SOUTH CAROLINA STATE UNIVERSITY

ORANGEBURG, SOUTH CAROLINA

FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2002

SOUTH CAROLINA STATE UNIVERSITY

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YEAR ENDED JUNE 30, 2002

State of South Carolina

Office of the State Auditor

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STATE AUDITOR

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May 16, 2003

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 financial statements of South Carolina State University for the fiscal year ended June 30, 2002, 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

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, 2002 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 conducted our audit in accordance with auditing standards generally accepted in the United States of America. 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 discussed in Note 1 to the financial statements, the accompanying financial statements of the University are intended to present the financial position, results of operations, and cash flows of only the portion of the funds of the State of South Carolina that are attributable to the transactions of the University and do not include any other divisions, instrumentalities or any component units of the State of South Carolina.

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the financial position of the University as of June 30, 2002, 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.

These financial statements exclude the related entity described in Note 12 from the reporting entity because the University is not financially accountable for this entity. As part of its affiliated organizations project, the Governmental Accounting Standards Board (GASB) is currently studying other circumstances under which related entities that do not meet the financial accountability criteria would be included in the financial reporting entity.

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As described in Note 1 to the financial statements, the University adopted the provisions of Governmental Accounting Standards Board Statement No, 34, Basic Financial Statements-and Management's Discussion and Analysis-For State and Local Governments; Statement No. 35, Basic Financial Statements-and Management's Discussion and Analysis-for Public Colleges and Universities; Statement No. 37, Basic Financial Statements-and Management's Discussion and Analysis-for For State and Local Governments: Omnibus and Statement No. 38, Certain Financial Statement Note Disclosures as of July 1, 2001. This results in a change in the format and content of the financial statements. Also as discussed in Note 16, the University determined that certain assets and liabilities were overstated or understated. Furthermore, as discussed in Notes 5 and 16, the University changed its capitalization policy. The changes have been accounted for as prior period adjustments and accounting changes.

The Management's Discussion and Analysis on pages 3 through 10 are 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 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 November 27, 2002, 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 result of our audit.

Rogers + Lalan, PA

November 27, 2002

SOUTH CAROLINA STATE UNIVERSITY

Management's Discussion and Analysis

Year Ended June 30, 2002

Overview of the Financial Statements and Financial Analysis

We are pleased to submit the annual Financial Statements for South Carolina State University for the fiscal year ended June 30, 2002. The information presented in the Financial Statements is designed to aid a wide variety of readers to assess the effectiveness of the University's management of its resources in meeting its primary mission of instruction, research, and public service.

One requirement of Management's Discussion and Analysis (MD&A) is to analyze the current-year results in comparison with prior year, with an emphasis on the current year's activities. This fact-based analysis should focus on the positive and negative aspects of the comparison with the prior year. Since this is the first year of the new Governmental Accounting Standards Board (GASB) reporting format and we have nothing to compare it to, we will discuss only the current year's data. In future years, comparative information will be presented.

This report consists of a series of financial statements prepared in accordance with GASB Statement 34, *Basic Financial Statements-and Management's Discussion and Analysis-for State and Local Governments, GASB Statement 35, Basic Financial Statements- and Management's Discussion and Analysis for Public Colleges and Universities*. The fiscal June 2002 financial statements differ significantly from prior year financials in both form and accounting principles. 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). Previous financial statements emphasized the accountability of funds; whereas, these financial statements will 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.

There are three financial statements presented: the Statement of Net Assets; the Statement of Revenues, Expenses, and Changes in Net Assets; and the Statement of Cash Flows. The reporting format of the financial information presented in these statements is similar to that used by business corporations. The University's net assets (the difference between total assets and total liabilities) is one indicator of the improvement or deterioration of the University's financial well-being when considered with non-financial factors such as current enrollment figures and the condition of auxiliary and academic facilities.

The MD&A provides an overview of the University's financial activities for the fiscal year.

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 is prepared using the accrual method of accounting, whereby revenues and assets are recognized when the service is provided; while expenses and liabilities are recognized when services or goods are received. This financial statement presents end-of-fiscal-year data on property that the University owns and receivables from others (Assets), and amounts we owe to others and amounts collected from others prior to providing service (Liabilities), along with the differences between the Assets and Liabilities which is Net Assets.

Based on the financial data presented, readers of the Statement of Net Assets are able to determine the assets available to continue operation of the institution. Readers are also able to determine the institution's debt to vendors, investors, and lending institutions. The Statement of Net Assets provides a picture of the net assets and their availability for expenditure by the University.

Net assets are separated into three distinct major categories with the first category being "Invested in capital assets, net of related debt." This category provides the equity in capital assets, net of accumulated depreciation, which are owned by the University. The second category is "Restricted Net Assets" which has two sub-categories: Non-expendable and Expendable. Nonexpendable net assets are assets such as endowments and scholarships that are required to be held in perpetuity. Expendable restricted net assets are available for expenditure by the University but must be expended only for the purpose and within the time period stipulated by donors and/or external entities. The third and final category is "Unrestricted Net Assets." These net assets are available for expenditure by the University for any lawful purpose.

Condensed Statement of Net Assets as of June 30, 2002:

Assets:	
Current Assets	$11,596,938
Non-current Assets	3,174,357
Capital Assets, Net	46,758,072
Total Assets	**61,529,367**
Liabilities:	
Current Liabilities	8,608,506
Non-current Liabilities	8,732,363
Total Liabilities	**17,340,869**
Net Assets:	
Invested in Capital Assets, Net of Related Debt	41,406,476
Restricted-Nonexpendable	437,462
Restricted—Expendable	1,957,452
Unrestricted	387,108
Total Net Assets	**44,188,498**

As of July 1, 2001 the University adopted a capitalization limit of $100,000 for depreciable land improvements, buildings and improvements, intangible assets, and library collections or books. Thus $6.2 million in library books and $2.8 million in buildings valued at less than $100,000 were removed from the books as of June 30, 2002. Capital Assets, for the first time, are presented net of accumulated depreciation.

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. Depreciation expense for the fiscal year ending June 30, 2000 is $1.9 million.

Generally speaking, operating revenues are earned or received for providing goods and services to the various customers 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.

Condensed Statement of Revenues, Expenses and Changes in Net Assets for the year ended June 30, 2002.

Operating Revenues	$46,919,258
Operating Expenses	79,465,409
Operating Loss	(32,546,151)
Non-Operating Revenues (Expenses)	28,954,443
Income (Loss) Before Extraordinary Item	(3,591,708)
Capital Improvement Bonds for Capital Additions	193,275
Indirect Costs remitted to State General Fund	(227,466)
Extraordinary Item	(1,265,560)
Increase (Decrease) in Net Assets	(4,891,459)

Net Assets at Beginning of Year, As Previously Reported	109,593,969
Prior Period Adjustments	(12,985,135)
Cumulative effect of Changes in Accounting Principles	(47,528,877)
Net Assets at Beginning of Year-Restated	49,079,957
Net Assets at End of Year	$44,188,498

The University's "Operating Loss" of $32 million is due in part to the fact that State Appropriations ($27.5 million) and Capital Improvement Bond Proceeds ($777,019) cannot be classified as operating revenues for colleges and universities according to GASB 35. These two revenue lines appear under "Non-operating Revenues."

Solely in an effort to further explain the operating loss and not to offer a comparison of financial statements, the University's total expenditures and mandatory transfers for June 30, 2001 was $79.9 million and for the year ending June 30, 2002 expenditures were $79.7 million. However, total revenues for the year ending June 30, 2001 were $80 million while total revenues (operating and non-operating revenues) for June 30, 2002 were $75.5 million.

Operating revenues for Student Tuition and Fees and Auxiliary Enterprises have been shown net of Scholarship Allowances as required by NACUBO Advisory Report 2000-05. *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.*

An additional requirement of GASB 35 for colleges and universities is that institutions must eliminate all internal transactions between the institution and its Auxiliaries for reporting purposes. Food Services revenues from internal transactions total $63,627 and the University Bookstore's revenues from internal transactions total $200,932.

The extraordinary item of $1.2 million is an adverse judgment rendered during fiscal 2002 against the University in favor of a former construction contractor relative to the completion of the 1890 Extension Facilities. This item has not been paid but is material and reportable.

The cumulative effects of changes in accounting principles are the result of the University reporting accumulated depreciation on capital assets of $37.4 million and a change in the recognition of summer semester revenues and expenses for $392,205. The University's capitalization policy for buildings and library books was changed to $100,000 per capital asset. This resulted in an adjustment of $7.8 million to capital assets. During fiscal 2002 the University removed $2.8 million in buildings; library books were also removed in the amount of $6.2 as a result of this change in capitalization policy.

Capital Asset and Debt Administration

The University's "Statement of Net Assets" reflects total Capital Assets, net of accumulated depreciation, as of June 30, 2002 of $46.7 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 residential life facilities. Major renovations were performed on 7 of the residential life facilities during the period 1992-1998. The University completed the sale of its South Campus Residential Facility in fiscal 2002 at a loss of $100,000 (this facility had been vacant since 1999).

During the fiscal year the institution added slightly over a half-million dollars to construction-in-progress of which 38% was funded through capital improvement bonds. Capital bond proceeds in the amount of $777,019 were also expended for repair and maintenance. New capital equipment and machinery, with a per-item cost of $5,000 or greater, was increased during the fiscal year by $193,275.

A judgment of $1.2 million was rendered against the University in favor of a former construction contractor during fiscal 2002 relative to the unfinished capital improvement construction project for the 1890 Extension Facilities. The institution is appealing this ruling while also working to negotiate a settlement with the contractor and his attorney. The building will be completed by December 2003.

The University's financial statements reflect $5.2 million in bonds outstanding at June 30, 2002. The University's bonded indebtedness consisted of: $3.2 million in Student Faculty Housing Revenue Bonds (Battiste Hall Residential Life Facility) and $2.0 million in Stadium Improvement Revenue Bonds. Revenue bonds issued for student housing and stadium improvements are paid with pledged net revenues.

The University's Board of Trustees approved refinancing of the current student faculty housing debt in order to save costs over the remaining life of the bonds.

Economic Outlook

In fiscal 2002 the State of South Carolina was forced to dip into reserve funds to cover spending. The statewide economic slowdown was reflected in the University being charged with a 4 percent budget reduction in November 2001 and a 2.52% mid-year cut. The University's Board of Trustees voted to increase tuition to students in June 2002 by 8.5 percent in fiscal 2002-03. Additionally, the Board of Trustees approved another 8.5 percent fee increase in September 2002 to take effect January 2003.

To help offset the decline in Higher Education funding, the University is focusing its efforts on increasing student enrollment through increased marketing and recruitment activities. Although direct funding to Higher Education remains uncertain, the funding for state scholarship programs (LIFE, Need-Based, and Palmetto Fellows) has been increasing. The University's share of these scholarship programs will also increase for fiscal 2003.

The University anticipates favorable funding in fiscal 2003 from the new state lottery – which has been earmarked for education. The institution has already received $1 million in lottery funding during the first quarter of fiscal 2003.

SOUTH CAROLINA STATE UNIVERSITY
STATEMENT OF NET ASSETS

JUNE 30, 2002

ASSETS:	
Current Assets:	
Cash and cash equivalents	$ 4,581,478
Accounts receivable (net of provision for doubtful accounts of $1,788,953)	5,366,242
Current portion of note receivable	41,380
Current portion of loans receivable	546,666
Accrued interest receivable	53,054
Capital improvement bonds receivable	4,252
Prepaid expenses	95,881
Inventories	647,919
Total current assets	11,336,872
Noncurrent Assets:	
Restricted cash and cash equivalents	167,914
Long-term accounts receivable	382,613
Note receivable, net of current portion	165,520
Loans receivable, net of current portion (net of provision for doubtful accounts of	2,580,971
Student loan fund deposit	35,000
Investments	102,405
Capital assets, net of accumulated depreciation	46,758,072
Total noncurrent assets	50,192,495
Total assets	61,529,367
LIABILITIES:	
Current Liabilities:	
Cash overdraft	1,308,333
Accounts payable	2,185,395
Retainages payable	171,023
Accrued payroll and related liabilities	1,304,136
Accrued compensated absences and related benefits - current portion	755,000
Accrued interest payable	68,154
Student deposits	72,714
Refunds due to students	78,076
Deferred and unearned student revenues	1,478,270
Due to General Fund of the State	556,104
Lease payable - current portion	19,708
Bonds payable - current portion	385,000
Deposits held for others	142,600
Other liabilities	83,993
Total current liabilities	8,608,506
Noncurrent Liabilities:	
Accrued compensated absences and related benefits, net of current portion	2,006,649
Lease payable, net of current portion	51,888
Bonds payable, net of current portion	4,895,000
Perkins liability	1,778,826
Total noncurrent liabilities	8,732,363
Total liabilities	17,340,869
NET ASSETS:	
Invested in capital assets, net of related debt	41,406,476
Restricted for:	
Nonexpendable:	
Scholarships and fellowships	437,462
Expendable:	
Scholarships and fellowships	285,930
Loans	1,671,522
Unrestricted	387,108
Total net assets	$ 44,188,498

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, 2002

OPERATING REVENUES:	
Student tuition and fees (net of scholarship allowances of $4,992,610)	$ 15,346,622
Federal grants and contracts	20,541,309
State grants and contracts	2,597,707
Local grants and contracts	938
Non-governmental grants and contracts	27,171
Sales and services of education departments	351,561
Sales and services of auxiliary enterprises (net of scholarship allowances of $1,243,933)	4,811,317
Sales and services of auxiliary enterprises pledged for revenue bonds (net of scholarship allowances of $795,302)	2,183,168
Other operating revenues	626,987
Other operating revenues pledged for revenue bonds	432,478
Total operating revenues	46,919,258
OPERATING EXPENSES:	
Salaries, wages and related benefits	48,626,691
Supplies and other services	18,892,195
Utilities	1,844,114
Scholarships	6,317,145
Stipends	1,450,752
Bad debts and loan cancellations	432,512
Depreciation	1,902,000
Total operating expenses	79,465,409
Operating income (loss)	(32,546,151)
NONOPERATING REVENUES (EXPENSES)	
State appropriations	27,561,834
Capital improvement bonds	777,019
State grants	495,231
Federal grants	28,472
Gifts	290,916
Investment income	259,733
Interest and other fees on capital asset related debt	(333,758)
Loss on disposal of assets	(125,004)
Net nonoperating revenue	28,954,443
Income (loss) before other revenues, expenses, gains, or losses	(3,591,708)
Capital improvement bonds for capital additions	193,275
Increase (decrease) in net assets before transfers and extraordinary item	(3,398,433)
TRANSFERS:	
Indirect costs remitted to General Fund of the State	(227,466)
EXTRAORDINARY ITEM:	
Lawsuit settlement	(1,265,560)
Increase (decrease) in net assets	(4,891,459)
NET ASSETS - BEGINNING OF YEAR, AS RESTATED	49,079,957
NET ASSETS - END OF YEAR	$ 44,188,498

See accompanying Notes to Financial Statements.

