

November 1, 1999

The Honorable James H. Hodges, Governor
and
Members of the Board of Trustees
College of Charleston
Charleston, South Carolina

This report on the College of Charleston's internal control for the year ended June 30, 1999, was issued by Rogers & Laban, PA, Certified Public Accountants, under contract with the South Carolina Office of the State Auditor.

If you have any questions regarding this report, please let us know.

Respectfully submitted,

Thomas L. Wagner, Jr., CPA
State Auditor

TLWjr/sj

COLLEGE OF CHARLESTON
INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL
JUNE 30, 1999

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL

Mr. Thomas L Wagner, Jr., CPA,
State Auditor
State of South Carolina
Columbia, South Carolina

In planning and performing our audit of the financial statements of the College of Charleston (College), Charleston, South Carolina, for the year ended June 30, 1999, we considered its internal control in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control. However, we noted certain matters as detailed on page 2 involving the internal control and its operation that we consider to be reportable conditions under standards established by the American Institute of Certified Public Accountants. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control that, in our judgment, could adversely affect the organization's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements.

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 errors or irregularities in amounts that would be material 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 internal control would not necessarily disclose all matters on internal control that might be reportable conditions, and accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses as defined above. We believe the conditions noted on page 2 are material weaknesses.

We also noted other matters involving internal control and its operation as detailed on pages 3 and 4.

This report is intended solely for the information and use 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.

September 24, 1999

MANAGEMENT LETTER COMMENTS

A. MATERIAL REPORTABLE CONDITIONS

LIABILITY ACCOUNTS EXIST WITH NEGATIVE BALANCES

Our review of the various general ledger liability account balances noted some negative (debit) balances. A further review of documentation to support these balances disclosed an understatement of payroll related liabilities of approximately \$73,000 attributable to fringe benefit accruals and related withholdings. Adjusting entries were required to be made to correct the various account balances. We also noted other general ledger accounts that reflect minimal or no activity that possibly should be adjusted. A similar finding was included in the prior year's management letter comments.

The deficiency resulted from personnel in the human resources and accounting departments not reconciling the balances in the various general ledger accounts for employee benefits to supporting documentation.

We recommend responsible staff persons in the human resources and accounting departments, as applicable, be required to reconcile each of the College's detailed general ledger accounts to supporting documentation monthly and immediately follow up on all balances for which documentation to support the general ledger balance is not readily available.

ACCRUED COMPENSATED ABSENCES MISSTATED

Our audit test of documentation supporting accrued compensated absences disclosed the following deficiencies:

1. The leave liability as of June 30, 1999 was initially calculated using a 360 maximum leave accrual and did not include those hours earned between January 1, 1999 and June 30, 1999. The leave liability had to be recomputed. The recomputation reflected a \$169,341 understatement of the accrual. An adjusting journal entry was required to correct the year-end accrual amount.
2. Our testing of the year-end calculation for 25 employees disclosed differences in hours for 3 employees. One error resulted from sick leave hours being treated as annual leave hours, and for the other two, the leave report was not adjusted for all leave hours taken as of year end. A similar finding was included in the prior year's management letter comments.

We recommend that the procedures be reviewed and the staff responsible for preparing the accrued leave liability understand those procedures and that they are followed in the preparation of the accrued leave liability schedule.

B. OTHER WEAKNESSES

OPERATING AND CAPITAL LEASES

Our testing of operating and capital leases disclosed the following deficiencies:

1. DOCUMENTATION SUPPORTING EQUIPMENT OPERATING LEASES

The documentation supporting capital leases for equipment was difficult to review and verify because it primarily consisted of handwritten notes and adding machine tapes. Also, because of the manner presented, it was not practical to link the current fiscal year information to the prior fiscal year information. A similar finding was included in the prior year management letter comments.

We recommend that a computer prepared spreadsheet be set up and maintained from year to year. The schedule should identify the property, landlord, lease date, lease maturity, annual rental and amounts payable for each future fiscal year. The required time for annual updates should be minimal after the initial set up.

2. CAPITAL LEASE TREATED AS AN OPERATING LEASE

A capital lease entered into for the purchase of computer equipment was treated as an operating lease instead of a capital lease.

We recommend that the calculation be prepared to support capital vs. operating lease classification for reporting and disclosure purposes and the documentation be retained for review.

