

**SOUTH CAROLINA STATE UNIVERSITY**

**ORANGEBURG, SOUTH CAROLINA**

**FINANCIAL STATEMENTS**

**YEAR ENDED JUNE 30, 2004**

State of South Carolina



Office of the State Auditor

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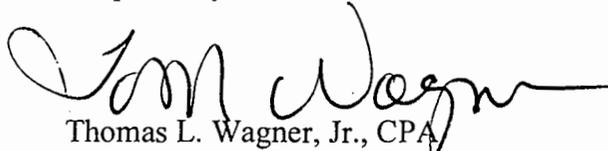
May 11, 2005

The Honorable Mark Sanford, Governor  
and  
Members of the Board of Trustees  
South Carolina State University  
Orangeburg, South Carolina

This report on the audit of the basic financial statements and the additional reports required by OMB Circular A-133 of South Carolina State University for the fiscal year ended June 30, 2004, 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/trb

**SOUTH CAROLINA STATE UNIVERSITY**

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# ROGERS & LABAN, PA

CERTIFIED PUBLIC ACCOUNTANTS AND FINANCIAL CONSULTANTS

## INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying financial statements of South Carolina State University, (the University) as of and for the year ended June 30, 2004 as listed in the table of contents. These financial statements are the responsibility of the University's management. Our responsibility is to express an opinion on these basic financial statements based on our audit. We did not audit the financial statements of the South Carolina State University Foundation, Inc. (the Foundation). These financial statements were audited by other auditors whose report thereon has been furnished to us, and our opinion, insofar as it relates to amounts included for the Foundation, is based on the report of the other auditors.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and Government Auditing Standards, issued by the Comptroller General of the United States. 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. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1 to the financial statements, the University's financial statements are intended to present the financial position and results of operations and cash flows of only that portion of the financial reporting entity of the State of South Carolina that is attributable to the transactions of the University. They do not purport to and do not present the financial position of the State of South Carolina as of June 30, 2004, and the changes in its financial position and its cash flows, where applicable, for the year then ended in conformity with accounting principles generally accepted in the United States of America, and do not include other agencies, divisions, or component units of the State of South Carolina.



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*Insurance Services Offered Through  
1st Global Insurance Service, Inc.*

In our opinion, based on our audit and the report of the other auditors, the financial statements referred to above present fairly, in all material respects, the financial position of the University as of June 30, 2004, and the results of its operations and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The Management's Discussion and Analysis on pages 3 through 8 is not a required part of the financial statements but are supplementary information required by the Government Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was performed for the purpose of forming an opinion on the financial statements of the University taken as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations, and is not a required part of the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the financial statements taken as a whole.

In accordance with Government Auditing Standards, we have also issued our report dated March 22, 2005 on our consideration of University's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with Governmental Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

*Rogers + Lalor, PA*

March 22, 2005

**SOUTH CAROLINA STATE UNIVERSITY**  
**Management's Discussion and Analysis**  
**Year Ended June 30, 2004**

**Introduction**

We are pleased to submit the annual Financial Statements for South Carolina State University (SCSU) for the fiscal year ended 2004. The following discussion and analysis has been prepared by the management of South Carolina State University to provide an overview of the financial activities of the University for the fiscal year ended June 30, 2004. Please read it in conjunction with the financial statements and the accompanying notes to the financial statements. The financial presentation for the University has been prepared to meet the requirements of Governmental Accounting Standards Board ("GASB") Statement No. 34, *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments*, and GASB Statement No. 35, *Basic Financial Statement's and Management's Discussion and analysis for Public Colleges and Universities*. During fiscal year 2004 the University implemented GASB Statement No. 39, *Determining Whether Certain Organizations are Component Units – An amendment of GASB 14*, and has incorporated one non-governmental component unit, the South Carolina State University Foundation, Inc. There are two South Carolina State University Foundation, Inc. statements presented separately in the University's report. These statements are the (1) Statement of Financial Position and the (2) Statement of Activities. The management discussion and analysis addresses the activity of the University and does not include financial activity of the Foundation. Information presented in the Financial Statements is designed to aid a wide variety of readers in assessing the effectiveness of the University's management in using its resources to meet its primary mission of instruction, research, and public service and to provide a comprehensive picture of the University's financial activities and soundness.

**Using this Annual Report**

This annual report consists of a series of financial statements as follows: the Statement of Net Assets, the statement of Revenues, Expenses, and Changes in Net Assets, and the Statement of Cash Flows. These financial statements emphasize the financial condition of the University, the cash flows (sources and uses of funds) of the University as a whole, and the results of operations. As a result of the implementation of GASB Statement 34, public colleges and universities of South Carolina elected to report as business type activities (BTAs). Therefore these statements are intended to provide a view of the University's financial position similar to that presented by most private sector companies. The financial statements are presented using the accrual basis of accounting. The accrual basis of accounting takes into consideration all of the University's revenue and expenses regardless of when cash is received or payments are made. Significant revenues of the University such as state appropriations, gifts, and investment income are considered non-operating.

**Statement of Net Assets**

The Statement of Net Assets presents the assets, liabilities, and net assets of the University as of the end of the fiscal year. This statement is a point-of-time financial statement that provides the reader with a fiscal snapshot of South Carolina State University. The Statement of Net Assets consists of assets (current and non-current), liabilities (current and non-current) and net assets (assets minus liabilities). Current assets

consist principally of cash and receivables. The current portion of the assets will be converted to cash within one year to be used to pay for the current portion of the liabilities. Current liabilities consist principally of accounts payables and accrued compensation. These liabilities will be settled within one year. Non-current assets consist primarily of capital assets, net of accumulated depreciation. Non-current assets will not be converted to cash within one year. Non-current liabilities consist primarily of bonds payables, net of the current portion and accrued compensation, net of the current portion. Non-current liabilities will not be settled within one year. Net assets are divided in three major categories. The first category, invested in capital assets, net of debt, provides the University's equity in property, plant, and equipment owned by the University. The next category is restricted net assets, which is further divided into two categories, nonexpendable and expendable. The corpus of the nonexpendable restricted resources is for investment purposes only and therefore not available for expenditure. The expendable restricted net assets are available for expenditure by the University but are restricted for specific purposes based on defined restrictions by donors and/or external entities. The third category of net assets is unrestricted net assets. These assets may be expended for any lawful purpose of the University.

The "Condensed Statement of Net Assets" as shown below, presents a comparison of assets, liabilities, and net assets between June 30, 2003 and June 30, 2004. The June 30, 2003 amounts have been restated by prior period adjustments that resulted in a reduction of net assets of \$1,864,899 (for further details see Note 16 in the Notes to Financial Statements).

#### Condensed Statement of Net Assets

	<u>2004</u>	<u>2003</u> <u>as restated</u>	<u>Increase</u> <u>Decrease</u>	<u>Percent</u> <u>Change</u>
<b>Assets:</b>				
Current Assets	\$ 15,048,812	\$ 13,239,679	\$ 1,809,133	13.66%
Non-current Assets	7,789,562	8,231,963	(442,401)	-5.37%
Capital Assets, Net	46,064,767	45,606,885	457,882	1.00%
<b>Total Assets</b>	<b>\$ 68,903,141</b>	<b>\$ 67,078,527</b>	<b>\$ 1,824,614</b>	<b>2.72%</b>
<b>Liabilities:</b>				
Current Liabilities	\$ 8,692,568	\$ 9,953,424	\$ (1,260,856)	-12.67%
Non-current Liabilities	10,827,900	12,256,301	(1,428,401)	-11.65%
<b>Total Liabilities</b>	<b>\$ 19,520,468</b>	<b>\$ 22,209,725</b>	<b>\$ (2,689,257)</b>	<b>-12.11%</b>
<b>Net Assets:</b>				
Invested in Capital Assets, Net of Related Debt	\$ 41,383,594	\$ 39,855,672	\$ 1,527,922	3.83%
Restricted-Nonexpendable	439,834	437,357	2,477	0.57%
Restricted—Expendable	2,595,517	2,895,987	(300,470)	-10.38%
Unrestricted	4,963,728	1,679,786	3,283,942	195.50%
<b>Total Net Assets</b>	<b>\$ 49,382,673</b>	<b>\$ 44,868,802</b>	<b>\$ 4,513,871</b>	<b>10.06%</b>

The University's financial position is strong at June 30, 2004 with current assets exceeding current liabilities by 173%. The vast majority of current assets (90%) are composed of cash and cash equivalents and accounts receivable, net of allowance for doubtful accounts. Current liabilities (73%) consist primarily of account payable, accrued payroll and compensated absences, and deferred unearned student revenues.

The increase in assets is mainly attributable to an increase in accounts receivable of \$1.5 million. The reduction of current liabilities is mainly attributable to a \$1.5 million reduction in current accounts payable over the prior year. This is a reflection of the University's concerted efforts to ensure debts of the University are paid in a timely manner.

Net assets are a good indicator of the University's financial position and will become a more useful trend measurement tool of financial strength once additional historical data is obtained.

### **Statement of Revenues, Expenses, and Changes in Net Assets**

The Statement of Revenues, Expenses, and Changes in Net Assets is a presentation of the revenues earned and expenses incurred during the fiscal year. Revenues and expenses are reported as either operating or non-operating. The financial reporting model selected by public institutions classifies state appropriations and gifts as non-operating revenues. Since the University is a public institution and depends upon state aid and gifts, the University's statement will result in an operating deficit, all things being equal. This statement will reflect the utilization of long-lived or capital assets in the form of depreciation expense. Depreciation expense amortizes the cost of a capital asset over its expected useful life.

Generally speaking, operating revenues are earned or received for providing goods and services to the various customers or students and constituencies of the University. Operating expenses are those expenses paid or incurred to acquire or produce the goods and services provided. Operating revenues and expenses are as a result of carrying out the mission of the University. Non-operating revenues are received for which there is not a reciprocal agreement – no goods and services are provided. There was \$1,864,899 in prior period adjustments that restated 2003 net assets. Some of these adjustments related to transactions applicable to fiscal year 2003 and prior. The impact of some of these adjustments on fiscal year 2002-2003 revenues and expenditures have not been determined.

**Condensed Statement of Revenues, Expenses and Changes in Net Assets**

	<u>2004</u>	<u>2003</u>	<u>Increase (Decrease)</u>	<u>Percent Change</u>
Operating Revenues	\$ 56,889,262	\$ 50,113,579	\$ 6,775,683	13.52%
Operating Expenses	80,722,415	76,135,921	4,586,494	6.02%
Operating Loss	<u>\$ (23,833,153)</u>	<u>\$ (26,022,342)</u>	<u>\$ 2,189,189</u>	<u>-8.41%</u>
 Non-Operating Revenues (Expenses)	 \$ 28,502,669	 \$ 30,404,496	 \$ (1,901,827)	 -6.26%
 Income (Loss) Before Extraordinary Item	 4,669,516	 4,382,154	 287,362	 6.56%
Capital Improvement Bonds for				
Capital Additions	-	427,793	(427,793)	-100.00%
Capital Gifts	34,443	-	34,443	100.00%
Indirect Costs remitted to State General Fund	(190,088)	(368,958)	178,870	-48.48%
Extraordinary Item	-	315,560	(315,560)	-100.00%
Increase (Decrease) in Net Assets	<u>\$ 4,513,871</u>	<u>\$ 4,756,549</u>	<u>\$ (242,678)</u>	<u>-5.10%</u>
 Net Assets at Beginning of Year,	 \$ 46,733,701	 \$ 44,188,498	 \$ 2,545,203	 5.76%
As Previously Reported				
Prior Period Adjustments	(1,864,899)	(2,211,346)	346,447	-15.67%
 Net Assets at Beginning of Year-Restated	 44,868,802	 41,977,152	 2,891,650	 6.89%
Net Assets at End of Year	<u>\$ 49,382,673</u>	<u>\$ 46,733,701</u>	<u>\$ 2,648,972</u>	<u>5.67%</u>

Operating revenues for Student Tuition and Fees and the Auxiliary Enterprises have been shown net of Scholarship Allowances. This is a calculation and reporting requirement as a result of the implementation of GASB 34/35. A scholarship allowance is defined as the difference between the stated charge for goods and services provided by the institution and the amount that is billed to the student and/or third parties making payments on behalf of the student. Operating revenues increased in fiscal year 2004 by \$6.8 million. The main contributors of this increase were due to sales and services of auxiliary enterprises and student tuition and fees. More specifically, (1) the bookstore increased sales of approximately \$.5 million by offering new lines of products. (2) The University collected the Board approved \$130 housing fee bond charged to students living in on-campus residential facilities (this fee did not exist in fiscal year 2003). (3) There was a 3% increase in meal plan charges and a 6% increase in headcount students participating in meal plans. (4) The Board mandated an 8% percent student fee increase, which was primarily responsible for the \$2.7 million increase in student tuition and fees.

Operating expenses increased in fiscal year 2004 in comparison to fiscal year 2003 by \$4.5 million or 6.03%. The increase is mainly attributable to the net of a \$6.2 million increase, or 38% in supplies, and a \$1.3 million decrease or 3%, in salaries, wages, and related fringe benefits. The increase in supplies expense is representative of management's decision to increase the department operating budgets to a level that will ensure department's have the tools to accomplish the day-to-day operations.

The University's "Operating Loss" of \$23.8 million is due mainly to the fact that State Appropriations (\$22.5 million), Capital Improvement Bond Proceeds (\$1.5 million), and certain State grants (\$4.3 million) were determined not to be operating revenues for colleges and universities according to GASB 35. These two revenue lines appear under "Non-operating Revenues." The increase in operating revenues over the increase in operating expenses from fiscal year 2003 reduced the operating loss from 2003 by \$2.2 million.

Cuts from the previous year, resulted in a \$2.0 million decrease in state appropriations. An increase in capital improvement bond revenue of \$1.1 million was offset by a decrease of \$448,000 in State grant revenue.

### *Statement of Cash Flows*

The final statement presented is the Statement of Cash Flows. The Statement of Cash Flows presents detailed information about the cash activity of the institution during the year. The statement is divided into five parts. The first part deals with operating cash flows and shows the net cash used by the operating activities of the institution. The second section reflects cash flows from non-capital financing activities. This section reflects the cash received and spent for non-operating, non-investing, and non-capital financing purposes. The third section deals with cash flows from capital and related financing activities. This section deals with cash used for the acquisition and construction of capital and related items. The fourth section reflects the cash flows from investing activities and shows purchases, proceeds and interest received from investing activities. The fifth section reconciles the net cash used to the operating income or loss on the Statement of Revenues, Expenses and Changes in Net Assets.

### *Capital Asset and Debt Administration*

The University's "Statement of Net Assets" reflects total Capital Assets, net of accumulated depreciation, as of June 30, 2004 of \$49.4 million. This amount is presented net of accumulated depreciation and includes plant (facilities) and equipment. Significant to the facilities total is that of the 49 buildings listed in the financial records, 70% of these buildings are more than 30 years old. Eleven of the forty-nine facilities are students' residential facilities. The University expects to close on a major loan amounting to \$41 million with the US Department of Education. This loan will be used to construct an apartment style student housing facility and pay all of the existing outstanding housing revenue bonds. This significant investment will assist with increasing student satisfaction, enrollment increases as well as address the current student housing shortage that exist at the University.

The University's financial statements indicate \$8,360,000 in bonds payable, and \$201,173 in capital leases payable at June 30, 2004. The University's bonded indebtedness consisted of: State Institution bonds of \$4.0 million, stadium improvement revenue bonds of \$1.8 million, and student faculty housing revenue bonds of \$3.0 million. Revenue bonds for stadium improvement and student and faculty housing are paid with pledged net revenues. The University was under a capital lease agreement as of June 30, 2004 for various computer equipment and software. Subsequent to June 30, 2004 the University agreed to return the equipment and pay the lesser \$170,000 to terminate the lease. For additional information on Debt Administration, see Notes 9, 10 and 11 in the notes to the financial statements.

The University had \$9.8 million in construction in progress as of June 30, 2004. The vast majority of the construction is related to the building of the 1890 Extension Facility (\$6.3 million) the renovation of Hodge Hall (\$3.3 million). The University anticipates capitalizing the 1890 project after its completion in fiscal year 2005. New capital equipment and machinery, with an individual cost of \$5,000 per item, was increased during the fiscal year by \$395,000 along with a decrease of \$466,000 for disposing of equipment.

### *Economic Outlook*

The University's decision to enhance the fiscal affairs staff by hiring a new finance management team has had positive results. With the implementation of sound cash management practices, improvement of internal controls and strengthening of policies and procedures, the University's overall financial position is sound and continues to improve.

Also, this year SCSU experienced an increase in its student enrollment and expects that trend to continue. In an effort to offset the state's budget reductions and to adjust for inflation, SCSU increased its tuition and fees. The combination of these has assisted in the financial enhancement and to the continued stability of the operations at SCSU.

Since inception of the State's Education Lottery the University has received special appropriations from the lottery proceeds. These funds have been used to strengthen the financial position and public image by addressing the huge backlog of deferred maintenance issues and other facilities needs on the campus.

