

SOUTHEASTERN LOUISIANA UNIVERSITY
UNIVERSITY OF LOUISIANA SYSTEM
STATE OF LOUISIANA



MANAGEMENT LETTER
ISSUED MARCH 4, 2009

**LEGISLATIVE AUDITOR
1600 NORTH THIRD STREET
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BATON ROUGE, LOUISIANA 70804-9397**

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

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LOUISIANA LEGISLATIVE AUDITOR
STEVE J. THERIOT, CPA

January 15, 2009

SOUTHEASTERN LOUISIANA UNIVERSITY
UNIVERSITY OF LOUISIANA SYSTEM
STATE OF LOUISIANA
Hammond, Louisiana

As part of our audit of the University of Louisiana System's financial statements for the year ended June 30, 2008, we considered Southeastern Louisiana University's internal control over financial reporting; we examined evidence supporting certain accounts and balances material to the System's financial statements; and we tested the university's compliance with laws and regulations that could have a direct and material effect on the System's financial statements as required by *Government Auditing Standards*. In addition, we considered Southeastern Louisiana University's internal control over compliance with requirements that could have a direct and material effect on a major federal program, as defined in the Single Audit of the State of Louisiana, and we tested the university's compliance with laws and regulations that could have a direct and material effect on the major federal programs as required by U.S. Office of Management and Budget Circular A-133.

The annual financial information provided to the University of Louisiana System by Southeastern Louisiana University is not audited or reviewed by us, and, accordingly, we do not express an opinion on that financial information. The university's accounts are an integral part of the System's financial statements, upon which the Louisiana Legislative Auditor expresses opinions.

In our prior management letter on Southeastern Louisiana University, dated November 27, 2007, we reported a finding relating to unlocated movable property. That finding has been resolved.

Based on the application of the procedures referred to previously, all significant findings are included in this letter for management's consideration. All findings included in this management letter that are required to be reported by *Government Auditing Standards* will also be included in the State of Louisiana's Single Audit Report for the year ended June 30, 2008.

**Investigations of University's Campus Card
Operations and Meal Plans and Declining
Balance Credits**

Southeastern Louisiana University (SLU) did not have adequate controls over campus card operations, meal plans, and declining balance credits. In May 2008, SLU reported the possibility of fraudulent activity to the Legislative Auditor. In a report dated

October 13, 2008, the SLU Office of Internal Audit disclosed possible fraudulent activity in the Campus Card Operations (CCO) Office. On October 23, 2008, internal auditors issued another report regarding their investigation of Aramark Education Service, Inc. (Aramark) meal plans and declining balance credits being provided to SLU employees who did not pay for the plans or credits. Aramark is a university contractor providing a variety of food services to students, faculty, and staff.

An adequate system of internal controls requires that policies and procedures be established to ensure that duties are properly segregated and that errors and/or fraud are prevented and detected in a timely manner. In addition, Louisiana Revised Statute (R.S.) 42:1115 states, in part, that “. . . no public servant shall solicit or accept, directly or indirectly, anything of economic value as a gift or gratuity from any person or from any officer, director, agent, or employee of such person, if such public servant knows or reasonably should know that such person has or is seeking to obtain contractual or other business or financial relationships with the public servant’s agency.”

The CCO Office manages the Lion’s Lagniappe card program that allows students, faculty, and staff to establish accounts using their campus identification (ID) cards to make purchases at Follett Bookstore and the Document Source; at campus dining, textbook rental, and library photocopying locations; and for drinks and snacks at on-campus vending machines. When an individual establishes an account, a CCO employee enters data into the software application for the program (CS Gold) that is coded to a magnetic stripe on the ID. When the account holder makes a purchase, machines at each location read the magnetic stripe, charging the appropriate account for the amount of the purchase. Students who graduate or leave the university and have balances left on their Lion’s Lagniappe accounts must use those balances within seven months. If the balances are not used, the unspent amounts are forfeited to the university.

