

**CLEMSON UNIVERSITY  
CLEMSON, SOUTH CAROLINA**

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

**JUNE 30, 2000**

# State of South Carolina



## Office of the State Auditor

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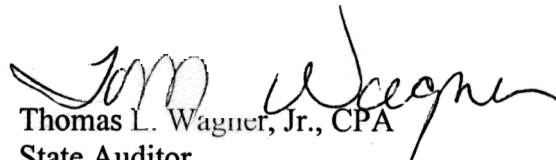
December 8, 2000

The Honorable Jim Hodges, Governor  
and  
Members of the Board of Trustees  
Clemson University  
Clemson, South Carolina

This report on Clemson University's internal control for the fiscal year ended June 30, 2000, 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



# ROGERS & LABAN, PA

CERTIFIED PUBLIC ACCOUNTANTS AND FINANCIAL CONSULTANTS

## INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL

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

In planning and performing our audit of the basic financial statements of Clemson University for the year ended June 30, 2000, 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. 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 to 4.

This report is intended solely for the information and use of the Governor of South Carolina and the Board of Trustees and management of the University and is not intended to be and should not be used by anyone other than these specified parties.

*Rogers & Laban, PA*

October 6, 2000



**A. MATERIAL REPORTABLE CONDITIONS****CASH ACCOUNTS NOT RECONCILED TIMELY**

The University did not reconcile the cash accounts timely throughout the year. The vendor cash account for July, 1999 was not reconciled until February, 2000; the payroll account was reconciled quarterly rather than monthly through March, 2000 and the State Treasurer's account was not reconciled at all during the year.

The completion of the financial audit was delayed until the reconciliation of the general ledger cash accounts to the State Treasurer's cash accounts were finished. Timely reconciliation of these accounts would have disclosed earlier the following conditions:

- Error in posting indirect cost earned by the University
- Duplicate posting of the same cash receipts
- Deposits transmittal not sent to State Treasurer or completed for incorrect amount for State Treasurer to record deposit on the State's books
- Payment to vendors for accounts payable not recorded
- Transfers between University accounts are not timely recorded in the State's books. -

Adjustments of approximately \$680,000 to correct these reconciling items were included in the University's audited financial statements.

Good internal controls require that all cash accounts be reconciled to the general ledger monthly in a timely manner.

We recommend that all cash accounts in the general ledger be reconciled to supporting records and the Comptroller General's cash balance reports in a timely manner. Formal reconciliation procedures should be implemented and accountability assigned to accomplish a timely reconciliation of all cash accounts. Consideration should be given to segregating activity for the State Treasurer's cash accounts into several accounts to simplify the reconciliation process and further clarify accountability.

**ERRORS IN ENTRIES TO PLANT FUNDS**

Our audit disclosed the following errors in the recording of entries to the University's plant funds.

1. There was an error in calculating the amount of accrued interest payable on capital leases resulting in an overstatement of approximately \$57,000 of accrued interest payable and interest expense.
2. The amount of interim accrued interest received on the sale of bonds of approximately \$78,000 was recorded as interest income instead of as a reduction of interest expense.
3. The bond premium bid received of approximately \$260,000 was recorded as interest income instead of as an other addition.
4. The bond issue costs were capitalized in both the retirement of indebtedness and unexpended plant subfunds. These errors appeared to occur because of the lack of adequate review of the workpapers supporting the accounting entries. Adjustments to correct these items were included in the audited University's financial statements.

Good internal controls require the adequate review and supervision of all personnel.

We recommend that all entries be reviewed with supporting workpapers before the entries are posted. Also, additional review procedures should be put in place for non-routine entries.

## **ACCOUNTS PAYABLE UNDERSTATED**

Our review of payments after year-end disclosed two vouchers totaling approximately \$410,000 in the unrestricted current fund, nine vouchers totaling approximately \$284,000 in the restricted current fund and one voucher for \$313,500 in the unexpended plant fund which should have been recorded as accounts payable and were not. Adjusting entries were made to record all of these liabilities on the audited financial reports.

Good internal controls should provide for the proper cutoff of expenditures and procedure to identify year-end obligations which will be paid in the next fiscal year to ensure that all liabilities are recorded.

We recommend that the University strengthen its cutoff procedures to ensure that all liabilities, even those paid long after fiscal year end and the close of the University's accounting system, are properly recorded in the financial statements.