**SOUTH CAROLINA STATE UNIVERSITY  
STATEMENT OF NET ASSETS**

JUNE 30, 2004

**ASSETS:**

**Current Assets:**

Cash and cash equivalents	\$ 6,733,114
Accounts receivable, net of provision for doubtful accounts of \$1,947,597	7,008,448
Current portion of loans receivable	222,683
Accrued interest receivable	84,019
Prepaid expenses	354,858
Inventories	645,690
Total current assets	<u>15,048,812</u>

**Noncurrent Assets:**

Restricted cash and cash equivalents	4,363,444
Long-term accounts receivable	126,912
Loans receivable, net of current portion and provision for doubtful accounts of \$442,141	3,027,059
Due from South Carolina State University Foundation, Inc.	132,831
Student loan fund deposit	35,000
Investments	104,316
Capital assets, net of accumulated depreciation	46,064,767
Total noncurrent assets	<u>53,854,329</u>
Total assets	<u>68,903,141</u>

**LIABILITIES:**

**Current Liabilities:**

Accounts payable	1,047,729
Retainages payable	96,995
Accrued payroll and related liabilities	1,704,018
Accrued compensated absences and related benefits - current portion	1,700,000
Accrued interest payable	69,951
Student deposits	26,888
Refunds due to students	655,817
Deferred and unearned student revenues	1,933,003
Due to State of South Carolina	183,836
Due to General Fund of the State	121,142
Capital leases payable - current portion	191,775
Bonds payable - current portion	560,000
Deposits held for others	189,183
Other liabilities	212,231
Total current liabilities	<u>8,692,568</u>

**Noncurrent Liabilities:**

Accrued compensated absences and related benefits, net of current portion	1,053,434
Capital leases payable, net of current portion	9,398
Bonds payable, net of current portion	7,800,000
Student deposits, net of current portion	80,682
Perkins liability	1,884,386
Total noncurrent liabilities	<u>10,827,900</u>
Total liabilities	<u>19,520,468</u>

**NET ASSETS:**

Invested in capital assets, net of related debt	41,383,594
Restricted for:	
Nonexpendable:	
Scholarships and fellowships	439,834
Expendable:	
State grants	336,876
Scholarships and fellowships	329,108
Loans	1,929,533
Unrestricted	4,963,728
Total net assets	<u>\$ 49,382,673</u>

See accompanying Notes to Financial Statements.

**SOUTH CAROLINA STATE UNIVERSITY  
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS**

**FOR THE YEAR ENDED JUNE 30, 2004**

**OPERATING REVENUES:**

Student tuition and fees (net of scholarship allowances of \$6,046,451)	\$ 19,793,133
Federal grants and contracts	22,439,591
State grants and contracts	3,979,778
Non-governmental grants and contracts	95,662
Sales and services of educational departments and other activities	455,976
Sales and services of auxiliary enterprises (net of scholarship allowances of \$1,642,656)	6,731,059
Sales and services of auxiliary enterprises pledged for revenue bonds (net of scholarship allowances of \$1,149,980)	1,530,442
Other operating revenues	1,460,939
Other operating revenues pledged for revenue bonds	402,682
<b>Total operating revenues</b>	<b>56,889,262</b>

**OPERATING EXPENSES:**

Salaries, wages and related benefits	44,877,197
Supplies and other services	22,468,349
Utilities	2,307,945
Scholarships	7,635,183
Stipends	1,331,747
Bad debts and loan cancellations	307,034
Depreciation	1,794,960
<b>Total operating expenses</b>	<b>80,722,415</b>
Operating income (loss)	<b>(23,833,153)</b>

**NONOPERATING REVENUES (EXPENSES)**

State appropriations	22,576,471
Capital improvement bonds	1,565,724
State grants	4,305,445
Gifts	418,076
Investment income	75,719
Interest and other fees on capital asset related debt	(436,396)
Loss on disposal of assets	(2,370)
<b>Net nonoperating revenue</b>	<b>28,502,669</b>
Income (loss) before other revenues, expenses, gains, or losses	4,669,516
Capital gifts	34,443
<b>Increase in net assets before transfers</b>	<b>4,703,959</b>

**TRANSFERS:**

Indirect costs remitted to General Fund of the State	(190,088)
Increase in net assets	4,513,871

**NET ASSETS - BEGINNING OF YEAR, AS RESTATED**

**44,868,802**

**NET ASSETS - END OF YEAR**

**\$ 49,382,673**

See accompanying Notes to Financial Statements.

**SOUTH CAROLINA STATE UNIVERSITY  
STATEMENT OF CASH FLOWS**

**FOR THE YEAR ENDED JUNE 30, 2004**

**CASH FLOWS FROM (USED) BY OPERATING ACTIVITIES:**

Student tuition and fees	\$ 29,579,838
Grants and contracts	24,373,093
Auxiliary enterprises	8,260,597
Payments to suppliers	(26,260,440)
Payments to employees for salaries and related benefits	(45,089,760)
Payment to State General Fund for indirect costs	(646,395)
Payments for stipends	(1,331,747)
Payments to students	(9,101,573)
Payments of scholarships	(7,635,183)
Loans to students	(589,012)
Collection of loans	241,349
Sales and services of educational departments and other activities	455,976
Inflows from Stafford loans	22,007,445
Outflows for Stafford loans	(22,055,821)
Other receipts	2,350,188
Other disbursements	(305,374)
Net cash flows (used) by operating activities	<u>(25,746,819)</u>

**CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:**

State appropriations	22,576,471
Gifts and grants for other than capital purposes	4,723,521
Capital improvement bonds used for other than capital purposes	1,347,126
Net cash flow provided by noncapital financing activities	<u>28,647,118</u>

**CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:**

Purchases of capital assets	(2,188,936)
Principal paid on revenue bonds	(535,000)
Principal paid on capital leases	(128,411)
Interest and fees paid	(442,868)
Net cash flows (used) by capital activities	<u>(3,295,215)</u>

**SOUTH CAROLINA STATE UNIVERSITY  
STATEMENT OF CASH FLOWS (CONTINUED)**

**FOR THE YEAR ENDED JUNE 30, 2004**

**CASH FLOWS FROM INVESTING ACTIVITIES:**

Collections on note receivable	172,417
Interest on investments	49,825
Net cash flows provided by investing activities	222,242
Net increase (decrease) in cash and cash equivalents	(172,674)

<b>CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR, AS RESTATED</b>	11,269,232
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<b>CASH AND CASH EQUIVALENTS - END OF YEAR</b>	\$ 11,096,558
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**Reconciliation of net operating income (loss)**

**to net cash flows provided (used) by operating activities:**

Operating income (loss)	\$ (23,833,153)
Adjustments to reconcile net operating income (loss) to net cash flow (used) by operating activities:	
Depreciation expense	1,794,960
Bad debts and loan cancellations	307,034
Indirect costs remitted reclassified to operating	(190,088)
Changes in assets and liabilities:	
Receivables	(1,642,945)
Inventories	64,028
Loans to students	(308,903)
Prepaid expenses	(105,143)
Accounts payable	(1,554,909)
Accrued payroll and related liabilities	(66,215)
Deferred and unearned student revenue	192,618
Refunds due to students	12,208
Perkins liability	23,035
Student deposits	44,029
Accrued compensated absences and related benefits	(146,348)
Other liabilities	(337,027)
Net cash flows (used) by operating activities	\$ (25,746,819)

**Noncash capital and related financing activities:**

During the year, the University disposed of capital assets with a costs of \$465,654 and accumulated depreciation of \$463,284.

**See accompanying Notes to Financial Statements.**

**SOUTH CAROLINA STATE UNIVERSITY FOUNDATION, INC.  
STATEMENT OF FINANCIAL POSITION**

**JUNE 30, 2004**

**ASSETS**

Cash and cash equivalents	\$ 412,647
Investments	2,184,103
Accounts receivable	61,106
Unconditional promises to give	146,880
Interest receivable	3,730
Due from South Carolina State University	76,620
Cash value of life insurance	18,310
Art collections	224,015
Equipment, net of accumulated depreciation	5,577
Land	<u>23,700</u>
Total assets	<u><u>\$ 3,156,688</u></u>

**LIABILITIES AND NET ASSETS**

Liabilities:	
Accounts payable	\$ 48,017
Payroll taxes payable	2,531
Due to South Carolina State University	<u>209,451</u>
Total liabilities	<u>259,999</u>
Net assets:	
Unrestricted:	
Operating	203,243
Invested in property and equipment	<u>29,277</u>
Total unrestricted	232,520
Temporarily restricted	1,172,364
Permanently restricted	<u>1,491,805</u>
Total net assets	<u>2,896,689</u>
Total liabilities and net assets	<u><u>\$ 3,156,688</u></u>

**See accompanying Notes to Financial Statements.**

**SOUTH CAROLINA STATE UNIVERSITY FOUNDATION, INC.**  
**STATEMENT OF ACTIVITIES**

YEAR ENDED JUNE 30, 2004

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
<b>Public Support, Revenues, and Reclassifications</b>				
Contributions	\$ 11,812	\$ 1,033,894	\$ 78,395	\$ 1,124,101
Investment income (losses)	18,229	72,916	-	91,145
Unrealized gains (losses)	252,586	-	-	252,586
University Club catering sales	221,091	-	-	221,091
Net assets released from restrictions				-
Satisfaction of purpose restrictions	1,385,985	(1,385,985)	-	-
	<u>1,889,703</u>	<u>(279,175)</u>	<u>78,395</u>	<u>1,688,923</u>
Total public support, revenues, and reclassifications				
<b>Expenses and Losses</b>				
Programs:				
Scholarships	261,315	-	-	261,315
Educational programs and development	919,810	-	-	919,810
University Club catering	211,222	-	-	211,222
	<u>1,392,347</u>	<u>-</u>	<u>-</u>	<u>1,392,347</u>
Administration	234,847	-	-	234,847
Fund-raising	111,058	-	-	111,058
	<u>1,738,252</u>	<u>-</u>	<u>-</u>	<u>1,738,252</u>
Total expenses and losses				
Change in net assets	151,451	(279,175)	78,395	(49,329)
Net assets at beginning of year	81,069	1,451,539	1,413,410	2,946,018
Net assets at end of year	<u>\$ 232,520</u>	<u>\$ 1,172,364</u>	<u>\$ 1,491,805</u>	<u>\$ 2,896,689</u>

See accompanying Notes to Financial Statements.

**SOUTH CAROLINA STATE UNIVERSITY  
NOTES TO FINANCIAL STATEMENTS**

**JUNE 30, 2004**

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**Nature of Operations:** South Carolina State University (the University) is a State-supported coeducational institution of higher education. The University serves local, regional, state, national, and international communities by providing academic instruction, by conducting research and other activities that advance fundamental knowledge, and by disseminating knowledge to the public.

**Reporting Entity:** The financial reporting entity, as defined by Governmental Accounting Standards Board (GASB) Statement No. 14, *The Financial Reporting Entity*, consists of the primary government and its component units. Component units are legally separate organizations for which the primary government is financially accountable, and other organizations for which the nature and significance of their relationship with the primary government are such that exclusion could cause the financial statements to be misleading or incomplete. GASB Statement No. 39, *Determining Whether Certain Organizations are Component Units*, was issued in May, 2002 and provides additional guidance concerning the inclusion of related party financial information as a part of the reporting entity. The accompanying financial statements present only that portion of the funds of the State of South Carolina that is attributable to the transactions of the University and its component unit.

South Carolina State University Foundation, Inc. (Foundation) is a legally separate, tax-exempt component unit of the University. The Foundation acts primarily as a fund-raising organization to supplement the resources that are available to the University in support of its programs. Although the University does not control the timing or amount of receipts from the Foundation, the majority of resources, or income thereon, that the Foundation holds and invests are restricted to the activities of the University by the donors. Because these restricted resources held by the Foundation can only be used by, or for the benefit of, the University, the Foundation is considered a component unit of the University and is discretely presented in the University's financial statements. Copies of the separately issued financial statements of the Foundation can be obtained by sending a request to South Carolina University Foundation, Post Office Box 7187, Orangeburg, South Carolina 29501.

The University is part of the primary government of the State of South Carolina.

**Basis of Accounting:** For financial reporting purposes, the University is considered a special-purpose government engaged only in business-type activities. Accordingly, the University's financial statements have been presented using the economic resources measurement focus and the accrual basis of accounting. Under the accrual basis, revenues are recognized when earned and expenses are recorded when an obligation has been incurred. Student tuition and auxiliary enterprise fees are presented net of scholarships and fellowships applied to student accounts, while stipends and other payments made directly to students are presented as scholarship and fellowship expenses. All significant intra-agency transactions have been eliminated.

The University has elected not to apply Financial Accounting Standards Board (FASB) pronouncements issued after November 30, 1989.

The Foundation is a private nonprofit organization that reports under FASB, including FASB Statement No. 117, *Financial Statements of Not-for-Profit Organizations*. As such, certain revenue recognition criteria and presentation features are different from GASB revenue recognition criteria and presentation features. No modifications have been made to the Foundation's financial information in the University's financial reporting entity for these differences. The Foundation is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets.

**Cash and Cash Equivalents:** For purposes of the financial statements, the University considers all highly liquid investments with an original maturity of three months or less to be cash equivalents. Funds invested through the State of South Carolina State Treasurer's Office are considered cash equivalents.

**SOUTH CAROLINA STATE UNIVERSITY  
NOTES TO FINANCIAL STATEMENTS**

**JUNE 30, 2004**

**Investments:** The University accounts for its investments at fair value in accordance with GASB Statement No. 31, Accounting and Financial Reporting for Certain Investments and for External Investment Pools. Changes in unrealized gain (loss) on the carrying value of investments are reported as a component of investment income in the statement of revenues, expenses and changes in net assets.

The Foundation investment securities and donated negotiable assets are stated at market value. Investment income is reported net of investment fees and service charges. Eighty percent of performance gains which includes interest, dividends, and realized gains and losses are allocated to all accounts over \$5,000 with the remaining 20% allocated to unrestricted net assets.

**Accounts Receivable:** Accounts receivable consists of tuition and fees charged to students and auxiliary enterprise sales and services provided to students, faculty and staff. Accounts receivable also include amounts due from the Federal government, state and local governments, or private sources, in connection with reimbursement of allowable expenditures made pursuant to the University's grants and contracts and for reimbursements of other expenses. Accounts receivable are recorded net of estimated uncollectible amounts.

**Inventories:** Inventories are valued at the lower of cost or market and consist primarily of books and items for sale in the campus bookstore.

**Capital Assets:** Capital assets are recorded at cost at the date of acquisition or fair market value at the date of donation in the case of gifts. The University follows capitalization guidelines established by the State of South Carolina. All land is capitalized, regardless of cost. Qualifying improvements that rest in or on the land itself are recorded as depreciable land improvements. Major additions and renovations and other improvements that add to the usable space, prepare existing buildings for new uses, or extend the useful life of an existing building are capitalized. The University capitalizes movable personal property with a unit value in excess of \$5,000 and a useful life in excess of two years and depreciable land improvements, buildings and improvements, and intangible assets costing in excess of \$100,000. Routine repairs and maintenance and library materials, except individual items costing in excess of \$5,000, are charged to operating expenses in the year in which the expense was incurred.

Depreciation is computed using the straight-line method over the estimated useful lives of the assets, generally 15 to 50 years for buildings and improvements and land improvements and 2 to 25 years for machinery, equipment, and vehicles. Depreciation is calculated based on the number of months the item is in use during the year.

**Deferred Revenues:** Deferred revenues include amounts received for tuition and fees and certain auxiliary activities prior to the end of the fiscal year but related to the subsequent accounting period. Deferred revenues also include amounts received from grant and contract sponsors that have not yet been earned.

**Compensated Absences and Related Benefits:** Employee vacation pay expense is accrued at year-end for financial statement purposes. The liability and expense incurred are recorded at year-end as accrued compensated absences and related benefits in the statement of net assets, and as components of compensation and benefit expenses in the statement of revenues, expenses, and changes in net assets.

**Perkins Loans Receivable and Related Liability:** Some of the loans receivable on the statement of net assets are due to the University under the Perkins loan program. This program is funded primarily by the federal government with the University providing a required match. The amount reported as Perkins liability is the amount of cumulative federal contributions and a pro-rata share of net earnings on the loans under this program that would have to be repaid to the federal government if the University ceases to participate in the program. The University recognizes as revenue and expenses only the portion attributable to its matching contribution.

**Net Assets:** The University's net assets are classified as follows:

Invested in capital assets, net of related debt: This represents the University's total investment in capital assets, net of outstanding debt obligations related to those capital assets. To the extent debt has been incurred but not yet expended for capital assets, such amounts are not included as a component of invested in capital assets, net of related debt.

**SOUTH CAROLINA STATE UNIVERSITY  
NOTES TO FINANCIAL STATEMENTS**

**JUNE 30, 2004**

Restricted net assets – expendable: Restricted expendable net assets include resources in which the University is legally or contractually obligated to spend resources in accordance with restrictions imposed by external third parties.

Restricted net assets - nonexpendable: Nonexpendable restricted net assets consist of endowment and similar type funds in which donors or other outside sources have stipulated, as a condition of the gift instrument, that the principal is to be maintained inviolate and in perpetuity, and invested for the purpose of producing present and future income, which may either be expended or added to principal.

Unrestricted net assets: Unrestricted net assets represent resources derived from student tuition and fees, appropriations, and sales and services of educational departments and auxiliary enterprises. These resources may be used at the discretion of the governing board to meet current expenses. These resources also include auxiliary enterprises, which are substantially self-supporting activities that provide services for students, faculty and staff.

The University policy for applying expenses that can use both restricted and unrestricted resources is delegated to the departmental administrative level. General practice is to first apply the expense to restricted resources then to unrestricted resources.

**Income Taxes:** The University, as a political subdivision of the State of South Carolina, is excluded from Federal income taxes under Section 115(a) of the Internal Revenue Code, as amended.

The Foundation is not a private foundation within the meaning of Section 509(a) of the Internal Revenue Code and is exempt from taxes under Section 501(c)(3).