The Office of Internal Audit’s report dated October 13, 2008, included the following findings:

- The accounting coordinator used an encoder machine to change the magnetic stripe on her card to that of inactive students’ accounts and then spent the money from those accounts amounting to \$2,067. The accounting coordinator resigned on May 19, 2008, and made full restitution on August 15, 2008.
- Auditors could not verify 29 deposits totaling \$695 on the accounting coordinator’s Lion’s Lagniappe account from June 17, 2003, through March 2, 2006. Effective March 6, 2006, the university began daily reconciliations of Lion’s Lagniappe activity, and no discrepancies were found after that date. The accounting coordinator made full restitution on September 11, 2008.
- The accounting coordinator placed \$3,317 of Aramark declining balance meal plan funds on her personal account beginning August 20, 2002, through May 19, 2008. In addition, the accounting coordinator placed

meal plan funds on the SLU accounts of the director of CCO (\$2,953), the assistant director of CCO (\$252), the CCO clerical coordinator (\$1,670), and a student worker (\$375) from August 20, 2002, to May 19, 2008. All funds were spent. Also, the report states, “. . . Since Aramark employees may have known about CCO employees putting declining balance funds on their own accounts, employees receiving free or reduced-priced meals from a vendor may violate the State of Louisiana’s ethics laws.”

- The CCO Office did not maintain adequate segregation of duties as the accounting coordinator collected Lion’s Lagniappe deposits from students, recorded the funds on the account holder’s account, prepared the deposit, and collected and counted the cash and prepared the deposits from the photocopy and cash exchange machines.

The report noted that the director of CCO was aware of certain instances of the accounting coordinator’s improper activity with the Lion’s Lagniappe accounts, but failed to report the issue. In addition, auditors reported that the director was aware of the declining balance meal plan funds being placed on CCO employees’ accounts and acknowledged that no one at SLU had approved CCO employees having free meal plans. The director resigned on July 14, 2008. Failure to establish and enforce effective control procedures increases the risk that errors and/or fraud could occur and remain undetected.

In a report dated October 23, 2008, internal auditors reported that beginning in January 2000 Aramark provided meal plans and declining balance credits totaling \$19,918 to 37 SLU employees who did not pay for the plans or credits. Of the \$19,918, seven employees received \$17,481 (88%) in meal plans and/or credits. The seven employees included two former directors of Auxiliary Services (\$10,707), the vice president of Student Affairs (\$1,400), three physical plant employees (\$4,326), and a housing office employee (\$1,048). The report indicates that this activity may have violated the State of Louisiana’s ethic laws.

SLU management should establish adequate controls over campus card operations, meal plans, and declining balance credits to ensure that errors and/or fraud are prevented and detected in a timely manner. SLU management should pursue these possible violations of state laws and regulations with the parish district attorney and the Louisiana Board of Ethics. SLU management concurred with the finding and outlined a plan of corrective action (see Appendix A, pages 1-2).

Energy Efficiency Contract Contrary to Law

SLU entered into a performance-based energy efficiency contract with Sempra Energy Services (SES) in December 2001 that included stipulated savings and, therefore, does not comply with state law. In March 2006, Honeywell Building Solutions purchased that contract from SES. R.S. 39:1496:1(A) provides that a state agency may enter into a performance-based energy efficiency contract for services and equipment. R.S. 39:1484(A)(14) requires the payment obligation to the vendor to be either a percentage of the annual energy cost savings attributable to the services or equipment under the

contract or guaranteed under contract to be less than the annual cost savings to the university attributable to the services or equipment under the contract. R.S. 39:1496.1(D) requires the contract to contain a guarantee of energy savings to the entity. The statute further provides that the annual calculation of the energy savings must include maintenance savings that result from eliminated operating expenses and future capital replacement expenditures avoided as a result of equipment installed or services performed by the contractor.

Attorney General Opinion 07-0002 provides, “. . . for the stipulated operational savings to be included in the total guaranteed savings, those savings must actually be guaranteed. In order for the operational savings to be guaranteed, the Contract would have to provide for some type of measurement and/or verification of the operational savings. . . .” Although this opinion was directed to local government, the same guarantee is required in state law.

