

COASTAL CAROLINA UNIVERSITY

CONWAY, SOUTH CAROLINA

**STATE AUDITOR'S REPORT
ON THE INTERNAL CONTROL STRUCTURE**

JUNE 30, 1997

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INDEPENDENT AUDITOR'S REPORT ON THE INTERNAL CONTROL STRUCTURE

October 31, 1997

The Honorable David M. Beasley, Governor
and
Members of the Board of Trustees
Coastal Carolina University
Conway, South Carolina

We have audited the basic financial statements of Coastal Carolina University as of and for the year ended June 30, 1997, and have issued our report thereon dated October 31, 1997. Those financial statements are the responsibility of the University's management. Our responsibility is to express an opinion on those basic financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the basic financial statements are free of material misstatement.

The management of Coastal Carolina University is responsible for establishing and maintaining an internal control structure. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of internal control structure policies and procedures. The objectives of an internal control structure are to provide management with reasonable, but not absolute, assurance that assets are safeguarded against loss from unauthorized use or disposition and 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 any internal control structure, errors or irregularities may nevertheless occur and not be detected. Also, projection of any evaluation of the structure to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or that the effectiveness of the design and operation of policies and procedures may deteriorate.

In planning and performing our audit of the basic financial statements of Coastal Carolina University for the year ended June 30, 1997, we considered its internal control structure in order to determine our auditing procedures for the purpose of expressing our opinion on the basic financial statements and not to express an opinion or provide assurance on the internal control structure. Accordingly, we do not express such an opinion. With respect to the internal control structure, we obtained an understanding of the design of relevant policies and procedures and whether they have been placed in operation, and we assessed control risk.

The Honorable David M. Beasley, Governor
and
Members of the Board of Trustees
Coastal Carolina University
October 31, 1997

We noted certain matters involving the internal control structure 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 structure that, in our judgment, could adversely affect the University's ability to record, process, summarize, and report financial data in a manner that is consistent with the assertions of management in the basic financial statements. The reportable conditions are described in Sections A and B in the Auditor's Comments section of this report.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control structure elements 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 being audited may occur and not be detected in a timely period by employees in the normal course of performing their assigned duties.

Our consideration of the internal control structure would not necessarily disclose all matters in the internal control structure 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. However, we believe the reportable conditions described in Section A of the Auditor's Comments are material weaknesses and/or violations of law. These conditions were considered in determining the nature, timing, and extent of audit tests to be applied in our audit of the basic financial statements of Coastal Carolina University as of and for the year ended June 30, 1997, and this report does not affect our report on the financial statements dated October 31, 1997.

This report is intended solely for the information of management and the Board of Trustees of the University. However, this report is a matter of public record and its distribution is not limited.

Edgar A. Vaughn, Jr., CPA
State Auditor

AUDITOR'S COMMENTS

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

Management of the entity is responsible for establishing and maintaining an internal control structure. A material weakness is a condition in which the design or operation of one or more of the specific internal control structure elements 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 an effective internal control structure.

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

STUDENT TUITION AND FEES

Introduction

The University's largest revenue source in its current funds is student tuition and fees. This revenue category includes assessments against students (net of refunds) for educational purposes. Generally accepted accounting principles require revenue to be recorded even when there is no intention of collection from the student, such as in the case of remissions or waivers granted by the University in accordance with State laws. Section 59-136-130 of the 1976 South Carolina Code of Laws, as amended, (the Code) provides in item eight that the University's Board of Trustees has the power to "fix tuition fees and other charges for students attending the university, not inconsistent with law." Chapter 111 of Section 59 of the Code provides for reduced or free tuition for students meeting specified criteria, and Chapter 112 establishes guidelines for determining which students are entitled to pay in-state rates rather than out-of-state rates. Also, the State Attorney General has previously written advice stating that, absent an express statute authorizing a reduction or waiver of a required fee, "no fee other than the one required by the particular statute in question may be charged." Section 59-111-320 of the Code, as amended, states, in part, the following:

State-supported colleges and universities . . . are authorized to permit legal residents of South Carolina who have attained the age of sixty to attend classes for credit or noncredit purposes on a space available basis without the required payment of tuition, if these persons meet admission and other standards deemed appropriate by the college, university, . . . and if these persons do not receive compensation as full-time employees.

