

COASTAL CAROLINA UNIVERSITY

CONWAY, SOUTH CAROLINA

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

JUNE 30, 1998

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INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL

October 16, 1998

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

We have audited the basic financial statements of Coastal Carolina University as of and for the year ended June 30, 1998, and have issued our report thereon dated October 16, 1998. Those financial statements are the responsibility of the University's management. Our responsibility is to express an opinion on those basic financial statements based on our audit.

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

The management of Coastal Carolina University is responsible for establishing and maintaining internal control. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of internal control policies and procedures. The objectives of internal control are to provide management with reasonable, but not absolute, assurance that assets are safeguarded against loss from unauthorized use or disposition, and transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of financial statements in accordance with generally accepted accounting principles. Because of inherent limitations in internal control, errors or irregularities may nevertheless occur and not be detected. Also, projection of any evaluation of internal control to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or that the effectiveness of the design and operation of policies and procedures may deteriorate.

In planning and performing our audit of the basic financial statements of Coastal Carolina University for the year ended June 30, 1998, we considered its internal control in order to determine our auditing procedures for the purpose of expressing our opinion on the basic financial statements and not to provide assurance on the internal control. With respect to the internal control, we obtained an understanding of the design of relevant policies and procedures and whether they have been placed in operation, and we assessed control risk.

The Honorable David M. Beasley, Governor
and
Members of the Board of Trustees
Coastal Carolina University
October 16, 1998

We noted certain matters 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 University's ability to record, process, summarize, and report financial data consistent with the assertions of management in the basic 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 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 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. However, we believe the reportable conditions described in Section A of the Auditor's Comments are material weaknesses and/or violations of law. These conditions were considered in determining the nature, timing, and extent of audit tests to be applied in our audit of the basic financial statements of Coastal Carolina University as of and for the year ended June 30, 1998, and this report does not affect our report on the basic financial statements dated October 16, 1998.

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

Thomas L. Wagner, Jr., CPA
State Auditor

AUDITOR'S COMMENTS

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

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

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

STUDENT TUITION AND FEES

Introduction

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

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

Employee Tuition Waiver

We randomly selected and tested thirteen waivers of tuition from all categories recorded by the University during fiscal year 1998. One of the thirteen transactions was a waiver granted on July 9, 1997 to an employee who had submitted on June 12, 1997, a letter of resignation effective July 15, 1997. The waiver was for the Summer II 1997 academic term which spanned the period July 7, 1997 to August 8, 1997.

Section 59-111-15 of the Code, as amended, states, in part, the following:

State-supported colleges and universities... are authorized to provide assistance for educational expenses, including the payment, reimbursement, or remission of tuition or fees, to its permanent faculty and staff. The assistance authorized by this section is not considered a perquisite of office or employment. Permanent faculty and staff are not entitled to assistance provided in this section for more than four credit hours a semester.

Further, the University's policies and procedures state that "to be eligible for tuition assistance, staff must be employed at least thirty hours per week in a permanent position" and that "an enrolled faculty or staff member who resigns...will be allowed to continue in the course tuition free; however, he or she will not be permitted to enroll in additional courses under the program."

Granting a fee waiver to an employee who has already resigned and who will be working only a few days of the academic term does not appear to be within the spirit of the State law and the University's policies.

Cooperating Teachers

The University refers to teachers in Horry County School District and Georgetown County School District schools who supervise student interns in the University's School of Education as cooperating or co-op teachers. In our report on the University for the year ended June 30, 1997, we cited the University for allowing these teachers to attend the University after payment of a reduced fee of \$15 per graduate course with a limit of two courses. University personnel established this policy with the approval of its Board of Trustees as an incentive for teachers in the Horry and Georgetown County School Districts to participate in the supervision of student interns in the University's School of Education.

The University recorded graduate fee waivers totaling \$26,027 in fiscal year 1998 for the difference between the \$15 rate per course paid by the cooperating teachers and the \$185 per credit hour paid by other in-state graduate students.

Recommendations

Because the University lacks requisite statutory authority, we recommend that it cease the practice of charging reduced tuition for cooperating teachers. We also recommend that the University establish and implement procedures to ensure that it does not grant tuition waivers to employees who have already submitted letters of resignation.

EMPLOYEE COMPENSATION

The University incorrectly paid two of the twenty-five employees tested who terminated employment during fiscal year 1998. In the calculation of final pay for one employee, the University used an incorrect hourly rate which resulted in an overpayment of \$393. The University used an incorrect annual leave balance for the other employee, which resulted in an underpayment of \$189.

The University has established a review process for verification of the mathematical accuracy of pay calculations upon termination of employment. However, the reviewer is not required to agree amounts used in the calculations to supporting documentation.

In the prior audit report, we cited the University for overpaying an employee upon termination of employment. In that instance, the University paid the employee an extra semi-monthly check.

