October 14, 1998

The Honorable David M. Beasley, Governor
and
Members of the Board of Trustees
College of Charleston
Charleston, South Carolina

This report on the College of Charleston's internal control for the year ended June 30, 1998, 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

COLLEGE OF CHARLESTON

INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL

JUNE 30, 1998

INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL

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

In planning and performing our audit of the financial statements of the College of Charleston (College), Charleston, South Carolina, for the year ended June 30, 1998, we considered its internal control in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control. However, we noted certain matters as detailed on pages 1 and 2 involving the internal control and its operation that we consider to be reportable conditions under standards established by the American Institute of Certified Public Accountants. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control that, in our judgment, could adversely affect the organization's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that errors or irregularities in amounts that would be material to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

Our consideration of internal control would not necessarily disclose all matters in internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses as defined above. We believe the conditions noted on pages 1 and 2 are material weaknesses.

We also noted other matters involving internal control and its operation as detailed on pages 2 and 3.

This report is intended solely for the information and use of the board of trustees, management and others within the College. This restriction is not intended to limit the distribution of this report which, upon acceptance by the State Auditor's Office, is a matter of public record.

Columbia, South Carolina
September 17, 1998

MANAGEMENT LETTER COMMENTS

A. MATERIAL REPORTABLE CONDITIONS

LIABILITY ACCOUNTS EXIST WITH NEGATIVE BALANCES

Our review of the various general ledger liability account balances noted some negative (debit) balances. A further review of documentation to support these balances disclosed an understatement of accounts payable and accrued expenses of approximately $294,000 attributable to fringe benefit accruals and related withholdings and approximately $48,000 attributable to sales taxes. Adjusting entries were required to be made to correct the various account balances. Approximately $113,000 of these adjustments were applicable to fiscal year 1998 and approximately $63,000 for fiscal year 1997. We also noted other general ledger accounts that reflect minimal or no activity that possibly should be adjusted.

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

The sales tax balance resulted from collections of the sales tax being credited to a revenue account and the payments of the taxes to the South Carolina Department of Revenue being charged to a liability account.

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

ACCOUNTS/RETAINAGES PAYABLE AND ACCRUED EXPENSES

Our audit tests disclosed several deficiencies regarding accounts/retainages payable and accrued expenses. The findings are as follows:

1. Our audit tests disclosed expenditures totalling approximately $92,500 in the unrestricted current fund and approximately $120,000 in the unexpended plant fund that were not recorded in accounts payable by the College as of year end that should have been. Also, included in the accounts payable balance total and related expenditures for the unrestricted current fund was $400,000 for library deposits that were not made to the various publishers for future library material purchases as of year end. An adjusting entry was made in the unrestricted current fund to record and reverse the accounts payable.

2. Also, retainages payable in the unexpended plant fund as shown in the College's year end general ledger were overstated by $85,270 for a payment that was made in May, 1998.

We recommend the accounting staff carefully review vendor invoices paid after June 30 and all unpaid invoices that are on hand even if not approved for payment prior to closing the books as of June 30 each year. The University should also ensure that accounts payable are only recorded for goods or services that had been received as of year end.

REAL PROPERTY GIFT NOT RECORDED

Our audit tests disclosed that the College purchased the Bell South building and parking lot during fiscal year 1998 from the College of Charleston Foundation with the consideration being the Foundation's original cost plus carrying costs. The excess of the fair market value over the Foundation's cost was gifted by the Foundation.

The accounting department apparently was not aware of the excess value, so no entry was made in the College's records to record this gift. An audit adjusting entry was required to record the value of the gift of approximately $2,660,000.

We recommend that the accounting department be furnished all the facts and documentation regarding real estate purchases and gifts.

PREPAYMENT ON LONG-TERM LEASE IMPROPERLY CHARGED OFF

Our audit tests disclosed that as of June 30, 1997, the College included in its prepaid expenditures the unamortized portion of the $500,000 advance rent expenditure on the Patriot's Point lease over a 65 year period. During fiscal year 1998, the College charged off the unamortized balance of $498,077 and did not record any amortization for the year. An adjusting entry was required to restore this asset and record amortization for the year.

We recommend that generally accepted accounting principles be applied in similar circumstances regarding the recording of transactions.

LIBRARY EXPENDITURES ATTRIBUTABLE TO FUTURE PERIODS

Our tests of library expenditures disclosed the College recorded in its accounts payable ($400,000) and made advance payments ($464,604) totalling $864,604 to various publishers for future purchases of library materials. We also noted a similar expenditure was made in June, 1997 for $150,000 that was not included in prepaid expenditures at June 30, 1997. Adjusting entries were required to be made for these transactions in the unrestricted current fund and the investment in plant fund.

The College's policy has been to record as current period expenditures these type transactions instead of matching costs to the accounting period in which the benefit is realized.

We recommend that expenditures be allocated to the accounting period in which the benefit is realized, and, if advance payments are made, they be included in prepaid expenditures.

B. OTHER WEAKNESSES

FIXED ASSET OBSERVATION

1. Two out of twenty items selected for physical inspection were located but were not operable. One was a printer and the other was a video system consisting of several components, one of which was a camcorder which was missing and possibly stolen. A missing property report was prepared for the camcorder in April, 1996.

