COLLEGE OF CHARLESTON

CHARLESTON, SOUTH CAROLINA

REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

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REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

November 9, 2001

The Honorable Jim Hodges, Governor
and
Members of the Board of Trustees
College of Charleston
Charleston, South Carolina

We have audited the basic financial statements of the College of Charleston (the College), as of and for the year ended June 30, 2001, and have issued our report thereon dated November 9, 2001. 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.

Compliance

As part of obtaining reasonable assurance about whether the College's basic financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, 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 instances of noncompliance that are required to be reported under *Government Auditing Standards* which are described in Section A of the Auditor's Comment section of this report.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the College's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the basic financial statements and not to provide assurance 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 College's ability to record, process, summarize and report financial data consistent with the assertions of management in the basic financial statements. Reportable conditions are described in Sections A and B of the Auditor's Comment section of this report.

A material weakness is a 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 in amounts that would be material in relation to the basic 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, of the reportable conditions described above, we consider the comment entitled Auxiliary Enterprises to be a material weakness.

This report is intended solely for the information and use of the Governor and of the members of the Board of Trustees and management of the College and is not intended to be and should not be used by anyone other than these specified parties.

Thomas L. Wagner, Jr., CPA
State Auditor

AUDITOR'S COMMENTS

SECTION A - MATERIAL WEAKNESSES AND/OR VIOLATIONS OF STATE LAWS, RULES OR REGULATIONS

We planned and performed the audit to obtain reasonable assurance about whether noncompliance with the requirements of State Laws, Rules, or Regulations occurred and whether internal accounting controls over certain transactions were adequate. Management of the entity is responsible for establishing and maintaining internal controls. A material weakness is a condition in which the design or operation of one or more of the specific internal control components does not reduce to a relatively low level the risk that errors or irregularities in amounts that would be material in relation to the financial statements may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Therefore, the presence of a material weakness or violation will preclude management from asserting that the entity has effective internal controls.

The conditions described in this section have been identified as material weaknesses or violations of State Laws, Rules, or Regulations.

LEGAL SERVICES

The College paid for certain legal services that were not properly authorized by the South Carolina Attorney General's Office (AGO). We noted the following deficiencies while performing our audit procedures:

1. The College paid two law firms for certain services during fiscal year 2001 based on approval letters from the AGO dated July 21, 1998. The letters stated that the requests to retain the attorneys were approved in accordance with the terms of the approved request form which the College was unable to locate. The services were performed between June 13 and June 30 of 2000 (fiscal year 2000) in one instance and between August 4 and August 29 of 2000 (fiscal year 2001) in the other.

2. One "South Carolina Attorney General Request for Authorization to Employ Associate Council" (AGO approval form) for other services indicated the services were approved to be performed in the period from October 29, 1999, to December 31, 1999 (fiscal year 2000). However, the form was not approved until November 2, 1999. Furthermore, the invoice states the services were actually performed between January 1 and January 15, 2001 (fiscal year 2001).

3. In fiscal year 2001, the College paid an attorney for services performed in that fiscal year although the services had been provided before it obtained the AGO's approval. The College requested approval to engage an attorney for services to be provided between January 1, 2001, and December 30, 2001. However, the services were actually performed between October 17, 2000, and February 26, 2001 even though the AGO did not approve the request until January 23, 2001.

4. According to an AGO approval form dated October 27, 2000, the authorized maximum compensation payable to one law firm was $13,500 and the services were to be performed between September 30, 2000 and December 31, 2000. A copy of the form was attached to invoices containing the following information:

Period of Service	Amount
November 2000	$ 4,959.88
January 2001	3,827.91
February 2001	5,400.95
March 2001	6,354.50
	$20,543.24

Thus, payments made to the law firm exceeded the amount approved by the AGO by approximately $7,000. Additionally, all services were not provided during the approved dates of service.

Proviso 32.3. of Part 1B of the 2000-2001 Appropriation Act states the following:

> No department or agency of the State Government shall engage on a fee basis any attorney at law except upon the written approval of the Attorney General and upon such fee as shall be approved by him …

We recommend the College establish and implement procedures to ensure that it obtains approval from the South Carolina Attorney General's Office prior to engaging an attorney on a fee basis, to monitor services and cumulative costs under each approved procurement, and to obtain advance approval for expansion of services and/or increased fees.