SOUTH CAROLINA STATE UNIVERSITY
STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED JUNE 30, 2002

CASH FLOWS FROM OPERATING ACTIVITIES:	
Student tuition and fees	$ 24,697,343
Grants and contracts	23,815,101
Auxiliary enterprises	6,922,551
Payments to suppliers	(21,580,565)
Payments to employees for salaries and benefits	(48,010,775)
Payments for stipends	(1,450,752)
Payments to students	(9,074,955)
Payments of scholarships	(6,317,145)
Loans to students	(582,966)
Collection of loans	235,629
Sales and services of education departments	351,561
Other receipts	1,048,044
Net cash (used) by operating activities	(29,946,929)
CASH FLOW FROM NONCAPITAL FINANCING ACTIVITIES:	
State appropriations	27,561,834
Inflows from loans	15,955,263
Outflows from loans	(15,788,219)
Gifts and grants for other than capital purposes	814,619
Capital improvement bonds used for other than capital purposes	1,318,970
From cash overdraft	1,097,770
Inflows from agencies	333,719
Outflows to agencies	(370,395)
Net cash flow provided by noncapital financing activities	30,923,561
CASH FLOW FROM CAPITAL AND RELATED FINANCING ACTIVITIES:	
Proceeds from sale of capital assets	183,209
Capital improvement bonds	1,051,145
Purchases of capital assets	(675,863)
Principal paid on revenue bonds	(370,000)
Principal paid on capital leases	(25,294)
Principal paid on note payable	(162,722)
Interest and fees paid	(337,806)
Net cash (used) by capital activities	(337,331)

SOUTH CAROLINA STATE UNIVERSITY
STATEMENT OF CASH FLOWS (CONTINUED)

FOR THE YEAR ENDED JUNE 30, 2002

CASH FLOWS FROM INVESTING ACTIVITIES:		
Interest on investments		263,282
Net cash flows provided by investing activities		263,282
Net increase in cash and cash equivalents		902,583
CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR		3,846,809
CASH AND CASH EQUIVALENTS - END OF YEAR	$	4,749,392

Reconciliation of net operating income (loss) to net cash provided (used) by operating activities:		
Operating income (loss)	$	(32,546,151)
Adjustments to reconcile net operating income (loss) to net cash (used) by operating activities:		
Depreciation expense		1,902,000
Bad debts and loan cancellations		432,512
Extraordinary item reclassified to operating		(1,265,560)
Changes in asset and liabilities:		
Receivables		680,748
Inventories		70,000
Loans to students		(347,337)
Prepaid expenses		1,196
Accounts payable		459,938
Accrued payroll and related liabilities		99,103
Deferred and unearned student revenue		(86,151)
Refunds due to students		78,076
Perkins liability		(16,108)
Student deposits		(10,001)
Accrued compensated absences and related benefits		516,813
Other liabilities		83,993
Net cash (used) by operating activities	$	(29,946,929)

Noncash capital and related financing activities:

The University disposed of capital assets with a cost of $1,533,458 and accumulated depreciation of $998,245 during the year.

Noncash investing activities:

The University received a $206,900 mortgage note receivable in connection with the sale of a capital asset.

See accompanying Notes to Financial Statements.

SOUTH CAROLINA STATE UNIVERSITY
NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2002

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, 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. Accordingly, the financial statements include the accounts of the University.

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

Financial Statements: The financial statement presentation for the University has been changed to meet the requirements of Governmental Accounting Standards Board Statement No, 34, Basic Financial Statements-and Management's Discussion and Analysis-For State and Local Governments; Statement No. 35, Basic Financial Statements-and Management's Discussion and Analysis-for Public Colleges and Universities; Statement No. 37, Basic Financial Statements-and Management's Discussion and Analysis-for For State and Local Governments: Omnibus and Statement No. 38, Certain Financial Statement Note Disclosure. The financial statement presentation provides a comprehensive, entity-wide perspective of the University's net assets, revenues, expenses and changes in net assets and cash flows that replaces the fund-group perspective previously required.

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.

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.

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 statements of revenues, expenses and changes in 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 consists 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: 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 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: The loans receivable on the balance sheet 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 prorata share of net earnings on the loans under this program which 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.

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(1) of the Internal Revenue Code, as amended.

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 and Other Activities: Revenues from sales and services of educational 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 primarily represent revenues 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.

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.

Changes in Accounting and Restatement of Beginning Net Asset Balances: As a result of the adoption of GASB Statements No. 34 and 35, the University was also required to make certain changes in accounting principles. These changes are discussed in detail in Note 16.

NOTE 2 – CASH AND CASH EQUIVALENTS; OTHER DEPOSITS; AND INVESTMENTS

All deposits and investments of the University are under the control of the State Treasurer who, by law, has sole authority for investing State funds.

The following schedule reconciles deposits and investments within the footnotes to the statement of net assets:

Statement of Net Assets		Footnotes	
Cash and cash equivalents (current)	$ 4,581,478	Deposits held by State Treasurer	$ 4,749,392
Cash overdraft	(1,308,333)	Other deposits	(1,308,333)
Restricted cash and cash equivalents (non-current):		Investments held by State Treasurer	95,900
Loan funds	167,914	Other investments	6,505
Investments	102,405		
Total	$ 3,543,464	Total	$ 3,543,464

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 $349,337 and $(1,308,333), respectively at June 30, 2002. This negative amount is reported as a cash overdraft on the statement of net assets.

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 $4,877. Purchases and sales are accounted for on the trade date.

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, 2002, by categoryof credit risk follows:

	Category			Reported	
	1	2	3	Amount	Fair Value
Common Stock	$ 6,505			$ 6,505	$ 6,505

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

NOTE 3 – ACCOUNTS RECEIVABLE

Accounts receivable as of June 30, 2002, are summarized as follows:

Tuition and fees	$ 2,599,261
Auxiliary enterprises	1,011,656
Less allowance for doubtful accounts	(1,788,953)
Federal grants and contracts	3,417,230
State grants and contracts	43,629
Due from South Carolina State Foundation	260,066
Restitution receivable	128,367
Other	77,599
Net accounts receivable	$ 5,748,855

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

The restitution receivable is due in monthly payments of $485.

Allowances for losses for student accounts receivable are established based upon actual losses experienced in prior years and evaluations of the current account portfolio. At June 30, 2002, the allowance for uncollectible student accounts is valued at $1,788,953.

SOUTH CAROLINA STATE UNIVERSITY
NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2002

NOTE 4 – LOANS AND NOTES RECEIVABLE

Loans receivable at June 30, 2002 consist of the following:

Perkins Loan Program	$1,772,179
Student Emergency Loan Fund	2,950
African American Loan Fund	1,072,410
Education Improvement Act Loans	490,031
	3,337,570
Less: Allowance for doubtful loans	(209,933)
Net Loans Receivable	$ 3,127,637

Notes receivable consists of a mortgage loan with an original principal amount of $206,900 due in connection with the sale of capital assets. Principal payments of $3,448 are due on the 1st day of each month starting July 1, 2002. The note does not provide for any interest.

NOTE 5 – CAPITAL ASSETS

Capital assets activity for the year ended June 30, 2002 is summarized as follows:

	Beginning Balance as Restated July 1, 2001	Increases	Decreases	Ending Balance June 30, 2002
Capital assets not being depreciated:				
Land and improvements	$ 1,628,558	$ -	$ (60,000)	$ 1,568,558
Construction in-progress	7,036,611	510,278	(41,232)	7,505,657
Total capital assets not being depreciated	8,665,169	510,278	(101,232)	9,074,215
Other capital assets:				
Buildings and improvements	69,042,439	41,232	(1,052,525)	68,031,146
Machinery, equipment, and other	7,314,224	119,897	(172,484)	7,261,637
Vehicles	942,457	68,970	(248,449)	762,978
Total other capital assets at historical cost	77,299,120	230,099	(1,473,458)	76,055,761
Less accumulated depreciation for:				
Buildings and improvements	(31,592,997)	(1,337,720)	599,998	(32,330,719)
Machinery, equipment, and other	(5,241,302)	(493,038)	169,232	(5,565,108)
Vehicles	(633,830)	(71,242)	229,015	(476,057)
Total accumulated depreciation	(37,468,129)	(1,902,000)	998,245	(38,371,884)
Other capital assets, net of accumulated depreciation	39,830,991	(1,671,901)	(475,213)	37,683,877
Capital assets, net of accumulated depreciation	$ 48,496,160	$ (1,161,623)	$ (576,445)	$ 46,758,092

The effects of changes in accounting principles are discussed in Note 16.

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.

South Carolina Retirement System
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, 2001, the employer contribution rate became 10.4 percent which included a 2.85 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, 2002, 2001, and 2000, were approximately $2,151,000, $2,037,000, and $1,963,000, 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 $42,700 in the current fiscal year at the rate of .15 percent of compensation. In addition to the $2,151,000, the University paid approximately $69,000 to purchase additional years of service for certain employees.

Police Officers Retirement System
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, 2001, the employer contribution rate became 13.15 percent which, as for the SCRS, included the 2.85 percent surcharge. The University's actual contributions to the PORS for the years ending June 30, 2002, 2001, and 2000, were approximately $66,000, $70,000, and $73,000, 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 $1,300 and accidental death insurance contributions of approximately $1,300 in the current fiscal year for PORS participants. The rate for each of these insurance benefits is .20 percent of compensation.

Optional Retirement Program
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 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 2.85 percent from the employer in fiscal year 2002.

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 $273,000 (excluding the surcharge) from the University as employer and approximately $217,000 from its employees as plan members. 5.4 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. Also, the University paid employer group-life insurance contributions of approximately $5,400 in the current fiscal year at the rate of .15 percent of compensation

Deferred Compensation Plans
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.

Teacher and Employee Retention Incentive
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 postemployment 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 22,000 retirees met these requirements as of June 30, 2001.

The University recorded compensation and benefit expenses for these insurance benefits for active employees in the amount of approximately $2,615,000 for the year ended June 30, 2002. As discussed in Note 6, the University paid approximately $933,000 applicable to the 2.85 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 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 was a party to a lawsuit seeking damages against the University relating to the termination of a construction contract that occurred in a prior year. The matter was heard for the third time on June 19, 2002 before the South Carolina Procurement Review Panel during which the Panel reaffirmed its earlier decision and awarded the claimants $1,265,560 including interest of approximately $322,000. This amount is included accounts payable on the statement of net assets and reported as an extraordinary item on the statement of activities. The University is attempting to negotiate a lower settlement amount with the claimant.

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. Management believes disallowances, if any, will not be material.

The University had outstanding commitments under construction contracts of approximately $1,094,000 on projects that will be capitalized and $126,000 which will not be capitalized at June 30, 2002. 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 $11,110,069 of undrawn State capital improvement bonds.

NOTE 9 – LEASE OBLIGATIONS

Future commitments for capital leases and operating leases with remaining terms in excess of one year as of June 30, 2002 were as follows:

	Year Ended June 30,	Capital Lease	Operating Leases
	2003	$ 22,838	$ 74,096
	2004	22,838	33,954
	2005	22,838	4,200
	2006	9,515	1,400
Total minimum lease payments		78,029	$ 113,650
Less: Interest		(6,433)	
Present value of minimum lease payments		$ 71,596	

Capital Lease
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. The cost of assets held under capital leases totaled $100,859 as of June 30, 2002. Accumulated amortization of the leases on this equipment totaled $15,129 at June 30, 2002. Current years amortization expense on capital leases was $10,086 which is included in depreciation expense.

Operating Leases
The University's noncancelable operating leases are primarily for the use of copier and computer equipment which expires in fiscal years 2003 through 2006. 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 $461,000 for fiscal year 2002. Approximately $265,000 of the $461,000 was for contingent rentals.