The following paragraphs provide descriptions of the University's policies regarding certain fee reductions or waivers that are not authorized by State law.

Certified Teachers

The University's tuition for certified teachers is less than the rate paid by other graduate students. University personnel developed this policy with the approval of the Board of Trustees. In fiscal year 1997, the University charged certified teachers regardless of the state of domicile a fee of \$142 per credit hour, and it charged other graduate students \$178 per credit hour if domiciled in South Carolina and \$365 per credit hour if not domiciled in South Carolina. For the 2,048 credit hours taken by certified teachers, the University recorded the revenues at \$142 per credit hour rather than recording the revenues at the in-state or out-of-state rates. Thus, revenues are understated by at least \$73,728, the difference between the in-state rate and the certified teacher rate for the 2,048 credit hours.

Senior Citizens

We selected a random sample of ten waivers of tuition from all categories recorded by the University during fiscal year 1997. One of the ten transactions was a waiver for a senior citizen. When we tested the waiver for compliance with State law, we found that the University has established procedures to determine whether applicants are senior citizens but has not established procedures to ensure that senior citizens do not receive compensation as full-time employees. During fiscal year 1997, the University granted waivers of tuition totaling approximately \$135,000 to approximately 200 senior citizens. Personnel in the University's Admissions Office were not aware of the prohibition against full-time employment in order for a senior citizen to be entitled to a tuition waiver. Because the University did not confirm that the senior citizens were not employed full-time, it may have granted tuition waivers to some persons who did not meet all of the criteria.

Cooperating Teachers

The University refers to teachers in Horry County School District schools who supervise student interns in the University's School of Education as cooperating or co-op teachers.

During fiscal year 1997, the University allowed these teachers to attend the University after payment of a reduced fee of \$15 per graduate course with a limit of two courses. University personnel established this policy with the approval of its Board of Trustees as an incentive for teachers in the Horry County School District to participate in the supervision of student interns in the University's School of Education. The University recorded a graduate fee waiver of \$13,799 for the difference between the \$15 rate per course paid by the cooperating teachers and the \$178 per credit hour paid by other in-state graduate students.

Recommendations

Because the University does not have the requisite statutory authority to grant certain fee reductions or waivers, we recommend that it cease the practices of charging reduced tuition for certified teachers and cooperating teachers. We also recommend that the University establish and implement procedures to ensure that persons granted tuition waivers as senior citizens are not employed full-time. Such procedures might include obtaining a written certification from each senior citizen applying for free tuition that he/she is not employed full-time and will notify the University if he/she becomes employed full-time and, therefore, no longer eligible for the waiver.

EMPLOYEE COMPENSATION

One of the 25 employees in our test of the personnel and payroll records and transactions of persons who terminated employment with the University during fiscal year 1996-97 was overpaid by \$937. According to documentation maintained in the individual's personnel file, the employee's effective termination date was June 30, 1997. The individual received payment for unused annual leave on July 15, 1997. On July 31, 1997, she received a paycheck in the amount of her semi-monthly salary. However, based on the individual's termination date and discussions with management, the former employee was not entitled to this payment.

Section 8-11-30 of the 1976 South Carolina Code of Laws, as amended, states that it is unlawful for anyone to receive any salary from the State which is not due and for anyone employed by the State to pay salaries or monies that are not due. Any violation is punishable by a fine or imprisonment.

We recommend that the University adhere to all State personnel and payroll laws and regulations including those covering employee pay. The University should implement procedures to ensure that all persons who terminate employment are properly removed from the University's payroll system in a timely manner. We further recommend that the University pursue recovery from the former employee of the overpayment.

