

STATE OF SOUTH CAROLINA )  
 )  
COUNTY OF RICHLAND )

**SUPPLEMENTAL AFFIDAVIT OF  
SCOTT LUDLOW**

PERSONALLY APPEARED BEFORE ME, Scott Ludlow, who upon being duly sworn,  
deposes and states as follows:

1. I have been asked to provide additional information in connection with the grievance filed by Mr. Chalmers Eugene Troutman, III.

2. It is my understanding that the core issue of concern is whether Mr. Troutman's call for increased accountability through the creation of Executive Director of Fiscal Control/Policy Compliance was justified. This concern was raised out of concerns by Mr. Troutman whether the significant increase in tuition and whether that tuition was spent in accordance with information provided by the Administration to the Board, students, and Legislature that such fees were increased due to state funding cuts and would be investments in the quality of the students' education.

3. At the request of Mr. Collins, I have examined the Clemson University financial statements from the fiscal year ending June 30, 2002 through the year ending June 30, 2006. I noted that throughout this period, the managerial analysis that is included as part of the financial statements annually has included statements regarding the approval of tuition increases and the reasons such increases were sought. The 2002 Annual Financial Report stated "...increases stemmed from direct and deliberate actions designed to meet the goals of the University's 10-Year Plan.....to offset reduction in state appropriation revenues and still allow the University to stay on track to meet its goal of becoming a top 20 public research university." The 2003 Report

stated "Student tuition and fee revenues increased \$14 million, the direct result of a Board-approved 14.6% increase designed to partially offset state appropriation budget cuts." The 2004 Report stated "The unrestricted cash increases were attributable to Board-approved tuition increases..." The 2005 Report stated "A substantial portion of the Board-approved 12.7% tuition increase was earmarked for the University's Academic Road Map." Finally the 2006 Report stated "...the Board-approved tuition increase was designated to fund: 1) continuation of the University's Academic Road Map...)

4. The attached brief summary was prepared by me from the audited financial statements to analyze tuition, state appropriations, cash balances, and net unrestricted Assets between June 30, 2002 and June 30, 2006. From this analysis it appears that the funds generated by the tuition increases have NOT been invested in accordance with above-quoted plans presented by the Administration or designations from the Board as noted in the Annual Financial Reports.

5. Specifically, tuition increases over this period provided over \$72.8 million additional revenue to the University. The reduction in the state educational and general appropriation to the University in the same period reduced resources by less than \$15.2 million. The difference of over \$57.6 million was available for investment in quality. However, over the same period the financial statements reveal that the unrestricted cash balance has increased by over \$52.8 million. Additionally I examined the increase in the balance of the Net Unrestricted Assets of the University which increased by over \$47.6 million.

6. I have concluded these increases in balances reveal an ongoing failure to invest net increases in tuition and fees in excess of any educational and general state appropriation

reduction to improve the quality of education being delivered to students. (It is important to note that both the tuition increases and state appropriation reductions are recurring, that is, unless an increase or decrease is imposed, the \$57.6 million net increase in resources will be available each year.)

7. Further, to the best of my knowledge and belief, it appears neither the Administration nor Board considered these accumulated funds as a resource available to offset tuition increases or disclosed these resources as part of the Legislative funding process.

8. Given the evidence of failure to invest these additional funds over these years, there appears to be a lack of accountability which the creation of the Executive Director of Fiscal Control/Policy Compliance was intended to address.

9. I was asked to comment and verify statements made in a newspaper article published on September 19, 2007 in The Charleston Post & Courier and written by Diane Knich. The question was asked of Clemson's President Barker why tuition is so high. The story quotes President Barker as saying that "The University has only increased tuition about 5% the past few years." However, according to the attached analysis of tuition and fee resource increases as reported in the audited financial statements on the line Tuition and Fees, by year, increases of 18.38%; 17.70%; 14.01%; and 11.72% each year from 2002 to 2006 in resources were provided to the University.

10. I note that the use of percentages also can be misleading as a large percent increase on a small base amount generates fewer dollars than a small percent increase on a large base. Thus, as tuition increases each year, the yield is substantially greater because the

percentage is applied to a larger base number. For example, if tuition is \$9,000 per year and it is increased by 5%, each student is required to pay \$450 more. If 17,000 students pay that increase, the yield is \$7,650,000. By comparison, a 5% increase paid by 17,000 students while tuition was \$3,000, would only yield \$2,550,000.

11. I was also asked to respond to the accuracy of an article which was published by The Greenville News on August 30, 2007 with the headline "Fired Clemson Board Secretary Criticizes \$80 Million Reserve." The article made reference to certain Clemson University fund balances which are publicly available. I am familiar and experienced with Clemson University's publicly-available balance sheets. The article attributes a number of statements to Mr. Brett Dalton, which are not correct and with which I take exception. For example, the article states:

"The 2007 Annual Financial Report will show a 13% drop in the unrestricted fund balance to \$79 million, reflecting money from the fund that was spent this past fiscal year, Dalton said. He added that \$44 million of that is legally or contractually committed for capital projects and bonded indebtedness."