NOTE 10 – BONDS AND NOTES PAYABLE

Bonds Payable
Bonds payable consisted of the following at June 30, 2002:

	Interest Rates	Maturity Dates	Balance
Stadium Improvement Revenue Bonds, Series 1993A	4.3 – 5.5%	2003 – 2013	$ 2,020,000
Student and Faculty Housing Revenue Bonds, Series 1991A	4.3 – 5.5%	2003 – 2012	3,260,000
Total bonds payable			$ 5,280,000

The University receives interest subsidies from the U.S. Department of Education designated for the student and faculty housing revenue bonds. The various bond indentures restrict the use of particular revenue sources. 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 will be guaranteed by Municipal Bond Investors Assurance Corporation pursuant to its insurance policies through final maturity for each of 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 University continued to fall short of the student and faculty housing revenue bonds net revenue requirement. The shortfall in the year was approximately $430,000. A letter was received by the University from the bond trustee that the payments due under the bond would not be accelerated during the fiscal year ended June 30, 2003 due to the technical default by the University.

The stadium improvement revenue bonds are subject to redemption prior to their maturity, at the option of the University, on or after January 1, 2003, 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.

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

Scheduled amounts including interest required to complete payment of the student and faculty housing revenue bond obligations as of June 30, 2002 are as follows:

Year Ending June 30	Principal	Interest	Total
2003	$245,000	$208,648	$453,648
2004	260,000	194,192	454,192
2005	275,000	178,463	453,463
2006	290,000	161,550	451,550
2007	310,000	143,425	453,425
2008 through 2012	1,880,000	390,445	2,270,445
Totals	$3,260,000	$1,276,723	$4,536,723

Scheduled amounts as of June 30, 2002, including interest required to complete payment of the stadium improvement revenue bonds are as follows:

Year Ending June 30	Principal	Interest	Total
2003	$ 140,000	$101,533	$ 241,533
2004	155,000	95,512	250,512
2005	155,000	88,692	243,692
2006	165,000	81,640	246,640
2007	170,000	73,885	243,885
2008 through 2012	1,000,000	230,305	1,230,305
2013	235,000	12,925	247,925
Totals	$2,020,000	$684,492	$2,704,492

On March 9, 1983, the University defeased certain bonds by placing the proceeds of new bonds in an irrevocable trust to provide for all future debt service payments (principal and interest) on the old bonds. As a result, because the student faculty housing revenue bonds, Series 1972, are considered defeased, the liability for the defeased bonds has been removed from the statement of net assets and the trust account assets are not included in these financial statements. At June 30, 2002, of the bonds outstanding, $105,000 are considered defeased.

The University reported principal retirements and interest expenses related to the bonds payable for the year ended June 30, 2002 as follows:

Bond Type	Principal	Interest
Student and Faculty Housing Revenue	$230,000	$220,879
Stadium Improvement Revenue	140,000	104,473
Total Obligations	$370,000	$325,352

Notes Payable

The University had a note payable with a balance of $162,722 as of June 30, 2001 which was paid in full during the current year along with $2,913 in interest.

NOTE 11 – LONG-TERM LIABILITIES

Long-term liability activity for the year ended June 30, 2002 was as follows:

	June 30, 2001	Additions	Reductions	June 30, 2002	Due within One year
Accrued compensated absences and related benefits	$ 2,244,836	$1,271,663	$ 754,850	$ 2,761,649	$ 755,000
Bonds payable	5,650,000		370,000	5,280,000	385,000
Note payable	162,722		162,722	-	
Capital leases payable	96,890		25,294	71,596	19,708
Totals	$ 8,154,448	$1,271,663	$1,312,866	$ 8,113,245	$ 1,159,708

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 South Carolina State Educational Foundation (the Foundation), 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. However, the University's statements include transactions between the University and these related parties.

In conjunction with its implementation of GASB Statement No. 14, management reviewed its relationships with the Foundation described in this note. The University excluded these entities from the reporting entity because it is not financially accountable for them. GASB Statement No. 39, *Determining Whether Certain Organizations are Component Units,* issued in May 2002, provides additional guidance which must be evaluated. In conjunction with the implementation of this statement the requirements for including these related parties will be reassessed. This statement is effective for the financial statement periods beginning after June 15, 2003.

Various financial activities occurred between the University and the Foundation. A summary of transactions and/or balances at June 30, 2002 and for the year then ended follows.

Presidential scholarships awarded by the University and funded by the Foundation. The University recorded these amounts as gift revenue and either tuition discounts or scholarship expense.	$200,000
Scholarships awarded by the Foundation directly to students. These amounts are not recorded in the University's financial statements.	$642,324
Reimbursements for University employee time and other costs 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 expense.	$113,195
The Foundation purchased various food services and items from the University which is recorded as sales and services of auxiliary enterprises	$31,066
The Foundation paid the University's athletics department for tickets and other items which is included in other operating revenues.	$4,980
The Foundation and the S.T.A.T.E. Club made various payments on behalf of the University that are not recorded in its financial statements.	$ 47,922

The University's financial statements include $260,066 due from the Foundation for reimbursement of various personnel and other costs which is included in long-term accounts receivables since the repayment is to be received over a period of five years. In addition, these financial statements reflect $244,259 due under federal grants which is also due from the Foundation. The $244,259 was received subsequent to June 30, 2002.

NOTE 13 – 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 elect health insurance coverage through either a health maintenance organization or through the State's self-insured plan.

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 loses arising from theft or misappropriation.

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, 2002:

NON-CAPITAL APPROPRIATIONS	
Current year's appropriations:	
Original appropriations per Annual Appropriations Act	$ 27,242,494
Mid-year appropriation reductions	(1,799,637)
Supplemental appropriations (Proviso 63C.9)	792,733
Supplemental appropriations for Business School accreditation and transportation center (Proviso 72.109)	1,000,000
From State Department of Education for Felton Lab School	195,840
From Commission on Higher Education:	
Academic Incentive Endowment Match	44,837
Performance Funding	85,567
Total non-capital appropriations recorded as current year revenue	$ 27,561,834
CAPITAL IMPROVEMENT BONDS	
Current year receipts	$ 2,370,114
Less prior year receivables	(1,404,072)
Add current year receivables	4,252
Total capital improvement bonds recorded as current year revenue	$ 970,294

NOTE 15 – STATEMENT OF ACTIVITIES

The following information is provided for incorporation in the State of Carolina Comprehensive Annual Financial Report:

Charges for services	$ 23,752,133
Operating grants and contributions	24,241,477
	47,993,610
Less: expenses	(79,924,171)
Net program revenue	(31,930,561)
Transfers:	
State appropriation/capital improvement bonds	28,532,128
Transfers out to state agencies	(227,466)
Total general revenue and transfers	28,304,662
	(3,625,899)
Extraordinary item	(1,265,560)
Change in net assets	(4,891,459)
Net assets-beginning as restated	49,079,957
Net assets-ending	$ 44,188,498

NOTE 16 – ACCOUNTING CHANGES AND PRIOR PERIOD ADJUSTMENTS

All State agencies and institutions were required to adopt a capitalization limit of $5,000 for movable personal property (including library materials) and $100,000 for depreciable land improvements, buildings and improvements, and intangible assets, as of July 1, 2001. As a result of the change in asset capitalization policy, the University removed capitalized assets on hand at July 1, 2001, which did not meet the new capitalization levels.

As a result of the adoption of GASB Statements No. 34 and 35 as discussed in Note 1, the University was also required to make certain changes in accounting principles, specifically (1) adoption of depreciation on capital assets and (2) recording of certain summer semester revenues between fiscal years rather than the fiscal year in which the semester was predominantly conducted. The University was also required to record a liability for federal capital contributions to the Perkins loan program which it will be required to pay if the University ends its participation in the program.

The University made corrections of errors involving the applications of accounting principles. In previous years, revenues from State capital improvement bonds were recognized when the bonds were authorized by the legislature. Because the University is entitled to seek reimbursement for construction costs only to the extent of expenses incurred for the approved capital projects, certain capital improvement bond proceeds revenue previously recognized had not been earned at June 30, 2001. The University also made numerous adjustments to correct the balances of various assets and liability accounts including adjusting receivables and deferred revenues attributable to grants and contracts and the removal of the allowance attributable to Perkins loans receivables.

The University has restated its beginning net assets as of July 1, 2001, for the above described accounting changes and corrections as disclosed in the following schedule.

Net assets, July 1, 2001, as previously reported	$	109,593,969
Corrections of errors:		
Capital improvement bond revenue recognized in error		(12,080,363)
Capital assets set up in prior year that did not meet capitalization policy limits		(150,682)
Remove buildings set up in error		(1,126,594)
Record asset purchased under capital lease		100,859
Record capital lease liability		(90,346)
Record capital assets acquired in prior years		255,650
Record deposit on sale recorded in prior year revenue		(20,100)
Adjust capital assets to agree to detail listing		17,728
Reclassify cash balance recorded as agency fund liability that should have been revenue		404,360
Adjust receivables attributable to grants and contracts		27,043
Record deferred revenue attributable to grants and contracts		(599,881)
Remove recorded allowance attributable to Perkins loans		524,374
Adjust indirect costs due General Fund of the State		18,973
Correct various asset and liability account balances		
Cash and cash equivalents		(41,339)
Accounts receivable		61,973
Prepaid expenses		52,268
Accounts payable		(170,195)
Accrued payroll and related liabilities		211,703
Accrued compensated absenses and related benefits		(380,566)
Restatement adjustments:		
Reclass Perkins federal capital contributions as a liability		(1,794,934)
Accumulated depreciation of capital assets		(37,468,129)
Change in capitalization levels		(7,873,609)
2002 summer semester revenues recognized in 2001		(392,205)
Net assets, July 1, 2001, as restated	$	49,079,957

NOTE 17. SUBSEQUENT EVENTS

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

SOUTH CAROLINA STATE UNIVERSITY

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2002

Federal Grantor/Program Title	Federal CFDA Number	Total Expenditures	Pass-Through Expenditures to Subrecipients
Direct Programs:			
U.S. Department of Agriculture			
Agricultural Research - Basic and Applied Research	10.001	$ 4,016	
Payments to 1890 Land-Grant Colleges and Tuskegee University	10.205	2,878,746	
1890 Institution Capacity Building Grants	10.216	219,629	
Higher Education Challenge Grants	10.217	8,729	
Outreach and Assistance for Socially Disadvantaged Farmers and Ranchers	10.443	237,224	
Cooperative Extension Service	10.500	23,925	
Cooperative Forestry Assistance	10.664	4,911	
Rural Business Enterprise Grants	10.769	14,539	
Rural Cooperative Development Grants	10.771	142,685	
U.S. Department of Commerce			
Educational Partnership Program	11.481	80,683	
U.S. Department of Defense			
Tradoc Contracting Activity	12.999	12,837	
U.S. Department of Justice			
Community Oriented Policing Services - Universal Hiring Program - Campus Police	16.999	17,715	
U.S. Department of Transportation			
Highway Training and Education	20.215	2,173,702	1,991,145
National Motor Carrier	20.218	94,517	
University Transportation Centers Program	20.701	366,221	
SCSU Summer Transportation Institute and Program Expansion	20.999	23,193	
National Aeronautics and Space Administration			
Aerospace Education Services Program	43.001	152,667	
Network Resources Program	43.999	857,532	
National Science Foundation			
Engineering Grants	47.041	2,362	
Mathematical and Physical Science	47.049	163	
U.S. Department of Veterans Affairs			
Veterans Affairs	64.999	16,369	

SOUTH CAROLINA STATE UNIVERSITY

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2002

Federal Grantor/Program Title	Federal CFDA Number	Total Expenditures	Pass-Through Expenditures to Subrecipients
Environmental Protection Agency			
Nonpoint Source Implementation Grants	66.460	3,127	
Environmental Education and Training Program	66.950	17,505	
U.S. Department of Energy			
University Nuclear Science and Reactor Support	81.114	95,788	
U.S. Department of Education			
Federal Supplemental Educational Opportunity Grants	84.007	723,748	
Special Education - Personnel Development and Parent Training	84.029E	4,782	
Higher Education - Institutional Aid	84.031	2,079,719	
Federal Work-Study Program	84.033	353,670	
Federal Perkins Loan Program - Federal Capital Contribution	84.038	2,050,524	
TRIO - Student Support Services	84.042	102,499	
Federal Pell Grant Program	84.063	6,293,168	
Rehabilitation Long-term Training	84.129	3,037	
Business and International Education Projects	84.153	43,578	
Special Education - Personnel Preparation to Improve Services and Results for Children with Disabilities	84.325	178,319	
Gaining Early Awareness and Readiness for Undergraduate Programs	84.334	166,965	
Teacher Quality Enhancement Grants	84.336	1,463,645	308,030
Mathematics and Science Partnership	84.366	3,325	
Class Size Reduction	84.340	10,862	
Summer Engineering Program	84.999	148	
U.S. Department of Health and Human Services			
Mental Health Research Grants	93.242	16,936	
Research Infrastructure	93.389	24,616	
Community Services Block Grant - Discretionary Award	93.570	67,824	
Head Start	93.600	36,067	
Family and Community Violence Prevention Program	93.910	182,858	
Geriatric Education Centers	93.969	2,775	
Health Policies and Evaluations	93.999	30,704	
Total Direct Programs		21,288,554	2,299,175

