

UNIVERSITY OF LOUISIANA AT LAFAYETTE
UNIVERSITY OF LOUISIANA SYSTEM
STATE OF LOUISIANA



MANAGEMENT LETTER
FOR THE YEAR ENDED JUNE 30, 2016
ISSUED DECEMBER 21, 2016

**LOUISIANA LEGISLATIVE AUDITOR
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POST OFFICE BOX 94397
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Louisiana Legislative Auditor

Daryl G. Purpera, CPA, CFE

University of Louisiana at Lafayette



Audit Control # 80160067

December 2016

Introduction

As a part of our audit of the University of Louisiana System's (System) financial statements and the Single Audit of the State of Louisiana (Single Audit) for the year ended June 30, 2016, we performed procedures at the University of Louisiana at Lafayette (UL Lafayette) to provide assurances on financial information that is significant to the System's financial statements; evaluate the effectiveness of UL Lafayette's internal controls over financial reporting and compliance; and determine whether UL Lafayette complied with applicable laws and regulations. In addition, we determined whether management has taken actions to correct findings reported in the prior year.

UL Lafayette is a part of the System and reported an enrollment of more than 17,000 students for the fall 2015 semester. UL Lafayette's mission is dedicated to achieving excellence in undergraduate and graduate education, in research, and in public service.

Results of Our Procedures

Follow-up on Prior-year Findings

Our auditors reviewed the status of the prior-year findings reported in the management letter dated December 14, 2015. We determined that management has resolved the prior-year findings related to misappropriation of assets by contractor, untimely federal reporting, failure to provide proper student loan notice, error in federal reporting, and noncompliance over return of Title IV funds.

Current-year Finding

Inadequate Monitoring over Food Services Contract

UL Lafayette was not adequately monitoring the contract with its food services vendor to ensure the University was receiving all commissions and compensation due under the terms of the contract.

UL Lafayette contracts with a food service vendor to provide exclusive food services to the University, which includes meal plans for students, operation of the campus' food service facilities, and catering activities. Contract terms allow UL Lafayette to receive commissions on the sales of these services. Additionally, the contract stipulates that the vendor is to provide monies to fund certain specified activities of the University.

Our procedures identified the following:

- UL Lafayette is not reconciling the amounts paid by students for meal plans in the UL Lafayette financial system, where the individual student accounts are held, with the vendor's system. UL Lafayette requires all boarding students to purchase meal plans. The fees associated with the plans are assessed on the student accounts. During fiscal year 2016, students were assessed \$8.8 million for meal plans by UL Lafayette. However, UL Lafayette calculated sales of \$9.3 million from the vendor's system, for an unreconciled difference of \$500,000. Management was unable to identify what made up this difference. The sales are the basis of the commission retained by UL Lafayette and the payment to the vendor for administering the meals.
- Although the vendor provides sales reports containing the commission payments for non-meal plan sales, the reports alone are not sufficient to determine the accuracy and completeness of the commission. In addition, UL Lafayette relies on the vendor to self-report catering revenues, but has no procedures in place to determine if the revenues and associated commissions are accurate and complete. UL Lafayette received \$242,568 in commissions from the vendor during fiscal year 2016 for these sales.
- In accordance with the contract, the vendor contributes money to certain funds that can be used by or on behalf of UL Lafayette for specified purposes. The funds' balances are carried forward each year. UL Lafayette relies on the vendor to make the required contributions to the funds and to track expenses associated with the funds with no oversight or monitoring by the University. Vendor records indicate that the balance in these funds at June 30, 2016, totaled \$385,144.

Management should strengthen controls over monitoring of the contract to ensure that it receives all commissions and compensation due under the terms of the contract. Management concurred with the finding and provided a corrective action plan (see Appendix A).

Financial Statements - University of Louisiana System

As part of our audit of the System's financial statements for the year ended June 30, 2016, we considered UL Lafayette's internal controls over financial reporting and examined evidence supporting certain account balances and classes of transactions as follows:

Statement of Net Position

Assets - Cash and cash equivalents, investments, due from State Treasury, and capital assets

Liabilities - Unearned revenue resulting from tuition and fees

Net Position - Net investment in capital assets, restricted-expendable, restricted-nonexpendable, and unrestricted

Statement of Revenues, Expenses, and Changes in Net Position

Revenues - Student tuition and fees, scholarship allowances, federal grants and contracts, state and local grants and contracts, nongovernmental grants and contracts, auxiliary revenues, state appropriations, and federal nonoperating revenues

Expenses - Educational and general expenses, and auxiliary enterprise expenses

Based on the results of these procedures on the financial statements, we did not report any internal control deficiencies or noncompliance with laws or regulations. In addition, the account balances and classes of transactions tested, as adjusted, are materially correct.