Section 8-11-30 of the 1976 South Carolina Code of Laws, as amended, states that it is unlawful for anyone to receive any salary from the State which is not due and for anyone employed by the State to pay salaries or monies that are not due. Any violation is punishable by a fine or imprisonment. Also, good business practices require that the University establish internal control procedures to ensure a comprehensive review of final pay, including annual leave payments, by someone other than the preparer.

We recommend the University strengthen its review process to ensure that payroll calculations are accurate and are verified with documentation, such as termination date, annual leave balances, rate of pay, etc., by someone other than the preparer. We also recommend the University recover the overpayment resulting from the overstated hourly rate and pay the former employee the underpayment resulting from the understated leave balance.

LEGAL SERVICES

The University paid for legal services which were not properly authorized by the South Carolina Attorney General's Office. According to the "South Carolina Attorney General Request for Authorization to Employ Associate Council" form, the University requested approval on October 22, 1997 to engage an attorney for services between July 1, 1997 and June 30, 1998, and the Attorney General's Office authorized the services on November 3, 1997.

Following is a summary of the payments which were made to this attorney before the University obtained authorization from the Attorney General's Office:

<u>Voucher Number</u>	<u>Dates of Services</u>	<u>Amount</u>
V0066904	08/05/97 – 09/08/97	\$422.00
V0068558	09/08/97 – 09/23/97	\$72.00
V0068331	09/08/97 – 10/03/97	\$74.60

Additionally, the University made a duplicate payment of \$45.00 to the same attorney for services performed on September 4, 1997, and included in the itemized charges of two separate invoices from the attorney. This duplicate payment indicates a weakness in internal control over cash disbursements for legal services billings.

Proviso 11.3. of Part IB of the 1998 Appropriation Act states the following:

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

Also, strong control requires that procedures be established to prohibit duplicate payments.

We recommend that the University establish and implement procedures to ensure that it obtains approval from the South Carolina Attorney General's Office prior to engaging an attorney on a fee basis. The University's established control procedures should also require that invoices for legal services be properly reviewed prior to payment, including a comparison of the service dates to those on the previous invoice.

SECTION B - OTHER WEAKNESSES NOT CONSIDERED MATERIAL

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

SALES AND SERVICES OF AUXILIARY ENTERPRISES

Auxiliary enterprises exist to provide goods or services to students, faculty, or staff. These entities charge fees directly related to, but not necessarily equal to, the costs of the goods or services. Auxiliary enterprises are managed as essentially self-supporting. Also, generally accepted accounting principles require the recording of revenues derived directly from the operation of these entities as sales and services revenues and the recording of all direct and indirect costs relating to their operations as auxiliary enterprises expenditures.

During the year ended June 30, 1998, the University recorded transactions for sales and services of one auxiliary enterprise to another auxiliary enterprise or University department as intra-institutional transfers (IIT's). IIT's are usually accounted for as increases in current funds expenditures of the department receiving the materials, services, or capital assets and as decreases in current funds expenditures of the transferring department. Thus, the University recorded these transactions as reductions of auxiliary enterprises expenditures instead of increases in auxiliary enterprises revenues. As a result, auxiliary enterprises revenues and expenditures recorded in the University's general ledger were both understated by \$43,408. We prepared an adjusting journal entry to correct the understatements.

Section 6.04 of the American Institute of Certified Public Accountants (AICPA) Audits of Colleges and Universities Industry Audit Guide states, in part, the following:

... sales and services of an auxiliary enterprise to another department or auxiliary enterprise, or sales of materials produced by an instructional department to another department or auxiliary enterprise, would be reported as an expenditure of the department or auxiliary enterprise receiving the materials or services and as revenue of the department or auxiliary enterprise selling the materials or services.

We recommend the University record sales and services of an auxiliary enterprise to another department or auxiliary enterprise in accordance with industry guidelines.

RECEIPT OF GOODS AND SERVICES

During our tests of cash disbursements and accounts payable, we noted that in many instances the University did not adequately document in the voucher packages the dates goods and/or services were received. One University employee indicated that this was not an important job duty.

During our review of payments made subsequent to June 30, 1998, for possible unrecorded liabilities, we identified an unrecorded account payable at June 30, 1998, of \$52,018. The invoices supporting this payment did contain the dates the goods and services were received. However, University personnel apparently failed to adequately review this August 1998 payment to determine that a liability should be recorded at June 30, 1998. We prepared an adjusting journal entry to correct the understatement of liabilities and expenditures as of and for the year ended June 30, 1998.

Generally accepted accounting principles require that expenditures be recognized when materials or services are received. Current liabilities should be reported at June 30 for amounts owed for goods and services that were received on or before June 30 but paid for after June 30.

