MEMORANDUM

TO: Dr. Harris Pastides
FROM: Rick Kelly
DATE: January 16, 2009
RE: SACS Reaffirmation of Accreditation

The Principles of Accreditation issued by the Commission Colleges have been revised since the last visit to the Columbia campus by SACS. In a review of the core requirements, specifically 2.11.1, concerns have been expressed that our current audited financial statement may not be in compliance. The audited financial statement for the University is a compilation of all campuses and includes unaudited supplemental statements and schedules for each campus. Previously, there have been no additional procedures applied to the individual campus financial statements as part of the University audit.

The current audit firm for the University of South Carolina, Elliott Davis, is proposing that the unaudited statements be included as “required supplementary information.” The University would request that the independent auditors perform certain limited procedures such as inquiries of management regarding the methods of measurement and presentation of the campus financial statements, agreeing balances per the campus financial statements to the University trial balance, and footing and referencing the individual campus financials.

Attached is a draft letter to Ms. Donna Barrett, the Director of Institutional Finance, requesting confirmation that the proposed change to the preparation of our financial statement is acceptable under the new SACS criteria. Once this confirmation is received from Ms. Barrett, it will be necessary to amend our current contract with Elliott Davis. This will require additional funding of approximately $37,500 this fiscal year; $35,360 in FY2010; and $36,250 in FY2011. Elliott Davis will perform reviews of the financial statements of each campus and issue accountant’s review reports in accordance with Statements on Standards for Accounting and Review Services issued by the American Institute of Certified Public Accountants.

If you have any questions or need additional information, please let me know.

c: William T. Moore, Executive Vice President for Academic Affairs & Provost [Interim]
    Ed Walton, Associate Provost
    Leslie Brunelli, Associate Vice President for Finance
    Patrick Lardner, University Controller
January 27, 2009

Ms. Donna Barrett
Director of Institutional Finance
Southern Association of Colleges and Schools
Commission on Colleges
1866 Southern Lane
Decatur, Georgia 30033-4097

RE: Reaffirmation of University of South Carolina Columbia

Dear Ms. Barrett:

The University of South Carolina system consists of the main campus in Columbia, three four-year institutions in Aiken, Beaufort, and Upstate, and four two-year campuses in Lancaster, Salkehatchie, Sumter, and Union. The four-year campuses are separately accredited and the two-year campuses are under the Columbia campus accreditation.

The University of South Carolina Columbia is preparing for reaffirmation of our SACS accreditation and we are seeking clarification of core requirement 2.11.1 regarding financial statements. The current financial statement for the University of South Carolina includes an audited statement, which is a compilation of all campuses. Unaudited schedules and statements have been included for all campuses without review. The independent auditors have proposed that the University make these schedules and statements required supplementary information that is subject to certain limited procedures such as inquiries of management regarding the methods of measurement and presentation of the campus financial statement, agreeing balances per the campus financial statement to the University trial balance, and footing and referencing the individual campus financials. This will require an amendment to our current contract with the external auditor.

I appreciate the information you have provided concerning the SACS criteria on financial statements. In order to satisfy our State procurement rules to amend our contract, I am requesting formal confirmation that the above recommendation for the change to our financial statements is acceptable under the new SACS requirements.

Sincerely,

Rick Kelly

C: William T. Moore, Executive Vice President for Academic Affairs & Provost [Interim]
   Ed Walton, Associate Provost
   Leslie Brunelli, Associate Vice President for Finance
   Patrick Lardner, University Controller
From: Donna Barrett  
Sent: Thursday, February 05, 2009 2:03 PM  
To: rkelley@mailbox.sc.edu  
Cc: Gerald Lord  
Subject: University of South Carolina - Columbia

Hi Rick,

Thank you for your letter dated January 27, 2009 related to reaffirmation audit questions. This response is copied to Dr. Gerald Lord, your institution’s assigned COC staff member. It is important that all communications go through Dr. Lord.

Our records show we have four separately accredited University of South Carolina entities: USC – Aiken, USC – Beaufort, USC – Columbia, and USC – Upstate. It is my understanding that your questions relate to the reaffirmation of USC – Columbia. It is also my understanding that the four two-year campuses (Lancaster, Salkehatchie, Sumter and Union) are now part of the USC – Columbia accredited entity.

Your letter indicates, “The current financial statement for the University of South Carolina includes an audited statement, which is a compilation of all campuses. Unaudited schedules and statements have been provided for all campuses without review…auditors have proposed that the University make these schedules and statements required supplementary information…subject to certain limited procedures…agreeing balances…footing and referencing the individual campus financials”. And you are requesting formal confirmation that this recommended change is acceptable under the new SACS requirements.

There are a couple general assumptions which apply to your question:

Evaluators must be able to determine financial resources and stability for the accredited entity separately.

Evaluators will not accept, generally, financial statements produced by the institution with no external review/audit process.

I have three responses to your letter. The first relates to financial statements produced. It is critical that evaluators be able to determine resources and stability for the overall institution as accredited. Caution should be taken to avoid confusing evaluators with various statements related to your campuses. It would appear useful that financial statements for your USC – Columbia campuses, as one accredited entity, be presented. Otherwise be sure to indicate in your narrative the consolidation of these campuses into one entity. Your narrative should also be written from a “one entity” approach. If you include a lot of separate financial information on the various campuses you take two risks, the first is that one particular campus may appear financially unstable, and the second is that you will thoroughly confuse your evaluators.

The second response relates to your auditors’ suggestion that the supplemental schedules be subject to various reviews. This approach will significantly raise the credibility of your financial statement materials with evaluators, even though the actual opinion rests at a higher level.