Federal Compliance – Single Audit of the State of Louisiana

As a part of the Single Audit for the year ended June 30, 2016, we performed internal control and compliance testing as required by Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance) on UL Lafayette's major federal programs, Research and Development Cluster, and TRIO Cluster.

Those tests included evaluating the effectiveness of UL Lafayette's internal controls designed to prevent or detect material noncompliance with program requirements and tests to determine whether UL Lafayette complied with applicable program requirements. In addition, we performed procedures on information submitted by UL Lafayette to the Division of Administration's Office of Statewide Reporting and Accounting Policy for the preparation of the state's Schedule of Expenditures of Federal Awards and on the status of the prior-year findings for the preparation of the state's Summary Schedule of Prior Audit Findings, as required by Uniform Guidance.

Based on the results of these Single Audit procedures, we did not report any internal control deficiencies or noncompliance with program requirements. In addition, the information submitted for the preparation of the state's Schedule of Expenditures of Federal Awards and the state's Summary Schedule of Prior Audit Findings is materially correct.

Other Procedures

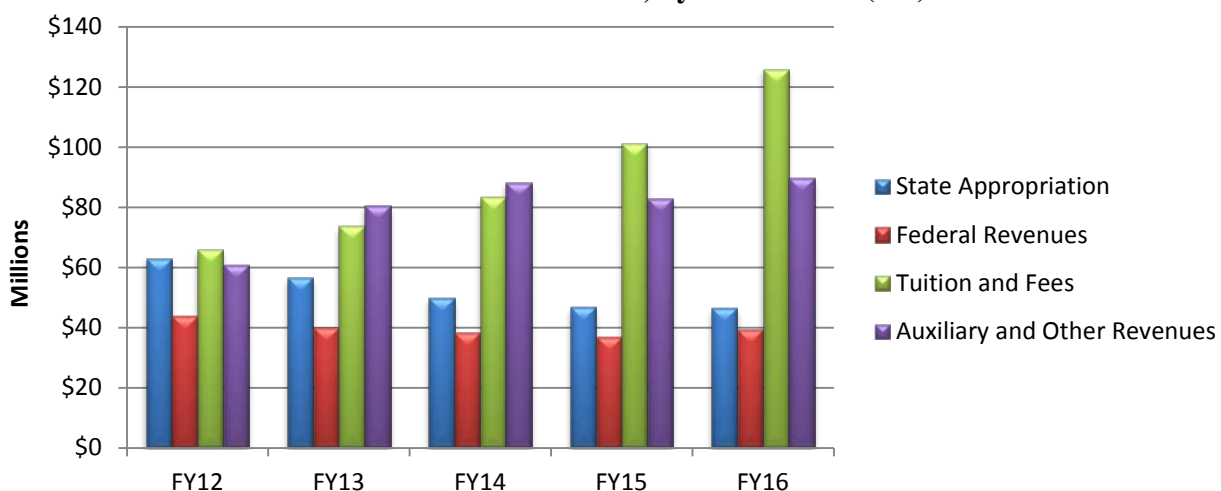
In addition to the financial statement and federal compliance work noted above, we performed certain procedures which included obtaining, documenting, and reviewing UL Lafayette's internal control and compliance with the terms of its contract with its food service provider. Based on the results of the procedures performed, we reported a finding related to inadequate monitoring of food services contract, as described previously.

Trend Analysis

We compared the most current and prior-year financial activity using UL Lafayette's annual fiscal reports and/or system-generated reports and obtained explanations from UL Lafayette management for any significant variances. We also prepared an analysis of revenues, expenses, and enrollment over the past five fiscal years, as shown in Exhibits 1 and 2.