## **ENDOWMENT FUND CLASSIFIED INCORRECTLY**

The University incorrectly classified a new endowment fund of approximately \$755,000 that it set up during the year as a permanent endowment instead of as a quasi endowment. An adjustment was made to correctly classify the fund.

The cause of the fund classification error appears to have been the failure to adequately review the documents establishing the endowment fund.

We recommend that additional care be taken in setting up funds to ensure that they are properly classified.

## **INTEREST INCOME ACCRUAL NOT RECORDED ON ALL ACCOUNTS**

University personnel did not record the accrued interest receivable on new accounts established during the year attributable to new bonds issued resulting in an understatement of the interest accrual of approximately \$112,000. An adjustment was made to correct this error.

It appears that this occurred because University personnel only accrued interest receivable on the same accounts as the prior year.

We recommend that additional care be taken to ensure that accrued interest receivable is recorded on all accounts. Investment earnings should be tied into the State Treasurer's year-end investment report.

## **B. OTHER WEAKNESSES**

### **CAPITAL EXPENDITURES CLASSIFIED AS REPAIRS**

In our testing of twenty six items charged to repairs and maintenance, we noted two items totaling approximately \$46,000 that should have been charged to equipment and capitalized during the year. Adjustments to correct these classification errors were included in the audited University's financial statements.

Good internal controls require the proper coding of all disbursements to ensure that all items are properly classified and to ensure that capital asset purchases are coded to an account to facilitate identification of items to be capitalized.

We recommend that the University periodically review charges to the repair and maintenance accounts to ensure that no items which should be capitalized are charged to these accounts.

## ACCOUNTS RECEIVABLE PROCEDURAL DEFICIENCIES

Our review of the documentation supporting various accounts receivable balances disclosed the following:

1. The accounts receivable for the Madren Center as of June 30, 2000 contained approximately \$16,000 which was collected prior to June 30.
2. Approximately \$47,000 in receipts was posted to one general ledger account on March 30 that should have been posted to a different accounts receivable account and the correcting entry was not made until August 31, 2000. The University was aware that this adjustment needed to be recorded.
3. Approximately \$32,000 of \$154,362 of accounts receivable related to professional development should not have been on the listing as of June 30, 2000 because the invoices had been cancelled or paid. Also, there did not appear to be adequate follow-up in collection efforts on old professional development receivables.
4. The balances for the various student financial aid receivables are overstated by approximately \$37,000.
5. Differences were noted between the Fiscal Operations report that the University is required to file with the federal government and the general ledger.

There is not adequate supervision of the various departments to ensure adequate collection efforts are made and there was not an adequate review of the various listings supporting certain accounts receivable at fiscal year-end. There was not a reconciliation prepared between the Fiscal Operations report and the general ledger.

Good fiscal management requires the timely follow-up of unpaid accounts receivable. Also, federal regulations require any federal financial reports should be prepared from or reconciled to the general ledger and the various balance sheet accounts should be reconciled to supporting documentation monthly in a timely manner.

We recommend that additional care be taken to ensure that all accounts receivable listings are accurate and that timely follow-up is performed on any delinquent accounts. The Fiscal Operations report should be reconciled to the general ledger. The University should consider establishing central responsibility for all accounts receivable which would include supervision of the departments with respect to maintenance of adequate supporting documentation, monthly reconciliations to the supporting documentation and to the general ledger balance, timely recording of correcting entries, aging of balances and timely follow-up on past due accounts including establishing adequate procedures for timing and nature of follow-up on delinquent accounts

## IMPROVEMENTS NEEDED IN CONTROLS OVER FIXED ASSETS

From the University's fixed assets listing, we selected 20 items for observation to verify their existence. Of the 20, we were unable to locate 4 items based on the descriptions and decals and serial numbers on the listing. We determined that one of the 4 items should have been removed in the prior year. For the other 3 items, items with similar descriptions were at the specified locations but the decal or serial numbers differed from those on the listing. Also, in testing five retirements of equipment recorded in the current year, we noted one of the retirements occurred approximately three years before.

The annual fixed assets listing sent out by the University to the various departments do not contain a space for a signature or a certification that all information on the listing is correct. University procedures require the annual listings to be returned to the fixed assets department with information on discrepancies and the signature of the responsible person certifying that the listing is correct, except as noted and explained on the listing.

It appears that the decals or serial numbers do not agree because when replacements are received, the Departments are not notifying the fixed asset Department as required to update their records. In addition, these items and items no longer on hand are not being noted on the annual inventories being performed by the Departments.