AUXILIARY ENTERPRISES

An auxiliary enterprise is an entity that exists to furnish goods or services to students, departments, faculty, or staff and charges a fee directly related to, although not necessarily equal to, the cost of the goods or services. During our testing of auxiliary enterprise transactions, we noted that one auxiliary enterprise, Health Services, was not self-supporting. We also noted that the College did not allocate accrued annual leave expenditures for employees of the auxiliaries to the applicable auxiliary enterprises.

Paragraph 6.22 of *Audits of Colleges and Universities Industry Audit Guide* (Audit Guide) states that the distinguishing characteristic of auxiliary enterprises is that they are managed as essentially self-supporting activities. Furthermore, Proviso 72.18 of Part 1B of the 2001 Appropriation Act states that "Fees applicable to student housing, dining halls, student health service, parking facilities, laundries and all other personal subsistence expenses shall be sufficient to fully cover the total direct operating and capital expenses of providing such facilities and services over their expected useful life . . ." The ratio of revenues to expenditures for Health Services in fiscal year 2001 was 92% and the ending fund balance was a deficit of $19,742. In the prior fiscal year, Health Services was self-sufficient. According to management, the negative fund balance in Health Services is a result of increased services and costs with no corresponding fee increase. The College had decided to use accumulated fund balance to fund the increased services, but expected the exhausting of fund balance would take several years. However, in fact, it took less than one year.

Paragraph 6.23 of the Audit Guide states that auxiliary enterprise transactions include all expenditures and transfers relating to the operation of auxiliary enterprises, including expenditures for operation and maintenance of plant and for institutional support. Also, they include other direct and indirect costs, whether charged directly as expenditures or allocated as a proportionate share of costs of other departments or units. The College did not charge accrued leave expenditures to applicable auxiliary enterprises. Instead, the College recorded such costs for all employees of auxiliaries to a single expenditure account entitled "Auxiliary Services". The fund balance for this account as of June 20, 2001, was a deficit of $279,006. According to accounting personnel, because the process of charging these expenditures to the individual auxiliary enterprises is too time-consuming, the College employs this accounting practice.

We recommend the College increase fees and/or reduce expenditures for Health Services in order to comply with all applicable legal requirements and with generally accepted accounting principles. We also recommend the College establish procedures whereby accrued leave expenditures will be properly charged to the applicable individual auxiliary enterprises for employees of each enterprise.

SECTION B - OTHER WEAKNESS NOT CONSIDERED MATERIAL

The condition described in this section has been identified as a weakness in internal controls subject to correction or improvement, but it is not considered a material weakness or violation of State Laws, Rules, or Regulations.

CASH RECEIPTS

The College's Business and Finance *Administrative Policies and Procedures* (the administrative manual or the manual) contains a list of the offices that have been authorized to receive monies for the College because of the natures of their operations or because of inherent personnel limitations. The manual also outlines the basic internal control guidelines the offices should follow to safeguard receipt collections. However, we noted that cash receipting procedures and the strength and extent of internal controls varies among the locations. We noted the following during our test of 25 cash receipts:

1. Seven of the receipts did not contain documentary evidence of the date the funds were received in the departments which initially collected the cash. Therefore, we could not determine if the funds were deposited in a timely manner although the extended period between the check dates and the deposit date would seem to indicate these deposits were not made within one day of receipt, as required. For example, checks dated August 24, September 1, and October 3, 2000, which were received in one department were not deposited until October 26, 2000.

2. Some departments receive funds even though they are not included on the College's written list of approximately 10 offices authorized to collect cash. At our request, the College's Treasurer's Office prepared a list of locations which collected cash receipts during fiscal year 2001. That list contained approximately 40 locations.

3. The time elapsing between receipt at the initial point of collection and subsequent forwarding to the Treasurer's Office for deposit varies.

4. Some departments prepare receipt forms and others do not. A copy of the written receipt may or may not be forwarded to the Treasurer's Office when the cash is submitted.

5. Although College policy requires a written receipt for each collection, the Treasurer's Office does not issue receipt books to departments which collect funds. If a department issues receipts, the department purchases its own receipt books.

6. A complete listing of the total amount collected at each location during fiscal year 2001 was not readily available.

7. Receipts are not reconciled to deposits.

To adequately safeguard cash receipts, controls must be established at the initial point College employees receive cash. Because receipt forms are not used by all departments; a complete listing of the amounts received at the various locations is nonexistent; reconciliations of receipts and deposits are not prepared; and College-prescribed standard control procedures to be followed at the various locations are not followed consistently by all departments collecting cash and other receipts. College management has no assurances that all cash receipts are adequately safeguarded and deposited.