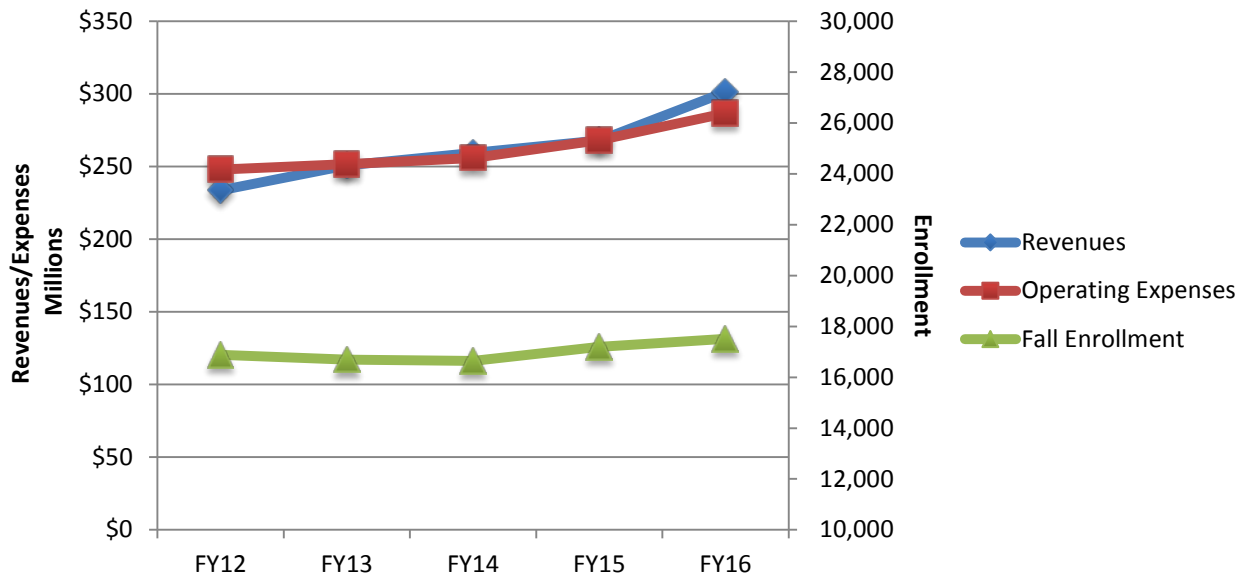
In analyzing the financial trend of UL Lafayette over the past five fiscal years, tuition and fees revenues have steadily increased because of the increases in tuition permitted by the GRAD Act and House Bill 152 of the 2015 Regular Session of the Louisiana Legislature. Auxiliary and other revenue fluctuations are due to bond proceeds for construction; new permanent endowments and fluctuations in realized and unrealized gain/loss on endowment funds; new dormitories and increased dormitory and meal rates; and a gain on trade of property. State appropriations have decreased since fiscal year 2012. Federal revenues decreased from fiscal year 2012 to fiscal year 2015 due to a decrease in federal funding of various grants. In fiscal year 2016, federal funding of various grants increased. Enrollment has stayed relatively consistent at UL Lafayette over the past five fiscal years. As state appropriations and federal revenues decline, the University's operations are becoming more dependent on tuition and fees and auxiliary and other revenues.

Exhibit 1
Five-Year Revenue Trend, by Fiscal Year (FY)



Source: Fiscal year 2012-2015 ULS Audit reports; Fiscal year 2016 UL Lafayette Annual Fiscal Report, as adjusted


Exhibit 2
Fiscal Enrollment Trends, by Fiscal Year (FY)



Source: Fiscal year 2012-2015 ULS Audit reports; Fiscal year 2016 UL Lafayette Annual Fiscal Report, as adjusted

The recommendation in this letter represents, in our judgment, that which will most likely bring about beneficial improvements to the operations of UL Lafayette. The nature of the recommendation, its implementation costs, and its potential impact on the operations of UL Lafayette should be considered in reaching decisions on courses of action.

Under Louisiana Revised Statute 24:513, this letter is a public document, and it has been distributed to appropriate public officials.

Respectfully submitted,

 Daryl G. Purpera, CPA, CFE
 Legislative Auditor

RM:CR:BH:EFS:ch

ULL 2016

APPENDIX A: MANAGEMENT'S RESPONSE



December 9, 2016

Université des Acadiens

Mr. Daryl Purpera, CPA, CFE
Louisiana Legislative Auditor
P. O. Box 94397
Baton Rouge, LA 70804-9397

RE: Inadequate Monitoring over Food Services Contract

Dear Mr. Purpera:

The University respectfully submits the enclosed response to the aforementioned finding.