**Classification of Revenues:** The University has classified its revenues as either operating or nonoperating according to the following criteria:

*Operating revenues:* Operating revenues generally result from exchange transactions to provide goods or services related to the University's principal ongoing operations. These revenues include (1) student tuition and fees received in exchange for providing educational services, housing, and other related services to students; (2) receipts for scholarships where the provider has identified the student recipients; (3) fees received from organizations and individuals in exchange for miscellaneous goods and services provided by the University; and (4) grants and contracts that are essentially the same as contracts for services that finance programs the University would not otherwise undertake.

*Nonoperating revenues:* Nonoperating revenues include activities that have the characteristics of nonexchange transactions. These revenues include gifts and contributions, appropriations, investment income, and any grants and contracts that are not classified as operating revenue or restricted by the grantor to be used exclusively for capital purposes.

**Sales and Services of Educational Departments and Other Activities:** Revenues from sales and services of educational departments and other activities generally consist of amounts received from instructional, laboratory, research, and public service activities that incidentally create goods and services which may be sold to students, faculty, staff, and the general public. The University receives such revenues primarily from community groups using campus facilities for summer camps and other activities.

**Auxiliary Enterprises and Internal Service Activities:** Auxiliary enterprise revenues are primarily generated by the bookstore, dining services, and housing. Transactions between the University and its auxiliary enterprise activities and its internal service department have been eliminated.

**SOUTH CAROLINA STATE UNIVERSITY  
NOTES TO FINANCIAL STATEMENTS**

**JUNE 30, 2004**

**Use of Estimates:** The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues, and expenditures and affect disclosure of contingent assets and liabilities at the date of the financial statements. Actual results could differ from those estimates.

**Donor Restricted Assets:** The University policy for the treatment of net appreciation (depreciation) on investments of donor restricted endowments increases or decreases the principal. If a donor has not provided specific instructions, State law allows the Board of Trustees to authorize for expenditure the net appreciation (realized and unrealized) of the investments of the endowment funds. Any net appreciation that is spent is required to be spent for the purposes for which the endowment was established.

**NOTE 2 – DEPOSITS AND INVESTMENTS**

All deposits and investments of the University are under the control of the State Treasurer who, by law, has sole authority of investing State funds. The following schedule reconciles deposits and investments within the notes to the statement of net assets:

<u>Statement of Net Assets</u>		<u>Footnotes</u>	
Cash and cash equivalents (current)	\$ 6,733,114	Deposits held by State Treasurer	\$ 10,021,852
Restricted cash and cash equivalents (non-current):		Other deposits	1,074,706
Loan funds	654,235	Investments held by State Treasurer	95,900
Bond proceeds	3,220,215	Other investments	8,416
Federal matching	488,994		
Investments	104,316		
<b>Total</b>	<b>\$ 11,200,874</b>	<b>Total</b>	<b>\$ 11,200,874</b>

Deposits Held by State Treasurer

State law requires full collateralization of all State Treasurer bank balances. The State Treasurer must correct any deficiencies in collateral within seven days.

With respect to investments in the State's internal cash management pool, all of the State Treasurer's investments are insured or registered or are investments for which the securities are held by the State or its agents in the State's name. Information pertaining to the reported amounts, fair values, and credit risk of the State Treasurer's investments is disclosed in the Comprehensive Annual Financial Report of the State of South Carolina.

Other Deposits

The University's other deposits are entirely insured or collateralized with deposits held by the University or by its agent in the University's name. The bank balance and carrying amount of these deposits was \$582,942 and \$1,074,706 respectively at June 30, 2004.

Investments Held by State Treasurer

These investments consist of Series 1984 Agricultural College stock with a carrying amount of \$95,900 held by the State Treasurer until they mature in 2035. While outstanding, the State is required to pay the University 6% per year. Because there is no readily determinable fair value for these investments, they have been assigned a fair value equal to their historical costs.

Other Investments

This category consists of investments in common stocks which are stated at fair value and include unrealized appreciation of \$1,912. Purchases and sales are accounted for on the trade date.

**SOUTH CAROLINA STATE UNIVERSITY  
NOTES TO FINANCIAL STATEMENTS**

**JUNE 30, 2004**

The University's investments are categorized to give an indication of the level of risk assumed by the University at year-end. The credit risk categories are concerned with custodial credit risk, which is the risk that a government will not be able to recover the value of investment or collateral securities that are in the possession of an outside party if the counterparty to the investment transaction fails. There are three categories of credit risk. Category 1 includes investments that are insured or registered or for which the securities are held by the entity or its agent in the University's name. Category 2 includes uninsured and unregistered investments for which the securities are held by the counterparty's trust department or agent in the University's name. Category 3 includes uninsured and unregistered investments for which the securities are held by the counterparty or by its trust department or agent but not in the University's name. Investments which do not meet the definition of investment securities are listed below but are not classified by risk category.

A summary of these investments at June 30, 2004, by category of credit risk follows:

	Category			Reported Amount	Fair Value
	1	2	3		
Common Stock	\$ 8,416			\$ 8,416	\$ 8,416

The investment listed above was held throughout the fiscal year and the balance therein fluctuated minimally from the fiscal year-end balance.

The Foundation's investments consisted of the following as of June 30, 2004:

	Cost	Market
Treasury and Other Fixed Income Funds	\$ 1,752,874	\$ 2,014,632
Equity Funds	160,386	169,471
Totals	\$ 1,913,260	\$ 2,184,103

**NOTE 3 – ACCOUNTS RECEIVABLE**

Accounts receivable as of June 30, 2004, are summarized as follows:

Tuition and fees	\$ 2,462,106
Auxiliary enterprises	773,734
Less allowance for doubtful accounts	(1,947,597)
Federal grants and contracts	5,073,113
State grants and contracts	312,570
Restitution receivable	126,912
Other	334,522
Net accounts receivable	\$ 7,135,360

The amounts shown above are reported at gross with all discounts and allowances disclosed.

The restitution receivable is due in monthly payments of \$485. No payments have been received since September 2002.

Allowances for doubtful accounts for student accounts receivable are established based upon actual losses experienced in prior years and evaluations of the current account portfolio. At June 30, 2004, the allowance for uncollectible student accounts is valued at \$1,947,597.

**SOUTH CAROLINA STATE UNIVERSITY  
NOTES TO FINANCIAL STATEMENTS**

**JUNE 30, 2004**

**NOTE 4 – LOANS RECEIVABLE**

Loans receivable at June 30, 2004 consist of the following:

Perkins Loan Program	\$ 1,769,393
Student Emergency Loan Fund	2,380
African American Loan Fund	1,108,464
Education Improvement Act	811,646
	<u>3,691,883</u>
Less allowance for doubtful loans	<u>(442,141)</u>
	<u><u>\$ 3,249,742</u></u>

**NOTE 5 – CAPITAL ASSETS**

Capital assets activity for the year ended June 30, 2004 is summarized as follows:

	Beginning Balance July 1, 2003 <u>As Restated</u>	<u>Increases</u>	<u>Decreases</u>	Ending Balance June 30, 2004
Capital assets not being depreciated:				
Land and improvements	\$ 1,568,558	\$ -		\$ 1,568,558
Construction in-progress	7,990,730	1,863,528	(3,463)	9,850,795
Total capital assets not being depreciated	<u>9,559,288</u>	<u>1,863,528</u>	<u>(3,463)</u>	<u>11,419,353</u>
Other capital assets:				
Buildings and improvements	68,383,504	4,663		68,388,167
Machinery, equipment, and other	7,751,493	281,786	(465,654)	7,567,625
Vehicles	950,275	108,697		1,058,972
Total other capital assets at historical cost	<u>77,085,272</u>	<u>395,146</u>	<u>(465,654)</u>	<u>77,014,764</u>
Less accumulated depreciation for:				
Buildings and improvements	(34,707,625)	(1,237,230)		(35,944,855)
Machinery, equipment, and other	(5,700,253)	(470,828)	463,284	(5,707,797)
Vehicles	(629,796)	(86,902)		(716,698)
Total accumulated depreciation	<u>(41,037,674)</u>	<u>(1,794,960)</u>	<u>463,284</u>	<u>(42,369,350)</u>
Other capital assets, net of accumulated depreciation	<u>36,047,598</u>	<u>(1,399,814)</u>	<u>(2,370)</u>	<u>34,645,414</u>
Capital assets, net of accumulated depreciation	<u>\$ 45,606,886</u>	<u>\$ 463,714</u>	<u>\$ (5,833)</u>	<u>\$ 46,064,767</u>

See Note 16 for details of prior period adjustments.

**SOUTH CAROLINA STATE UNIVERSITY  
NOTES TO FINANCIAL STATEMENTS**

**JUNE 30, 2004**

**NOTE 6 – PENSION PLAN**

The Retirement Division of the State Budget and Control Board maintains four independent defined benefit plans and issues its own publicly available Comprehensive Annual Financial Report (CAFR) which includes financial statements and required supplementary information. A copy of the separately issued CAFR may be obtained by writing to the Retirement Division, 202 Arbor Lake Drive, Columbia, South Carolina 29223. Furthermore, the Division and the four pension plans are included in the CAFR of the State of South Carolina.

Article X, Section 16, of the South Carolina Constitution requires that all State-operated retirement systems be funded on a sound actuarial basis. Title 9 of the South Carolina Code of Laws of 1976, as amended, prescribes requirements relating to membership, benefits, and employee/employer contributions for each pension plan. Employee and employer contribution rates for the South Carolina Retirement System and the Police Officers Retirement System are actuarially determined. Annual benefits, payable monthly for life, are based on length of service and on average final compensation.

The majority of employees of the University are covered by a retirement plan through the South Carolina Retirement System (SCRS), a cost-sharing multiple-employer defined benefit pension plan administered by the Retirement Division, a public employee retirement system. Generally all State employees are required to participate in and contribute to the SCRS as a condition of employment unless exempted by law as provided in Section 9-1-480 of the South Carolina Code of Laws. This plan provides retirement annuity benefits as well as disability, cost of living adjustment, death, and group-life insurance benefits to eligible employees and retirees.

Since July 1, 1988, employees participating in the SCRS have been required to contribute 6.0 percent of all compensation. Effective July 1, 2003, the employer contribution rate became 10.85 percent which included a 3.30 percent surcharge to fund retiree health and dental insurance coverage. The University's actual contributions to the SCRS for the three most recent fiscal years ending June 30, 2004, 2003, and 2002, were approximately \$2,047,000, \$2,118,000 and \$2,151,000, respectively, and equaled the required contributions of 7.55 percent (excluding the surcharge) for each year. Also, the University paid employer group-life insurance contributions of approximately \$41,000 in the current fiscal year at the rate of .15 percent of compensation. In addition to the \$2,047,000, the University paid approximately \$24,000 for the employee's share of contributions while the employee was on furlough.

The South Carolina Police Officers Retirement System (PORS) is a cost-sharing multiple-employer defined benefit public employee retirement plan administered by the Retirement Division. Generally all full-time employees whose principal duties are the preservation of public order or the protection or prevention and control of property destruction by fire are required to participate in and contribute to the System as a condition of employment. This plan provides annuity benefits as well as disability and group-life insurance benefits to eligible employees and retirees. In addition, participating employers in the PORS contribute to the accidental death fund which provides annuity benefits to beneficiaries of police officers and firemen killed in the actual performance of their duties. These benefits are independent of any other retirement benefits available to the beneficiary.

Since July 1, 1988, employees participating in the PORS have been required to contribute 6.5 percent of all compensation. Effective July 1, 2003, the employer contribution rate became 13.60 percent which, as for the SCRS, included the 3.30 percent surcharge. The University's actual contributions to the PORS for the years ending June 30, 2004, 2003 and 2002 were approximately \$51,000, \$55,000, and \$66,000, respectively, and equaled the required contributions of 10.3 percent (excluding the surcharge) for each year. Also, the University paid employer group-life insurance contributions of \$1,000 and accidental death insurance contributions of approximately \$1,000 in the current fiscal year for PORS participants. The rate for each of these insurance benefits is .20 percent of compensation. In addition to the \$51,000, the University paid approximately \$600 for the employee's share of contributions while the employee was on furlough.

Certain State employees may elect to participate in the Optional Retirement Program (ORP), a defined contribution plan. The ORP was established in 1987 under Title 9, Chapter 17, of the South Carolina Code of Laws. The ORP provides retirement and death benefits through the purchase of individual fixed or variable annuity contracts which are

**SOUTH CAROLINA STATE UNIVERSITY  
NOTES TO FINANCIAL STATEMENTS**

**JUNE 30, 2004**

issued to, and become the property of, the participants. The State assumes no liability for this plan other than for payment of contributions to designated insurance companies.

ORP participation is limited to faculty and administrative staff of the State's higher education institutions who meet all eligibility requirements for membership in the SCRS. To elect participation in the ORP, eligible employees must irrevocably waive SCRS membership within their first ninety days of employment.

Under State law, contributions to the ORP are required at the same rates as for the SCRS, 7.55 percent plus the retiree surcharge of 3.30 percent from the employer in fiscal year 2004.

Certain of the University's employees have elected to be covered under optional retirement plans. For the fiscal year, total contribution requirements to the ORP were approximately \$277,000 (excluding the surcharge) from the University as employer and approximately \$186,000 from its employees as plan members. 5.7 percent of the total contributions was remitted to the Retirement Division of the State Budget and Control Board. The balance was remitted directly to the respective annuity policy providers. The obligation for payment of benefits resides with the insurance companies. In addition to the \$277,000, the University paid approximately \$8,000 attributable to the employee's share of contributions while the employee was on furlough. Also, the University paid employer group-life insurance contributions of approximately \$5,600 in the current fiscal year at the rate of .15 percent of compensation.

Several optional deferred compensation plans are available to State employees and employers of its political subdivisions. Certain employees of the University have elected to participate. The multiple-employer plans, created under Internal Revenue Code Sections 457, 401(k), and 403(b), are administered by third parties and are not included in the Comprehensive Annual Financial Report of the State of South Carolina. Compensation deferred under the plans is placed in trust for the contributing employee. The State has no liability for losses under the plans. Employees may withdraw the current value of their contributions when they terminate State employment. Employees may also withdraw contributions prior to termination if they meet requirements specified by the applicable plan.

Effective January 1, 2001, Section 9-1-2210 of the South Carolina Code of Laws allows employees eligible for service retirement to participate in the Teacher and Employee Retention Incentive (TERI) Program. TERI participants may retire and begin accumulating retirement benefits on a deferred basis without terminating employment for up to five years. Upon termination of employment or at the end of the TERI period, whichever is earlier, participants will begin receiving monthly service retirement benefits which will include any cost of living adjustments granted during the TERI period. Because participants are considered retired during the TERI period, they do not make SCRS contributions, do not earn service credit, and are ineligible to receive group life insurance benefits or disability retirement benefits.

In accordance with the South Carolina Code of Laws and the annual Appropriation Act, the State of South Carolina provides certain health care, dental, and life insurance benefits to certain active and retired State employees and certain surviving dependents of retirees. All permanent full-time and certain permanent part-time employees of the University are eligible to receive these benefits. The State provides post-employment health and dental benefits to employees who retire from State service or who terminated with at least 20 years of State service who meet one or more of the eligibility requirements, such as age, length of service, and hire date. Generally those who retire must have at least 10 years of retirement service credit to qualify for these State-funded benefits. Benefits are effective at date of retirement when the employee is eligible for retirement benefits.

**NOTE 7 – POSTEMPLOYMENT AND OTHER EMPLOYEE BENEFITS**

These benefits are provided through annual appropriations by the General Assembly to the University for its active employees and to the State Budget and Control Board for all participating State retirees except the portions funded through the pension surcharge and provided from other applicable fund sources of the University for its active employees who are not funded by State General Fund appropriations. The State finances health and dental plan benefits on a pay-as-you-go basis. Approximately 26,400 retirees met these requirements as of June 30, 2004.

**SOUTH CAROLINA STATE UNIVERSITY  
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**JUNE 30, 2004**

The University recorded compensation and benefit expenses for these insurance benefits for active employees in the amount of approximately \$2,570,000 for the year ended June 30, 2004. As discussed in Note 6, the University paid approximately \$1,034,000 applicable to the 3.30 percent surcharge included with the employer contributions for retirement benefits. These amounts were remitted to the South Carolina Retirement Systems for distribution to the Office of Insurance Services for retiree health and dental insurance benefits.

Information regarding the cost of insurance benefits applicable to University retirees is not available. By State law, the University has no liability for retirement benefits. Accordingly, the cost of providing these benefits for retirees is not included in the accompanying financial statements.

In addition, the State General Assembly periodically directs the Retirement Systems to pay supplemental (cost of living) increases to retirees. Such increases are primarily funded from Systems' earnings; however, a portion of the required amount is appropriated from the State General Fund annually for the SCRS and PORS benefits.

**NOTE 8 – CONTINGENCIES, LITIGATION, AND PROJECT COMMITMENTS**

The University is a party to various lawsuits arising out of the normal conduct of its operations. In the opinion of University management, there are no material claims or lawsuits against the University that are not covered by insurance or whose settlement would materially affect the University's financial position except as noted in the following paragraph.

The University participates in certain Federal grant programs. These programs are subject to financial and compliance audits by the grantor or its representative. Such audits could lead to requests for reimbursement to the grantor agency for expenditures disallowed under terms of the grant. \$952,934 of cost were questioned in the prior year because the University did not match the federal expenditures with other funds as required. Management believes disallowances, if any, will not be material.