3. UNDERSTATEMENT OF REAL PROPERTY LEASES

Our test of real property operating leases disclosed that a modification to a parking lease to increase the number of spaces was not reflected on the real property operating lease schedule as of June 30, 1999. This omission resulted in an understatement of future minimum lease payments of approximately \$460,000.

We recommend that all of the real property leases be reviewed and cross-checked with current year payments to ensure correct amounts are reflected on the operating lease schedules.

FIXED ASSETS

Our testing of equipment additions and disposals disclosed the following deficiencies:

1. CAPITALIZATION OF EQUIPMENT

Our testing of the capitalization of equipment disclosed that the individual component purchases of a composite piece of equipment are not being accumulated into a single amount for capitalization purposes. Instead each individual component is considered separately.

We recommend that when a purchase order is issued and covers various individual components necessary to make a composite piece of equipment that all of the costs be added together and the piece of equipment be capitalized as a single amount.

2. REAL PROPERTY GIFT RECORDED IN UNEXPENDED PLANT FUNDS

Our audit tests disclosed that the College purchased an office building and lot during fiscal year 1999 from the College of Charleston Foundation with the consideration being the Foundation's net original cost plus carrying costs. The excess of the fair market value over the Foundation's cost was gifted by the Foundation and recorded in the unexpended plant fund.

Only cash gifts that are designated for the renovation or purchase of plant assets are to be recorded in the unexpended plant fund. The proper recording for non-cash gifts is in the investment in plant fund.

We recommend that all non-cash gifts of plant assets be recorded in the investment in plant fund.

3. RETAGGED EQUIPMENT TREATED AS ADDITIONS AND DISPOSALS

Our tests of additions and disposals disclosed that when a piece of equipment was retagged, the dollar value of the asset attributable to the old tag number was recorded in the College's general ledger as a disposal and when a new number was assigned, it was treated as an addition. This resulted in six items totalling approximately \$57,800 being recorded as additions and disposals. An adjusting entry was required to correct the College's records.

We recommend that since the property management system is integrated with the College's general ledger system, that adjusting journal entries be made to the general ledger system to eliminate these duplicate transactions.

4. COST OF LAND AND BUILDING ADDITIONS NOT ALLOCATED

Our review of real property additions/purchases for the fiscal year ended June 30, 1999 disclosed that all of the cost was allocated to buildings and none to land. An adjusting journal entry was required to allocate approximately \$6,920,000 to land.

We recommend that appraisals supporting the acquisition costs of real property be used to allocate the cost to the land and building general ledger accounts.

**COLLEGE OF CHARLESTON
CHARLESTON, SOUTH CAROLINA**

**PRIOR AUDIT FINDINGS
JUNE 30, 1999**

We performed an audit similar in scope for the year ended June 30, 1998 and our report thereon was dated September 17, 1998. The report contained five material reportable conditions and five other weaknesses.

Management has taken corrective action on the management letter comments cited in the prior report except for liability accounts exist with negative balances as noted on page 2, testing of accrued compensated absences as noted on page 2 and documentation supporting equipment operating leases as noted on page 3.

MANAGEMENT'S RESPONSE

The following comments are being offered in response to the findings reported in the auditor's management letter for Fiscal Year 1998-99. 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 REPORTABLE CONDITIONS

1. Liability Accounts Exist With Negative Balances

We concur with the auditor's finding. Corrective actions continue to be implemented to minimize future occurrences.

2. Accrued Compensated Absences Misstated

We recognize the error in interpretation of the approved calculation method and have made necessary corrections.

B. OTHER WEAKNESSES

Operating and Capital Leases

1-3 The College recognizes those clerical omissions in preparing the financial statement and will continue its work to avoid future problems.

Fixed Assets

1. Capitalization of Equipment

We believe that because the equipment units are interchangeable that each component should be valued individually.

Fixed Assets

2. Real Property Gift Recorded in Unexpended Plant Funds

We recognize the error in recording between funds.

Fixed Assets

3. Retagged Equipment Treated as Additions & Disposals

We recognized that the system's software did not readily allow the netting of results as desired by the auditor. We are studying the problem.

4. Cost of Land and Buildings Not Allocated

The College will continue to make every effort to make such distinctions.