Please call if you have any questions.

Sincerely,

A handwritten signature in blue ink, appearing to read "E. Joseph Savoie".

E. Joseph Savoie
President

C: Jerry LeBlanc
Debra Calais
Jeremy Guillory



December 9, 2016

Université des Acadiens

Mr. Daryl G. Purpera, CPA, CFE, Legislative Auditor
1600 North Third Street
P.O. Box 94397
Baton Rouge, LA 70804-9397

Dear Mr. Purpera:

The University has received your December 5, 2016 letter regarding the audit finding, **"Inadequate Monitoring over Food Services Contract"** and concurs with the finding and recommendation. The university has been in the process of identifying and correcting the monitoring/controls governing this agreement. The UL Lafayette staff has been working diligently to find gaps then tighten the monitoring processes and procedures of the food services contract and will continue to do so. We have divided our response below into sections corresponding with the bullet points outlined in your letter.

Student Meal Plan Commission Monitoring

In the Fall 2015 Semester, the University changed how no-shows and post-opening departures of residents impacted their meal plan charges. Prior to the Fall 2015 semester, the University continued to charge students who did not check in and students who moved out before the end of the term for meal plans. Because the students were charged for the meal plans, the plans remained active in the meal plan database. The University changed this business practice in the Fall 2015 semester and began crediting students' accounts a prorated amount for their meal plans if they departed prior to the end of the semester and a full amount if they did not show up at the beginning of the semester. Account credits were entered into the StarRez system in the housing office, which then triggered a credit to the students' accounts in ISIS. The meal plan database is not connected to either of these systems. The University made the proper changes on students' accounts, but did not make the changes in the meal plan database, resulting in the meal plans being active through the semester. Sodexo was paid for active meal plans.

Beginning in the Fall 2016 semester, the University has enacted the following procedures and controls to ensure active meal plans are adjusted for student changes:

- Four times per semester, the Food and Beverage Manager will export active meal plan reports from StarRez and the meal plan database, and a report of meal plan charges from Banner (student accounts), compare the three sets of data, and correct any discrepancies.
- Reconciliations will take place:
 - Prior to the beginning of each semester. (Immediately after meal fees have been applied to student accounts and meal plans have been activated.)
 - At the end of the first week of classes when the meal plan change period has ended.
 - Mid semester.

- At the end of each semester, after the last day of final examinations. (This reconciliation will be utilized to determine the amount owed to Sodexo for meal plans used.)
- The end of semester meal plan reconciliation will take into account the following:
 - Meal plans sold and active at the end of the semester.
 - Adjustments will be made for students leaving early and arriving late.
- The Food and Beverage Manager will submit the final reconciliation to the Accounting and Business Analyst for review and approval prior to paying Sodexo for meal plans.
- The University is exploring automation of the reconciliation of active meal plans between the StarRez system and the meal plan database.

Retail Sales and Catering Commissions Monitoring

Immediately after the release in September 2015 of the audit conducted by the Legislative Auditor related to the Sodexo contract, the University entered into discussions with Sodexo regarding transparency of all data related to the contract, including financial reports, accounting practices, and commissions calculations. Through these discussions, the University identified ambiguities in the then-current contract and determined that Sodexo was not providing sufficient accurate data and supporting documentation to the University. To resolve these issues, the two parties entered into negotiations to amend the contract. In April 2016, an amended contract was executed. This contract requires Sodexo to pay substantial penalties for not providing needed documentation to the University.

Once Sodexo began providing documentation of sales and commissions to the University as required in the April 2016 amended contract, the University began to attempt to reconcile the data with the amounts received in commissions, and through this effort identified discrepancies between reports received and commissions received. Since that time, the University has made numerous requests to Sodexo for additional information and data to support the commission calculations. The University has met with Sodexo representatives no less than six times and has corresponded with their representatives via email multiple times in an attempt to resolve this matter and match the commission amounts to supporting documentation, but Sodexo has not been able to provide any documentation that allows the University to track the commissions back to sales amounts. The University has given Sodexo a deadline of December 13, 2016 to provide the requested documentation. Per the amended contract, Sodexo will be in default if the documentation is not provided.