In order to identify current liabilities at June 30, it is imperative that University personnel accurately record the dates goods and services are received. We recommend that the University take the necessary steps to ensure that employees document in each voucher package the date goods and services are received. Individuals responsible for receiving goods should be adequately trained so that they are knowledgeable of the specific criteria to be used in performing their assigned duties. Furthermore, those persons responsible for identifying and recording accounts payable should take care to ensure that all liabilities are properly identified and recorded at fiscal year-end.

MAINTENANCE SUPPLY INVENTORY

During the audit of the University for the fiscal year ending June 30, 1997, we were told that the University had approximately \$12,000 in maintenance supply assets which were not inventoried and included in the June 30, 1997 inventory balance. In response to our informal recommendations made during the fiscal year 1997 audit, management indicated that the maintenance supply items were on hand at June 30, 1995, but they were not included in previous inventory counts. Furthermore, the University indicated that these items would be “considered, following current inventory procedures, in the June 30, 1998 count.” The University added \$12,000 to the June 30, 1998 maintenance supply inventory balance of \$90,197 derived from its physical inventory count. However, there is no detail listing to support this \$12,000 adjustment.

Section 307.6 of the Financial Accounting and Reporting Manual for Higher Education issued by the National Association of College and University Business Officers states that “Colleges and universities maintain inventories for sale and for use... In addition, most colleges and universities record inventories held in central stores, physical plant stores, and motor pool stores as assets...”

We recommend that the University evaluate the items in question. A value should be established for each item which is not obsolete, and those items should be counted and included in the maintenance supply inventory listing at fiscal year-end.

**FEDERAL REIMBURSEMENT OF PERKINS
LOAN PROGRAM CANCELLATIONS**

The United States Department of Education (USDOE) reimburses the University for Federal Perkins Loan Program principal canceled due to the borrowers' fulfillment of certain service requirements and interest which was prevented from accruing thereon. The University records the cancellations after its loan servicing organization notifies it of the types and amounts of cancellations. The University also completes and submits to the USDOE the annual Fiscal Operations Report (FISAP) using information provided by the loan servicing organization for the Federal Perkins Loan Program section. The reimbursements from the USDOE, which have historically been received by the University two fiscal years after the occurrence of the cancellations, is based upon the information reported on the FISAP.

The reimbursable cancellation costs recorded in the University's general ledger for fiscal years 1997 and 1996 (reimbursed early in fiscal years 1999 and 1998) do not agree with the cancellation costs reported on the related FISAP reports as shown below.

	<u>Costs per General Ledger</u>	<u>Costs per FISA</u>	<u>Variance</u>
Fiscal Year 1997	\$8,564	\$13,205	\$4,641
Fiscal Year 1996	\$6,785	\$11,872	\$5,087

These variances have gone undetected by the University, because it does not reconcile these costs recorded in the loan servicing organization report, the FISAP report, and the general ledger. Consequently, errors in the general ledger and/or the FISAP report have not been corrected. Further, failure to investigate and resolve these differences may have resulted in an over reimbursement from the USDOE.

Effective internal control would ensure that cancellation costs recorded in the loan servicing organization report, the FISAP report, and the University's general ledger agree. Further, if the amounts do not agree, they should be reconciled, differences adequately explained, and corrections made, if necessary.

We recommend that the University implement a procedure requiring the reconciliation of cancellation costs between the loan servicing organization report, the FISAP report, and the general ledger. The written reconciliation should be prepared by an appropriate, responsible official and reviewed and approved by a responsible official other than the preparer. Adjustments should be made to the general ledger, if necessary. Also, the University must make corrections to the FISAP reports if inaccurate amounts were previously reported, and it must return any over reimbursements to the USDOE.

SECTION C - STATUS OF PRIOR FINDINGS

During the current engagement, we reviewed the status of corrective action taken on each of the findings reported in the Auditor's Comments section of the State Auditor's Report on Coastal Carolina University for the fiscal year ended June 30, 1997, and dated October 31, 1997. We determined that the University has taken adequate corrective action on each of the deficiencies except for the finding on employee compensation and part of the finding on student tuition and fees.

MANAGEMENT'S RESPONSE

COASTAL CAROLINA UNIVERSITY

November 30, 1998

Mr. Thomas L. Wagner, Jr., CPA
State Auditor
1401 Main Street, Suite 1200
Columbia, South Carolina 29201

Dear Mr. Wagner:

Please find below Coastal Carolina University's responses to the State Auditor's Office Management Letter Comments related to its audit of our financial statements for the year ended June 30, 1998.

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

Student Tuition and Fees, Employee Tuition Waiver

The existing University tuition waiver program does not prohibit approval of tuition waiver for an employee, if there is knowledge of a future employment separation. The current policy reads: "An enrolled faculty or staff member who resigns, is dismissed or otherwise leaves the University, will be allowed to continue in the course tuition free, however, he or she will not be allowed to enroll in additional courses under the program."