INSURANCE COVERAGE

When construction was completed in April 1996, the University capitalized its new dormitory and food service building at a cost of approximately \$7.5 million. However, the University failed to add the building and its contents to its insurance policy. After we noted the lack of insurance and discussed the matter with University personnel on September 26, 1997, the University requested that the building and its contents valued at approximately \$300,000 be added to its insurance policy.

Because the University did not have policies and procedures requiring periodic review of insurance coverages, University personnel never realized that the building and its contents were not insured. Consequently, for approximately 17 months the University unintentionally assumed the risks of claims losses relating to this building and its contents. Also, as a result, the University violated the insurance requirements of its auxiliary facilities revenue bonds.

Section 7.08 (a) of the General Bond Resolution for the University's auxiliary facilities revenue bonds, Series 1994, requires that the Board keep "the property of the University insured against physical loss or damage to the extent and in a manner similar to the practice maintained by other universities and colleges." Furthermore, sound management practices dictate that the University establish and implement procedures to minimize the adverse effects of losses, commonly known as risk management. The retention of risks should result from a deliberate decision after considering all relevant facts.

We recommend that the University periodically review the adequacy of all of its insurance coverages. This review should include a comparison of the detail lists of assets by category to its insurance to assure that all buildings and other assets are properly included. This review should also determine whether insured values are adequate in comparison to replacement costs. Further, the University should assign someone the responsibility of updating insurance coverage as construction is completed.

SECTION B - OTHER WEAKNESSES NOT CONSIDERED MATERIAL

The conditions described in this section have been identified as weaknesses subject to correction or improvement but they are not considered material weaknesses or violations of State Laws, Rules, or Regulations.

ACCRUED COMPENSATED ABSENCES

For four of the ten employees in our test of leave balances, the actual annual leave balance at June 30, 1997, recorded on the accrued annual leave printout did not agree to the balance on the University's Personnel Leave Accrual Audit Report. Balances on the two reports and the differences in the number of recorded hours were as follows:

<u>Employee</u>	<u>Leave Printout</u>	<u>Audit Report</u>	<u>Net Difference</u>
1	79.08	70.58	8.50
2	161.74	169.24	(7.50)
3	41.54	49.79	(8.25)
4	300.72	375.28	(74.56)

Also, although one of the 25 employees in our test of persons who terminated employment during fiscal year 1997 had an unpaid leave balance at year-end, she was omitted from the University's accrued annual leave printout. The employee's effective termination date was June 30, 1997, and on July 15, 1997, the University paid her \$2,014 for 174.56 hours of unused annual leave.

According to management, for a terminated employee, the University must use a fictitious date in order to get the system to process a transaction affecting that employee's leave record. In this instance, June 30, 1997, was used as the transaction date for zeroing out the employee's leave balance after the annual leave payment was made on July 15, 1997. When the accrued annual leave report was run as of June 30, 1997, the employee's leave balance in the system was zero; therefore, the employee was not listed on the printout.

GASB Statement No. 16, *Accounting for Compensated Absences*, requires that employers accrue a liability for certain future paid absences for employees. Section 421.41 (Compensated Absences) of the Financial Accounting and Reporting Manual for Higher Education which is issued by the National Association of College and University Business Officers states “an institution must keep records of leave awarded and taken by various employees and have a system in place to record accruals and charges against those accruals”. An adequate internal control structure should be established and must be operating effectively to ensure that these records reflect reliable, complete, and accurate data.

We recommend that University personnel establish procedures to ensure that accurate leave balances are used to calculate the fiscal year-end accrued liability for compensated absences. These procedures should include verifying that balances are supported by adequate documentation. We also recommend that the University implement procedures to ensure that it includes on the leave printout all employees who at fiscal year-end have unused annual leave for which the University expects to compensate them through paid time off or cash payments.