Effective December, 2016, the University has implemented the following controls to ensure proper calculation of retail sales and catering sales commissions:

- The University's Food and Beverage Manager will match each commission check to the weekly sales reports provided by Sodexo for each period, ensuring the commission percentages were calculated accurately for each sales category and the total commission paid is correct.
- The Food and Beverage Manager will submit the verification each period to the Accounting and Business Analyst for review and confirmation.
- Sodexo has agreed to give the University "read-only" access to their point of sale and catering systems for the purpose of matching actual sales to the reports and reconciliations provided by Sodexo.

- The University's Food and Beverage Manager will, on a random basis, but no less than four times per semester (which comprises approximately 25% of the weeks in a semester), select a sales category or location, retrieve raw sales data for that category for that week, and confirm that it matches the report provided by Sodexo for the same week. The Food and Beverage Manager will submit documentation of the verification to the Accounting and Business Analyst for review.

Special Vendor Fund Monitoring

Immediately after the release in September 2015 of the audit conducted by the Legislative Auditor related to the Sodexo contract, the University repeatedly requested from Sodexo information related to the special funds and were only provided balances. The April 2016 amended contract also clarified and adjusted the amounts to be paid into the special funds established by Sodexo. Recognizing a lack of transparency related to these funds, the University required additional language in the amended contract compelling Sodexo to provide a monthly reporting of balances, accruals, and expenses for each fund. Since that time, Sodexo has provided monthly reports of all fund balances, accruals, and expenses. These reports are provided via email to the Food and Beverage Manager, who reviews the reports to ensure that proper amounts are accrued and that expenses deducted from the funds are approved and appropriate.

In addition to the above, beginning in December 2016, the University has implemented the following controls:

- On monthly basis, the Food and Beverage Manager will continue to review the report and certify that the proper amounts were accrued in each fund and that each expense is appropriate and will now provide a written summary report of this to the Accounting and Business Analyst for review and confirmation. Summary reports will be kept on file in the Accounting and Business analyst's office.

As outlined above, The University has implemented or is in the process of implementing the recommendation of strengthening controls over monitoring of this contract. The contact person responsible for the corrective action is Mr. Jules Breaux, who is our acting Food and Beverage Manager.

Sincerely,



Jules Breaux, MBA

Director of Housing Operations and Food and Beverage Manager

APPENDIX B: SCOPE AND METHODOLOGY

We performed certain procedures at University of Louisiana at Lafayette (UL Lafayette) for the period from July 1, 2015, through June 30, 2016, to provide assurances on financial information significant to the University of Louisiana System (System) and to evaluate relevant systems of internal control in accordance with *Government Auditing Standards* issued by the Comptroller General of the United States. The procedures included inquiry, observation, review of policies and procedures, and a review of relevant laws and regulations. Our procedures, summarized below, are a part of the audit of the System's financial statements and the Single Audit of the State of Louisiana (Single Audit) for the year ended June 30, 2016.

- We evaluated UL Lafayette's operations and system of internal controls through inquiry, observation, and review of its policies and procedures, including a review of the laws and regulations applicable to UL Lafayette.
- Based on the documentation of UL Lafayette's controls and our understanding of related laws and regulations, we performed procedures to provide assurances on certain account balances and classes of transactions to support the opinions on the System's financial statements.
- We performed procedures on the Research and Development and TRIO clusters of federal programs, on information for the preparation of the state's Schedule of Expenditures of Federal Awards, and on the status of the prior-year findings for the preparation of the state's Summary Schedule of Prior Audit Findings for the year ended June 30, 2016, to support the Single Audit.
- We compared the most current and prior-year financial activity using UL Lafayette's annual fiscal reports and/or system-generated reports to identify trends and obtained explanations from UL Lafayette management for significant variances.

In addition, we performed procedures on selected controls and transactions relating to UL Lafayette's contract with its food service provider. The scope of these procedures was significantly less than an audit conducted in accordance with *Government Auditing Standards* issued by the Comptroller General of the United States.

The purpose of this report is solely to describe the scope of our work at UL Lafayette and not to provide an opinion on the effectiveness of UL Lafayette's internal control over financial reporting or on compliance. Accordingly, this report is not intended to be, and should not be, used for any other purposes.

We did not audit or review UL Lafayette's Annual Fiscal Report, and accordingly, we do not express an opinion on that report. UL Lafayette's accounts are an integral part of the System's financial statements, upon which the Louisiana Legislative Auditor expresses opinions.