The University had outstanding commitments under construction contracts of approximately \$938,000 on projects that will be capitalized and \$226,000 which will not be capitalized at June 30, 2004. The University anticipates funding these projects out of current resources, private gifts, student fees and State capital improvement bond proceeds. The State has issued capital improvement bonds to fund improvements and expansion of state facilities. The University is not obligated to repay these funds to the State. Authorized funds can be requested as needed once State authorities have given approval to begin specific projects and project expenditures have been incurred. The University has \$9,372,517 of undrawn State capital improvement bonds.

**NOTE 9 – LEASE OBLIGATIONS**

Future commitments for capital leases and operating leases with remaining terms more than one year as of June 30, 2004 are as follows:

	Year Ended June 30,	Capital Leases	Operating Leases
	2005	\$ 192,838	\$ 981,250
	2006	9,516	969,173
	2007		946,533
	2008		946,533
	2009		788,778
		\$ 202,354	\$ 4,632,267
Total Minimum Lease Payments		\$ 202,354	\$ 4,632,267
Less Interest		(1,181)	
Present Value of Minimum Lease Payments		\$ 201,173	

**SOUTH CAROLINA STATE UNIVERSITY  
NOTES TO FINANCIAL STATEMENTS**

**JUNE 30, 2004**

Capital Leases

Capital leases for various equipment are payable in monthly installments from current resources to external parties. Certain capital leases provide for renewal and/or purchase options. During the current fiscal year, the University recorded a prior period adjustment of \$199,965 to reflect a capital lease obligation entered into in fiscal year 2002. The original lease amount was \$387,759. None of the equipment under the lease met the University's capitalization criteria. In fiscal year 2003, the University did not make any payments under this lease and the equipment was returned to the lessor. Subsequent to year-end, the University agreed to pay the lessor \$170,000 as a lump sum settlement under the lease. The \$170,000 is included in capital lease obligations as of June 30, 2004. In addition, the University prepaid a capital lease with a balance of \$78,433 during the year.

The cost of assets held under capital leases totaled \$48,552 as of June 30, 2004. Accumulated amortization of the equipment under capital leases totaled \$9,103 as of June 30, 2004. Current year's amortization expense on capital leases was \$6,069 and is included in depreciation expense. Interest expense on capital leases was \$2,825 for the current fiscal year.

Operating Leases

The University's noncancelable operating leases are primarily for the use of copier and computer equipment which expires in fiscal years 2005 through 2009. All leases are with external parties. In the normal course of business, operating leases are generally renewed or replaced by other leases and are generally payable on a monthly basis. In addition, the University pays an additional charge per copy for excess usage on certain copiers and has certain copier leases on which it pays based solely on usage. Total rental payments under operating leases were approximately \$548,000 for fiscal year 2004. Approximately \$306,000 of the \$548,000 was for contingent rentals.

**NOTE 10 – BONDS PAYABLE**

Bonds payable consisted of the following at June 30, 2004:

	Interest Rates	Maturity Dates	Balance
Stadium Improvement Revenue			
Bonds, Series 1993A	4.55 - 5.5%	2005 – 2013	\$ 1,725,000
Student and Faculty Housing Revenue			
Bonds, Series 1991A	6.15 - 6.7%	2005 – 2012	2,755,000
State Institution			
Bonds, Series 2003G	3.0 - 5.0%	2005 – 2023	<u>3,880,000</u>
<b>Total bonds payable</b>			<u><u>\$ 8,360,000</u></u>

Revenue received for dormitory and married student housing and any loan subsidies is restricted, up to the amount of annual debt requirements, for the payment of principal and interest on student and faculty housing revenue bonds. All stadium revenue, which includes admission fees, is restricted, up to the amount of annual debt requirements, for the payment of principal and interest on stadium improvement revenue bonds.

The University is required to establish debt reserve funds for the purpose of repaying the student and faculty housing revenue bonds and stadium improvement revenue bonds. In lieu of cash and investments on deposit, the University has purchased a surety bond for each of the revenue bond issues, which will satisfy the debt service requirements upon notice that there are insufficient funds to do so. Repayment of the principal and interest is guaranteed by the Municipal Bond Investors Assurance Corporation pursuant to its insurance policies through final maturity for each of these bonds.

**SOUTH CAROLINA STATE UNIVERSITY  
NOTES TO FINANCIAL STATEMENTS**

**JUNE 30, 2004**

During a prior year, the University borrowed \$4,000,000 through State Institution Bonds. State Institution Bonds are general obligation bonds of the State backed by the full faith, credit and taxing power of the State. Tuition and matriculation fees paid to the University are pledged for the payment of principal and interest on these bonds.

For the stadium improvement revenue bonds, the University must maintain its admission fees and special student fees at amounts necessary to maintain certain specified funding requirements. For the student and faculty housing revenue bonds, the University must generate net revenues available for debt service of not less than 120 percent of debt service payments due in each bond year.

The stadium improvement revenue bonds are subject to redemption prior to their maturity, at the option of the University, on or after January 1, 2004, in whole at any time or in part on any January 1 or July 1, upon thirty (30) days notice, at par. The student and faculty housing revenue bonds are subject to redemption prior to their maturity, at the option of the University, in whole at any time or in part on any June 1 or December 1, upon thirty (30) days notice, at par. As of fiscal year-end, none of these bonds have been called for redemption.

The State Institution Bonds maturing on and after June 1, 2014 are subject to redemption in whole or if in part on June 1, 2013 and all subsequent payment dates in inverse chronological order of maturity, at the option of the State of South Carolina, at the following redemption prices: June 1, 2013 and December 1, 2013 at 101 percent; June 1, 2014 and thereafter at par.

All of these bonds are payable in semiannual installments plus interest.

Scheduled amounts including interest required to complete payment of the student and faculty housing revenue bonds as of June 30, 2004 are as follows:

Year Ended June 30,	Principal	Interest	Totals
2005	\$ 275,000	\$ 178,463	\$ 453,463
2006	290,000	161,550	451,550
2007	310,000	143,425	453,425
2008	330,000	123,895	453,895
2009	350,000	102,775	452,775
2010 – 2012	1,200,000	163,775	1,363,775
Totals	<u>\$ 2,755,000</u>	<u>\$ 873,883</u>	<u>3,628,883</u>

Scheduled amounts including interest required to complete payment of the stadium improvement revenue bonds as of June 30, 2004 are as follows:

Year Ending June 30	Principal	Interest	Total
2005	\$ 155,000	\$ 88,692	\$ 243,692
2006	165,000	81,640	246,640
2007	170,000	73,885	243,885
2008	180,000	65,640	245,640
2009	190,000	56,640	246,640
2010 through 2013	865,000	120,950	985,950
Totals	<u>\$ 1,725,000</u>	<u>\$ 487,447</u>	<u>\$ 2,212,447</u>

**SOUTH CAROLINA STATE UNIVERSITY  
NOTES TO FINANCIAL STATEMENTS**

**JUNE 30, 2004**

Scheduled amounts including interest required to complete payment of the State Institutional bonds as of June 30, 2004 are as follows:

<u>Year Ending June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2005	\$ 130,000	\$ 143,806	\$ 273,806
2006	130,000	137,306	267,306
2007	140,000	130,806	270,806
2008	150,000	123,806	273,806
2009	155,000	119,306	274,306
2010 through 2014	895,000	522,431	1,417,431
2015 through 2019	1,140,000	357,781	1,497,781
2020 through 2024	1,140,000	118,125	1,258,125
Totals	<u>\$ 3,880,000</u>	<u>\$ 1,653,367</u>	<u>\$ 5,533,367</u>

The University reported principal retirements and interest expense related to the bonds payable for the year ended June 30, 2004 as follows:

<u>Bond Type</u>	<u>Principal</u>	<u>Interest</u>
Student and Faculty Housing Revenue	\$ 260,000	\$ 192,189
Stadium Improvement Revenue	155,000	92,103
State Institution	120,000	148,748
	<u>\$ 535,000</u>	<u>\$ 433,040</u>

**NOTE 11 – LONG-TERM LIABILITIES**

Long-term liability activity for the year ended June 30, 2004 was as follows:

	June 30, 2003 as restated	Additions	Reductions	June 30, 2004	Due w ithin One year
Accrued compensated absences and related benefits	\$ 2,899,782	\$ 1,554,196	\$ 1,700,544	\$ 2,753,434	\$ 1,700,000
Student housing deposits		107,570		107,570	26,888
Bonds payable	8,895,000		535,000	8,360,000	560,000
Capital leases payable	329,584		128,411	201,173	191,775
Totals	<u>\$ 12,124,366</u>	<u>\$ 1,661,766</u>	<u>\$ 2,363,955</u>	<u>\$ 11,422,177</u>	<u>\$ 2,478,663</u>

Additional information regarding bonds payable is included in Note 10. Additional information regarding capital lease obligations is included in Note 9.

**NOTE 12 – RELATED PARTIES**

Certain separately chartered legal entities whose activities are related to those of the University exist primarily to provide financial assistance and other support to the University and its educational program. They include the S.T.A.T.E. Club and the South Carolina State Alumni Association. Financial statements are not available for these entities. The activities of these entities are not included in the University's financial statements.

**SOUTH CAROLINA STATE UNIVERSITY  
NOTES TO FINANCIAL STATEMENTS**

**JUNE 30, 2004**

**NOTE 13 – COMPONENT UNIT**

The University's financial statements include \$132,831 due from the Foundation for reimbursement of various personnel and other costs. This amount is included in long-term assets on the statement of net assets.

Various financial activities occurred between the University and the Foundation. A summary of transactions for the year ended June 30, 2004 follows:

Scholarships were awarded by the University and funded by the Foundation. The University recorded these amounts as gift revenue and either tuition discounts or scholarship expense.	\$ 243,359
Stipends were paid by the University and funded by the Foundation. The University recorded these amounts as gift revenue and stipend expense.	\$ 11,014
Scholarships were awarded by the Foundation directly to students. These amounts were not recorded in the University's financial statements.	\$ 7,781
Reimbursements for University employee time and other costs were paid by the University on behalf of the Foundation and reimbursed by the Foundation. The University recorded these reimbursements as a reduction of the applicable operating expenses.	\$ 71,720
The Foundation purchased various food services and items from the University which were recorded as sales and services of auxiliary enterprises	\$ 31,458
The University paid rent to the Foundation for the use of certain land located next to the University.	\$ 10,079
The University reimbursed the Foundation for costs associated with the operation of the State Room at the Columbia Metropolitan Airport.	\$ 35,761
The Foundation and the S.T.A.T.E. Club made various payments on behalf of the University that were not recorded in its financial statements.	\$ 94,869
The Foundation and the S.T.A.T.E. Club purchased football tickets from the University that is recorded as ticket sales.	\$ 27,520

**NOTE 14 – RISK MANAGEMENT**

The University is exposed to various risks of loss and maintains State or commercial insurance coverage for each of those risks. Management believes such coverage is sufficient to preclude any significant uninsured losses for the covered risks. Settlement claims have not exceeded this coverage in any of the past three years.

The State of South Carolina believes it is more economical to manage certain risks internally and set aside assets for claim settlement. Several state funds accumulate assets and the State itself assumes substantially all the risk for the following claims of covered employees:

- Unemployment compensation benefits
- Worker's compensation benefits for job-related illnesses or injuries
- Health and dental insurance benefits
- Long-term disability and group-life insurance benefits

Employees can elect health insurance coverage through either a health maintenance organization or through the State's self-insured plan.

**SOUTH CAROLINA STATE UNIVERSITY  
NOTES TO FINANCIAL STATEMENTS**

**JUNE 30, 2004**

The University and other entities pay premiums to the State's Insurance Reserve Fund (IRF), which issues policies, accumulates assets to cover the risk of loss, and pays claims incurred for covered losses relating to the following activities:

- Theft, damage to, or destruction of assets
- Real property, its contents, and other equipment
- Motor vehicles and watercraft
- Torts
- Business interruptions
- Natural disasters
- Medical malpractice claims against covered employees

The IRF is a self-insurer and purchases reinsurance to obtain certain services and to limit losses in certain areas. The IRF's rates are determined actuarially.

The University obtains coverage through a commercial insurer for employee fidelity bond insurance for all employees for losses arising from theft or misappropriation and for health insurance for its student-athletes.

**NOTE 14 – STATE APPROPRIATIONS**

The following are the appropriations as enacted by the General Assembly and reported in the financial statements for the fiscal year ended June 30, 2004:

<b>NON-CAPITAL APPROPRIATIONS</b>	
Current year's appropriations:	
Original appropriations per Annual Appropriations Act	\$ 21,709,742
Mid-year appropriation reductions	(217,097)
Supplemental appropriations for Business School	
Accreditation and Transportation Center (Proviso 5A.23)	916,070
From State Department of Education for Felton	
Lab School	<u>167,756</u>
<b>Total non-capital appropriations recorded as current year revenue</b>	<b><u>\$ 22,576,471</u></b>
<b>CAPITAL IMPROVEMENT BONDS PROCEEDS</b>	
Current year receipts	\$ 1,304,525
Add prior year deferred revenue	402,434
Less, current year deferred revenue	<u>(141,235)</u>
<b>Total capital improvement bonds proceeds recorded as current year revenue</b>	<b><u>\$ 1,565,724</u></b>

**SOUTH CAROLINA STATE UNIVERSITY  
NOTES TO FINANCIAL STATEMENTS**

**JUNE 30, 2004**

**NOTE 15. SUBSEQUENT EVENTS**

The Board of Trustees approved the refinancing of the student and faculty housing revenue bonds in order to reduce costs over the remaining life of the bonds.

**NOTE 16. PRIOR PERIOD ADJUSTMENTS**

The University made adjustments to correct the balances of various assets and liabilities as of June 30, 2003 as detailed below.

Net assets, July 1, 2003, as previously reported	\$ 46,733,701
Corrections of errors:	
Adjust cash balances	141,955
Adjust beginning prepaid expenses	67,828
Adjust construction in progress	(25,000)
Adjust student accounts receivable	14,202
Adjust carrying value of furniture and equipment	(335,079)
Adjust carrying value of vehicles	176,621
Adjust accumulated depreciation	(954,847)
Adjust accounts payable	(75,000)
Adjust capital leases payable	(199,965)
Adjust deposits held for others	4,924
Adjust Federal grants receivable	(680,538)
	<hr/>
Net assets, July 1, 2003, as restated	<u>\$ 44,868,802</u>



CERTIFIED PUBLIC ACCOUNTANTS AND FINANCIAL CONSULTANTS

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

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

We have audited the financial statements of South Carolina State University (the University) as of and for the year ended June 30, 2004, and have issued our report thereon dated March 22, 2005. 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.

**Internal Control Over Financial Reporting**

In planning and performing our audit, we considered the Department's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. However, we noted 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 University's ability to record, process, summarize and report financial data consistent with the assertion of management in the financial statements. The reportable conditions are described in the accompanying Schedule of Findings and Questioned Costs as items 04-8 to 04-16.

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 misstatements caused by error or fraud in amounts that would be material in relation 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 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, we believe the reportable conditions described on the accompanying Schedule of Findings and Questioned Costs are material weaknesses.

We also noted other matters involving the internal control over financial reporting as described on page 58.

**Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the University's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, 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 the accompanying Schedule of Findings and Questioned Costs as items 04-1 to 04-7.



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This report is intended solely for the information and use of the Board of Trustees, management and the federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

*Rogers & Latham, PA*

March 22, 2005



CERTIFIED PUBLIC ACCOUNTANTS AND FINANCIAL CONSULTANTS

**REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO  
EACH MAJOR PROGRAMS AND INTERNAL CONTROL OVER COMPLIANCE  
IN ACCORDANCE WITH OMB CIRCULAR A-133 SCHEDULE  
OF EXPENDITURES OF FEDERAL AWARDS**

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

**Compliance**

We have audited the compliance of South Carolina State University (the University) with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to its major federal programs for the year ended June 30, 2004. The University's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to its major federal program is the responsibility of the University's management. Our responsibility is to express an opinion on the University's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States; and OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the University's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the University's compliance with those requirements.

As described in item 04-24, in the accompanying schedule of findings and questioned costs, the University did not comply with the requirements regarding monitoring that are applicable to the Highway Training and Education, Other NASA programs, Biological Sciences, Teacher Quality Enhancement Grants, and the Basic Scientific Research programs. Compliance with such requirements is necessary, in our opinion, for the University to comply with the requirements applicable to these programs.

In our opinion, except for the noncompliance described in the preceding paragraph, the University complied, in all material respects, with the requirements applicable to each of its major federal programs for the year ended June 30, 2004. The results of our auditing procedures also disclosed other instances of noncompliance with those requirements, that are required to be reported in accordance with OMB Circular A-133 and that are described in the accompanying Schedule of Findings and Questioned Costs as items 04-17 to 04-23.



• **SCACPA**

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## Internal Control Over Compliance

The management of the University is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the University's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

We noted certain matters involving the internal control over compliance 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 compliance that, in our judgment, could adversely affect the University's ability to administer a major federal program in accordance with applicable requirements of laws, regulations, contracts and grants. The reportable conditions are described in the accompanying Schedule of Findings and Questioned Costs as items 04-18 to 04-24.

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 noncompliance with applicable requirements of laws, regulations, contracts or grants that would be material to a major federal program 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 compliance 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, we believe the reportable conditions described on the accompanying Schedule of Findings and Questioned Costs are material weaknesses.

This report is intended solely for the information and use of the Board of Trustees, management and the federal awarding agencies and pass through entities and is not intended to be and should not be used by anyone other than these specified parties.