PERKINS LOANS

We randomly selected for testing 25 Perkins loans from those with balances at June 30, 1997, and those with activity during the year if the balance was zero at year-end. Six of the 25 borrowers (24%) in the sample were in default on their loans. For two of these six borrowers in default, neither the University nor its third-party servicing organization had current addresses on file. Also, when we reviewed the University's allowance for doubtful accounts, we determined that the University's default rate is approximately 13%.

Prior to fiscal year 1997, the University continued to rely on the University of South Carolina for assistance with the administration of its Perkins loan program. Therefore, University personnel were still learning about the program and were still developing and improving procedures over the program.

Because repayments of principal and interest are deposited into the loan fund, the amount of funds available to loan to new borrowers is reduced when loans are not promptly repaid. Also, Federal regulations (34 CFR 674.41 to 674.50) require that the University exercise due care and diligence in the collection of loans.

We recommend that the University review and evaluate its procedures over the collection of loans. These procedures must ensure that the University is adequately informing borrowers of their obligations during exit interviews; is adequately communicating with and monitoring the loan service organization that handles its collections and other administrative functions; timely refers borrowers to collection agencies; and timely initiates litigation against borrowers whose loans are in default status.

BOOKSTORE CREDIT MEMOS

Our tests disclosed that outstanding credit memos due from bookstore vendors amounted to \$166,397 at June 30, 1997. The University is not timely using or collecting these receivables. Some of the credit memos are several years old. We understand that several of the vendors will not make cash refunds for credits arising from returned books and merchandise.

The credit memos are in the custody of bookstore personnel and the accounting department does not maintain any control records for these items. The University does not establish an allowance for uncollectible bookstore vendor credit receivables but reports them in its financial statements at their gross balance.

Failure to utilize credit memos or request a check in a timely manner could result in a loss of funds. Sound business practices require that the University have procedures to timely collect receivables or apply balances to future transactions. Generally accepted accounting principles require that assets be reported at net realizable value. Accordingly, the University is responsible for preparing an estimate for uncollectible accounts, which should include bookstore credit memos.

We recommend that the University accounting department establish controls over these bookstore receivables and work diligently with the bookstore to liquidate them. Also, the University should establish procedures to periodically review these credit memos to evaluate the collectibility of each one; to determine those that should be written off; and to compute an allowance for unrealizable vendor credits at fiscal year-end.

SECTION C - STATUS OF PRIOR FINDINGS

During the current audit engagement, we reviewed the status of corrective action taken on each of the findings reported in the Management Letter Comments section of the financial statements report on Coastal Carolina University for the fiscal year ended June 30, 1996, and dated October 30, 1996. We determined that the University has taken adequate corrective action on each of the deficiencies.

MANAGEMENT'S RESPONSE

COASTAL CAROLINA UNIVERSITY

April 7, 1998

Mr. Edgar A. Vaughn, Jr., CPA, State Auditor
Office of the State Auditor
1401 Main Street, Suite 1200
Columbia, South Carolina 29201

Dear Mr. Vaughn:

Please find below Coastal Carolina University's response to the State Auditors Office Management Letter Comments related to its audit of the year ended June 30, 1997.

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

STUDENT TUITION AND FEES

Certified Teachers

The University will submit a recommendation to the Board of Trustees in April of 1998 that the separate fee for certified teachers be eliminated, and that all graduate students will be charged at either the in-state or out-of-state rate, depending on the state of residency.

Senior Citizens

The University had not been determining whether senior citizens granted tuition waivers were employed full-time. The "Free Tuition Application for Senior Citizens" has already been changed to include the line 13a) "Are you currently employed full-time? (Yes or No). If yes, state law prohibits the waiver of tuition fees for full-time employed senior citizens." Line 13b) follows up with "If 13a) is No, and you become employed full-time, you must notify CCU at that time of full-time employment." In addition to changing the application form, the University has also sent new application forms to all senior citizens who are currently receiving the tuition waiver.

Cooperating Teachers

University management is in the process of consulting with the Dean of the School of Education and Horry and Georgetown School District personnel to develop an alternate solution which continues to encourage school district teachers to participate in the supervision of student teacher interns.