SOUTH CAROLINA STATE UNIVERSITY

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2002

Federal Grantor/Program Title	Federal CFDA Number	Total Expenditures	Pass-Through Expenditures to Subrecipients
Passthrough Other South Carolina State Agencies:			
U.S. Department of Agricultural			
Passed Through SC Department of Social Services			
Summer Food Service Program for Children	10.559	47,247	
State Administrative Matching Grants for Food Stamp Program	10.561	28,213	
U.S. Department of Commerce			
Passed Through South Carolina Sea Grant Consortium			
Sea Grant Support	11.417	41,448	
U.S. Department of Defense			
Passed Through University of South Carolina			
Procurement Technical Assistance for Business Firms	12.002	9,435	
U.S. Department of Justice			
Passed Through SC Department of Juvenile Justice			
Enforcing Underage Drinking Laws Program	16.727	7,718	
U.S. Department of Transportation			
Passed Through SC Department of Public Safety			
Highway Planning and Construction	20.205	35,000	
Federal Transit - Capital Investment Grants	20.500	164,945	
Federal Transit - Metropolitan Planning Grants	20.505	127,921	
Formula Grants for Other Than Urbanized Areas	20.509	38,732	
National Aeronautics and Space Administration			
Passed Through College of Charleston			
Aerospace Education Services Program	43.001	3,606	
Passed Through University of South Carolina			
Network Resources Program	43.999	10,132	
Small Business Administration			
Passed Through University of South Carolina			
Small Business Development Center	59.037	140,664	
U.S. Department of Energy			
Passed Through Medical University of South Carolina			
Academic Partnerships	81.102	41,948	
U.S. Department of Education			
Passed Through SC Department of Education			
Vocational Education - Basic Grants to States	84.048	8,640	

SOUTH CAROLINA STATE UNIVERSITY

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2002

Federal Grantor/Program Title	Federal CFDA Number	Total Expenditures	Pass-Through Expenditures to Subrecipients
U.S. Department of Health and Human Services			
Passed Through SC Department of Social Services			
Child Welfare Services Training Grants	93.648	137,130	
Total Passed Through Other South Carolina State Agencies		842,779	-
Passthrough Other Than State Agencies:			
National Aeronautics and Space Administration			
Passed Through Tennessee State University			
Network Resources Program	43.999	65,000	
National Foundation on the Arts and the Humanities			
Passed Through South Carolina Humanities Council			
Promotion of the Humanities - Federal/State Partnership	45.129	4,503	
Promotion of the Humanities Division of Preservation and Access	45.149	304	
National Science Foundation			
Passed Through South Carolina Universities Research and Education Foundation			
Biological Science	47.074	188,659	
Passed Through U.S. Department of Education			
Education and Human Resources	47.076	23,586	
Environmental Protection Agency			
Passed Through EM Federal Foundation			
Environmental Protection	66.999	23,806	
U.S. Department of Energy			
Passed Through South Carolina Universities Research and Education Foundation			
Environmental Research Program	81.999	358,503	46,695
U.S. Department of Health and Human Services			
Passed Through University of Kentucky Research Foundation			
Occupational Safety and Health Research Grants	93.262	20	
Total Passed Through Other Than State Agencies		664,381	46,695
Total Indirect Programs		1,507,160	46,695
Total Federal Assistance		$ 22,795,714	$ 2,345,870

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

REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING 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, 2002, and have issued our report thereon dated November 27, 2002. 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.

Compliance

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 grants, 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 02-13 to 02-18.

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 assurance 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 02-1 – 02-10.

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 misstatements 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 pages 53 to 55.

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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 & Laban PA

November 27, 2002

ROGERS & LABAN, PA
CERTIFIED PUBLIC ACCOUNTANTS AND FINANCIAL CONSULTANTS

REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO ITS MAJOR PROGRAMS AND INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

Mr. Thomas L. Wagner, 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, 2002. 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 items 02-13 and 02-14 in the accompanying Schedule of Findings and Questioned Costs, the University did not comply with requirements regarding reporting or matching that are applicable to the Payments to 1890 Land-Grant Colleges and Tuskegee University Program. Also, as described in item 02-15, the University did not comply with the required monitoring requirements applicable to the Highway Training and Education Program. Compliance with such requirements are necessary, in our opinion, for the University to comply with 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, 2002.

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.

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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 02-13 to 02-19.

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.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. 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 and grants that would be material in relation 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. We noted no matters involving the internal control over compliance and its operation that we consider to be 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 + Laban PA

March 7, 2003

SOUTH CAROLINA STATE UNIVERSITY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS

FOR THE YEAR ENDED JUNE 30, 2002

SUMMARY OF AUDITOR'S RESULTS

FINANCIAL STATEMENTS:

1. An unqualified opinion dated November 27, 2002 on the financial statements of the University for the year ended June 30, 2002 was issued.

2. Reportable conditions related to internal control over financial reporting were noted as detailed in findings 02-4 through 02-10. 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 02-13 and 02-14.

FEDERAL AWARDS:

4. A qualified opinion on compliance for the major programs dated March 7, 2003 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 02-13 to 02-19.

6. The major programs of the University are as follows:

CFDA #	Program Title
10.205	Payments to 1890 Land-Grant Colleges and Tuskegee University
20.215	Highw ay Training and Education
43.999	Netw ork Resources Program
84.007	Federal Supplemental Education Opportunity Grants
84.031	Higher Education-Institution Aid
84.033	Federal Work-Study Program
84.038	Federal Perkins Loan Program-Federal Capital Contribution
84.063	Federal Pell Grant Program
84.336	Teacher Quality Enhancement Grants

7. The dollar threshold used to distinguish between Type A and Type B programs was $622,356.

8. The University was not determined to be a low-risk auditee.

FINANCIAL STATEMENT FINDINGS

02-1 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 39, 2002 or 2001 to the General Fund of the State as required. The University owes the State approximately $330,000 for 2001 and $226,000 for 2002.

CRITIERA:

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

02-2 VIOLATION OF FEE WAIVER PROVISION

STATEMENT OF CONDITION:

The University violated the provision which requires that Universities not offer educational fee waivers to more than 2% of the undergraduate student body. The University was allowed to offer educational fee waivers to 128 undergraduates and gave fee waivers to 508 undergraduates. This finding was cited in the prior year's management letter.

CRITIERA:

Proviso 72.20 of the 2001 – 2002 Appropriations Act.

EFFECT OF CONDITION:

Failure to comply with State laws and regulations

CAUSE OF CONDITION:

Unknown

RECOMMENDATION:

The University should implement procedures to monitor the number of waivers awarded and to document compliance with the limit.

02-3 ATTORNEY FEES INCURRED WITHOUT ATTORNEY GENERAL APPROVAL

STATEMENT OF CONDITION:

We noted an instance on a law firm being paid approximately $38,000 when the State Attorney General's office only approved payments of $20,000. The University obtained approval of the higher amount after we brought the violation to their attention.

CRITIERA:

South Carolina Code of Laws Section 11-35-1260.

EFFECT OF CONDITION:

Failure to comply with State laws and regulations

CAUSE OF CONDITION:

Failure to ensure that the funds were authorized and available before the expenses were incurred.

RECOMMENDATION:

The University should implement a system to ensure that no unauthorized expenses are paid.

02-4 FINANCIAL RECORD DEFICIENCES

STATEMENT OF CONDITION:

The books of the University do not accurately reflect the proper account balances. Entries are being made by University personnel because they are not aware of the relationships between various accounting systems including student receivables and loans. We noted instances of accounts being closed out even though there should be a balance in the account. Some specific examples of the deficiencies noted by type of account are detailed below.

Asset related deficiencies:

1. The University's operating bank account had a year-end overdraft balance of approximately $1,265,000. A check run of approximately $900,000 occurred on June 30th. University personnel told us that the checks would not be released until funds were available in the bank account. No log of the checks are kept to document the date that they are released and the checks are kept in an employee's desk draw instead of in a safe. There were not adequate funds in the account until July 11, 2002 when the University was able to draw down its 2003 appropriations. The use of the subsequent year's appropriation is a violation of Proviso 72.2 of the Appropriations act. This violation has been cited in prior year's management letters.

2. Cash and revenues were overstated by approximately $70,000 at June 30, 2002 because the University recorded a transfer of funds between bank accounts as revenue instead of as a reduction in cash.

3. In following up on an outstanding check for approximately $26,000 dated June 30, 2002 that had not cleared the bank as of September 30, 2002, we determined that the check was being held by University personnel because the work had not been completed that the check was paying for.

4. The University has $35,000 cash on deposit in a reserve account for an old guaranteed student loan program. University personnel did not appear to be aware of this deposit. The holder of the deposit confirmed the balance and that $14,399 could be refunded to the University upon its request.

5. The University is not recording the prepaid portion of subscriptions for its library which resulted in an understatement of prepaid expenses of approximately $85,000 as of June 30, 2002 and $86,000 as of June 30, 2001.

6. The University records prepaid postage on its general ledger and does not reconcile the account balance based on the actual amount of postage unused. We determined that the asset was overstated by approximately $34,000 as of June 30, 2002 and $35,000 as of June 30, 2001.

7. The University recorded a restitution receivable from a former employee in a prior fiscal year. The balance carried by the University was approximately $62,000 less than reflected on the amortization schedule resulting in an understatement of accounts receivable.

8. The University made an entry to adjust one balance sheet account to zero and in the process increased the balance of loans outstanding on the Perkins loan program by approximately $22,000 causing the balance in the notes receivable account to be incorrect.

9. The University is not reconciling the loan activity recorded in its general ledger to the loan activity reported in its Loan Management System (LMS). Numerous errors were found in the recording of current year's new loans, repayments and cancellations.

10. The University is not writing off uncollectible accounts or loans receivables from the detailed subsidiary listings. The detailed listing for student accounts receivable as of June 30, 2002 totaled approximately $3,630,000 with approximately $1,221,000 attributable to periods before June 30, 1997. In addition, the University does not have any support for the percentages it has been using in calculating the allowance for doubtful accounts.

11. Grants receivables for federal programs were overstated by approximately $73,000 as of June 30, 2001 and approximately $272,000 at June 30, 2002.

Liability related deficiencies:

1. The amount that the University recorded as due to the General Fund of the State was incorrect. The University originally recorded approximately $182,000 due to the State for the year ended June 30, 2002 and approximately $348,000 for the year ended June 30, 2001. After requesting an explanation for the change between years, University personnel determined that the amounts should have been approximately $330,000 for 2001 and $226,000 for 2002 for a total increase of approximately $26,000.

2. The University included approximately $133,000 of accrued payroll expense in accounts payable resulting in an overstatement of accounts payable and an understated of accrued payroll and related benefits.

3. Accounts payable included approximately $60,000 in debit balances which should have been classified as an accounts receivable resulting in an understatement of accounts payable and accounts receivable.

4. The University records a liability for checks that do not clear the bank and removes them from the list of outstanding checks in the bank reconciliations. The University did not have a detailed listing of the checks that made up the liability balance of approximately $55,000. After requesting support from the University, it was determined that approximately $45,000 of the $55,000 had cleared the bank and that the cash balance and liability balance was overstated.

5. 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. The liabilities were understated by approximately $75,000 as of June 30, 2001 and approximately $160,000 for the year ended June 30, 2002.

6. 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 is no report prepared by the University which can be used to reconcile the balance in these accounts. In some cases, we noted that these account balances had been adjusted to zero at the end of the previous fiscal year. Based on a review of activity posted to these liability accounts in the subsequent fiscal year, we determined that the student refund liability was understated by approximately $41,000 and the unapplied credits was understated by approximately $42,000. It appears that the amounts that the University is recording as unapplied payments in this case is collections on future terms that should be recorded as deferred revenue.

7. Agency fund liabilities had been overstated in prior year's by approximately $404,000 which should have been recorded as revenue in the University's unrestricted funds.

8. The University did not record deferred revenue of approximately $557,000 attributable to grants funds as of June 30, 2001 and $441,000 as of June 30, 2002.

9 A deposit of $20,100 on a sale of capital assets received in fiscal year 2001 for a transaction which did not close until fiscal year 2002 was recorded as revenue instead of as a liability resulting in an understatement in beginning liabilities.

10. One capital lease obligation was not recorded as a liability by the University. The balance as of June 30, 2001 was approximately $90,000.

Other deficiencies:

1. The University is not recording all of the entries made by the auditors to their general ledger so that the opening balances per the general ledger agree with the audited financial statement. For the year ended June 30, 2001 audit posted in fiscal year 2002 some of the entries proposed by the prior auditors were posted and some were not posted making it difficult to reconcile beginning fund balance. In some cases, the University recorded the entry as a current year entry instead of as an adjustment to the beginning balance.

2. We also noted federal revenue and expenditure accounts that had negative balances due to moving revenues or expenses charged to the federal program in a prior year to a state grant account. This occurred because the University is not allocating expenditures between the different funding sources when the expense is incurred.

CRITIERA:

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

EFFECT OF CONDITION:

The 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:

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 to not appear to be adequately trained to perform their assigned functions.

RECOMMENDATION:

We recommend that the University review and revise their 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 an employee that understands the impact on all of the accounts affected before they are posted. Revisions should be made to any 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. No checks should be prepared until there are adequate funds in the account for it to be released.

02-5 ERRORS IN GRANTS SCHEDULE

STATEMENT OF CONDITION:

The schedule of federal financial assistance prepared by the University which contained federal, state, local and private grants was not accurate. The beginning balance of the schedule as originally prepared did not agree with the University's general ledger. Also, the schedule did not break out the federal expenditures from the state expenditures and federal revenues did not equal federal expenses. The completion of the audit was delayed as a result of the University needing to revise the schedule numerous times so that the beginning balances, revenues, expenses and ending balances agreed to the general ledger. The University had over expended grants in prior years by approximately $326,000 and had not recorded transfers of unrestricted funds to cover the deficits in the restricted accounts. The University was not setting up separate accounts in its general ledger to account for the federal and state portions.