A review of the energy efficiency contract, which is for 20 years and \$12.1 million, disclosed the following deficiencies:

- The guaranteed savings of \$12,581,660 consist of energy savings of \$11,823,510; lighting material savings of \$502,337; and mechanical maintenance material savings of \$255,813. According to the contract, Exhibit I, the annual savings calculations are used to determine the value of the energy consumption and mechanical materials and lighting materials expense avoided by the conservations project and the ongoing operations assistance. The energy, mechanical maintenance materials, and lighting materials for each are to be “stipulated” for the duration of Phase “B.” During the first two years of the contract, the energy savings, mechanical maintenance materials savings, and lighting material savings were calculated and monitored. However, since October 2005, these savings have not been calculated or monitored.
- During the first three years of the Energy Services Agreement, if the energy savings for any year exceed the guaranteed savings for any year, the excess savings may be carried over as a credit during the three-year period. R.S. 39:1496.1 requires the payment obligation for each year of the contract to be less than the annual energy cost savings. It is not appropriate to carry forward excess savings to future years.

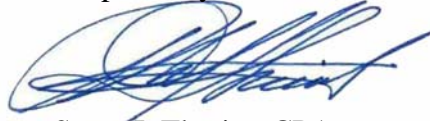
At the signing date, management felt that the contract complied with state law. However, because energy, lighting material, and mechanical maintenance material savings are stipulated and are not measurable and verifiable, the contract is contrary to law. In addition, SLU is unable to determine the effectiveness of the energy efficiency contract since it does not have the annual savings information.

Management should renegotiate and revise its energy efficiency contract to comply with state law to ensure that each saving component is verifiable and that the guaranteed savings have been realized. Management concurred in part with the finding and outlined a plan of corrective action (see Appendix A, pages 3-4).

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

This letter is intended for the information and use of the university and its management, others within the university, the University of Louisiana System, and the Louisiana Legislature and is not intended to be, and should not be, used by anyone other than these specified parties. Under Louisiana Revised Statute 24:513, this letter is a public document and it has been distributed to appropriate public officials.

Respectfully submitted,



Steve J. Theriot, CPA
Legislative Auditor

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



December 19, 2008

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

Re: Investigations of University's Campus Card Operations and Meal Plans and Declining Balance Credits

Dear Mr. Theriot,

I am in receipt of a recent report from you dated November 24, 2008. The report outlined an audit finding relative to an investigation of the University's Campus Card Operations and meal plan and declining balance credits. The finding cites inadequate controls over campus card operations, meal plans, and declining balance credits.

Upon a complete and thorough review, the University concurs with the finding. The University would note, however, that this issue was addressed as outlined in the University's Fraud Policy. The misappropriation of University assets was discovered by University staff and reported by then President, Dr. Randy Moffett as required by Act 1101 of the 2001 Legislative Session. A full investigation was conducted by the University's Office of Internal Audit and the results of that investigation are included in the finding as reported. Due to the University's diligence in reporting and responding to this activity, the situation was addressed in a thorough and expedient manner even before the issuance of the finding by your office. In addition, full restitution was made by the Accounting Coordinator as outlined in the Office of Internal Audit's report dated October 13, 2008.

The following items are submitted as a part of the University's corrective action plan and include applicable dates of completion. It is the responsibility of Mrs. Connie Davis, Interim Director of Auxiliary Services, to ensure the corrective actions as outlined below are implemented.

- Campus Card Operations implemented a refund policy addressing the timely processing of refunds for Lion's Lagniappe Accounts upon students' graduation or resignation from the University provided the student has no other debt due the University. The refund will be processed as a part of the University's regular refund schedule. *(Policy Effective Date – End of Fall 2008 semester)*
- A written policy was established and included in the departmental policy and procedure manual to prohibit Campus Card Operations employees from performing transactions to their own Lion's Lagniappe account or to the account of a co-worker within the Campus Card Operations Office. *(Completed – September 30, 2008)*

- Departmental Policy and Procedure Manual was updated to address the separation of duties between collecting, recording, and preparing deposits. *(Completed – September 30, 2008)*
- Departmental Policy and Procedure Manual was updated to include a policy stating that employees are prohibited from issuing meal plans to any student, faculty, or staff accounts. Meal plans are to be placed on student accounts through a system download at the beginning of each semester or by the University Food Service Contractor personnel after the system download is complete. *(Completed – September 30, 2008)*
- The Vice President for Administration and Finance will work with the President and the Vice Presidents of the various divisions to ensure all Southeastern employees are reminded that it is unethical for any University employee to receive anything of value as it relates to their employment at Southeastern. *(Estimated Completion: Spring 2009)*
- Notifications regarding the meal plan and declining balance accounts were also made as follows:
 - Assistant Vice President for Operations informed the Director of Campus Dining to discontinue the practice of providing free or unapproved discounted meals to University employees. *(Completed – July 24, 2008)*
 - Assistant Vice President for Operations notified Aramark’s District Manager of the issues noted in the Campus Card Operation’s audit. *(Completed – October 1, 2008)*
 - Vice President for Administration and Finance forwarded final audit reports to both the Office of Legislative Audit and the District Attorney’s Office. *(Completed – October 23, 2008)*
 - Vice President for Administration and Finance notified Aramark’s Regional Vice President of the issues noted in the Campus Card audit. *(Completed – November 3, 2008)*