In the case cited by the State Auditor, the University was in compliance with established policy. The person was employed and actively working during part of the designated Summer II session. However, our policy will be amended to include the following additional sentence: "Tuition assistance will not be granted to an individual who has already resigned effective a future date which falls within the requested course enrollment period."

Student Tuition and Fees, Cooperating Teachers

The University records the difference between the full fee charged to in-state graduate students and the actual fee paid by cooperating teachers as an instructional expense. There is not a different rate for co-operating teachers. Rather, if a teacher supervises or assists a University student in the K-12 classroom, the teacher is compensated by being allowed a certain level of tuition remission within the academic year. Since the University views the nature of this transaction as compensation, beginning in calendar 1999, cooperating teachers will be notified that the value of the tuition remission would be reported as miscellaneous income on IRS Form 1099.

This practice saves the University in at least two ways. First of all, we do not have to process paperwork to pay more than seventy-five teachers as independent contractors for their supervisory work. Secondly, since only some of the teachers use the tuition remission voucher, the cost is less than if all were paid outright.

Employee Compensation

In order to strengthen the review process, procedures have been established to review each termination payout calculation to be sure that it is accurate and that it matches the accompanying documentation. The Payroll Director will make the initial calculation, which will be reviewed by the Assistant Controller for accuracy. In first case of the overpayment of \$393, the University has attempted to collect this amount. In the second case, the former employee who was due \$189 was notified and paid.

Legal Services, Authorization by State Attorney General's Office

Some background explanation will be helpful in this instance. On November 4, 1996, the University submitted a "Request for Authorization to Employ Associate Counsel" for the labor certification for up to four (4) foreign nationals employed by the University. The request was approved by the Attorney General's Office on December 3, 1996. The work was not completed and invoiced by the approved attorney until after the expiration of the previously acquired authorization notice. Since the approval time period had expired, the University legal counsel contacted the Attorney General's Office, which issued a new authorization form to allow payment of the Associate Counsel previously awarded the work.

In this case, the University was practicing due diligence in complying with State Proviso 11.3 of Part 1B of the Appropriations Act. With immigration cases, the process for acquiring work authorization for a foreign national is extensive, multi-phased and takes up to two years to petition closure. Based on the current approval system through the Attorney General's Office, the maximum approval period is from the date of approval not to exceed the fiscal year.

In the future, the Office of Human Resources will request a copy of the approved request from the University legal counsel and maintain the approval period dates on the departmental electronic calendar so that a renewal will be obtained if necessary.

Legal Services, Duplicate Payment

Accounts Payable training has been strengthened so that staff will review invoices for services in any ongoing commitment to ensure that there is no overlap in dates of services being billed.

Section B – Other Weaknesses Not Considered Material

Sales and Services of Auxiliary Enterprises

Accounting procedures have been changed to record all sales transactions by auxiliaries as revenue, regardless of source of sale.

Receipt of Goods and Services

It is standard procedure for the Central Receiving department of the University to document the date materials or services are received, both on the hard copy of relevant documentation and on the computer system. However, frequently goods are shipped directly to the departmental address of the individual who ordered them. In these situations we attempt to obtain the approval to pay signature and the date the goods were received. We are successful in obtaining approvals for payment in order to make payment in a timely manner. However, we will continue to educate staff in the outlying departments of the need for documentation of date of receipt.

Date of receipt may not have been viewed by staff as critical information during the course of most of the year. However, accounts payable staff are very aware of the need to know the date of receipt for payment of invoices received in July and early August of each year because of the importance of the year end cut-off. The unrecorded liability of \$52,018 was simply an oversight. All payments over \$10,000 are now being audited separately, and this second review will help to prevent such an error in the future.

Maintenance Supply Inventory

Fiscal year 1996 was the first year of operation for the maintenance supply store, and the first year that supplies inventory was recorded on the ledger for this department. To count these items separately and to go back to the 1994-95 year to try to compute the cost of items on hand at June 30, 1995 will be difficult, and the resulting value may not be very reliable. The University feels that the value of the resulting information is not worth the cost involved to obtain it.

Federal Reimbursement of Perkins Loan Program Cancellations

Perkins Loan Program figures are reported using cumulative data which reflect all transactions since the inception of the program. The amount of difference between the FISAP and EFG Technologies (our third party service contractor) was minor, amounting to \$466, \$643, and \$805 in years FY96 through FY98. The significant difference was in the amounts reported on the ledger. A reconciliation of cumulative data has been completed by accounting staff in FY99 which agrees figures between the FISAP, the general ledger, and the third party service contractor. Since cumulative data is used on the FISAP, corrections for one fiscal year can be reconciled and settled in the next year.

Thank you for your assistance in the completion of the audit for the 1998 fiscal year.

Sincerely,

Ronald R. Ingle
President