT
NORTHWESTERN STATE UNIVERSITY
STATE OF LOUISIANA
(A PORTION OF) CURRENT FUNDS
AUXILIARY ENTERPRISE FUND**

**Statement of Revenues and Expenditures
For the Year Ended June 30, 1997**

REVENUES

Season tickets	\$48,556
Gate receipts	152,471
Student fees	1,939,184
Guarantees	186,500
Program sales	8,078
Concessions	8,822
Outside funds	514,953
Payments in-kind (note 3)	67,900
Conference distribution	150,000
Other	16,241
Total revenues	<u>3,092,705</u>

EXPENDITURES

Personal services:	
Coaches' salaries	647,176
Other salaries	228,437
Related benefits	176,935
Loan cars	20,500
Travel	287,199
Operating services	372,325
Supplies	201,266
Fund raisers	52,092
Professional services	112,487
Other charges:	
Guarantees	30,179
Scholarships	611,217
Sports camp	88,974
Cultivation	55,034
Demon sports network	3,175
Sam Goodwin Show	3,650
Other	53,125
Equipment	55,106
Capital projects	159,978
Total expenditures	<u>3,158,855</u>

EXCESS OF EXPENDITURES OVER REVENUES(\$66,150)

The accompanying notes are an integral part of this statement.

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**ATHLETIC DEPARTMENT
NORTHWESTERN STATE UNIVERSITY
STATE OF LOUISIANA**

Notes to the Financial Statement
For the Year Ended June 30, 1997

INTRODUCTION

Northwestern 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 Northwestern State University Athletic Department is a part of Northwestern State University. The accompanying financial statement presents information only as to the transactions of the Northwestern State University Athletic Department.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. FUND ACCOUNTING

To observe limitations and restrictions placed on the use of available resources, the accounts of Northwestern State University are maintained in accordance with the principles of fund accounting. Such principles prescribe 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 specified objectives. Accounts are maintained for the transactions of the athletic department as follows:

Current Funds

Current funds are operating funds that will be expended in the near future. They include all funds for operating purposes on which there are restrictions that limit the purposes for which the funds can be used, and they include the auxiliary enterprise fund. The auxiliary enterprise fund includes the accounts of the athletic department.

B. BASIS OF ACCOUNTING

The accounts of the athletic department are maintained on the accrual basis of accounting as follows:

Revenues

Substantially all revenues are recognized when earned.

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ATHLETIC DEPARTMENT
NORTHWESTERN STATE UNIVERSITY
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Notes to the Financial Statements (Continued)

Expenditures

Expenditures are recognized under the accrual basis of accounting when incurred, except that (1) depreciation is not recognized; (2) summer school fees and faculty salaries and related benefits for June are not prorated, but are deferred to the succeeding year; and (3) inventories of the General Fund are recorded as expenditures at the time of purchase.

C. EMPLOYEE COMPENSATED ABSENCES

Employees of the university working in the athletic department earn annual and sick leave in accordance with state law and administrative regulations. Leave benefits are reflected in the accompanying statement when earned.

2. CONTRIBUTIONS FROM OUTSIDE ORGANIZATION

Included on Statement A are expenditures made for or in behalf of the athletic department by the Northwestern Athletic Association as follows:

Personal services	\$9,357
Travel	72,540
Operating services	127,461
Supplies	24,046
Professional services	4,753
Fund raisers	52,092
Scholarships	42,868
Sports camp	88,974
Equipment	38,833
Capital projects	<u>159,978</u>
Total	<u>\$620,902</u>

The Northwestern Athletic Association had a fund deficit of \$50,846 as of June 30, 1997. According to the director of institutional advancement, the reason for this deficit is the Association borrowed \$160,020 from a bank to purchase and install four new scoreboards. Ten-year contracts were received from six businesses for scoreboard advertisement and were pledged as collateral on a ten-year installment note. The Association believes that the pledged advertisements are not legally enforceable; therefore, these donations will be recognized as revenues when received. The proceeds from the loan were recorded as a note

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ATHLETIC DEPARTMENT
NORTHWESTERN STATE UNIVERSITY
STATE OF LOUISIANA
Notes to the Financial Statements (Concluded)

payable rather than a donation. The purchase of the scoreboards, costing \$159,978, was reported as a capital project expense in the year ended June 30, 1997. This debt was incurred without prior approval from the NSU Foundation's board of directors. As a result, the board approved a resolution that no long-term indebtedness can be incurred by any branch of the foundation without prior approval of the board of directors.

3. PAYMENTS-IN-KIND

Included on Statement A are payments-in-kind, which are recognized as outside funds that were received for or in behalf of the athletic department from outside organizations as follows:

Loan cars	\$20,500
Travel	20,000
Supplies	24,400
Other charges	<u>3,000</u>
Total	<u>\$67,900</u>

**4. OUTSIDE ORGANIZATION CREATED FOR OR
IN BEHALF OF THE NORTHWESTERN STATE
UNIVERSITY INTERCOLLEGIATE ATHLETICS
PROGRAM**

The Northwestern Athletic Association is the only outside organization created for or in behalf of the Northwestern State University Intercollegiate Athletics Program. The accounts for this club are maintained within the Northwestern State University Foundation, Incorporated, which is a separate corporation.

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