We also noted federal revenue and expenditure accounts that had negative balances due to moving revenues or expenses charged to the federal program in a prior year to a state grant account.

There are also numerous grants on the schedule with no current year's activity or with old balances that needs to be deleted from the schedule.

Seven of the twenty-five files that we pulled did not have all of the reimbursement request for us to determine whether the request for payment was ever made supporting the receivable on the schedule and three of the twenty-five grant files could not be located. In addition, four of the grant files did not contain the grant requirements so that we could determine whether the grants were exchange or non-exchange type transactions to ensure that revenue was recorded properly.

CRITERIA:

Generally accepted accounting principles, the Single Audit Act and OMB Circular A-133 require the preparation of accurate financial information and the maintenance of supporting records.

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. The missing information makes it difficult to ensure that all information has been corrected.

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 needed to 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 over 1,000 rows long.

RECOMMENDATION:

We recommend that the entire system used in accumulating the schedule be reviewed. A program should be prepared 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. Separate accounts should be maintained for federal and state expenditures.

02-6 INCORRECT FRINGE BENEFIT RATE USED IN CALCULATING ACCRUED LEAVE

STATEMENT OF CONDITION:

The University used the fringe benefit rate of 18.38% which it had been using for a number of year in calculating the accrued annual leave and related benefits liability instead of calculating a revised percentage for the current year.

CRITERIA:

Generally accepted accounting principles require the use of current fringe rates when determining the liability.

EFFECT OF CONDITION:

The accrued annual leave and related benefits liability calculated by the University was understated by approximately $52,000.

CAUSE OF CONDITION:

Unknown.

RECOMMENDATION:

The University should ensure that it is using the current rates in effect in calculating any balance to be recorded.

02-7 CAPITAL ASSET DEFICIENCIES

STATEMENT OF CONDITION:

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

1. Capital assets totaling approximately $357,000 that had been received in the prior year were not recorded in the property records as of June 30, 2001.

2. There was approximately $151,000 in assets included on the prior year's property records that did not meet the University's capitalization policy.

3. Out of 5 current year capital additions tested, 3 were set up in the property records at the incorrect costs.

4. All project expenditures on construction in progress are not being approved by the project manager and included on the construction in progress schedule and expenditures on construction in progress are not being reconciled to the State's permanent improvement report. Also, projects are not being timely closed out with the State.

5, The beginning accumulated depreciation as of June 30, 2001 on 8 out of the 15 items tested was incorrect due to the system automatically increasing the depreciation expense by an inflation factor of 1.25% per year.

CRITERIA:

Generally accepted accounting principles require the reconciling of all records to supporting detail.

EFFECT OF CONDITION:

The balance in capital assets was misstated.

CAUSE OF CONDITION:

Failure to adequately review the capital asset listing and to reconcile additions recorded on the schedule each year to the amount reported as expended. The beginning accumulated depreciation was incorrect because of a programming error and could not be corrected after the fiscal year 2001 was closed in the property records.

RECOMMENDATION:

All equipment additions on the capital asset listing should be reconciled to the amount expended in the general ledger. Also, all computer programs should be reviewed carefully before they are implemented.

02-8 ACCOUNTS RECEIVABLE NOT RECORDED DURING YEAR

STATEMENT OF CONDITION:

The University only record accounts receivable on its general ledger at year-end. The receivable that is set up is reversed at the beginning of the next fiscal year. There is no reconciliation of student accounts receivable during the year to ensure that all charges are posted to the students' accounts. Also, since the University is only recording the receivable net of the estimated allowance for bad debts, any bad debts attributable to student accounts are netted against student tuition and fee revenues instead of recorded as a bad debt expenses.

CRITERIA:

Generally accepted accounting principles (GAAP) requires that all revenues and expenses to be reported at their gross amounts.

EFFECT OF CONDITION:

Amounts reported during the year are not in accordance with GAAP. Also, the University is not recording the correct amount of revenues and expenses.

CAUSE OF CONDITION:

Unknown

RECOMMENDATION:

Receivables should be recorded on the general ledger at their gross amounts at the time they are recorded in the student accounts receivable system at their gross amounts. An allowance for doubtful accounts should also be recorded on the general ledger and any change in the allowance account should be reflected through bad debt expense.

02-9 INADEQUATE FOLLOW-UP ON OUTSTANDING RECEIVABLES

STATEMENT OF CONDITION:

The University has various old receivables recorded on its books primarily due from federal grants and the South Carolina State Foundation (the Foundation). The Foundation owes the University approximately $504,000 including approximately $244,000 under federal grants and approximately $260,000 for reimbursement of personnel and other costs. The amount due from the federal grants is periods prior to June 30, 2000. Approximately $153,000 of the amount due is for reimbursements due for the period July 1, 1999 through June 30, 2001 and approximately $107,000 due for the fiscal year ended June 30, 2002. The failure to obtain a timely confirmation from the Foundation that the funds were due and would be paid caused a considerable delay in the release of the fiscal year 2002 audit. The Foundation has paid the University the $244,000 when we questioned whether the account was collectible.

As of February 6, 2003, no confirmation has been obtained from the Foundation on the reimbursement of various expenditures. The amounts being billed to the Foundation are based on a repayment schedule of an old outstanding debt of the Foundation to the University in an agreement entered into on November 8, 1995 and do not reflect the terms on the agreement entered into on June 30, 1998. The 1998 agreement provided a revised mechanism for billing the Foundation that the University is not utilizing. No documentation exist that the University is recovering all costs from the Foundation. If the University does not obtain reimbursement of all costs from the Foundation, it is in violation of State law which prohibits the expenditure of any State funds for private entities.

Also, our review of the schedule of federal financial assistance revealed other old federal accounts receivable that had not been collected. Based on a detailed review of the schedule with University personnel, various receivables were determined to be uncollectible and needed to be covered with unrestricted funds.

CRITERIA:

Good fiscal management requires the timely follow-up on all receivables.

EFFECT OF CONDITION:

Failure to timely collect the receivables could result in the loss of the funds. The University is also losing the ability to invest the funds and receive interest earnings on them.

CAUSE OF CONDITION:

Unknown

RECOMMENDATION:

We recommend that all receivables be included in an accounts receivable system and that a aged receivable listing be prepared monthly. Follow-up should occur on all receivables not collected within a certain period and additional services should not be rendered by the University if payment is not received. In addition, the University should ensure that all amounts billed are in accordance with the agreements.

02-10 COLLEGE WORK STUDY EXPENSES NOT RECORDED BY ACTIVITY

STATEMENT OF CONDITION:

The University is recording payments for college work study payments to students as student financial aid and is not recording them as an expense of the area of the University in which they are working. For example, a student that is being paid with college work study funds in the business office is not being reflected as an expense under institutional support.

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 was unable to present a breakdown of the functional expenses in its notes and has been presenting inaccurate information to the Commission of Higher Education.

CAUSE OF CONDITION:

University personnel did not appear to be aware of this requirement.

RECOMMENDATION:

All expenses should be allocated to the function benefiting form the expense.

02-11 VIOLATION OF BOND COVENANTS

STATEMENT OF CONDITION:

The bond resolution for the Student and Faculty Housing Revenue bonds requires that housing net revenues be at least 120% of the annual bond principal and interest payments. The net revenues for fiscal year 2002 was approximately $111,000 and the required amount was approximately $542,000 meaning the University was in technical default on the bond. This condition has been cited in the prior three year's management letters.

CRITERIA:

Bond resolution requiring 120% debt coverage.

EFFECT OF CONDITION:

The University is in violation of the bond covenants and the Trustee which is the State Treasurer under the bond could demand repayment of the bond in full.

CAUSE OF CONDITION:

Inadequate housing revenues.

RECOMMENDATION:

We recommend that the University implement procedures to ensure that net revenues are increased to cover the amount required by the bond resolution.

02-12 AUXILIARY ENTERPRISES OPERATING AT A DEFICIT

STATEMENT OF CONDITION:

As cited in prior management letters, two of the University's auxiliary enterprises are not self-supporting. As of June 30, 2002, the dining hall had an accumulated deficit of approximately $432,000 and housing had an accumulated deficit of approximately $1,200,000.

CRITERIA:

Proviso 72.18 of the 2001 – 2002 Appropriations Act requires that fees applicable to student housing and dining halls 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.

FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS

02-13 REPORTED COSTS IN EXCESS OF AMOUNTS RECORDED IN GENERAL LEDGER – CFDA #10.205 PAYMENTS TO 1890 LAND-GRANT COLLEGES AND TUSKEGEE UNIVERSITY

STATEMENT OF CONDITION:

The University reported costs for the 1890 Extension Program for the grant period ended September 30, 2001 exceeded the amount recorded on the general ledger by $33,615. We also noted that the University charged $183,647 more to the general federal general ledger expense accounts for the 1890 Extension Program grant for the grant period ended September 30, 2002 than reported on the report filed with the grantor.

CRITERIA:

Federal requirements require that the books of account support the reported amounts.

EFFECT OF CONDITION:

The University has received funds in excess of actual expenses as of June 30, 2002.

CAUSE OF CONDITION:

Unknown

QUESTIONED COSTS:

$33,615

RECOMMENDATION:

The University should ensure that all reported costs tie to the University's general ledger.

02-14 REQUIRED MATCH NOT MET – CFDA #10.205 PAYMENTS TO 1890 LAND-GRANT COLLEGES AND TUSKEGEE UNIVERSITY

STATEMENT OF CONDITION:

The University did not expend the required match of non-federal funds based on the amount of federal expenses reported as follows:

Grant Description	Grant Period	Required Match %	Reported Match(a)	Actual Match (b)	Federal Expenditures Allowable(b)	Federal Expenditures Reported (a)	Questioned Costs
1890 Research	10/1/00 - 9/30/01	45	$ 651,923	$ 141,604	$ 948,344	$ 1,466,799	$ 518,455
1890 Extension	10/1/00 - 9/30/01	45	533,391	115,857	788,489	1,222,968	434,479
							$ 952,934

(a) Based on reported match on 269 report dated February 26, 2003.
(b) Based on actual state match expenditures through September 30, 2001.

We also noted that the University records the matching expenses for the 1890 Research and the 1890 extension programs in the same general ledger accounts. The match is allocated by the University based on the grant budgets and not based on the actual program that the match is attributable to. We also noted that the University did not meet the required match at the end of the September 30, 2002 grant periods.

CRITERIA:

Public law establishing the 1890 program required a 45% match for fiscal year 2001 and a 50% match for fiscal year 2002. The April 21, 2000 edition of the Federal Register contains the final rules regarding the calculation of the matching requirement.

EFFECT OF CONDITION:

The University has received federal funds for which they did not expend the required State match.

CAUSE OF CONDITION:

University personnel appeared to believe that as long as the funds were obligated, the expenditures could be incurred in the subsequent fiscal year.

QUESTIONED COSTS:

$952,934

RECOMMENDATION:

The University should ensure that the required matching funds are expended before they request federal reimbursement.

02-15 REQUIRED MONITORING OF SUBRECIPIENTS NOT PERFORMED – CFDA # 20.215 HIGHWAY TRAINING AND EDUCATION; CFDA # 84.336 TEACHER QUALITY ENHANCEMENT GRANTS AND CFDA # 81.999 ENVIRONMENTAL RESEARCH PROGRAM

STATEMENT OF CONDITION:

The University did not perform any monitoring of subrecipients or obtain single audit reports to ensure that the awards were expended in accordance with laws and regulations

CRITERIA:

OMB Circular A-133 requires the monitoring and review of subrecipient audit reports.

EFFECT OF CONDITION:
The University has not documented that the awards were expended in accordance with laws and reguulations.

CAUSE OF CONDITION:

The University did not appear to be aware of this requirement.

QUESTIONED COSTS:

None

RECOMMENDATION:

The University should implement procedures to ensure that the required monitoring is performed including obtaining and reviewing the subrecipient's audit reports.

02-16 LOAN REPAYMENTS NOT STARTED TIMELY – CFDA # 84.038 FEDERAL PERKINS LOAN PROGRAM-FEDERAL CAPITAL CONTRIBUTIONS

STATEMENT OF CONDITION:

Loan repayments under the program for two out of six loans tested did not begin timely after the nine month grace period. One student graduated in May 2000 and the repayments did not start until March 2002 instead of February 2001. The exit interview package was not sent to the student until September 2001. The other student graduated in July 1999 and the repayments did not start until October 2000 instead of April 2000.

CRITERIA:

The federal regulations require repayments to begin after a nine month grace period following after the student is not enrolled on at least a half-time basis.

EFFECT OF CONDITION:
The University has not required students to begin repaying the loans in accordance with the regulations.

CAUSE OF CONDITION:

Unknown

QUESTIONED COSTS:

None

RECOMMENDATION:

The University should implement procedures to ensure that exit interviews are performed timely and that repayments start immediately after the grace period.

02-17 DOCUMENTATION OF HARDSHIP NOT OBTAINED – CFDA # 84.038 FEDERAL PERKINS LOAN PROGRAM-FEDERAL CAPITAL CONTRIBUTIONS

STATEMENT OF CONDITION:

The University did not obtain the required documentation for an economic hardship deferment. The only documentation obtained was a copy of the baby's birth certificate.

CRITERIA:

The federal regulations require the University to obtain evidence of monthly gross income. The regulations further provide that parenting hardships are not available to borrowers for loans after July 1, 1993.

EFFECT OF CONDITION:

The University could not document that the deferment was valid.

CAUSE OF CONDITION:

Unknown

QUESTIONED COSTS:

None

RECOMMENDATION:

The University should implement procedures to ensure that all hardship deferments are adequately documented.