The administrative manual states that the offices which collect cash receipts are required to issue a receipt to each and every payor. It further states that prenumbered receipts are to be controlled and used sequentially and responsibility for physical handling and control of receipts is to be in written form. Additionally, adequate records are to be maintained for record keeping and audit purposes which make it possible to determine that all cash received is properly recorded and that cash recorded includes all cash that was received. Finally, the manual states that receipts are to be deposited intact daily. [The College's requirement for timely deposits which is significantly more restrictive than that stated in Proviso 72.1 which requires collections of all State receipts to be deposited "at least once each week, when practical." The College should adhere to its more restrictive requirement.]

We recommend that the internal auditor review and evaluate receipt controls at locations which collect cash and other receipts and in the Treasurer's Office to ensure compliance with all College receipt control procedures including documentation. The College should strengthen its controls including applicable written documentation to ensure all receipts are adequately and properly documented and all deposits are made timely, i.e., daily. To ensure that all receipting locations including the Treasurer's Office have adequate controls, we recommend the following:

1. Maintain a master listing of all authorized cash receiving locations. Because all receipts are eventually routed through the Treasurer's Office, it appears that the Treasurer should authorize all new receipt locations and should maintain and periodically update the written listing.

2. Evaluate each location which currently makes collections and each proposed new location to identify any deemed not absolutely necessary. Those that aren't necessary should be eliminated. Some locations could possibly be combined.

3. Prescribe written receipting procedures to be followed by all departments handling College funds and distribute them throughout the College. These procedures should provide for control to be established at the initial collection point, i.e., preparation of a written receipt form for each collection to be prepared when the monies are received.

4. Periodically determine that all College departments are adhering to the written receipts procedures. The Treasurer's Office, with input from the internal auditor, should determine that its policies are being carried out.

5. Revise written procedures to require that each authorized Department which collects cash and other receipts, send appropriate supporting documentation, including the written receipt form, to the Treasurer's Office.

6. Prepare independent monthly reconciliations of cash and other receipts to deposits.

7. Periodically account for the numerical sequence of receipts issued by the Treasurer's Office and used by the collecting locations.

SECTION C - STATUS OF PRIOR FINDINGS

During the current engagement, we reviewed the status of corrective action taken on each of the findings reported in the Management Letter Comments section of the Independent Auditor's Report on Internal Control of the College of Charleston resulting from the audit of the College's financial statements as of and for the fiscal year ended June 30, 2000. That audit was performed by other auditors whose report was dated October 12, 2000. We determined that the College has taken adequate corrective action on each of the findings.

MANAGEMENT'S RESPONSE

The following comments are being offered in response to the findings reported in the auditor's management letter for fiscal year 2000-2001. The administration of the College of Charleston is pleased that the auditor's work confirmed that the College continues to operate within its resources and in compliance with all Federal and State laws and regulations. Furthermore, it is a source of great pride to know that after a professionally conducted and comprehensive examination by the auditors, the financial statements of the institution were determined to present fairly to the reader, the financial integrity and solvency of the College of Charleston.

A. Material Weaknesses and/or Violations of State Laws, Rules or Regulations

Legal Services

The College of Charleston will reaffirm the procedures of engaging legal services to ensure proper approval has been obtained. Those services and cumulative costs will be monitored and requests will be made in advance for the approval of expanded services, time extensions, and/or increased fees.

Auxiliary Services

The College of Charleston recognizes that the Health Services operation incurred a deficit during the fiscal year. However, it should be noted that this deficit resulted from an institutional decision to systematically reduce the Health Services fund balance that was considered to be too large. The time required to reduce the fund balance was improperly estimated, with over-expenditure being the result. Increases in Health Service fees were implemented in 2001-2002. Expenditures are being carefully monitored and management expects the deficit fund balance to be alleviated by fiscal year end 2002.

The fund balance of the entire Auxiliary Enterprises fund group was, and remains, quite robust. The fiscal integrity and stability of these funds are not in question.

B. Other Weaknesses Not Considered Material

Cash Receipts

The College concurs with the auditor's finding. Corrective action will be taken as prescribed.

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