The finding also indicates that this activity may have violated the State of Louisiana’s ethic laws. This situation was reported to Mr. Frank Simoneaux of the Louisiana Board of Ethics on November 10, 2008 by Dr. Randy Moffett, President of the University of Louisiana System. Mr. Simoneaux’s office is currently investigating this matter to determine the extent this may have violated Louisiana’s Code of Ethics.

If you require additional information regarding this audit, please feel free to contact me.

Sincerely,



Stephen Smith
 Vice President for Administration
 and Finance



January 12, 2009

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

Re: Energy Efficiency Contract contrary to law

Dear Mr. Theriot,

I am in receipt of your letter of December 4, 2008 regarding a possible audit finding relating to the energy efficiency contract Southeastern has entered into with Sempra Energy Services. This response is being provided as requested in your letter, but based on the revised finding received from your office on January 7, 2009. After reviewing the finding, the entire Attorney General's Opinion 07-0002, as well as other supporting documentation, the University concurs in part to the finding received on January 7, 2009.

Your office indicated in the finding that Southeastern's contract with Sempra Energy Services "includes stipulated savings and, therefore, does not comply with state law." In reviewing the Attorney General's Opinion Number 07-0002, the opinion states, "To be clear, it is not our opinion that stipulated savings can't be included in performance-based energy efficiency contracts. However, for the stipulated operational savings to be included in the total guaranteed savings, those savings must actually be guaranteed. In order for operational savings to be guaranteed, the Contract would have to provide for some type of measurement and/or verification of the operational savings ..." As outlined in your finding, you indicated during the first two years of the contract the energy savings, mechanical maintenance material savings and lighting material savings were calculated and monitored. However, since October 2005 these savings have not been calculated or monitored. Therefore, based upon my understanding of the law, the Attorney General's Opinion and your finding, Southeastern was in compliance with state law through October 2005. Transitional issues then occurred which caused the measurement and verification reporting to be interrupted.

First, there was turnover in key personnel in the Physical Plant Department. The Director of Physical Plant retired and the Assistant Director/Engineer involved in the implementation and monitoring of this project transferred to another state agency. The new staff was not totally aware of the requirements of the performance-based contract. Second, Honeywell began the process of buying Sempra Energy Services, during this time. This acquisition occurred in March of 2006. A number of employees involved with administering this contract for Sempra were no longer employed by Honeywell/SES. In addition, in an effort to save the University money, the

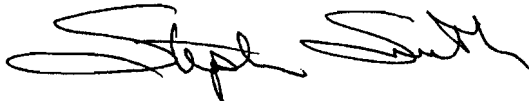
new Physical Plant director made a request of Sempra to discontinue monitoring services not realizing this would cause a problem with the total implementation of the performance contract. Since he was not the official contact noted in the contract, he should not have initiated a request of this nature. During the current fiscal year, the University has had a number of meetings with Honeywell/SES in order to re-implement the measurement and verification services for the 2008-2009 monitoring cycle as originally outlined in the contract. The measurement and verification for the first two years of the contract and for future fiscal years are in accordance with the International Performance Measurement and Verification Protocols as outlined in the revised statues.

You also indicate in your finding there was inappropriate language in the performance-based contract that allowed excess savings to be carried over as a credit from one year to the next for the first three years of the contract. The University will work with Honeywell/SES, as well as the University of Louisiana System/Southeastern's attorney in order to correct the language involving this section of the contract.

I will assume the responsibility to ensure the appropriate action as outlined above is completed no later than May 31, 2009.

If you require additional information regarding this audit issue, please feel free to contact me.

Sincerely,

A handwritten signature in black ink, appearing to read "Stephen Smith", written in a cursive style.

Stephen Smith
Vice President for Administration
and Finance