02-18 EXPENDITURES REPORTED UNDER WRONG CFDA NUMBERS – CFDA # 10.205 PAYMENTS TO 1890 LAND-GRANT COLLEGES AND TUSKEGEE UNIVERSITY, CFDA # 10.771 RURAL COOPERATIVE DEVELOPMENT GRANTS, CFDA # 84.063 PELL GRANTS AND CFDA # 84.007 FEDERAL SUPPLEMENTAL EDUCATIONAL OPPORTUNITY GRANTS

STATEMENT OF CONDITION:

The schedule of federal expenditures prepared by the University listed one grant with expenditures of approximately $113,000 under CFDA # 10.205 instead of 10.771. Also the Federal Supplemental Educational Opportunity Grant funds of approximately $653,000 was listed under CFDA # 84.063 for Pell Grants instead of CFDA # 84.007.

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.

OTHER MANAGEMENT LETTER COMMENTS

DEFICIENCES IN BANK RECONCILIATIONS

Our review of the University's bank reconciliations disclosed that two of the bank reconciliations for the month of June contained addition errors and that one disclosed an unreconciled difference of approximately $7,200. Our review of an interim month's reconciliations disclosed that they were not being reviewed by an individual independent of the preparer in a timely manner.

We recommend that all bank reconciliation be reviewed to ensure that they are mathematically correct and that all differences be identified. Entries should be recorded on the University's records to adjust the balances to the reconciled bank balance. All reconciliation should be reviewed in a timely manner.

BANK ACCOUNTS NOT RECONCILED BY FUND

As cited in prior management letters, the University is not reconciling its State bank accounts by fund. For example, the University's general ledger reflects loan fund deposits of approximately $273,000, however, the State Treasurer only has loan funds on deposit of approximately $168,000. The University's loan fund are not receiving all of the interest income which it should since the State Treasurer's balance is less than the University. The University appears to have used some restricted deposits for operating purposes.

We recommend that the University reconcile cash by fund. Cash used that was for restricted purposes should be replenished. Procedures should be implemented to ensure that cash that is on deposit for restricted purposes is not used for operating expenses.

LACK OF CONTROLS OVER PETTY CASH FUND

Our review of the petty cash fund for the athletic ticket office disclosed that there was an inadequate separation in duties because the same person reconciles the ticket sales for the day and prepares the bank deposit. We were also told that when the ticket manager is going to be out of the office for several days that the petty cash is taken home by him.

We recommend that the University review all petty cash funds to determine that adequate controls exist.

ACCOUNTS PAYABLE MISSTATED

One invoice in the amount of $7,500 from January 2002 was listed on the outstanding vouchers report as of June 30, 2002 and should not have been since the goods had been returned to the vendor and the University did not owe the money resulting in an overstatement of accounts payable and expenses. Accounts payable were also overstated by approximately $1,200 because the University had not balanced the outstanding vouchers report to the general ledger.

We recommend that a periodic review of the outstanding voucher report be performed and that it be adjusted for any vouchers for which the goods have been returned. In addition, the listing should be reconciled to the general ledger on a monthly basis.

SALES TAX PAYABLE MISTATED

The liability for unremitted sales tax was understated by approximately $800 because the amount shown on the general ledger had not been reconciled to the sales tax return filed with the taxing authorities.

We recommend that the University reconcile the sales tax liability recorded on its general ledger to the sales tax returns.

STUDENT DEPOSITS MISSTATED

The University allows students to make deposits to a debit card and use these cards for purchases in the bookstore and dining hall. The University did not reconcile the amounts shown on the general ledger to the outstanding balance report as of June 30, 2002 resulting in an overstatement in the liability of the dining hall of $668 and an understatement of the liability of the bookstore of $3,209.

The University was carrying student housing deposits of approximately $4,660 on its general ledger. After requesting a listing to support this amount, we determined that the University was not charging a housing deposit and that this amount should have been included in revenue in a prior year.

We recommend that all liability accounts be reconciled to supporting detail on a monthly basis within 30 days after the end of the month and that any required adjustments be posted to the accounting records upon identification.

LEAVE SLIPS NOT APPROVED IN ADVANCE

The University's policies and procedures required that leave should be approved at least 24 hours in advance. Our review of 25 leave slips disclosed that 7 were not approved in accordance with this requirement.

We recommend that the University review this policy and implement procedures to ensure that it is enforced.

DEFERRED REVENUE MISCALCULATED

In calculating deferred revenue for tuition and fees relating to the second session of summer school, the University did not use the actual tuition and fees per the University's general ledger in the calculations resulting in an understatement of the deferred liability of approximately $30,000.

We recommend that the University ensure that all calculations are based on actual amounts.

INDIRECT COSTS DUE GENERAL FUND OF THE STATE MISSTATED

The University recorded approximately $347,000 indirect costs revenue due to the General Fund of the State for the year ended June 30, 2001 and approximately $182,000 for the year ended June 30, 2002 on non-research grants and contracts. After requesting an explanation of the change between years, we determined that the amount in the prior years had been overstated by approximately $19,000 and that the current year's amount was understated by approximately $45,000. Among the reasons that this occurred was that the University posted entries to correct prior year amounts as reductions to expenses in the current year and the incorrect postings of some indirect costs recoveries in the general ledger.

We recommend that additional care be taken in the posting of indirect costs recoveries to ensure that all amounts due to the State are correctly identified.

VIOLATION OF PURCHASING CARD POLICIES

We noted 3 violations of the University's purchasing card policies and procedures which prohibits the cardholders from using the card when the single transaction exceeds $500.

We recommend that the University remind of personnel of this policy and consider whether violators of this policy should be allowed to continue using the purchasing cards.

INSURANCE COVERAGE INADEQUATE

Our review of the University's insurance coverage of buildings disclosed that three buildings were insured for less than their costs and that two buildings were not insured at all.
We recommend that the University obtain the services of the personnel available through the State to ensure that they have adequate coverage on all of the University's buildings.

PAYROLL DEFICIENCIES

In our review of 5 payroll checks and personnel files we noted that one employees file did not contain an employment application, one employee's file did not contain a signed authorization form to support the withholdings for the State retirement system and one employee was having the incorrect amount withheld for dependent life insurance.

We recommend that all personnel files be reviewed to ensure that they contain all required forms. Procedures should also be implemented to ensure that the correct amounts are withheld from the employee's paychecks.

PAYROLL RECONCILIATIONS AND ERRORS IN PREPARING PAYROLL TAX RETURNS

The University is not reconciling wages recorded in its general ledger to the monthly payroll printouts or to the payroll tax returns. In additions, we noted that the University is preparing their quarterly payroll tax returns (form 941) incorrectly in that they are including nontaxable compensation such as retirement plan and cafeteria plan withholding in taxable wages on the form. The University is manually preparing the payroll tax returns instead of using a program to prepare them.

We recommend that the University obtain a program that will work with their current payroll system to accurately prepare all required filings with the taxing authorities.

ERRORS IN OPERATING AND CAPITAL LEASE SCHEDULES

The University included two operating leases on its capital lease schedule. One of the leases was in existence as of the prior year-end and was previously shown correctly as an operating lease. Total payments on these two leases totaled approximately $167,000 for the current fiscal year.

Also, the lease payments reported on the operating lease schedule were not correct because they did not include all the payments on a lease if the purchase order number changed during the year. Lease payments on the schedule could not be agreed to the general ledger because the University did not post all of the lease payments to the correct object codes.

We recommend that the University ensure that all schedules supporting financial statement amounts are prepared correctly and that all lease payments are charged to the correct accounts in the University's general ledger.

LACK OF EFFECTIVE INTERNAL AUDITOR

The University's internal auditor is not performing internal audit functions. Based on an interview with the internal auditor, we were told that his main duty had been to review audit findings and work with various departments to correct the findings.

We recommend that the University consider implementing an internal audit department that performs audits of various departments of the University. These audits could include reviewing separation of duties, reconciliations, departmental expenditures, capital asset observations, etc.

MINUTES OF BOARD MEETINGS NOT PREPARED TIMELY

Our audit disclosed that minutes of the Board of Trustees and of the finance committee of the Board were not prepared in a timely manner. We requested copies of the minutes as part of our audit procedures and were told that some of them had not been prepared yet. Some of these were from meetings 4 or 5 months earlier.

We recommend that all minutes be prepared in a timely manner and distributed at the next meeting for review and approval.

SOUTH CAROLINA STATE UNIVERSITY

STATUS OF PRIOR AUDIT FINDINGS
JUNE 30, 2002

During our audit, we reviewed status of corrected action taken on most of the findings contained in the State Auditor's report on the University for the year ended June 30, 2001 and dated October 31, 2001.

The following deficiencies continued to exist and are repeated in this report under the headings noted below.

Prior Heading	Current Heading
Disbursement Voucher Payments - Expenditure Cutoff	Financial Record Deficiencies
Personnel and Payroll Processing Procedures – Personnel Forms (I-9)	Payroll Deficiencies
Fee Waivers	Violation of Fee Waiver Provision
Loan Funds - Loan Management System (LMS) Loan Balances and Balance Write-Off	Financial Deficiencies
Bond Resolution Requirement	Violation of Bond Covenants
Auxiliary Enterprises	Auxiliary Enterprises Operating at a Deficit
Budget Management	Financial Record Deficiencies
Cash Balances by Fund	Bank Accounts not Reconciled by Fund
Capital Projects – Journal Entries and SPIRS Report	Capital Asset Deficiencies

We noted that the following conditions did not exist during our audit period.

Disbursement Voucher Payments – Timely Invoice Payment and Telephone Charges
Personnel and Payroll Processing Procedures – Final Pay, Termination Dates and Payroll at June 30
Capital Projects – Asset Classification

We did not review the status of the prior year findings related to the following:

Personnel and Payroll Processing Procedures – Employee Performance Evaluations

CORRECTIVE ACTION PLAN

APPENDIX A

South Carolina State University
300 College Street, Northeast
Orangeburg, South Carolina 29117-0001
(803) 536-8998

Vice President for
Finance and Management

Fax: (803) 533-3661

CORRECTIVE ACTION PLAN

May 21, 2003

South Carolina State University respectfully submits the following corrective action plan for the year ended June 30, 2002. The name and address of the independent public accounting firm is:

Rogers and Laban, PA
1529 Hampton Street, Suite 200
Columbia, SC 29201
(803) 779-5870

Audit Period: July 1, 2001 – June 30, 2002

The findings from the June 30, 2002 "Schedule of Findings and Questioned Costs" are discussed below. The findings are numbered consistently with the numbers assigned in the schedule.

INDIRECT COSTS DUE GENERAL FUND NOT TIMELY SUBMITTED

RECOMMENDATION
Ensure that all indirect costs recoveries are receipted to the correct sub-fund at the State so that the amounts are remitted timely.

ACTION TAKEN
The University's Vice President for Finance and Controller are reviewing its grants and contracts operations and their ability to improve collection of outstanding federal and state receivables. The Vice President for Finance will be responsible for ensuring timely transfers to the General Fund of indirect cost recoveries.

VIOLATION OF FEE WAIVER PROVISION

RECOMMENDATION
Implement procedures to monitor the number of waivers awarded and document compliance with the limitation.

ACTION TAKEN
The University has adopted new procedures for FY2003-04 to limit and monitor the number of waivers by department and program. The Assistant Vice President for Finance will monitor all fee waivers to ensure compliance with state regulations as of June 30, 2003. The University currently awards Tuition Abatements to all out-of-state scholarship students who receive $250.00 per semester as per the Commission on Higher Education Guidelines. However for Fiscal 2001-02, the Student Information System (SIS) description coded some "waivers" which were in actuality "abatements." For FY2002-03 the SIS description field has been changed to "abatement" to avoid having "abatements" listed as "waivers".

02-3 ATTORNEY FEES INCURRED WITHOUT STATE ATTORNEY GENERAL'S APPROVAL

RECOMMENDATION
Implement a system to ensure that no unauthorized legal expenses are paid.

ACTION TAKEN
The University's Attorney has created a system as of FY2003 to log all incoming invoices by firm and keep a running tally of all approved balances to be paid. The General Counsel's Office will perform periodic reviews of legal fees paid and when appropriate a new estimate will be submitted to the Attorney General for approval. Invoices will be forwarded for payment based on the new approval obtained from the Attorney General's Office.

02-4 FINANCIAL RECORDS DEFICIENCES

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 review and approved by a designated responsible employee that understands the impact on all of the accounts affected before entries are posted. Revisions should be made to any 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. No checks should be prepared until there are adequate funds in the bank account.

ACTIONS TAKEN
Asset Account Related Deficiencies.

(1) *The use of subsequent year's appropriation to pay current year debt:*
The Vice President for Finance and the Controller will control and monitor University's cash flow on a weekly basis to avoid rampant expenditures during

the last quarter of the fiscal year, as has been the practice in the past. The Accounts Payable Supervisor will verify the available of cash in the bank prior to processing check cycles.

(2) *Cash and Revenues overstated by $70k as of June 30, 2002:*
The Controller and the Accounting Manager along with the Accounts Payable Supervisor will ensure that journal entries to post bank deposits and bank draw-downs occur within the same month. Bank transfers are recorded in the financial records as a debit to one bank and a credit to another bank. Any entry not posted correctly will appear on the bank reconciliation as a reconciling item. Procedures are in place requiring Analysts to resolve all reconciling items within 30 days of preparing the bank reconciliation.