*Rogers + Lalan, PA*

March 22, 2005

**SOUTH CAROLINA STATE UNIVERSITY  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE YEAR ENDED JUNE 30, 2004**

<u>Federal Grantor/Program Title</u>	<u>Federal CFDA Number</u>	<u>Total Expenditures</u>	<u>Pass-Through Expenditures to Subrecipients</u>
<b>Research and Development Cluster</b>			
<b>Direct Programs:</b>			
<b>U.S. Department of Agriculture</b>			
Payments to 1890 Land-Grant Colleges and Tuskegee University	10.205	\$ 783,044	\$ -
1890 Institution Capacity Building Grants	10.216	93,940	
Science and Education Resources Development	10.999	18,192	
<b>U.S. Department of Defense</b>			
Basic Applied and Advanced Research in Science and Engineering	12.630	18,112	
<b>U.S. Department of Transportation</b>			
Highway Planning and Construction	20.205	163,123	
Highway Training and Education	20.215	398,705	
National Motor Carrier	20.218	16,198	
Pipeline Safety	20.700	16,184	
University Transportation Centers Program	20.701	90,236	
<b>National Aeronautics and Space Administration</b>			
Other NASA Programs	43.999	370,792	
<b>National Science Foundation</b>			
Biological Sciences	47.074	120	
<b>U.S. Department of Veterans Affairs</b>			
Veterans Information and Assistance	64.999	92,932	
<b>U.S. Department of Energy</b>			
Office of Environmental Cleanup and Acceleration	81.104	800	
	81.999	94,187	
<b>U.S. Department of Health and Human Services</b>			
Mental Health Research Grants	93.242	21,847	
National Center on Minority Health and Health Disparities	93.375	372,782	
Aging Research	93.866	57,946	
		2,609,140	
<b>Pass-through State Agencies:</b>			
<b>U.S. Department of Agricultural</b>			
Passed Through SC Department of Social Services Higher Education Challenge Grants	10.217	1,845	
<b>U.S. Department of Commerce</b>			
Passed Through South Carolina Sea Grant Consortium Sea Grant Support	11.417	22,454	
<b>U.S. Department of Energy</b>			
Passed Through Medical University of South Carolina Office of Environmental Cleanup and Acceleration	81.104	21,523	

**SOUTH CAROLINA STATE UNIVERSITY  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE YEAR ENDED JUNE 30, 2004**

<u>Federal Grantor/Program Title</u>	<u>Federal CFDA Number</u>	<u>Total Expenditures</u>	<u>Pass-Through Expenditures to Subrecipients</u>
<b>U.S. Department of Health and Human Services</b>			
Passed Through University of South Carolina			
National Center for Research Resources	93.389	187,857	
Population Research	93.864	15,222	
		<u>248,901</u>	<u>-</u>
<b>Pass-through Other Than State Agencies:</b>			
<b>U.S. Department of Commerce</b>			
Passed Through Florida A&M University			
Educational Partnership Program	11.481	189,709	
<b>National Aeronautics and Space Administration</b>			
Passed Through University of Alabama			
Aerospace Education Services Program	43.001	20,617	
Passed Through Tennessee State University			
Center for Automated Space Science	43.999	64,816	
<b>Environmental Protection Agency</b>			
Passed Through Department of Health and			
Environmental Control			
Nonpoint Source Implementation Grants	66.460	15,526	
<b>U.S. Department of Health and Human Services</b>			
Passed Through Central State University			
Family and Community Violence Prevention Program	93.910	36,805	
		<u>327,473</u>	<u>-</u>
Total Research and Development Cluster		3,185,514	-
<b>Student Financial Assistance Programs Cluster</b>			
<b>U.S. Department of Education</b>			
Federal Supplemental Educational Opportunity			
Grants	84.007	723,260	
Higher Education - Institutional Aid	84.031	2,559,232	
Federal Work-Study Program	84.033	387,792	
Federal Perkins Loan Program - Federal			
Capital Contribution	84.038	2,095,969	
Federal Pell Grant Program	84.063	7,026,934	
Total Higher Education Cluster		<u>12,793,187</u>	<u>-</u>

**SOUTH CAROLINA STATE UNIVERSITY  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE YEAR ENDED JUNE 30, 2004**

<u>Federal Grantor/Program Title</u>	<u>Federal CFDA Number</u>	<u>Total Expenditures</u>	<u>Pass-Through Expenditures to Subrecipients</u>
<b>Non-Cluster Programs</b>			
<b>Direct Programs:</b>			
<b>U.S. Department of Agriculture</b>			
1890 Institution Capacity Building Grants	10.216	42,800	
Outreach and Assistance for Socially Disadvantaged Farmers and Ranchers	10.443	1,146	
Cooperative Extension Service	10.500	1,223,588	
Summer Food Service Program for Children	10.559	13,917	
Rural Business Enterprise Grants	10.769	4,977	
Rural Cooperative Development Grants	10.771	81,547	
1890 Land Institutions Rural Entrepreneurial Outreach Program	10.856	124,714	
<b>U.S. Department of Commerce</b>			
Educational Partnership Program	11.481	166,723	
<b>U.S. Department of Defense</b>			
Procurement Technical Assistance for Business Firms	12.002	3,395	
Basic and Applied Scientific Research	12.300	28,861	
Community Economic Adjustment Planning Assistance	12.607	470	
<b>U.S. Department of Housing and Urban Development</b>			
Historically Black Colleges and Universities	14.250	23,871	
<b>U.S. Department of Transportation</b>			
Highway Training and Education	20.215	1,361,140	1,290,122
University Transportation Centers Program	20.701	92,781	
<b>National Aeronautics and Space Administration</b>			
Aerospace Education Services Program	43.001	224,242	
Other NASA Programs	43.999	258,580	30,000
<b>National Science Foundation</b>			
Biological Sciences	47.074	777,888	450,875
Education and Human Resources	47.076	19,897	
<b>Small Business Administration</b>			
Small Business Development Center	59.037	3,383	
<b>National Science Foundation</b>			
Biological Sciences	64.999	425	
<b>U.S. Department of Energy</b>			
Office of Environmental Cleanup and Acceleration Energy Efficiency and Renewable Energy Information Dissemination, Outreach, Training and Technical Analysis/Assistance	81.104	249,587	
	81.117	3,442	

**SOUTH CAROLINA STATE UNIVERSITY  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE YEAR ENDED JUNE 30, 2004**

<u>Federal Grantor/Program Title</u>	<u>Federal CFDA Number</u>	<u>Total Expenditures</u>	<u>Pass-Through Expenditures to Subrecipients</u>
<b>U.S. Department of Education</b>			
TRIO - Student Support Services	84.042	212,343	
TRIO - Upward Bound	84.047	110,463	
TRIO - Educational Opportunity Centers	84.066	248,865	
PHR - Graduate and Professional Study Fellowships Program	84.094B	1,219	
Minority Science and Engineering Improvement	84.120	95,984	
Rehabilitation Long-term Training	84.129	108,494	
Business and International Education Projects	84.153	49,352	
State Grants for Innovative Programs	84.298	602	
Special Education - Personnel Preparation to Improve Services and Results for Children with Disabilities	84.325	115,422	
Gaining Early Awareness and Readiness for Undergraduate Programs	84.334	254,496	
Teacher Quality Enhancement Grants	84.336	700,872	1,630
<b>U.S. Department of Health and Human Services</b>			
Maternal and Child Health Federal Consolidated Programs	93.110	104,025	
Community Services Block Grant - Discretionary Award	93.570	94,714	
Child Health and Human Development Extramural Research	93.865	1,200	
Rural Health Outreach and Rural Network Development Program	93.912	152,435	
		6,957,860	1,772,627
<b>Indirect Programs:</b>			
<b>Pass-through State Agencies:</b>			
<b>U.S. Department of Agricultural</b>			
Passed Through SC Department of Social Services Summer Food Service Program for Children State Administrative Matching Grants for Food Stamp Program	10.559	10,131	
Passed Through Clemson University Cooperative Extension Service	10.561	393	
	10.500	527	
<b>U.S. Department of Justice</b>			
Passed Through SC Department of Juvenile Justice Enforcing Underage Drinking Laws Program	16.727	6,660	
<b>U.S. Department of Transportation</b>			
Passed Through SC Department of Public Safety Highway Planning and Construction	20.205	18,892	
Passed Through SC Department of Transportation Highway Planning and Construction	20.205	103,061	
Federal Transit - Capital Investment Grants	20.500	70,513	
Federal Transit - Metropolitan Planning Grants	20.505	29,038	

**SOUTH CAROLINA STATE UNIVERSITY  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE YEAR ENDED JUNE 30, 2004**

<u>Federal Grantor/Program Title</u>	<u>Federal CFDA Number</u>	<u>Total Expenditures</u>	<u>Pass-Through Expenditures to Subrecipients</u>
<b>National Science Foundation</b>			
Passed Through University of South Carolina Mathematical and Physical Science	47.049	380	
Education and Human Resources	47.076	9,801	
Passed Through SC Department of Education Education and Human Resources	47.076	52,954	
<b>Small Business Administration</b>			
Passed Through University of South Carolina Small Business Development Center	59.037	157,394	
<b>U.S. Department of Energy</b>			
Passed Through SC University Research and Education Foundation University Reactor Infrastructure and Education Support	81.114	579,072	210,290
<b>U.S. Department of Education</b>			
Passed Through SC Department of Transportation Mathematics and Science Partnerships	84.366	10,455	
Passed Through University of South Carolina Improving Teacher Quality State Grants	84.367	13,201	
<b>U.S. Department of Health and Human Services</b>			
Passed Through Medical University of South Carolina National Center for Research Resources	93.389	3,319	
Passed Through University of South Carolina National Center for Research Resources	93.389	140,244	
Passed Through SC Department of Social Services Child Welfare Services Training Grants	93.648	139,812	
Passed Through Central State University Family and Community Violence Prevention Program	93.910	226,229	
<b>U.S. Department of Homeland Security</b>			
Research Projects	97.002	21,355	
<b>Total Passed Through State Agencies</b>		<u>1,593,431</u>	<u>210,290</u>
<b>Total Federal Assistance</b>		<u>\$ 24,529,992</u>	<u>\$ 1,982,917</u>

The Schedule of Expenditures of Federal Awards has been prepared on the accrual basis of accounting.

**SOUTH CAROLINA STATE UNIVERSITY  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS**

**FOR THE YEAR ENDED JUNE 30, 2004**

**SUMMARY OF AUDITOR'S RESULTS**

**FINANCIAL STATEMENTS:**

1. An unqualified opinion dated March 22, 2005 on the financial statements of the University for the year ended June 30, 2004 was issued.
2. Reportable conditions related to internal control over financial reporting were noted as detailed in findings 04-8 through 04-16. All of the findings reported are material weaknesses.
3. Instances of noncompliance which were material to the financial statements were noted as described in findings 04-1 through 04-7.

**FEDERAL AWARDS:**

4. A qualified opinion on compliance for the major programs dated March 22, 2005 was issued.
5. Findings related to internal control over major programs required to be reported under Section .510(a) of OMB Circular A-133 are reported as findings 04-17 through 04-24.
6. In addition to the Research and Development Cluster and Student Financial Assistance Programs Cluster as detailed on the Schedule of Expenditures of Federal Awards, the major programs of the University are as follows:

<u>CFDA #</u>	<u>Program Title</u>
10.500	Cooperative Extension Service
84.042	TRIO- Student Support Services
84.047	TRIO - Upward Bound
84.066	TRIO - Educational Opportunity Centers

7. The dollar threshold used to distinguish between Type A and Type B programs was \$735,900.
8. The University was not determined to be a low-risk auditee.

**FINANCIAL STATEMENT FINDINGS**

**04-1 REQUIRED APPROVAL FOR LEASES NOT OBTAINED**

**STATEMENT OF CONDITION:**

The University entered into two agreements in prior years for which the required approval of the State Budget and Control Board Office of General Services approval was not received. The first lease was with the South Carolina State University Foundation (the Foundation) for real estate located near the campus in Orangeburg. Total rental expense under this lease for the year ended June 30, 2004 was approximately \$10,000. The other lease was for the STATE room at the Columbia Metropolitan Airport. This agreement was actually between the Foundation and the Columbia Airport Commission (the Commission) and was structured as a license agreement. The University signed an agreement with the Foundation that it would be responsible for the payments to the Commission for the annual license agreement and would also pay the cost of operations for the room. Total expenses attributable to this room for the year ended June 30, 2004 were approximately \$8,400. This same finding was also cited in the prior year's management letter.

CRITERIA

Section 19-446.1000 of the South Carolina Code of Regulations requires the approval of the Office of General Services for the lease, rental or use of non state-owned real estate.

EFFECT OF CONDITION:

Failure to comply with State regulations.

CAUSE OF CONDITION:

University personnel were apparently not aware of this requirement prior to entering into agreements with related parties.

RECOMMENDATION:

We recommend that the Office of General Services approve all agreements for the use of real property.

**04-2 ANNUAL PERSONNEL REVIEWS NOT PERFORMED**

STATEMENT OF CONDITION:

The University is not performing annual performance reviews on all personnel as required. This same finding was cited in the prior year's management letter.

CRITERIA:

South Carolina State Law and South Carolina State University personnel policies require that all employees must be evaluated at least annually prior to their annual performance review date.

EFFECT OF CONDITION:

Failure to comply with State regulations and failure to ensure that employees performance is documented in their personnel file.

CAUSE OF CONDITION:

Lack of oversight by the personnel responsible for ensuring the reviews were performed.

RECOMMENDATION:

We recommend that the performance reviews be performed as required. This will assist the University in ensuring that it has qualified employees that are performing their job in a satisfactory manner.

**04-3 AUXILIARY ENTERPRISE OPERATING AT A DEFICIT**

STATEMENT OF CONDITION:

The housing auxiliary enterprise has operated at an accumulated deficit. The same finding was cited in prior years' management letters.

CRITERIA:

Proviso 72.17 of the 2003 – 2004 Appropriations Act requires that fees applicable to student housing and dining facilities be sufficient to fully cover the total direct operating and capital expenses of providing such facilities and services.

EFFECT OF CONDITION:

The University is in violation of State law.

CAUSE OF CONDITION:

Unknown

RECOMMENDATION:

We recommend that the University implement procedures to cover these deficits and set rates high enough in the future to ensure that all auxiliary enterprises are self-supporting.

**04-4 LEGAL FEES PAID EXCEEDED APPROVED LIMITS**

STATEMENT OF CONDITION:

The University paid two law firms amounts in excess of the amounts approved by the State Attorney General's Office. In addition, the University had to request certain approval forms from the State Attorney General's Office since they could not locate an approved copy of the forms authorizing the payment of attorney fees in their files.

CRITERIA:

Proviso 32.2 of the 2003 – 2004 Appropriations Act requires that State agencies receive written approval of the Attorney General before any attorney at law is engaged for a fee.

EFFECT OF CONDITION:

The University is in violation of State law.

CAUSE OF CONDITION:

Unknown

RECOMMENDATION:

We recommend that the University implement procedures to ensure that prior approval is received before attorneys are engaged and that the University does not pay fees to attorneys in excess of the approved amounts.

**04-5 PURCHASES EXCEEDED APPROVED PROCUREMENT LIMITS**

STATEMENT OF CONDITION:

Our review of one month's charges on purchasing cards disclosed three instances in which two purchases were made from the same company on the same day which in total exceeded the approved limit of \$1,500 to use the purchasing card.

CRITERIA:

Section 11-35-1550 of the Procurement Code states that procurement requirements shall not be artificially divided to constitute a small purchase.

EFFECT OF CONDITION:

The University is in violation of State law.

**CAUSE OF CONDITION:**

Unknown

**RECOMMENDATION:**

We recommend that the University ensure that all purchasing cardholders are aware of the procurement requirements.

**04-6 INDIRECT COSTS DUE GENERAL FUND OF THE STATE NOT TIMELY REMITTED**

**STATEMENT OF CONDITION:**

The University did not timely remit the indirect costs for the years June 30, 2004 to the General Fund of the State as required. The University owes the State approximately \$121,000 for indirect costs. The same condition was cited in the prior years' management letters.

**CRITERIA:**

South Carolina Code of Laws Section 2-65-70.

**EFFECT OF CONDITION:**

Failure to comply with State laws and regulations

**CAUSE OF CONDITION:**

Shortage of financial resources and failure of University personnel to comply with requirement.

**RECOMMENDATION:**

We recommend that that all indirect costs recoveries are receipted to the correct subfund at the State to ensure that the amounts due are remitted timely.

**04-7 UNIVERSITY FUNDS DEPOSITED INTO FOUNDATION ACCOUNT**

**STATEMENT OF CONDITION:**

Our audit disclosed two instances where University funds were deposited into South Carolina State University Foundation bank accounts. In the first instance, a check for approximately \$330,000 made out to the University for grant funds was deposited into the Foundation on January 7, 2004. The fact that the deposit was put into the wrong account was discovered on January 22, 2004 at which time the University requested a check from the Foundation. The Foundation did not reimburse the University until May 17, 2004. In the second instance, funds from a federal grant to the University were deposited into the Foundation with the Foundation making the expenditures under the grant. The total amount deposited into the Foundation under this grant was approximately \$197,000.

**CRITERIA:**

South Carolina Code of Laws Section 11-13-45 requires that all federal funds, etc. be deposited into the State Treasury.

**EFFECT OF CONDITION:**

Failure to comply with State laws and regulations

**CAUSE OF CONDITION:**

The State was not able to earn interest on these funds. Also, the University could have incurred a loss of assets if the Foundation was not able to repay the funds and the University was responsible to make sure the expenditures were allowable under the terms of the grants.

**RECOMMENDATION:**

We recommend that all University funds be deposited into State bank accounts.