We recommend that additional procedures be put in place to ensure that fixed asset records are updated as required. The inventory verification forms should have a line for a signed certification that all information is correct unless noted on the form. Surprise inventories should be performed by fixed asset personnel or by the internal auditors of the University. Consideration should be given to performing an inventory whenever there is a change in custodial responsibility.



## INVENTORY COUNTS NOT CORRECTED ON FINAL LISTINGS

Sixteen out of two hundred and seventy-one items that had been counted by internal audit for central/maintenance stores and one out of fifteen items counted for housing were counted incorrectly. The counts on the count sheets were corrected by University personnel when it was pointed out to them by the internal auditors, but these adjustments were not reflected on the final priced inventories.

Failure to properly count and record all inventories results in a misstatement of the amount of inventory on hand.

We recommend that additional care be taken in the inventory counts and that the final priced inventories contain the correction of any errors found.

### C. STATUS OF PRIOR AUDIT FINDINGS

We performed an audit similar in scope for the year ended June 30, 1999. A management letter dated October 1, 1999 was issued which contained the following findings:

- Local county extension funds
- Accounts receivable
- Travel Advances
- Liability account reconciliation
- Bank reconciliations

Adequate corrective actions were taken on the findings cited above.

# CLEMSON

UNIVERSITY

December 20, 2000

Mr. Thomas L. Wagner, State Auditor  
Office of the State Auditor  
P.O. Box 11333  
Columbia, South Carolina 29211

Dear Mr. Wagner:

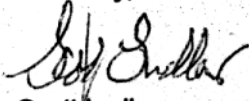
Under contract with your office, the certified public accounting firm of Rogers & Laban recently completed an audit of Clemson University's financial statements for the fiscal year ending June 30, 2000. In conjunction with this examination, Rogers and Laban issued an "Independent Auditor's Report on Internal Control" of Clemson University.

This report identified management letter comments and recommendations. During the past year, Clemson University implemented totally new administrative financial and human resources systems. The commitment of resources for the systems implementation, reengineering of administrative processes and changes in administrative duties resulted in conditions that contributed to the management letter comments. Stabilization, including the review and formalization of processes and assignment of accountability, is a priority.

These findings do not indicate a misuse or loss of university assets rather reflect timing and accounting classifications. Any adjustments that had a financial impact have been made in the audited financial statements. These recommendations and audit findings are taken seriously and appropriate actions have been or will be taken to strengthen accountability throughout the financial processes. Clemson University's response is attached.

Please feel free to contact me if any further discussions are necessary.

Sincerely,



Scott Ludlow  
Chief Business Officer

attachment

cc: James Barker  
Thornton Kirby  
Michael Hughey  
Administrative Council



FINANCIAL AFFAIRS

Chief Business Officer G-06 Sikes Hall Box 345301 Clemson, SC 29634-5301  
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**A. MATERIAL REPORTABLE CONDITIONS**

**CASH ACCOUNTS NOT RECONCILED TIMELY**

**RECOMMENDATION:**

All cash accounts in the general ledger should be reconciled to supporting records and the Comptroller General's cash balance reports in a timely manner. Formal reconciliation procedures should be implemented and accountability assigned to accomplish a timely reconciliation of all accounts. Consideration should be given to segregating activity for the State Treasurer's cash accounts into several accounts to simplify the reconciliation process and further clarify accountability.

**MANAGEMENT'S RESPONSE:**

Management agrees with this recommendation. System implementation and administrative programming priorities delayed the availability of reconciliation tools and processes before mid year. Interim procedures were put in place to provide accountability for cash activity.

A review of cash reconciliation procedures has been completed. Formal reconciliation procedures are being developed with assigned accountability to assure timely reconciliations of all cash accounts. Several system enhancements are being addressed to simplify the cash account reconciliation process.

**ERRORS IN ENTRIES TO PLANT FUNDS**

**RECOMMENDATION:**

All entries should be reviewed with supporting workpapers before the entries are posted. Also, additional review procedures should be put in place for non-routine entries.

**MANAGEMENT'S RESPONSE:**

Management agrees with this recommendation. Most of the entries noted occur only when new debt is issued – not an annual event. A review of the entries related to new debt issues will be incorporated as part of the financial statement preparation process.

**ACCOUNTS PAYABLE UNDERSTATED**

**RECOMMENDATION:**

Strengthen cutoff procedures to ensure that all liabilities, even those paid long after fiscal year-end and the close of the University's accounting system, are properly recorded in the financial statements.