   We were advised that there was a failure of the department to notify Inventory Control of the inoperable or missing equipment.

   We recommend all persons to whom property and equipment is assigned be instructed to notify Inventory Control in writing of inoperable assets and missing or stolen property and equipment so that the inventory records can be updated.

2. During our property and equipment physical inspection, we selected five assets to trace into the College's fixed asset listing with one being a 1998 Ford Taurus sedan. The sedan did not appear on the inventory listing and per Inventory Control, it had not been set up and capitalized. We requested the invoice for the purchase to verify the fiscal year of purchase and it was during the fiscal year 1998 period. The purchase also included two additional sedans and neither of them was on the property and equipment inventory listing. An adjusting entry was required to record these assets.

   No reason was determined for this omission.

   We recommend that controls and procedures over the recording of property and equipment additions be reviewed to ensure that all equipment costing more than $5,000 is added to the inventory records and the additions to the general ledger expenditure accounts.

PRIOR YEAR LIBRARY GIFTS NOT RECORDED

Our review disclosed that gifts of library materials received during fiscal year 1997 of approximately $94,000 had not been recorded. An adjusting entry was required to record this asset. This type of transaction was correctly recorded for fiscal year 1998 gifts.

This omission appears to be from oversight.

STUDENT ACCOUNTS RECEIVABLE OVERSTATED

Our tests of various subsidiary listings to the general ledger control accounts disclosed that the subsidiary listing for the refund clearing account was approximately $47,000 less than the control account. A similar difference existed at June 30, 1997. An adjusting entry was required to correct this difference.

Accounting department management indicated this problem has existed for several years and it is related to the student accounting software.

We recommend that this deficiency be investigated and corrected.

ACCRUED COMPENSATED ABSENCES MISSTATED

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

1. The leave liability was calculated using the June 30, 1998 and prior pay rates instead of the pay rate as of July 1, 1998 (this is the rate that would be applicable to the leave when actually paid).

2. Leave taken and paid by employees for the period June 21-30, 1998 was not deducted from employee leave balances in the leave liability report.

3. The amount recorded in the College's records for accrued compensated absences was understated by approximately $33,000 from the amount shown on the schedule of accrued compensated absences. An adjusting entry was required to be made to record this difference. This occurred because calculated amounts were excluded from the journal entry made by the College.

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

CAPITAL LEASES

The documentation supporting capital leases was difficult to review and verify because it primarily consisted of handwritten notes and adding machine tapes. Also, because of the manner presented, it was not practicable to link the fiscal year 1998 information to the fiscal year 1997 information.

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

COLLEGE OF CHARLESTON

MANAGEMENT'S RESPONSE

TO

INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL

The following comments are being offered in response to the findings reported in the auditor's management letter for Fiscal Year 1997-98. The Administration of the College of Charleston is pleased that the auditor's work confirmed that the College continues to operate within its resources and in compliance with all Federal and State laws and regulations. Furthermore, it is a sources of great pride to know that after a professionally conducted and comprehensive examination by the auditors, the financial statements of the institution were determined to present fairly to the reader the financial integrity and solvency of the College of Charleston.

A. MATERIAL REPORTABLE CONDITIONS

1. Liability Accounts Exist with Negative Balances

   We concur with the auditor's finding. Corrective actions have been implemented to minimize the chance of this occurring in the future. The Sales Tax payment was made in a timely manner and proper amount, but coded to an incorrect account.

2. Accounts/Retainages Payable and Accrued Expenses

   We concur with the auditor's finding. The institution will continue to make every effort to identify amounts due for goods/services received while achieving a timely closing of the accounting records. Deposits for library books were handled in a manner consistent with that of the past several years, during which no audit exceptions were noted. The recommendation of the auditor for these deposits will be implemented.

3. Real Property Gift Not Recorded

   We concur with the auditor's finding. Information on the gift portion of the purchase transaction was not available at the time the transaction was recorded.

4. Prepayment on Long-Term Lease Improperly Charged Off

   The institution viewed the one time payment as a requirement to enter into the lease and was appropriate to be charged totally in one fiscal year. The auditor contends that the payment should be charged off over the 65-year term of the lease. Since the yearly amount of approximately $7,700 is so immaterial, the institution will abide by the recommendations of the auditor.

5. Library Expenditures Attributable to Future Periods

   This is related to the above finding A.2. The institution will make every effort to properly charge payments and record deposits to the appropriate fiscal year.

B. OTHER WEAKNESSES

1. Fixed Asset Observations

   We concur with the auditor's finding of these clerical errors. Every effort will be made to properly record fixed assets in the Property Inventory System.

2. Prior Year Library Gifts Not Recorded

   The institution will continue to make every effort to properly record all gifts received.

3. Student Accounts Receivable Overstated

   We concur with the auditor's finding. This account will be reconciled during fiscal year 98-99.

4. Accrued Compensated Absences Misstated

   We concur with the auditor's finding of this clerical omission.

5. Capital Leases

   The institution will, in the future, provide the auditor with concise and complete workpapers, documenting all capital leases. This documentation can then serve as the basis for the auditor's prepared analysis.