**04-8 FINANCIAL RECORD DEFICIENCIES**

**STATEMENT OF CONDITION:**

The financial records of the University do not accurately reflect correct account balances. University personnel are making journal entries to various accounts because they are not aware of the relationships between various systems of the University and their effect on certain accounts. We noted instances of accounts being closed out even though there should be balances in these accounts. Some general comments of the deficiencies noted are detailed below. Additional specific examples are cited in the remaining reportable condition comments.

1. The University did not post of all the adjusting entries from the prior year to their general ledger causing numerous beginning asset, liabilities and fund balances not to agree with the prior year's ending amounts. The only way to prepare working trial balances to use in preparing the current year's financial statements was to use a spreadsheet program with the prior year's ending amounts and then posting the current year's transactions to spreadsheet.
2. The University's trial balance supplied to us on December 15, 2004 (5½ months after the end of the fiscal year) still required in excess of 90 adjustments to be posted to accurately reflect the financial position and results of operations for the year ended June 30, 2004. These additional journal entries resulted in a net decrease in the current year's operating results of approximately \$1,100,000, a decrease in total assets of approximately \$5,800,000 and a decrease in liabilities of approximately \$3,270,000 in addition to numerous prior period adjustments.
3. Numerous workpapers supporting proposed adjustments received from the University staff were incorrect for various reasons and had to be reworked multiple times.
4. The University is not reconciling the loan activity recorded in its general ledger to the loan activity reported in its Loan Management System (LMS).
5. One of the agency funds had a asset account with a balance of approximately \$21,569,000 for which the University had no support. After extensive research, it was determined that the asset should be offset against a liability account.
6. Many of the journal entries that the University prepared for posting year-end audit adjustments were incorrect. Some were prepared for incorrect amounts or posted to incorrect accounts. The University posted journal entries to their spreadsheet supporting the financial statements and did not provide copies to the auditors. In other instances, the University provided the auditors with journal entries and did not post them to their spreadsheet.
7. The University had to engage the assistance of an outside firm of Certified Public Accountants to assist them with various account reconciliations and workpaper preparation because the University did not have adequate trained staff.
8. The accrued payroll and related liabilities accounts are not reconciled to the supporting documentation and subsequent payments. We noted that accounts were adjusted to a zero balance when they should

have had a balance and numerous accounts had a debit balance when they should have had a credit balance.

9. The University's general ledger reflects various liability accounts relating to collections on students accounts receivable. Most of these entries are based on feeds from the student information system (SIS). There was no report prepared by the University that could be used to reconcile the balances in these accounts.
10. Numerous accounts are recorded in the wrong funds in the University's general ledger. We noted that student housing deposits were recorded by the University as an agency fund transaction instead of as a unrestricted fund. In addition, numerous accounts were posted as federal restricted funds when they should have been unrestricted funds. In addition, we noted instances where the revenue would be reported in a restricted fund and the related expenses would be reported in an unrestricted fund.

The same or similar types of deficiencies were also cited in prior years' management letters.

**CRITERIA:**

Generally accepted accounting principles for the recording of transactions and the maintenance of accounting records.

**EFFECT OF CONDITION:**

The financial records of the University do not accurately reflect its financial position or results of operations and the University does not have adequate safeguards in place to prevent the loss of assets.

**CAUSE OF CONDITION:**

There was a lack of policies and procedures in place to ensure that all account balances are stated correctly and that controls are in place to safeguard assets. There is also a lack of coordination between the various Departments of the University to ensure that all required reconciliations are being performed. Various University personnel are not adequately trained to perform their assigned functions.

**RECOMMENDATION:**

We recommend that the University review and revise its procedures to ensure that all accounts are reconciled to supporting documentation monthly. University personnel should be aware of the consequences of recording any adjusting entries and all entries should be reviewed and approved by a designated responsible staff person that understands the impact on all of the accounts affected before they are posted. Revisions should be made to any software programs necessary to ensure that all transactions between the various accounting systems are posted properly and that all required reports are produced to allow University personnel to reconcile the accounts. The University should it has qualified trained personnel in all areas.

**04-9 FINDINGS RELATED TO VARIOUS ACCOUNTS**

**STATEMENT OF CONDITION:**

In addition to the findings cited above, we noted the following conditions regarding certain amounts recorded in the University's general ledger. This listing is not intended to be all-inclusive.

1. The University is reconciling cash in total and not by fund.
2. The University is not timely voiding old outstanding checks.
3. The outstanding check listing for one of the bank accounts did not agree to the amount of outstanding checks shown on one of the reconciliations by approximately \$9,000.

4. The bank reconciliation provided to us for one of the bank accounts listed an irreconcilable difference of approximately \$16,000.
5. The University had one bank account with a balance of approximately \$151,000 on which they were receiving interest that was not recorded in its general ledger.
6. Bank reconciliations are not being performed and reviewed in a timely manner.
7. The University's policy is to close out all petty cash funds as of each year-end. The Cashier's office received \$3,600 from the bookstore and ticket office in June, 2004 to close out the accounts but the funds were not actually deposited until three month's later creating a reconciling item on one of the bank reconciliations.
8. The University recorded a transfer of funds from one bank account to another as revenue overstating revenue by approximately \$913,000. The transfer from the bank account was not recorded in the University's general ledger.
9. The University recorded cash received in July, 2004 as cash on hand at June 30, 2004 overstating cash and understating receivables by approximately \$175,000.
10. The University only records student accounts receivable on its general ledger at year-end. There is no reconciliation of student accounts receivable during the year to ensure that all charges are posted to the student accounts. Even though the University wrote off approximately \$1.1 million in student receivables at the beginning of the year, these receivables were still reflected in the balances recorded by the University at June 30, 2004. The listing did not breakdown the type of account receivable so that the University could accurately record the revenue as being from tuition or from auxiliary enterprises.
11. As cited in the prior year's management letter, the University received a \$32,000 reimbursement of federal expenditures that was for stipends paid to various students. The funds were credited to the student accounts instead of to the federal grants receivable account when they were received. This created credit balances in some student accounts that were then refunded to the student. The University has taken no action to try to recover the funds from the students.
12. The University proposed an adjustment to record approximately \$321,000 in revenues and a related receivable for construction projects that were funded with State Institution Bonds that had already been received.
13. The University did not record entries to reverse prior year accounts receivable thereby overstating the receivables by approximately \$67,000.
14. The University did not review receipts received subsequent to year-end and failed to record approximately \$189,000 in receivables applicable to the year ended June 30, 2004.
15. The schedule provided to support prepaid expenses as of June 30, 2004 contained an error in the term of one of the contracts thereby overstating prepaid expenses. In two other instances, the amounts shown as prepaid were understated because various invoices were excluded from the worksheet.
16. The University understated prepaid expenses as of June 30, 2003 due to not reviewing all expenditures to determine whether they should have been recorded as prepaid.
17. The University did not include student loans that had entered into a repayment plan but were not making any of the agreed upon payments in the calculation of the allowance for uncollectible accounts for two of the programs understating the allowance by approximately \$49,000 and had an allowance for uncollectible loans for another program of \$7,416 that only had an outstanding loan balance of \$2,300.

18. The University recorded a liability for faculty that is on a 9 month contract but are being paid out of 12 months. The University made an entry on June 30, 2004 adjusting various accrued payroll liability and related fringe benefit accounts that did not take the accrual liability for these faculty members into account thereby understating liabilities by approximately \$770,000.
19. The payroll paid on July 2, 2004 was posted as of June 30, 2004 understating cash and payroll liabilities by approximately \$166,000.
20. In adjusting the various liability accounts for withholding taxes, retirement, and other fringe benefits, the University did not take into account various amounts paid in July, 2004 for June liabilities thereby understating liabilities by approximately \$310,000.
21. We noted instances of payroll withholdings being posted to one liability account and the payments being posted to another liability account.
22. The University is paying health and dental insurance premiums on employees that are no longer working at the University and were over and under withholding for health insurance premiums on other employees. We noted that one of the employees for which it was still paying health insurance had not been employed by the University for over ten years.
23. The University reports the accrued payroll paid on July 2 on the June quarterly payroll report instead of the September quarter's report.
24. The amount calculated for the amount of accrued payroll for faculty teaching summer school was not correct in one instance because it did take into account the correct number of days that the class met causing an understatement in the amount accrued.
25. The University used the prior year's rate when calculating the fringe benefit rate on the nine-month faculty being paid out over twelve months resulting in an understatement of approximately \$9,300.
26. Our test of the annual leave report showed differences between the leave request forms and the amount of leave taken per the leave report for five of the twenty-five tested resulting in a misstatement in the liability for accrued compensated absences.
27. The University determined that the original compensated balances leave balance reported was understated by approximately \$318,000 when we requested that they explain the change in accrued leave balance from the prior year. This was because 105 employees were omitted from the leave report. The original schedule also used pay rates that were in effect at the beginning of the year instead of the rates in effect at June 30, 2004.
28. The schedule prepared showing the amount of accrued compensated absences annual leave used during the year was not correct and had to be reworked a number of times. The first schedule did not include annual leave taken during the year for employees that left the University later during the year. The second schedule did not accurately reflect the leave taken during the year based on the leave slips. The final schedule still had an error for one of the employees and the formulas for some of the amounts were not correct.
29. The University was reimbursing subrecipients for salaries and benefits and made an entry to reclassify the payments as salary and related benefit expense of the University instead of as payments to subrecipients. The payments were initially recorded correctly.
30. Two additional invoices were located that were not on the University's accounts payable listing causing accounts payable to be understated by approximately \$31,000.
31. The University used the incorrect rate was used for fringe benefits related to accrued compensated absences overstating the liability and expense by approximately \$106,000.

Many of these are the same or similar to the conditions cited in prior management letters.

**CRITERIA:**

Generally accepted accounting principles and good fiscal policies.

**EFFECT OF CONDITION:**

The records of the University do not accurately reflect its financial position or results of operations.

**CAUSE OF CONDITION:**

Various personnel of the University are not performing all of their required duties in a timely manner or do not appear to be qualified or to perform those duties. Also, there does not appear to be adequate supervision in various areas.

**RECOMMENDATION:**

We recommend that the University take the required steps to ensure that the proper personnel are in place to ensure that the records of the University are maintained in a manner to reflect its financial position and results of operations at any time.

**04-10 TRANSACTIONS WITH FOUNDATION NOT RECORDED PROPERLY OR IN A TIMELY MANNER**

**STATEMENT OF CONDITION:**

The University incurred certain costs that are reimbursed by the Foundation. In addition, the University pays the Foundation for the rental and operating costs of certain space. The University recorded all of the transactions for the entire year by journal entry at year-end and did not properly gross up all revenues and expenses.

The University charged the Foundation for a portion of two employees salaries but did not have any support to show that the percentage being charged reflects the actual time spent on Foundation business.

We also noted that the University continued to allow the Foundation to use University personnel and space without making any payments on the prior or current year's receivables. No payments were received from the Foundation during the fiscal year.

Similar findings were cited in prior management letters.

**CRITERIA:**

Generally accepted accounting principles (GAAP) require that transactions be timely recorded at their proper amounts and that all amounts be properly supported. Good fiscal controls require that the Foundation pay for past services before additional services are rendered.

**EFFECT OF CONDITION:**

Misstatement of revenues and expenses and the possible loss of State funds if the Foundation does not timely pay for all services received from the University.

**CAUSE OF CONDITION:**

Failure to ensure that all transactions are recorded properly in a timely manner.

## RECOMMENDATION:

We recommend that the University ensure that all revenues and expenses with the Foundation are recorded at their correct amounts and that payments are received from the Foundation before additional State resources are expended.

### 04-11 DEFICIENCIES IN GRANTS AND GRANTS ACCOUNTING

#### STATEMENT OF CONDITION:

Our audit of the various federal, state and private grant programs disclosed the following:

1. The University made a journal entry to reclassify the recovery of certain indirect cost recoveries as federal revenue in the restricted fund instead of the balance remaining in unrestricted funds as indirect costs recovery revenues.
2. Various grants had receivables recorded which the University determined were not collectible for various reasons.
3. Grants were noted for which the University recorded both a grant receivable and a deferred revenue. The amounts should have been netted.
4. The University is not timely billing and collecting grants receivable. There is no accounts receivable aging listing for grants. Receivables for grants at year-end were in excess of 20% of the grant revenue for the year. In the current year, the University charged off approximately \$200,000 of receivables from prior years that they had stated were collectable as of June 30, 2003. The amount of grants receivable continues to increase.
5. There were various revenues and expenses listed on the grants schedule that were later determined to not be grants. They were either payments on student accounts receivable or reimbursements for various services.
6. The schedule of grant activity prepared by the University was not provided in a timely manner that resulted in a delay in the issuing of the financial statements.
7. Our audit disclosed costs charged to general ledger accounts for grants when the grant ended and was closed out in a prior year.
8. Costs reported on various reports filed with the grantor were less than shown in the University's general ledger and there was not explanation for the variances.

Findings relating to grants were also cited in the prior management letters.

#### CRITERIA:

Generally accepted accounting principles require the preparation of accurate financial information in a timely manner. Also good internal controls require the timely billing and follow-up on accounts receivable.

#### EFFECT OF CONDITION:

The schedule of federal financial assistance prepared by the University was not accurate and the various account balances relating to grants were not correctly stated on the University's general ledger.

#### CAUSE OF CONDITION:

Lack of policies and procedures regarding the reconciliation of the schedule to the general ledger and the recording of expenditures when grants are funded from multiple sources. There also appears to be a lack of adequate personnel to supervise and perform various functions related to the grants in a timely manner and to follow-up on old balances. Also, the schedule now being prepared is done manually and is very long because old grants are not being closed out.

#### RECOMMENDATION:

We recommend that the entire system used in accumulating the schedule be reviewed. A software program should be written or obtained so that the schedule could be downloaded from the University's general ledger. Additional adequately trained and supervised personnel should be hired to ensure that all grant files are kept up to date and contain all required documents and that billings are performed in a timely manner and old receivables are followed up on. Separate accounts should be maintained for federal and state expenditures.

#### 04-12 CAPITAL ASSET DEFICIENCIES

##### STATEMENT OF CONDITION:

Our audit of capital assets and related accumulated depreciation disclosed the following:

1. The University had only recorded one current year addition to the equipment listing with a cost of approximately \$30,000 on the initial listing provided to us. The total actual current year's additions were approximately \$390,000. In addition, the capital asset listing contained the wrong costs for certain prior year additions and certain prior year additions still had not been recorded on the listing. The initial schedule provided to us restating prior year's accumulated depreciation overstated the amount by approximately \$450,000.
2. The University capitalized various assets at the wrong amount. The reasons were:
  - a. Sales tax was added twice in one instance.
  - b. A maintenance and insurance contract were included in the costs in another instance. Without these costs, the asset cost was below the University's capitalization limit and should not have been included
  - c. Sales tax were not included as part of the costs on two pieces of equipment.
  - d. The cost of one vehicle was not adjusted by the amount of rebate received.
3. Dishwashing and refrigeration equipment costing approximately \$101,000 that was obtained under a capital lease in December 2000 was still not recorded in the University's fixed asset listings.
4. The University recorded prior year disposals with costs of approximately \$232,000 and accumulated depreciation of approximately \$204,000 as current year disposals. One item with a cost of approximately \$182,000 was disposed of in the year ended June 30, 2002.
5. The University recorded approximately \$80,000 of prior year equipment additions in the current year in the fixed asset system.
6. The excel schedule provided to us for buildings and accumulated depreciation contained calculation errors that overstated depreciation by approximately \$55,000.
7. The University could not provide the proper supporting documents for various current year disposals.

Similar findings related to capital assets were also cited in the prior year's management letter.

**CRITERIA:**

Generally accepted accounting principles require the reconciling of all records to supporting detail in a timely manner.

**EFFECT OF CONDITION:**

The capital asset listing provided was unreliable and University personnel had to prepare an excel spreadsheet supporting the correct amounts for equipment and vehicles. The costs shown for various assets were incorrect.

**CAUSE OF CONDITION:**

Failure to run computer programs in the proper sequence and adequately review the capital asset listing and to reconcile additions recorded on the schedule each year to the amount reported as expended.

**RECOMMENDATION:**

All equipment additions on the capital asset listing should be reconciled to the amount expended in the general ledger. The schedule should be reviewed for accuracy to ensure that all balances are carried forward properly from the prior year. Procedures should be put in place to ensure that all additions and disposals are recorded in a timely manner.

**04-13 DEFICIENCIES IN CONSTRUCTION IN PROGRESS AND RELATED ACCOUNTS**

**STATEMENT OF CONDITION:**

Our review of the construction in progress schedule prepared by the University disclosed numerous deficiencies as follows:

1. The schedule contained numerous old projects that had never been closed.
2. The amount shown for project expenditures did not include additional accounts payable that had been identified by the University.
3. The amounts reported for estimated costs to complete and outstanding commitments were not correct in many cases. Various old commitments were still on the books even though the projects have been finished and no additional amounts are due.
4. The schedule contained one project as capital even though it did not meet the State's capitalization policy. In addition, this project was still shown on the schedule even though it had been completed and all costs had been incurred.
5. The schedule did not account for the project expenditures by funding source.
6. The University did not reconcile project expenditures to the Statewide Permanent Improvement Status report as required.
7. The University had received Capital Improvement Bond proceeds in excess of expenditures on three projects in prior years. The schedule of overdrawn bond proceeds prepared by the University was incorrect because it did not take into account a \$43,000 prior year adjustment.
8. There were three old permanent improvement bonds with balances that the University has no plans to expend and they have not requested the State Treasurer to reallocate these funds.

Similar findings were also cited in the prior year's management letter related to construction in progress.