The third comment would be that, if possible, these supplemental schedules include a balance sheet, income statement, cash flow statement, (all with previous year’s data for comparison) and related footnotes. Absolutely supplemental schedules to public multi-institutional audits are accepted without all these elements, and there is wide variation in what is presented to peer evaluators. I would just suggest, since you are obviously in the planning stages of this change, that you consider attempting to include as many of these elements as possible for the best picture of your institution’s resources and stability. It may not all be possible, but it sure is nice when much of this data is included. Whatever elements are not included in the supplemental schedules should be addressed through your narrative for CR 2.11 if possible.
In short: good idea, present data for institution as accredited, try to get as complete a picture in schedules as possible.

One other issue that should accompany this discussion is the requirement under CS 2.11 of a written management letter specific to the institution being reaffirmed. Just seems worth mention in this dialogue.

My best wishes to you. If I can be of further assistance, please let me know, Donna B.

**Donna Barrett**

Director, Institutional Finance  
Southern Association of Colleges and Schools  
Commission on Colleges  
1866 Southern Lane  
Decatur, Georgia 30033-4097  
Phone: 404-679-4501 ext. 4574  
Fax: 404-679-4517
February 25, 2009

Dr. Gerald D. Lord, Vice President
Southern Association of Colleges and Schools
Commission on Colleges
1866 Southern Lane
Decatur, Georgia 30033-4097

Dear Dr. Lord:

Attached you will find a copy of a letter I recently sent to Ms. Donna Barrett requesting confirmation that the University of South Carolina’s proposed change to the preparation of our financial statement is acceptable under SACS criteria. Also attached is a copy of the email response from Ms. Barrett.

Mr. Tom McNeish with Elliott Davis has requested unequivocal confirmation that the proposed changes, i.e., the unaudited statements will be included as “required supplementary information” in the Management’s Discussion and Analysis section, inquiries of management regarding the methods of measurement and presentation of the campus financial statements, agreeing balances per the campus financial statements to the University trial balance, and footing and referencing the individual campus financials will be sufficient to meet SACS requirements.

As stated in the letter to Ms. Barrett, in order to amend the contract with the Elliott Davis firm and satisfy requirements of our State procurement code, a definitive written response is necessary. If I can provide any additional information, please do not hesitate to contact me at (803) 777-7481.

Thank you for your attention to this matter. I look forward to receiving your response.

Sincerely,

Rick Kelly

Attachments

c: William T. Moore, Interim Provost
   Ed Walton, Associate Provost
   Leslie Brunelli, Associate Vice President for Finance
Begin forwarded message:

From: "Gerald Lord" <glord@sacscoc.org>
Date: September 17, 2009 3:09:39 PM EDT
To: "Phil Moore" <philm@mailbox.sc.edu>
Subject: FW: Standard 2.11

Dear Phil,

See Donna’s comments below, with which I agree. We need information re each institution. I suppose one management letter would suffice as long as it specified whether or not any (and which) of the institutions had findings and what they were.

Regards,

Gerald

From: Donna Barrett
Sent: Thursday, September 17, 2009 2:59 PM
To: Gerald Lord
Subject: RE: Standard 2.11

Hi Gerald,
I probably referred him through you.

As for my take, CR 2.11.1 requires a management letter for the individual institution. Various institutions in various states handle this in different ways. What the evaluators are seeking are management comments applicable to the individual institutions. I think that, as he describes it, this will probably be sufficient. It will be important that the management letter detail which institutions were reviewed and which had findings.

A caution is also appropriate that an audit opinion, at reaffirmation, can rest on a system. However, sufficient information must be provided at the institutional level to determine resources and stability. This is often accomplished by public institutions through the provision of schedules supplemental to the audit, usually including a statement of financial position (balance sheet), statement of activities (income statement), a cash flow statement and, if available, footnotes.

Of course, these are general comments and only the evaluators can decide what is acceptable. I hope that helps. Have a good evening, Donna B.

From: Gerald Lord
Sent: Thursday, September 17, 2009 11:17 AM
To: Donna Barrett
Subject: FW: Standard 2.11

Donna – What is your thinking on this? And why did you defer to me? g
From: Phil Moore [mailto:philm@mailbox.sc.edu]
Sent: Thursday, September 17, 2009 11:09 AM
To: Gerald Lord
Subject: Standard 2.11

Gerald,
I am once again in need of your interpretation of a SACS standard (2.11) 
As you know, the USC system is comprised of USC Columbia and our 4 regional campuses, 
which are all accredited together, and three senior campuses that are individually accredited. 
In order to comply with 2.11, USC expanded the scope of our annual audit beginning for the 
2009 year end to include additional testing of each campus, but the fully audited statement is 
the full system. Therefore, using financial jargon, we receive one management letter for the 
USC System with notation indicating that each campus had additional testing. Assuming a clear 
letter, will we be compliant on 2.11? There is some concern that SACS will want four 
management letters, one for each accredited institution. The separate audits are estimated to 
cost at least an additional $300,000 more than our current system audit. Therefore, we would 
very much like to do a system audit with testing at each campus. If you think that we need the 
separate audits to be compliant on 2.11, then that is obviously what we will do beginning with 
the 2010 fiscal year. 
Any guidance in this matter will be greatly appreciated. We have been in contact with Donna 
Barett on this issue, but she deferred to your judgment. Thanks in advance,
Phil

Phil Moore
Assistant Provost for Assessment & Compliance
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(803) 777-2814
philmoore@sc.edu