(3) *Outstanding Check for $26k held by University employee:*
All checks issued by the Accounts Payable Office will be sent to the Controller's Office for review and mailing to the addressee only. This incident involved the efforts of Facilities Management to pay a contractor on the same day the work was completed; however, the contractor failed to complete the job in a timely manner. The Accounts Payable Office issued a check based on an approved invoice from Facilities Management and their request to hand deliver the check to the contractor. This practice was discontinued as of September 2002.

(4) *Student Loan Reserve for $35k unaware of by University:*
This statement is incorrect. The University has been carrying a $35k deposit for student loan reserves for over 10 years on its book. The issue is not one of knowledge but the availability of supporting documentation. The Loan Management Office was able to secure the supporting documentation.

(5) *Recording prepaid subscriptions:*
The Accounts Payable Supervisor and Controller will ensure subscription expense is properly allocated as of June 30, 2003. Procedures previously required procurement to request a fiscal year (July-June) subscription; however, this practice was not done with the library subscriptions. Subscription expense will be properly allocated for FY2002-03.

(6) *Reconciliation of Prepaid Postage:*
The Assistant Vice President for Finance will perform a year-end meter reading and reconcile this reading to the financial records as of June 30, 2003. The Post Office is designed to operate as a self-balancing operation – a request for new postage is made based only on postage used. The postage used is charged to the campus community utilizing the service.

(7) *Restitution Receivable in Prior Year*
The Controller will submit a reconciliation as of June 30, 2003 to the University Attorney's Office to ensure agreement between both office. A reconciliation of the Receivable with the General Counsel office revealed a payment made by a

former employee in FY95 against the current receivable; however, the legal agreement did not include this payment as part of the original receivable. The books have been updated to reflect the legal agreement.

(8) *Perkins Loan Reconciliation entry of $22k*
The Loan Management Supervisor and the Accounting Manager make entries to the financial records system (FRS) based on their monthly reconciliation. The entry was made based on the computer reports provided. The areas involved in the reconciliation are working with University Computing to test and verify Loan Management System (LMS) reports for accuracy of data being fed-over into the financial records. Employees discovered that there were some items in LMS that did not pass to FRS and is seeking computer assistance to identify these problems.

(9) *No Reconciliation of Loan Management Activity:*
The University **disagrees** with this finding. The Accounting Manager and the Loan Management Supervisor have supporting documentation to show efforts of monthly reconciliation between Loan Management and the Financial Records System (FRS). There are software issues with the LMS program; namely the program does not calculate cancellation of EIA and African American Teacher Loans; the program does not handle part-year cancellations. The employees are required to and are performing manual calculations and preparing manual entries to record these cancellations.

(10) *Procedures for writing off uncollectible Accounts and/or Loan Receivables:*
The University cannot write off Perkins Loan balances of $50.00 or greater; these loans can only be assigned to the U.S. Department of Education. The Assistant Vice President for Finance and the Loan Management Supervisor began as of April 1, 2003 to assign all old Perkins Loans to Collection Agencies. The LMS Supervisor also began in April 2003 to assign Perkins Loans to the U.S. Department of Education. The Assistant Vice President for Finance has created procedures to support the write-off of uncollectible student accounts receivables.

(1 *Overstatement of Grants Receivables*
The Grants Supervisor will conduct a year-end review of all outstanding receivables. Entries to adjust or eliminate invalid A/R will be done as of June 30.

Liability related deficiencies.

1 *Error in Indirect Cost Recoveries due General Fund:*
A reconciliation of Indirect Cost Revenue for FY2001 and FY2002 revealed the inclusion of external indirect costs in error and some classification changes in some grants and contracts as far as purpose (i.e. public service to research). However, the program that processes the indirect cost was not updated. These errors have been discussed with the Grants Supervisor along with a copy of the reconciliation. The indirect cost program is being updated during FY03.

(2) *Inclusion of $133k of Accrued Payroll in Accounts Payable:*
The University runs a supplemental payroll as of June 30 to capture payroll due temporary employees who receive their first payroll check after working 4 weeks. These supplemental payroll expenses are captured in the financial records as actual expenditures. This payroll represents an expense as of June 30 although the checks are not issued until July 15. The voucher to cover these payroll checks at the bank on July 15 is set up in the financial records as a short-term liability. The University has been following this practice for several years as directed the State Auditor's Office. Since the supplemental payroll expenses are fed into the June 30 financial records **there would not be an understatement of accrued payroll and related benefits as stated by the Auditor.** The Controller and Accounts Payable Supervisor will work to prepare a manual journal entry for voucher in FY03.

(3) *Debit balances (credit memos) of $60,000 included in Accounts Payable*:
The Accounts Payable Supervisor will perform timely follow-up on all debit balances. The University's practice has been to use credit memos to offset or reduce current and incoming vendor invoices. The Accounts Payable Supervisor has complied with this requested change from the new auditor and will continue to do so in the future.

(4) *Listing and reconciliation of Liability for Old Checks:*
The University **disagrees with this finding.** The Fiscal Analyst prepares manual journal entries to write off outstanding checks older than 3 months or more. Attached to these manual journal entries is a copy of the computer printout of old outstanding checks; therefore, **a list is available**. The employees believe they provided the auditors with what they requested. This list of old outstanding checks will be prepared and reconciled quarterly.

(5) *Accrued Payroll is not reconciled to the supporting documentation and payments:*
The University is seeking a finance/computer liaison to work with the Finance Office and the University Computer Center to assist in generating the necessary reports needed to perform reconciliation of feeds from the Human Resource System (HRS) to the Financial Records System (FRS). The Fiscal Analyst I will continue to perform manual reconciliation of the data that feeds over into the financial records but due to the size of the records the process is not exact.

(6) *No Reconciliation of the Student Information System (SIS) accounts in FRS:*
The Assistant Vice President for Finance and the SIS Data Coordinator are seeking support from its software manufacturer (SCT) to determine the series of reports that must be run in order to determine the lump sum balances remaining in various student liability accounts at any given point during the fiscal year. System reconciliations are expected to occur during FY04.

(7) *Agency Funds overstated in prior year:*
This deposit of $404,000 represents a student loan deposit. The University records SC Student Loan and ELM Student Loans in the Agency Funds as other state colleges and universities. The $404k in student loans represented payment for Summer School fees which crossover the fiscal year. As a correction to this process, the SIS and FRS Data Coordinator will ensure all summer fee revenue is recorded in the correct fiscal year and all SIS feeds for the current year are run prior to the closing the books.

(8) *Grant Funds for FY01 and FY02 not recorded as Deferred Revenue:*
The Grant Supervisor will review all grant accounts to ensure unearned revenue has been correctly recorded as Deferred Revenue in compliance with GASB 33.

(9) *Deposit of $20k on sale of South Campus recorded as revenue instead of liability:*
The Controller has corrected this June 24, 2001 deposit.

10) *One Capital Lease was not recorded as a liability:*
The Procurement Director is reviewing the reporting of all capital leases. The Procurement Director and the Assistant Vice President for Finance will review the Capital Lease Schedule prior to being submitted to the auditors. Procurement will forward quarterly reports to the Internal Auditor of lease payments reconciled to the general ledger.

Other Account Deficiencies:

(1) *Recording of Audit Entries:*
The University did not receive copies of all entries posted to the financial statements by the State Auditors' Office. Once the State Auditors completed their fieldwork they prepared additional entries that were never sent to the University. The Accounting Manager is recording and overseeing the posting of all FY02 Audit adjustments.

(2) *Federal Accounts with Negative Balances:*
The Grants Supervisor will work with all grant accountants to monitor grants to ensure compliance with budgets. The practice has been to transfer over-expenditures from the grant account to the PI's (principal investigator) departmental budget. The crossing of fiscal years occurs because the federal year ends on September 30 while the University ends on June 30. Procedures already implemented will address most of this. The final item involves the Office of Sponsored Programs and the "post award conference" being initiated by that office. This should close the loop on the activities reverence here. (Grants & Contracts Office only sees expenditures after they have been placed on the books.)

02-5 ERRORS IN GRANTS SCHEDULE

RECOMMENDATION
We recommend that the entire system and applicable procedure used in accumulating the schedule be reviewed. A program should be prepared so that the schedule is downloaded from the University's general ledger. Additional adequately trained and supervised personnel should be made available to ensure that all grant files are kept up to date and contain all required documentation. Separate accounts should be maintained for federal and state expenditures.

ACTION TAKEN
The Grant Supervisor will work with the Office of Sponsored Programs on a newly purchased software program that is designed to generate the federal grant schedule from the system. The Grant Supervisor has instructed the Fiscal Analyst handling "pass-through" grants to establish the appropriate federal and state accounts.

02-6 INCORRECT FRINGE BENEFIT RATE IN CALCULATING LEAVE

RECOMMENDATION
Ensure that current fringe rate in effect are used in calculating the accrued benefits liability.

ACTION TAKEN
The Controller will prepare a schedule of year-end liability for compensated absences. The Internal Auditor will conduct a review and verification prior to posting.

02-7 CAPITAL ASSETS DEFICIENCIES

RECOMMENDATION
All equipment additions included on the capital assets listing should be reconciled to the amounts expended in the general ledger. Also, all computer programs should be reviewed carefully before they are implemented.

ACTION TAKEN
The Procurement Director is working with the Internal Auditor as they revise the policy and procedures manual for fixed assets to reflect recommended changes in the process in reconciling amounts to the general ledger. The Property and Inventory Supervisor will forward a quarterly reconciliation (beginning in FY03) to the Internal Auditor to ensure compliance. As to the program error in calculating depreciation, this is the first year the University was required to take and record depreciation expense in the financial records. The program was run in test and run against the FY2001 records. This error of $2-$3 per item was not detected until the run on the FY2002 items. The consumer price index inflation factor has been removed from the fixed asset system; however, the factor could not be automatically removed from the FY2002 calculations without manual intervention.

02-8 ACCOUNTS RECEIVABLE NOT RECORDED DURING YEAR

RECOMMENDATION
Receivables should be recorded in the general ledger at their gross amounts at the time they are recorded in the student accounts receivable system at their gross amounts. An allowance for doubtful accounts should also be recorded on the general ledger and any change in the allowance account should be reflected through bad debt expense.

ACTION TAKEN
The University reported on a "cash-basis" during the fiscal year and then on a modified accrual basis at fiscal year-end by manually recording student accounts receivable in the financial records net of uncollectibles. The Assistant Vice President for Finance and the SIS Data Coordinator is investigating with the software manufacturer how to automatically feed student accounts receivables with an allowance for doubtful accounts. This reporting will continue to be done as a manual process at June 30, 2003 and will be automated for FY2004.

02-9 INADEQUATE FOLLOW-UP ON OUTSTANDING RECEIVABLES

RECOMMENDATION
We recommend that all receivables be included in an accounts receivable system and that an aged receivable listing be prepared monthly. Follow-up should occur on all receivables not collected within a certain period and additional services should not be rendered by the University if payment is not received. In addition, the University should ensure that all amounts billed are in accordance with the agreements.

ACTION TAKEN
The condition that precipitated this recommendation was the South Carolina State University Foundation debt. The University's Board of Trustees has met with the SCSU Education Foundation to resolve billing and reimbursement issues. The Education Foundation is implementing changes to ensure appropriate response to University billing and a new agreement will be written. The Grant Supervisor will work with each grant accountant to ensure timely review and monitoring of outstanding federal and state receivables.

02-10 COLLEGE WORK STUDY EXPENSES NOT RECORDED BY ACTIVITY

RECOMMENDATION
All expenses should be allocated to the function benefiting from the expense.

ACTION TAKEN
The Financial Aid Director and Assistant Director are investigating with other universities how to implement procedures to track college work study expenditures by functional category for FY2003-04 to comply with industry audit guidelines.

02-11 VIOLATION OF BOND COVENANTS

RECOMMENDATION

We recommend that the University implement procedures to ensure that housing net revenues are increased to cover the amount required by the bond resolution.

ACTION TAKEN

The University's Board of Trustees has recently approved refinancing of the existing Student Housing Revenue Bonds. This refinancing will not only reduce interest expense but will also eliminate the 120% net revenue requirement of the old bond

02-12 AUXILIARY ENTERPRISES OPERATED AT A DEFICIT

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.

ACTION TAKEN

The two Auxiliary Enterprise activities referenced as having deficits are the Dining Hall and Student Housing. In 2001-2002 the Dining Hall reduced its cumulative deficit. In the Student Housing area, the increased deficit resulted from expenditures of over $700,000.00 for repairs and renovations. The University is in the 5th year of a 5-year plan to increase auxiliary fees. This year's increase in student fees and the planned improvement to auxiliary facilities will help defray these cumulative deficits. The Vice President for Finance is also looking at cost control measures campus wide.

FINDINGS – FEDERAL AWARD PROGRAMS AUDITS

U. S. DEPARTMENT OF AGRICULTURE (USDA)

02-13 EPORTED COSTS IN EXCESS OF AMOUNTS RECORDED IN GENERAL LEDGER - CFDA #10.205

RECOMMENDATION

The University should ensure that all reported costs tie to the University's general ledger.

ACTION TAKEN

The Grant Accountant failed to prepare a journal entry to transfer Extension carryover funds to FY01 from FY02. This entry will be done as of June 30, 2003. The grant office as of April 26, 2003 has added an additional temporary accountant to review outstanding receivables and account cash balances. This review will involve reconciling outstanding invoices to the financial records and financial reports submitted to sponsoring agency to verify agreement to the financial records.