**CRITERIA:**

Generally accepted accounting principles require the preparation of accurate schedules supporting the financial statements that agree to the general ledger.

**EFFECT OF CONDITION:**

The construction in progress schedule initially prepared by the University was incorrect and had to be reworked. The University had drawn down State funds in excess of expenditures for capital improvement bond funded projects.

**CAUSE OF CONDITION:**

Unknown

**RECOMMENDATION:**

The University should ensure that all amounts reported for construction in progress agree to supporting documentation and that the amounts are reconciled to the State Permanent Improvement reports. All projects should be closed out in a timely manner.

**04-14 CONTROLS OVER RECEIPTS INADEQUATE**

**STATEMENT OF CONDITION:**

The University does not have procedures in place to control the numerical sequence of receipts issued by the cashier's office. Two of the five initial receipts that we pulled were reported to be unused by the cashier's office. University personnel could not explain why gaps existed in the range of receipt numbers or what happened to the missing receipts.

Also, the systems allows a receipt to be keyed and printed out without ever being entered into the system which means that a receipt could be produced and the amount not show up on the system produced reports. Our audit disclosed one receipt that did not appear to be entered into the system. Also, our audit disclosed two receipts that appeared to be entered into the University's system twice.

**CRITERIA:**

Good internal controls require that all receipts be accounted for and reconciled to the amount recorded in the University's general ledger.

**EFFECT OF CONDITION:**

Receipts could be issued and the funds could be misappropriated.

**CAUSE OF CONDITION:**

Failure to account for the numerical sequence of all receipts.

**RECOMMENDATION:**

We recommend that a system be put in place to account for the numerical sequence of all receipts. Receipts should be used in numerical sequence and any voided receipts should be retained. A programming change should be made to ensure that a receipt cannot be printed until it is entered into the system.

#### **04-15 COLLEGE WORK STUDY EXPENSES NOT RECORDED BY ACTIVITY**

##### **STATEMENT OF CONDITION:**

The University recorded payments for college work study payments to students as student financial aid and did not record them as an expense of the area of the University in which they were working. For example, a student that was paid with college work study funds in the business office was not being reflected as an expense if the business office. This finding was also cited in the prior management letters.

##### **CRITERIA:**

The industry audit guide published by the American Institute of Certified Public Accountants requires that these wages be allocated to the function in which the student is working.

##### **EFFECT OF CONDITION:**

The University is not able to determine the true costs of running various areas of the University.

##### **CAUSE OF CONDITION:**

Even though the University was made aware of this requirement in the prior year, they have not made the required changes to their procedures.

##### **RECOMMENDATION:**

All expenses, including college work study payments, should be allocated to the function that benefits from the expense.

#### **04-16 ERRORS IN OPERATING LEASE SCHEDULE**

##### **STATEMENT OF CONDITION:**

The initial schedule of operating leases and future operating lease commitments prepared by the University was not accurate. The original schedule did not agree with the expenses per the general ledger and the dates on the schedule did not agree with the actual lease. The schedule also did not have the correct amount for the monthly lease payments and included many leases that had expired in the current and prior years. Also, the University could not locate all lease agreements and payments were not made on all leases monthly as required. The University did not reconcile the lease payments on the operating lease schedule that they prepare to the general ledger. Items beside rental payments were being posted to the rental expense accounts in the general ledger. In addition, we noted that the University was making payments on leases that expired in prior fiscal years and that they are not making the monthly payments on leases as they are due. The University will miss several months' payments and then make one large payment including late fees.

A similar finding was cited in the prior year's management letter.

##### **CRITERIA:**

Generally accepted accounting principles.

##### **EFFECT OF CONDITION:**

The operating lease schedule prepared by the University to support the amounts reported in the notes to the financial statements was not accurate.

CAUSE OF CONDITION:

Lack of coordination between various departments of the University and inadequate training of personnel preparing the schedule.

RECOMMENDATION:

We recommend that the University implement procedures to ensure that all schedules are accurately prepared.

**FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS**

**04-17 AUDIT REPORT NOT SUBMITTED WITHIN REQUIRED DEADLINE - ALL PROGRAMS**

STATEMENT OF CONDITION:

OMB Circular A-133 Subpart C – Section 320 requires single audit reports to be submitted within 9 months after the end of the audit period for the fiscal year ended June 30, 2004. The University did not meet this requirement for the year ended June 30, 2004 because of the deficiencies cited above in their financial record keeping. The same finding was cited in prior years' report.

CRITERIA:

OMB Circular A-133 Subpart C – Section 320.

EFFECT OF CONDITION:

Failure to comply with federal regulations.

CAUSE OF CONDITION:

Failure to have accurate financial records ready for audit in a timely manner

QUESTIONED COSTS:

None

RECOMMENDATION:

Implement procedures to have records and financial statements completed in a timely manner so that reports can be submitted within the required deadlines.

**04-18 FINANCIAL REPORT IN ERROR – CFDA # 84.038 FEDERAL PERKINS LOAN PROGRAM – FEDERAL CAPITAL CONTRIBUTIONS**

STATEMENT OF CONDITION:

The University reported loans made in July, August and September, 2004 as loans disbursed on the Fiscal Operations Report and Application to Participate (FISAP) for the award period ended June 30, 2004. The amount of outstanding loans on the FISAP did not agree to the general ledger by approximately \$58,000.

CRITERIA:

Amounts reported are supposed to be based on the actual amounts for the period July 1, 2003 through June 30, 2004.

EFFECT OF CONDITION:

The amounts reported in the FISAP are not correct.

CAUSE OF CONDITION:

Unknown

QUESTIONED COSTS:

None

RECOMMENDATION:

The University should ensure that all amounts reported on the FISAP agree with the amounts recorded in its general ledger.

**04-19 REQUIRED IN-KIND CONTRIBUTIONS NOT MET – CFDA # 10.217 HIGHER EDUCATION CHALLENGE GRANTS**

STATEMENT OF CONDITION:

The University was required to provide a in-kind contributions equal to the amount received from federal sources. Total receipts were \$26,776 and total in-kind reported was only \$24,697, a difference of \$2,079.

CRITERIA:

The grant agreement required the University to provide an in-kind match.

EFFECT OF CONDITION:

The University received funds in excess of the amount to which they were entitled based on the in-kind contribution provided.

CAUSE OF CONDITION:

Unknown

QUESTIONED COSTS:

\$2,079

RECOMMENDATION:

The University should ensure that all required matching is met before claims for reimbursements are prepared.

**04-20 EXPENDITURES REPORTED UNDER WRONG CFDA NUMBERS – CFDA # 10.205 PAYMENTS TO 1890 LAND-GRANT COLLEGES AND TUSKEGEE UNIVERSITY, CFDA # 81.104 OFFICE OF ENVIRONMENTAL CLEANUP AND ACCELERATION**

STATEMENT OF CONDITION:

The schedule of federal expenditures originally prepared by the University listed a grant under CFDA # 10.205 instead of 81.104. The same finding was cited in the last two years' management letter.

CRITERIA:

Federal regulations require the University to prepare an accurate schedule of federal expenditures.

EFFECT OF CONDITION:

Schedule prepared by University was incorrect.

CAUSE OF CONDITION:

Unknown

QUESTIONED COSTS:

None

RECOMMENDATION:

The University should implement procedures to ensure that the schedule of federal expenditures is prepared accurately.

**04-21 REQUIRED REPORTS NOT FILED – CFDA # 10.205 PAYMENTS TO 1890 LAND-GRANT COLLEGES AND TUSKEGEE UNIVERSITY, CFDA # 81.104 OFFICE OF ENVIRONMENTAL CLEANUP AND ACCELERATION, CFDA # 66.460 NONPOINT SOURCE IMPLEMENTATION GRANTS**

STATEMENT OF CONDITION:

For one grant, the University was required to file quarterly financial status reports, however, a single report covering the period October 1, 2002 through December 31, 2003 was filed. The University did not file a required an annual performance report and financial status report to the Forest Service by December 1. For the grant under CFDA # 66.460, the grant agreement required the University to file a financial report for each twelve month period, but the last report filed was for the period November 2002 through June 2004.

CRITERIA:

The various grant agreements contained the reporting requirements.

EFFECT OF CONDITION:

The University did not comply with federal grant requirements.

CAUSE OF CONDITION:

Unknown

QUESTIONED COSTS:

None

RECOMMENDATION:

We recommend that the University file all required federal reports in a timely manner.

**04-22 EXPENDITURE RECORDS NOT MAINTAINED BY GRANT PERIOD – CFDA # 81.104 OFFICE OF ENVIRONMENTAL CLEANUP AND ACCELERATION, CFDA # 11.481 EDUCATIONAL PARTNERSHIP PROGRAM**

**STATEMENT OF CONDITION:**

The University did not maintain separate general ledger accounts for grants that were for a three-year project with a separate approved budget for each year so that compliance with the approved budget for each of the three funding years could be tracked.

**CRITERIA:**

Federal regulations require the University to maintain records to ensure that all required budgets can be monitored.

**EFFECT OF CONDITION:**

The University could not demonstrate compliance with the approved budget by funding period.

**CAUSE OF CONDITION:**

Unknown

**QUESTIONED COSTS:**

None

**RECOMMENDATION:**

The University should ensure that its financial record keeping system is set up in a manner to allow the required comparison of budget and actual by funding period.

**04-23 SUBRECIPIENT EXPENDITURES INCORRECT ON SCHEDULE – CFDA # 20.215 HIGHWAY TRAINING AND EDUCATION, CFDA # 43.999 OTHER NASA PROGRAMS, CFDA # 47.074 BIOLOGICAL SCIENCES, CFDA # 84.336 TEACHER QUALITY ENHANCEMENT GRANTS, CFDA # 12.431 BASIC SCIENTIFIC RESEARCH**

**STATEMENT OF CONDITION:**

The initial schedule of payments to subrecipients was not correct and had to be reworked with the total payments to subrecipients increasing from approximately \$1,717,000 to \$1,983,000. The same finding was cited in last year's management letter.

**CRITERIA:**

Federal regulations require the University to prepare an accurate schedule of federal expenditures.

**EFFECT OF CONDITION:**

Schedule prepared by University was incorrect.

**CAUSE OF CONDITION:**

The amount reported on the schedule was not agreed to the general ledger.

**QUESTIONED COSTS:**

None

**RECOMMENDATION:**

The University should implement procedures to ensure that the schedule of federal expenditures is prepared accurately.

**04-24 PROCEDURES NOT IN PLACE TO MONITOR SUBRECIPIENTS – CFDA # 20.215 HIGHWAY TRAINING AND EDUCATION, CFDA # 43.999 OTHER NASA PROGRAMS, CFDA # 47.074 BIOLOGICAL SCIENCES, CFDA # 84.336 TEACHER QUALITY ENHANCEMENT GRANTS, CFDA # 12.431 BASIC SCIENTIFIC RESEARCH**

**STATEMENT OF CONDITION:**

The University did not have any procedures in place to identify subrecipients that should have submitted a single audit report to it and failed to review and evaluate audit findings and the subrecipient's corrective action. Also, there was no documentation of any other monitoring procedures performed during the year.

**CRITERIA:**

OMB Circular A-133 requires the University to have a system in place to determine whether the subrecipient spent federal assistance in accordance with applicable laws and regulations.

**EFFECT OF CONDITION:**

The University has not determined whether all subrecipient expended federal funds in accordance with the requirements.

**CAUSE OF CONDITION:**

Unknown

**QUESTIONED COSTS:**

None

**RECOMMENDATION:**

The University should implement procedures to ensure that single audit reports are received from the subrecipients and reviewed in a timely manner. The University should also consider whether other types of monitoring are required.

## **OTHER MANAGEMENT LETTER COMMENTS**

### **WEAKNESSES NOTED IN COMPUTER CONTROLS**

A review of controls over the University's mainframe computer system disclosed the following:

1. There is no fire suppression system to protect against damage in the event of a fire.
2. There is no disaster recovery plan in place and according to University personnel, there had not been a test of any disaster recovery system since at least 1996.
3. There are no formal policies in place regarding the backup of data. Backups are maintained offsite at an individual's home. The backup tapes that are maintained on-site are stored in the computer room and not in a safe.

These same findings were cited in the prior year's management letter.

We recommend that a thorough review be performed over all computer controls. A disaster recovery plan should be prepared and tested. Policies regarding the backing up and safekeeping of data should be implemented.

### **TIMESHEETS NOT SIGNED BY EMPLOYEES**

Our audit disclosed that the employees are not signing their timesheets in all instances as required by University policy.

We recommend that procedures be implemented to ensure that all timesheets are signed by the employee and supervisor before the employee is paid.

### **UNIVERSITY DID NOT CLAIM ALL OF ADMINISTRATIVE COST ALLOWANCE**

The University only claimed reimbursement for \$60,743 of the \$66,304 administrative costs allowance allowed for the various financial aid programs. The amount shown on the Fiscal Operations Report filed with the Department of Education did not agree with the general ledger.

We recommend that the University draw down all administrative funds to which it is entitled.

### **LACK OF INTERNAL AUDITOR**

The University does not have an internal auditor. The former internal auditor has been employed as the interim controller since July 2003. Prior to this time, the internal auditor was not actually performing internal audit functions. A similar finding was cited in the prior year's management letter.

We recommend that the University consider implementing an internal audit department that performs audits of various areas of the University. These audits could include reviewing separation of duties, reconciliations, departmental expenditures, capital asset observations, reviewing the status of the corrective action taken on audit findings, etc. The internal auditor should report directly to the Board of Trustees and serve as an independent verification source that required corrective actions have been implemented.

**SOUTH CAROLINA STATE UNIVERSITY**

**STATUS OF PRIOR AUDIT FINDINGS  
JUNE 30, 2004**

During our audit, we reviewed status of corrective action taken on most of the findings contained in our report on the University for the year ended June 30, 2003 and dated August 26, 2004.

The following findings cited in the prior year's report continued to exist during the current audit period.

- 03-1 Indirect costs due General Fund of the State not timely remitted
- 03-2 Required approval for leases not obtained
- 03-3 Annual performance reviews not performed
- 03-5 Auxiliary enterprises operating at a deficit
- 03-6 Financial record deficiencies
- 03-7 Deficiencies in receivables
- 03-9 Transactions with Foundation not recorded properly or in a timely manner
- 03-10 Deficiencies in grants and grants accounting
- 03-11 Capital asset deficiencies
- 03-12 Deficiencies in construction in progress and related accounts
- 03-13 Understatement of accrued payroll and related benefits
- 03-14 College work study expenses not recorded by activity
- 03-15 Report not submitted within required deadline
- 03-17 Expenditures reported under wrong CFDA numbers

The following findings were corrected.

- 03-4 Travel advances not cleared timely
- 03-8 Errors in internal transactions schedule
- 03-16 Loan repayments not started timely
- 03-18 Subrecipient expenditures omitted from schedule

The following other management letter comments are repeated in the current year.

- Deficiencies in bank reconciliations
- Bank accounts not reconciled by fund
- Annual leave liability misstated
- Accounts payable misstated
- Errors in operating and capital lease schedules
- Weaknesses noted in computer controls
- Lack of effective internal auditor

The following other management letter comments were corrected.

- Lack of controls over petty cash
- Payroll advance not cleared
- Insurance coverage inadequate
- Personnel files in need of improvement
- Violation of purchasing card policies
- Payroll deficiencies
- Minutes of board meetings not prepared timely
- Payroll reconciliations and errors in preparing payroll returns

# **SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS**

## **FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS**

### **03-15 ALL PROGRAMS**

This finding still existed in fiscal year 2004. The University is continuing to modify policies and procedures across the campus and recruiting staff with the appropriate skill sets to ensure the accuracy of record management. The University is on a campaign to strengthen the finance area of the University and is striving to provide timely records and reports to ensure audits can be completed quickly to allow for timely submission of single audit reports.

### **03-16 LOAN REPAYMENTS NOT STARTED TIMELY – CFDA # 84.038 FEDERAL PERKINS LOAN PROGRAM-FEDERAL CAPITAL CONTRIBUTIONS**

This finding was corrected this fiscal year.

### **03-17 EXPENDITURES REPORTED UNDER WRONG CFDA NUMBERS – CFDA #10.205 PAYMENTS TO 1890 LAND-GRANT COLLEGES AND TUSKEGEE UNIVERSITY, CFDA #10.500 COOPERATIVE EXTENSION SERVICE**

This finding still existed in fiscal year 2004. The University has hired a Grants Director that will ensure the accuracy of grant and contract accounts, records and reports. The Controllers Office will work closely with the Grants and Contracts Office to ensure accuracy of the schedule.

### **03-18 SUBRECIPIENT EXPENDITURES OMITTED FROM SCHEDULE – CFDA # 20.215 HIGHWAY TRAINING AND EDUCATION**

This finding was corrected this fiscal year.