EMPLOYEE COMPENSATION

The overpayment referenced by the auditors occurred due to an incorrect "last pay date" on an employee's wage record in the computer. The Offices of Human Resources and Payroll worked together to implement a revised procedure which will be more effective in detecting overpayments related to employee termination. A Monthly Leave Plan Report is now used which has a protocol for last pay date assignment. The End Date Report has been revised to include two future payroll periods, and is now compared to the hard copy of the employee termination Personnel Action Form. In addition, this form is held in a file and used to visually verify on the register for the next payroll that a terminated employee is not scheduled to receive pay. A letter was sent to the terminated employee in October of 1997 requesting repayment.

INSURANCE COVERAGE

The State Insurance Reserve Fund sends an annual review of all buildings to be listed for insurance coverage. The University's Office of Facilities Management supplies the necessary information for insurance coverage to the Office of Financial Services when a new building is occupied. Risk Management is an assigned function to the Director of Financial Services. However, Building M was omitted through an oversight. In the future, a tickler file will be maintained with all current construction projects, and will be used to update the Insurance Reserve Fund building detail list once projects are completed.

In 1996, University management conducted a review of all buildings to determine adequacy of coverage relative to replacement costs, and coverage was increased on some buildings at that time. However, for other buildings, the cost of premiums for full replacement was prohibitive and the University opted for coverage at a lower value.

Section B: Other Weaknesses Not Considered Material

ACCRUED COMPENSATED ABSENCES

University personnel have established new procedures to ensure that accurate leave balances are used to calculate the fiscal year-end accrued liability for compensated absences. The problems in 1997 stemmed from the use of July transaction dates in the computer system to record leave through June 30. In the future, June 30 will be used as the transaction date to record leave used through June 30, leave accruals for the month of June, and any leave adjustments for the month of June or prior months. The detail from the accrued compensated absences calculation will be compared to the detail on the Personnel Leave Accrual Audit Report prior to recording the liability at year end.

As mentioned by the auditors, the computer system has to be manipulated with a fictitious date to pay out annual leave after the termination date. Therefore, if a person terminates at any time approaching June 30 in which annual leave will have to be paid out in the new year, this record will be tracked manually, to be added to the report which calculates the liability for accrued compensated absences.

PERKINS LOAN

In the fall of 1997 the University implemented a 14 point Default Reduction Plan for Perkins Loans. One of the procedures added to entrance and exit counseling was a test covering the terms and conditions of the loan and the responsibilities of the borrower. The Plan also includes notification by the Registrar to Student Loan Accounting of students who are receiving Perkins Loans who withdraw from school, and monthly contacts with Perkins Loan recipients by University Student Loan Accounting while in school.

Also, in the winter of 1998, the University issued a Request For Proposals (RFP) for a new contract for student loan accounting services beginning July 1, 1998. The servicer will perform conversion, billing, accounting and due diligence support. The RFP was written after the Default Reduction Plan was implemented, and includes language appropriate to the new plan. Under the new proposal, the servicer will make three separate attempts to contact the borrower by telephone if the account is 90 days past due. In addition, skip tracing activities will be performed as available through the Internal Revenue Service.

BOOKSTORE CREDIT MEMOS

Current practice with textbook publishers is to allow credits for time periods of over a year or more. However, new procedures for handling Bookstore credit memos have been implemented for year-end 1998. 1) On or about May 15 of each year, the Bookstore Manager will request a refund check from vendors who owe us a merchandise credit that is over six months old. 2) The Bookstore Manager will work with the Controller to analyze the University's ability to collect credits outstanding, and establish an allowance account if necessary. 3) Copies of all credits not converted into cash and the analysis of the ability to collect these credits will be attached to the journal entry setting up the year-end receivable and corresponding allowance account.

Thank you for your assistance in the completion of the audit of this fiscal year.

Sincerely,

Ronald R. Ingle
President