**MANAGEMENT'S RESPONSE:**

Management agrees with this recommendation. Capabilities of the newly implemented financial system identified certain payments to contractors or subcontractors (for grants and University plant fund projects) that have customarily occurred well after the close of the University's fiscal year. Additional procedures have been adopted to identify and accrue these liabilities.

## **ENDOWMENT FUND CLASSIFIED INCORRECTLY**

### **RECOMMENDATION:**

Additional care should be taken in setting up funds to ensure they are properly classified.

### **MANAGEMENT'S RESPONSE:**

Management agrees with this recommendation. New endowments resulting from bequests normally require establishing an account to deposit cash before all documentation and final agreements are available. A "pending" account will be established for these deposits which ultimately will be moved to a permanent account when all documentation and agreements are complete. An additional review procedure will be added at the end of the fiscal year to assure proper classification of new endowments.

## **INTEREST INCOME NOT ACCRUED ON ALL ACCOUNTS**

### **RECOMMENDATION:**

Additional care should be taken to ensure that accrued interest receivable is recorded on all accounts. Investment earnings should be tied into the State Treasurer's year-end investment report.

### **MANAGEMENT'S RESPONSE:**

Management agrees with this recommendation. The State Treasurer's year-end investment report is not normally available until one month after the year end close of the University's financial records. To expedite posting, University personnel have customarily obtained "tentative" amounts from the State Treasurer. In the future, these transactions will be either treated as routine audit adjustments or the "tentative" amounts posted will be verified with the year-end investment report when issued.

## **B. OTHER WEAKNESSES**

### **CAPITAL EXPENDITURES CLASSIFIED AS REPAIRS**

#### **RECOMMENDATION:**

Charges to the repair and maintenance accounts should periodically be reviewed to ensure that no items which should be capitalized are charged to these accounts.

#### **MANAGEMENT'S RESPONSE:**

Management agrees with this recommendation. The transactions identified in the finding related to one purchase order that was not properly classified during the administrative systems conversion. Departmental employees will be reminded to review expense classifications in the payment process. A central monthly procedure will be implemented to review repair expenses that may be improperly classified.

### **ACCOUNTS RECEIVABLE PROCEDURAL DEFICIENCIES**

#### **RECOMMENDATION:**

Additional care should be taken to ensure that all accounts receivable listings are accurate and that timely follow-up is performed on any delinquent accounts. The Fiscal Operations report should be reconciled to the general ledger. The University should consider establishing central responsibility for all accounts receivable which would include supervision of the departments with respect to maintenance of adequate supporting documentation, monthly reconciliations to the supporting documentation, and to the general ledger balance, timely recording of correcting entries, aging of balances and timely follow-up on past due accounts including establishing adequate procedures for timing and nature of follow-up on delinquent accounts.

**MANAGEMENT'S RESPONSE:**

Management agrees with this recommendation. The accounts receivable policies and procedures were revised during the past year to assign accountability for departmental accounts receivable accounts. Year-end accounts receivable procedures will be reviewed and improved to allow for an independent central review of all accounts receivable balances recorded on the University accounting records.

**IMPROVEMENTS NEEDED IN CONTROLS OVER FIXED ASSETS****RECOMMENDATION:**

Additional procedures should be put in place to ensure that fixed asset records are updated as required. The inventory verification forms should have a line for a signed certification that all information is correct unless noted on the form. Surprise inventories should be performed by fixed asset personnel or by the internal auditors of the University. Consideration should be given to performing an inventory whenever there is a change in custodial responsibility.

**MANAGEMENT'S RESPONSE:**

Management agrees with this recommendation. Equipment inventory procedures will be reviewed and updated to improve accountability. The updated procedures will be identified in the training process for those individuals responsible for the equipment inventory. The inventory verification form will be changed to include a verification statement along with the signature of the individual verifying the inventory.

**INVENTORY COUNTS NOT CORRECTED ON FINAL LISTINGS****RECOMMENDATION:**

Additional care should be taken in the inventory counts. Final priced inventories should be corrected for counting errors.

**MANAGEMENT'S RESPONSE:**

Management agrees with this recommendation. Improvement has been made over the last several years in training and documenting inventory procedures. Inventory areas will be instructed to report all inventory count adjustments, no matter the amount. Due to the overall immateriality of most inventory, and the extensive resources required, inventory verification procedures will be reviewed and possibly changed to focus only on items with significant value.