# CORRECTIVE ACTION PLAN

## APPENDIX A



**South Carolina State University**  
300 COLLEGE STREET, NORTHEAST  
ORANGEBURG, SOUTH CAROLINA 29117-0001  
(803) 533-3742

ASSISTANT VICE PRESIDENT  
FOR  
FISCAL AFFAIRS

FAX: (803) 533-3661

## **CORRECTIVE ACTION PLAN**

Contact Person: Joseph M. Pearman Jr., CPA  
Assistant Vice President for Fiscal Affairs

- 04-1 REQUIRED APPROVAL FOR LEASES NOT OBTAINED**  
Both of the agreements have been terminated. The current administration is aware of applicable South Carolina Code of Regulations and will adhere to these regulations prior to entering into any leasing of non state-owned real estate.
- 04-2 ANNUAL PERSONNEL REVIEWS NOT PERFORMED**  
As of calendar year 2005 the University implemented a standard review date for all faculty and staff of January 31 of each year. This will provide the Office of Human Resources a better method of monitoring and ensuring that all evaluations are completed annually.
- 04-3 AUXILIARY ENTERPRISE OPERATING AT A DEFICIT**  
The deficit has been reduced significantly from the previous fiscal year as a result of 2003-2004 operations. The University implemented a Board approved increase of 22% in student housing charges effective for the Fall 2004 semester. The increased housing revenues should be sufficient to eliminate the deficit in the Housing auxiliary.
- 04-4 LEGAL FEES PAID EXCEEDED APPROVED LIMITS**  
The process for obtaining Attorney General approval and approving expenditures for legal services has been centralized and is being monitored within the Office of the Executive Director of Planning, Policy, Analysis and Organizational Development.
- 04-5 PURCHASES EXCEEDED APPROVED PROCUREMENT LIMITS**  
This instance occurred within the Facilities Department. The majority of small purchases at local vendors occurred most often through the Facilities Department which would most likely cause this type of exception. The University has outsourced its facilities services which will reduce the likelihood of this type of occurrence. If it is noted that purchases are being split the Procurement

Department notifies The Assistant Vice President for Fiscal Affairs and the individual's procurement card will be cancelled to prevent any future offenses.

**04-6 INDIRECT COSTS DUE GENERAL FUND OF THE STATE NOT TIMELY REMITTED**

Indirect cost in the amount of \$646,394.78 was remitted to General Fund of the State on June 16, 2004. At fiscal year end the Grants and Contracts Department posted numerous journal entries to the books increasing the amount of indirect cost due the State General Fund. The Grants and Contracts Department has procedures in place to draw down grant and contract receivables in a timelier manner resulting in indirect cost being posted to the University's general ledger in such a time to remit funds to the General fund of the State by year-end.

**04-7 UNIVERSITY FUNDS DEPOSITED INTO FOUNDATION ACCOUNT**

The Foundation's Executive Director has been made aware of these occurrences and has procedures in place to ensure that the Foundation staff does not accept any checks that are addressed to the University. Once the University administration learned of the existence of the federal grant funds that were being housed within the Foundation's books the cash and grant transactions were transferred to the University.

**04-8 FINANCIAL RECORDS DEFICIENCIES**

1. The fiscal year 2002-03 audit was completed after the fiscal 2003-04 books were closed. Therefore it was not possible to post entries proposed, after the close of the books, to the financial records and an alternate method was devised by management. This is not deemed a deficiency of the accounting system. It is a matter of timeliness of the fiscal year 2002-2003 audit completion. The University is striving to ensure audits are able to be completed timely to ensure that any and all adjustments will be timely posted to the books.
2. The staff was working under tight time constraints and a thorough review of supporting work papers in certain instances was not performed. There were relatively new employees in some key finance positions that were not familiar with all the inter-working relationships of the accounts. For the fiscal year ending June 30, 2005 the finance staff will have had more time to prepare for the audit (including accurate supporting work papers) prior to providing information to the auditor and the key finance staff will be familiar with the accounts.
3. See response to 4-8 2. above.
4. The University has not had sufficient staff in the Loan Management area to maintain records as timely or accurately as necessary. Therefore as of December 2004 the loan management duties were contracted to an outside vendor to manage. The accuracy of the information is expected to be

increased allowing for easier reconciliation. We have begun to increase the staff within the Controller's Office along with hiring consultants to ensure that all loan accounts will be timely and accurately reconciled.

5. The University has for years maintained an asset account within the agency fund to post all title IV loan funds received. This balance grows throughout the year. There is also an off setting liability account within the agency funds that captures all the Title IV loan funds that are posted to a student's account. This balance increases to approximately the size of the asset account. Extensive research was required to support what the remaining balance should be prior to proposing a journal entry to net the 2 accounts. The Director of Financial Aid has developed a process that will allow us to easily determine what transactions are posted to these accounts and what the balances are to allow for a year end adjustment.
6. See response to 04-8 2. above.
7. As a result of the Controller's Office being understaffed and the University's commitment to improving the management of the University's financial affairs we felt it was in the best interest of the State of South Carolina and the University itself to contract with a CPA firm to assist in clearing certain weaknesses in the system.
8. See response to 04-8 2. above.
9. The accounts referred to are student refunds payable and an unapplied credit account that do impact the student receivables balance. These accounts are in place as a result of the system design. An analysis of these accounts was performed to verify the balance at year end and the effect on student receivables. Student receivables were adjusted accordingly.
10. Management concurs with this finding and has taken corrective action.

#### **04-9 FINDINGS RELATED TO VARIOUS ACCOUNTS**

1. The University finance staff is discussing methods to reconcile by fund. This will require a certain amount of restructuring of the internal bank accounts.
2. Management will annually review and write off old outstanding checks prior to the fiscal year end.
3. The University has hired personnel that have skills to prepare accurate reconciliations and ensure that all reconciling items are supported.

4. Management carried the amount as an un-reconciled variance which was identified during the audit process by university personnel. The University is becoming current with reconciliations which will assist in identifying reconciling items and making the appropriate adjustments.
5. Management was not aware of these monies maintained with the Controller General. These funds are now recorded and reconciled monthly.
6. Management agrees with this finding and has implemented procedures to perform this function in a timely manner. Additional staff has been hired and are being trained to understand the system and prepare timely reconciliations that will be reviewed and approved by an appropriate University official.
7. Petty cash is to be deposited before June 30 of each fiscal year. Due to a personnel change in the cashier's office, the policy was interpreted to mean "put it in the safe until the new year". University policy and procedures have been clarified and should require no additional action.
8. See response to 04-8 2. above.
9. Management included "13<sup>th</sup> month" activity as deposits in transit instead of an accounts receivable. All 13<sup>th</sup> month deposit activity will be accrued as a receivable in future years.
10. The University recorded transactions on the cash basis therefore a reconciliation of student accounts receivables is not possible during the year. Student receivables have historically been adjusted to actual at fiscal year end. A system report was used to determine accurate total student receivables at year end. The University used a methodology to post student receivables between Education and General and Auxiliary funds that we deem to be materially correct.
11. The University was able to recover \$15,200 of these funds from student's accounts that had not received a refund as a result of this error. The University's management made the decision to not attempt to recover the remaining funds from the students that received a refund because of University error.
12. See response to 04-8 2. above.
13. Procedures are in place to ensure that entries are prepared to reverse prior year accounts receivables.

14. As a result of auditor recommendation University staff did review receipts received subsequent to year-end and proposed a journal entry of \$188,846.02 to record accounts receivable applicable to the year ended June 30, 2004.
15. Beginning for fiscal year 2005 the Department of Accounts Payable has been provided with a schedule that will allow the Department to maintain throughout the fiscal year and is designed to automatically calculate the portion of the charge as expense or prepaid expense. We feel this report will allow the University to accurately capture and report prepaid expenses at fiscal year end.
16. See response 04-9 15.
- 17.-21. See response to 04-8 2.
22. The University initiated an internal review of health and dental premiums which discovered numerous errors. The errors were identified and corrected by university personnel. Management is developing monthly reconciliation procedures.
23. See response to 04-8 2.
24. Management is performing a cost benefit analysis, weighing the audit error of \$ 334.94 verses the cost of changing the calculation method.
25. Management will re-calculate the fringe benefit rate annually.
26. See response to 04-8 2.
27. The University will take extreme care to ensure the completeness and accuracy of the compensated leave balance report for future fiscal year ends.
28. The report generated to prepare the schedule of accrued compensated absences will be reviewed for accuracy and completeness prior to being use in the preparation of the schedule of accrued compensated absences.
29. The process of recording salary and benefits for subrecipients was historically used to assist principal investigators in monitoring their subrecipient expenditures. The University has changed its practice to present subrecipient expenditures as contractual services. There will be an additional review to ensure any postings of subrecipient expenditures to other operating accounts are adjusted to contractual services.

30. Management is developing a reconciliation process between outstanding purchase orders and accounts payable cutoff.
31. We will ensure that the correct fringe benefits rate related to accrued compensated absences will be used in the calculation of accrued compensated absences.

#### **04-10 TRANSACTIONS WITH FOUNDATION NOT RECORDED PROPERLY OR IN A TIMELY MANNER**

The University will post revenues and expenditures at the gross, as opposed to net, in future years. The Foundation's Interim Chairman has signed a document stating that the Foundation will pay the University the outstanding debt over a five year period in equal installments on the 1<sup>st</sup> of each October beginning October 1, 2005. It is also stated that the Foundation will pay any new costs incurred within 90 days upon receipt of a University invoice. The Executive Director of the Foundation stated that, beginning July 1, 2005, the 2 State employees spending time on Foundation related tasks would maintain time sheets documenting the time expended on Foundation related tasks.

#### **04-11 DEFICIENCIES IN GRANTS ACCOUNTING**

1. We will ensure that indirect cost recoveries zero out between funds and expenditures paid from these indirect cost recoveries are recorded in the unrestricted fund.
- 2-8 The University has hired a Director of Grant and Contracts. The University has also authorized increasing the staff size within this unit from five to eight employees. The search and hiring of qualified staff is currently underway. The University has also used the resources of a team of employees outside of the Grants and Contracts Department to assist in becoming current with the draw down of grant and contract funds significantly reducing the level of grant receivables. A campaign to clean and close old accounts is currently underway. The University is also promoting any and all training that will assist this unit in becoming experts in grant and contract accounting. We feel that with a combination of the efforts listed above errors in postings, and reporting will be minimized and the timeliness of recapturing grant receivable funds will be maximized.

#### **04-12 CAPITAL ASSET DEFICIENCIES**

- 1.- 7. See response to 04-8 2.

**04-13 DEFICIENCIES IN CONSTRUCTION IN PROGRESS AND RELATED ACCOUNTS**

1 - 8 Management has implemented a review process to ensure that amounts reported for construction in progress agree to supporting documentation and project expenditures will be accounted for by funding sources. Facility Management has reviewed the construction in progress schedule and indicated which projects has been closed and should not be included on the schedule. A reconciliation of project expenditures and the Statewide Permanent Improvement Status report is being preformed by the accounting staff. Management has implemented year-end close procedures to review outstanding commitments.

**04-14 CONTROLS OVER RECEIPTS INADEQUATE**

The University uses pre-numbered receipts. Due to transporting unopened boxes of receipts to the "Registration" site, the higher numbered receipts were used out of order. Cashiers then used the receipts that had previously been opened in the office. Once those receipts were used, the receipts remaining from registration were pulled and used, disregarding the sequential order of receipts. Procedures have been implemented to ensure that receipts are used in sequential order. The unopened boxes are numbered in "red" to prevent using them out of sequence. We have implemented balancing procedures that would provide security to prevent duplication of receipts. The cashiers are currently taking extra care in keying receipt numbers to prevent duplication of "receipt numbers". If the cashier fails to press the enter key after a receipt is printed, an "out of balance" situation occurs and is corrected by reviewing all system entries at the end of the work day to locate the difference and a correction is made and noted in the records.

**04-15 COLLEGE WORK STUDY EXPENSES RECORDED BY ACTIVITY**

The University is designing and preparing to implement a new accounting system beginning July 1, 2005 and is discussing the methods in which to capture these expenditures by purpose and/or Department.

**04-16 ERRORS IN OPERATING LEASE SCHEDULE**

The staff was working under tight time constraints and a thorough review of supporting work papers in certain instances was not performed. For the fiscal year ending June 30, 2005 the finance staff will have had more time to prepare for the audit (including accurate supporting work papers) prior to providing information to the auditor. In the instances of paying for expired leases the University continued to maintain the copy machines but the agreement fell under the State Copier Lease agreement which does not require the University to have an individual hard copy of a lease for each machine. Currently the university has contracted with a vendor for a campus-wide copier lease. This will significantly reduce the number of leases on the lease schedule thereby reducing the opportunity for errors within the schedule.

**04-17 AUDIT REPORT NOT SUBMITTED WITHIN REQUIRED DEADLINE – ALL PROGRAMS**

The University is on a campaign to strengthen the finance area of the University and is striving to provide timely records and reports to ensure audits can be completed quickly to allow for timely submission of single audit reports.

**04-18 FINANCIAL REPORT IN ERROR – CFDA# 84.038 FEDERAL PERKINS LOAN PROGRAM – FEDERAL CAPITAL CONTRIBUTIONS**

The FISAP report will include actual disbursements through June 30<sup>th</sup> and will be reconciled to the University's general ledger. A review by an appropriate University official will be completed prior to submission to the US Department of Education.

**04-19 REQUIRED IN-KIND CONTRIBUTIONS NOT MET – CFDA# 10.217 HIGHER EDUCATION CHALLENGE GRANTS**

The Office of Sponsored Programs and the Office of Grants and Contracts are reviewing their procedures for monitoring the sufficiency of in-kind contributions match. The University will contact the Federal grantor to determine if a payment is necessary or if the match can be increased in future years to offset the \$2,079.

**04-20 EXPENDITURES REPORTED UNDER WRONG CFDA NUMBERS – CFDA# 10.205 PAYMENTS TO 1890 LAND-GRANT COLLEGES AND TUSKEGEE UNIVERSITY, CFDA# 81.104 OFFICE OF ENVIRONMENTAL CLEANUP AND ACCELERATION**

The size of the Grants and Contracts Department is being increased from five employees to eight employees. There is increased training for the employees and measures have been taken to design a module in the upgraded system that will assist in generating an accurate and complete schedule of expenditures of federal awards.

**04-21 REQUIRED REPORTS NOT FILED – CFDA#10.205 PAYMENTS TO 1890 LAND-GRANT COLLEGES AND TUSKEGEE UNIVERSITY, CFDA# 81.104 OFFICE OF ENVIRONMENTAL CLEANUP AND ACCELERATION, CFDA# 66.460 NONPOINT SOURCE IMPLEMENTATION GRANTS**

Implementation of Banner software will allow the notification of reporting specification of all due dates. Banner has a feature that will notify accountants of all due dates and calculate financial totals and produce the actual finance report for submission. The size of the Grants and Contracts Department is being increased from five employees to eight employees to allow a more equitable workload per grant accountant which in turn will prevent the University from submitting late reports.

**04-22 EXPENDITURE RECORDS NOT MAINTAINED BY GRANT PERIOD –  
CFDA#81.104 OFFICE OF ENVIRONMENTAL CLEANUP AND  
ACCELERATION, CFDA# 11.481 EDUCATIONAL PARTNERSHIP  
PROGRAM**

Grants and Contracts will maintain separate general ledger accounts for grants with a separate approved budget for each year to comply with Federal regulations.

**04-23 SUBRECIPIENT EXPENDITURES INCORRECT ON SCHEDULE –  
CFDA# 20.215 HIGHWAY TRAINING AND EDUCATION, CFDA# 43.999  
OTHER NASA PROGRAMS, CFDA# 47.074 BIOLOGICAL SCIENCES,  
CFDA# 84.336 TEACHER QUALITY ENHANCEMENT GRANTS, CFDA#  
12.431 BASIC SCIENTIFIC RESEARCH**

The size of the Grants and Contracts Department is being increased from five employees to eight employees. There is increased training for the employees and measures have been taken to design a module in the upgraded system that will assist in generating an accurate and complete schedule of expenditures of federal awards.

**04-24 PROCEDURES ARE NOT IN PLACE TO MONITOR SUBRECIPIENTS –  
CFDA# 20.215 HIGHWAY TRAINING AND EDUCATION, CFDA# 43.999  
OTHER NASA PROGRAMS, CFDA# 47.074 BIOLOGICAL SCIENCES,  
CFDA# 84.366 TEACHER QUALITY ENHANCEMENT GRANTS, CFDA#  
12.431 BASIC SCIENTIFIC RESEARCH**

A staff person has been identified to perform sub-recipient monitoring in a timely manner. Sub-recipient files will be maintained which will include the sub-recipients' audit report, if applicable, or other documents that list the expenditures incurred. A desk review will be used as a monitoring tool for all sub-recipients to ensure compliance.

Contact Person: Joseph M. Pearman Jr., CPA  
Assistant Vice President for Fiscal Affairs (803) 533-3742

**MANAGEMENT'S RESPONSE**

**APPENDIX B**



**South Carolina State University**  
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ASSISTANT VICE PRESIDENT  
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## **OTHER MANAGEMENT LETTER COMMENTS**

### **WEAKNESSES IN COMPUTER CONTROLS**

1. Engineering plans for a fire suppression system has been developed and sent to the State Engineer's Office for approval. Once approval has been received, the RFP will be sent out for bids.
2. The disaster recovery plan is 65% completed. The anticipated completion date is June 30, 2005.
3. The University currently has data backup polices developed and in place. Backups are maintained in a Wilkinson Hall safe and a safe on the computer center floor. Arrangements are being made to house these tapes at a local bank safe as well.

### **TIMESHEETS NOT SIGNED BY EMPLOYEES**

The faculty and staff have been requested to take extra precautions in ensuring that employees sign timesheets prior to submission to the Payroll Office. Payroll employees are implementing closer reviews to ensure the evidence of employee signatures on timesheets.

### **UNIVERSITY DID NOT CLAIM ALL OF ADMINISTRATIVE COST ALLOWANCE**

The Controller's Office will ensure that an administrative cost allowance calculation will be performed by fiscal year end and a journal entry will be posted to the ledger to allow for a draw down of these funds.

### **LACK OF INTERNAL AUDITOR**

The Board is currently in the process of submitting a request for proposal to hire an outside firm and employing one University employee to serve as the University's Internal Audit Department.