02-14 REQUIRED MATCH NOT MET – CFDA #10.205 PAYMENTS TO 1890 LAND-GRANT COLLEGES & TUSKEGEE UNIVERSITY

RECOMMENDATION

The University should ensure that the required matching funds are expended before they request federal reimbursement.

ACTION TAKEN

The University has recently appointed a new Executive Director for the 1890 Research & Extension Programs. For FY2003 the University has established two separate accounts to monitor and match 1890 research and extension state expenditures. Under the previous administration, only one account was established in FY2001 and FY2002 for the state matching funds for both research and extension. However, the 1890 Research & Extension Program Coordinator maintained separate records within the 1890 Office to distinguish between matching expenditures for research vs. extension.

The University's financial records contain the following total expenditures for the 1890 State Matching Funds:

Account#	As of June 30, 2001	As of June 30, 2002
134600	$341,023	$1,185,314
134603	$120,145	$ 81,441
134636	$ 79,580	$ 69,320
Total Expended By University	$540,748	$1,336,075

These state matching funds, as appropriated by the South Carolina Legislature, have a carryover provision. Therefore, any encumbrances or obligation made as of June 30 can be expended between July and September 30 (the end of the federal fiscal year) in order to meet the state matching percentage.

The Executive Director for the 1890 Programs is responsible for monitoring compliance with the state-matching provision and will ensure the University meets the FY2003 matching requirement.

FEDERAL HIGHWAY ADMINISTRATION; DEPARTMENT OF EDUCATION, DEPARTMENT OF ENERGY

02-15 REQUIRED MONITORING OF SUBRECIPIENTS NOT PERFORMED – CFDA #20.215 HIGHWAY TRAINING AND EDUCATION; CFDA # 84.336 TEACHER QUALITY ENHANCEMENT GRANTS AND CFDA # 81.999 ENVIRONMENTAL RESEARCH PROGRAM

RECOMMENDATION
The University should implement procedures to ensure that the required monitoring is performed including obtaining and reviewing the sub-recipient's audit reports

ACTION TAKEN
As of March 4, 2003, the Director of the Office of Sponsored Programs for the University has prepared written procedures for Monitoring Sub-recipients. Principal Investigators (PI) for the above three programs are and were conducting on-site visits and monitoring budgets and requests for reimbursements from sub-recipients as of June 30, 2002. The Office of Sponsored Programs will work with the PI to request annual audits of all sub-recipients; and ensure receipt, review, and will ensure actions on all conditions cited by the audits.

DEPARTMEN OF EDUCATION

02-16 LOAN REPAYMENTS NOT STARTED TIMELY – CFDA #84.038 FEDERAL PERKINS LOAN PROGRAM-FEDERAL CAPITAL CONTRIBUTIONS

RECOMMENDATION
The University should implement procedures to ensure that exit interviews are performed timely and that repayments start immediately after the grace period.

ACTION TAKEN:
The University concurs with this finding. Each semester, beginning with Spring 2003, the Office of Loan Management will secure a list from the Registrar's Office of all graduating students and students withdrawing or leaving early. Each student will be mailed an exit interview package and repayment schedule prior to June 30.
DEPARTMENT OF EDUCATION

02-17 DOCUMENTATION OF HARDSHIP NOT OBTAINED – CFDA # 84.038 FEDERAL PERKINS LOAN PROGRAM - FEDERAL CAPITAL CONTRIBUTIONS

RECOMMENDATION
The University should implement procedures to ensure that all hardship deferments are adequately documented.

ACTION TAKEN:
The University concurs with the recommendation. Effective April 29, 2003, the University will require all individuals who are seeking an economic hardship to complete an "Income and Expense Form." These forms will then be used to determine if an individual is eligible for a hardship deferment.

02-18 EXPENDITURES REPORTED UNDER WRONG CFDA NUMBERS

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

ACTION TAKEN
The University has issued a purchase order as of March 2003 to purchase a software system to monitor all sponsored programs. Additionally, this software will allow the University to generate the schedule of Federal Expenditures automatically instead of the laborious manual process used in the past. The Office of Sponsored Programs and the Office of Grants and Contract Accounting will work together to implement this new software as of fiscal 2003-2004.

Questions Regarding this plan should be addressed to:

Wilbur B. Shuler
Vice President for Finance and Management
South Carolina State University
Orangeburg, SC 29117
Phone (803) 536-8998
FAX (803) 533-3661

Sincerely,
Wilbur B. Shuler

Wilbur B. Shuler
Vice President for Finance and Management

MANAGEMENT'S RESPONSE

APPENDIX B

South Carolina State University
300 College Street, Northeast
Orangeburg, South Carolina 29117-0001
(803) 536-8998

Vice President for
Finance and Management

Fax: (803) 533-3661

RESPONSE TO
OTHER MANAGEMENT LETTER COMMENTS

BANK RECONCILIATIONS

RECOMMENDATION
We recommend that all bank reconciliation be reviewed to ensure that they are mathematically correct and that all differences be identified. Entries should be recorded on the University's records to adjust the balances to the reconciled balances. All reconciliations should be reviewed in a timely manner.

We recommend that the University reconcile cash by fund. Cash used that was for restricted purposes should be replenished. Procedures should be implemented to ensure that cash that is on deposit for restricted purposes is not used for operating expenses.

ACTION TAKEN:
The Accounting Manager reviews all bank reconciliations on a monthly basis. Each Analyst is required to research reconciling items and process an adjusting entry prior to the end of the next month. The University is setting up a system to match banks with applicable funds and perform reconciliation of cash by funds. Restricted funds are in a separate bank account with the State Treasurer and are <u>only drawn</u> to reimburse restricted expenditures.

LACK OF CONTROLS OVER PETTY CASH FUND

RECOMMENDATION
We recommend that the University review all petty cash funds to determine that adequate controls exist.

ACTION TAKEN:
This comment resulted from activities in the Athletic Ticket Office. Procedures in that office were changed effective July 1, 2002. Each day, cash from ticket sales is reconciled to the cash register receipts and to the Ticket Master ticket reports (Refinement of this process is being pursued by the new Ticket Manager). The cash and reconciliation are given to the University Cashier's Office where the deposit documents are prepared and who makes the deposits. The Internal Auditor is reviewing all petty cash procedures to ensure that these funds are safeguarded during the fiscal.

ACCOUNTS PAYABLE MISSTATED

RECOMMENDATION
We recommend that a periodic review of the outstanding voucher report be performed and that it be adjusted for any vouchers for which the goods have been returned. In addition, the listing should be reconciled to the general ledger on a monthly basis.

ACTION TAKEN:
This recommendation is standard operating procedure for the Office of Accounts Payable and was being performed prior to the Auditor's recommendation. The Accounts Payable Supervisor currently reviews the Report of outstanding vouchers on a weekly basis. The Accounts Payable Supervisor reconciles this to the general ledger for each outstanding voucher on a weekly basis prior to entering any new vouchers.

SALES TAX PAYABLE MISSTATED

RECOMMENDATION
We recommend that the University reconcile the sales tax liability recorded on its general ledger to the sales tax return.

ACTION TAKEN
The General Accounting Office performs reconciliation prior to preparing each month's sales and use tax return. This error was due to incorrectly transferring numbers from the general ledger to the final report. The Accounting Manager will sign off as reviewer on the reconciliation prior to the return being submitted for payment.

STUDENT DEPOSITS MISSTATED

RECOMMENDATION
We recommend that all liability accounts be reconciled to supporting detail on a monthly basis within 30 days after the end of the month and that any required adjustments be posted to the accounting records upon identification.

ACTION TAKEN
The University concurs with the recommendation. On a monthly basis beginning May 1, 2003, reconciliation of the liability accounts for the Bookstore and Dining Hall will be conducted and adjusting entries made within 30 days.

LEAVE SLIPS NOT APPROVED IN ADVANCE:

RECOMMENDATION
We recommend that the University review this policy and implement procedures to ensure that it is enforced.

ACTION TAKEN
The University **does not agree with this finding**. The "General Policies" (Item B) under the Holidays and Leave Section of the Personnel Policies and Procedures Manual, states that requests should be approved at least 24 hours in advance except in cases of emergency…As the policy does not state **must be** approved at least 24 hours in advance, there is room for discretion on the part of the supervisor to approve the leave, even if it was not requested 24 hours in advance. Further supporting that notion is the fact that it makes exception for emergency situations.

The "Annual Leave" Policy (Item B.2) does state that requests for annual leave must be made in advance, but the policy **does not specify a timeframe** for such. Therefore, policy permits approval of a request at any time prior to the leave being taken by the employee. It further states that if an employee is unable to make an advance request, he or she is responsible for notifying the supervisor *as soon as possible*. The policy provides that after notification, the supervisor has discretion as to whether the leave will be approved, and allows the absence to be charged to leave without pay if not approved. The "Annual Leave" policy also allows for exceptions to be made in emergency situations.

The "Sick Leave" Policy, under the Notification of Sick Leave Section, states that an employee that is unable to report to work because of illness *must notify the immediate supervisor as soon as possible after the beginning of the work day on the first day of the absence*. Therefore, there is no requirement for 24 hour advance notice for approval of sick leave. The Sick Leave Policy also allows a supervisor to charge an employee's absence due to illness to leave without pay if he or she fails to give adequate notice.

The advance notification issue is not applicable to the other policies outlined in the Holiday and Leave Section of the Personnel Policies and Procedures Manual.

While the policy does seem to make allowances for other than 24 hour advance request for leave, we believe that the audit findings have pointed out that the policy needs to be clarified as to what notification is actually required. The policy will be revised to provide greater clarity in its requirements related to requests for leave.

DEFERRED REVENUE MISCALCULATED

RECOMMENDATION
We recommend that the University ensure that all calculations are based on actual amounts.

ACTION TAKEN
The University's calculations were based on actual amounts generated by a report from

the Student Information System (SIS). Written instructions will be submitted to the data processing staff to ensure the correct data is extracted.

INDIRECT COSTS DUE GENERAL FUND OF THE STATE MISSTATED

RECOMMENDATION
We recommend that additional care be taken in the posting of indirect costs recoveries to ensure that all amounts due to the State are correctly identified.

ACTION TAKEN
The University agrees and will ensure that the Grants Supervisor review the coding of all grants and contracts to determine the appropriate scope of the grant prior to processing any indirect cost revenue. If the scope of a grant is changed from year-to-year, the Grant Accountant will ensure that the purpose code is correctly updated.

VIOLATION OF PURCHASING CARD POLICIES

RECOMMENDATION
We recommend that the University remind personnel of this policy and consider whether violators of this policy should be allowed to continue using the purchasing cards.

ACTION TAKEN
The Procurement Office had identified these exceptions and counseled the offenders as the Procurement Office reviews each procurement card transaction monthly. The University has also implemented procedures to ensure compliance with Procurement Card Policy and Procedures. Ratification has been obtained as per the Procurement Audit by General Services in accordance with Regulation 19-445.2013(l).

INSURANCE COVERAGE INADEQUATE

RECOMMENDATION
We recommend that the University obtain the services of the personnel available through the State to ensure that they have adequate coverage on all of the University's buildings.

ACTION TAKEN
The Facilities Management Director currently has staff from the Office of the Insurance Reserve Fund of the State Budget and Control Board on campus performing an audit of all buildings. The 3 buildings referenced as underinsured are Wilkinson Hall, Battiste Hall, The Fine Arts Center and the 2 buildings referenced as uninsured are the Student Center Plaza and the 1890 Leadership Center. Upon the receipt of the Insurance Reserve Fund report, insurance coverage will be adjusted.

PAYROLL DEFICIENCIES

RECOMMENDATION

We recommend that all personnel files be reviewed to ensure that they contain all required forms. Procedures should also be implemented to ensure that the correct amounts are withheld from employee paychecks.

ACTION TAKEN

In an effort to address this issue, the Office of Human Resource Management has begun a systematic process of auditing each employee's personnel file to ensure that all pertinent documents are contained therein, as well as to ensure that payroll deductions are accurate. We believe that this continual, systematic process will better ensure that personnel files contain all required forms and that accurate employee deductions are made, as recommended by the audit finding.

PAYROLL RECONCILATIONS & ERROR IN PAYROLL TAX RETURNS

RECOMMENDATION

We recommend that the University obtain a program that will work with their current payroll system to accurately prepare all required fillings with the taxing authorities.

ACTION TAKEN

The University agrees and is currently seeking outside technical support to assist the Finance Division in meeting filing and reporting deadlines timely and accurately.

ERRORS IN OPERATING & CAPITAL LEASE SCHEDULES

RECOMMENDATION

We recommend that the University ensure that all scheduled supporting financial statement amounts are prepared correctly and all lease payments are charged to the correct accounts in the University's general ledger.

ACTION TAKEN

As state in Finding #02-4 (Liability #10) the Office of Procurement is reviewing the reporting of all capital leases. The Procurement Office will forward quarterly reports to the Internal Auditor of lease payments reconciled to the general ledger.

LACK OF EFFECTIVE INTERNAL AUDITOR

RECOMMENDATION

We recommend that the University consider implementing an internal audit department that performs audits of various departments of the University. These audits should *include reviewing separation of duties, reconciliations, departmental expenditures, capital asset observations, etc.*

ACTION TAKEN
An audit plan is being developed to include departmental audits as specified.

MINUTES OF BOARD MEETINGS NOT PREPARED TIMELY

RECOMMENDATION
We recommend that all minutes be prepared in a timely manner and distributed at the next meeting for review and approval.

ACTION TAKEN
A contract stenographer has been retained to prepare Board minutes. Minutes have been prepared and are now current.