12. While I do not have access to the as yet unpublished 2007 statements, it is not accurate to say that any "Unrestricted Funds" are legally or contractually committed for capital projects and bonded indebtedness." The audit guide for Colleges and Universities issued by the American Institute for Certified Public Accountants stipulates that "The restricted current funds group consists of those funds expendable for operating purposes but restricted by donors or other outside agencies as to the specific purpose for which they may be expended. Such externally imposed restrictions are to be contrasted with internally created designations imposed by the governing board on unrestricted funds." **It is critical to note that under these reporting rules, neither the Administration nor the Board of Trustees at Clemson University can establish a**

**valid restriction of University funds to be so classified in the financial statements.** Any University funds against which there is a legal or contractual commitment should not be included in any explanation or justification for "Unrestricted Balances."

13. According to the University balance sheets, in addition to the \$91.3 million of Unrestricted Fund Balance, there is a "Restricted for Expendable Purposes" category that totals over \$137.7 million. The management analysis of the balances at June 30, 2006 included as part of the University's financial statements accurately discloses that this Restricted Fund Balance increased primarily due to \$23 million in unspent bond proceeds for new Athletic and Housing facilities.

14. Further, it is not accurate to say that funds are contractually committed if they are being held "in anticipation of specific needs" as The Greenville News article states and attributes to Mr. Dalton. Unrestricted Funds are held for the University in the State Treasurer's Office and can not be legally restricted by the administration or board to any purpose or any use. The administration and board can designate these funds for a use, but until there are externally imposed legally enforceable restrictions applied, such funds remain unrestricted and can be utilized at the discretion of the administration and board.

15. The article continues with an attempt to justify the balances at Clemson by making comparisons to the University of South Carolina. It should be noted that the numbers used were for the University of South Carolina SYSTEM which consists of not only the main campus in Columbia, but its medical school and 7 branch campuses. The balances for the USC-Columbia activities are substantially less than Clemson reports despite having a much greater enrollment.

16. I was asked if, while I was employed by Clemson University, the amount of the tuition increases were ever challenged. The answer is yes. I addressed this in my initial Affidavit of August 29, 2007. However, as I completed the attached analysis and in light of the substantial growth of unspent Unrestricted cash accumulated by the University in recent years, I question the justification for recent tuition increases even more. While at Clemson I noted after the administration convinced the board to increase tuition by 42% in 2001, the philosophy of the current administration became one of being not "What do we need?" rather "What can we get?" I contrasted this philosophy to that of President Sikes, who was President during another fiscally challenging time for the University, the Great Depression. I note that I was personally touched by the history of Sikes Hall that hangs in the President's Office. It noted how President Sikes asked for sacrifice from the Faculty and Staff to keep the tuition as affordable as possible.

17. The Charleston Post & Courier article also quotes President Barker as stating "We've got a plan and we budget to the plan." While I was at Clemson, there was much discussion about the "road map/plan." I was familiar with the originations of the road map/plan. I coined the phrase "Budgeting to a Plan" at Clemson as part of a presentation to a group of students in the Business School in 1996 and shared it with President Barker shortly after he became President. At that time I pointed out that Clemson did not have a plan, rather established priorities retroactively based on where funds were spent. I was pleased when President Barker concurred that it was critical that we "Budget to a Plan" and made this an emphasis of his administration.

18. By the Spring of 2004 as we approached budget development for the third year of making investments in the roadmap/plan I became increasingly concerned that funds which had been allocated in prior years still had not been spent. Rather they were accumulating as cash balances throughout the University operational accounts. In other words, the funds were distributed to departments to make quality investments, but were not being spent.

19. During the budget development meetings I pointed out to the President and Administrative Council that we should not be increasing tuition to build savings accounts, rather we should invest in quality. Further since the funds from the prior tuition increases had not yet been spent, I suggested that this net resource be used in the next year to limit tuition increases. I also suggested these accumulated balances be used for critical infrastructure needs.

20. This proposal was dismissed. Up to the time of my departure in November of 2004, any challenge to the "roadmap/plan" was considered heresy. Because of my concerns about this issue and due to my belief that my proposal was seen as self-interest due to my facility responsibilities, I proposed an independent position be created in Internal Audit to examine roadmap/plan compliance.

21. This proposal was made in writing as part of my self-evaluation provided to President Barker in June of 2004. However, when my evaluation was conducted in July 2004, I was informed that I would soon no longer be the Chief Business Officer at year end leading me to seek other employment. Noting that Mr. Troutman has been dismissed for creating the same or similar position I proposed, I believe threats to my retaining my position were also due to my calling for an independent review of the roadmap/plan compliance.

22. I continue to believe such a position can be effective only if it is independent of operational and allocation responsibilities, and ideally independent from the administration. This person should produce the kind of documented and verified information and thereby the accountability needed by any institution of higher learning, especially one which is publicly funded. For example, when funds are sought to fund a new faculty position or departmental initiative and an allocation is made for that purpose, the University needs some way to determine whether those funds are in fact used for that position or departmental initiative. Up to the time of my departure I was not aware of any meaningful method or means employed by the University to measure and document adherence, compliance or completion of any portions of a road map or plan using funds created by the increased tuition and fees.

23. I believe the newly-created position of Executive Director of Fiscal Control/Policy Compliance continues to be a much-needed position at Clemson University.

24. Based on my experience in accounting and finance based on my nearly 30 years with higher educational institutions in multiple states, and having held advisory positions with the National Association of College and University Business Officers and the National Association of State Universities and Land Grant Colleges where I associated with key higher education business leaders, I am aware that most states and Universities have independent program audit processes in place to verify the proper and stated use of appropriated state funds, student fees, and other generated funds that are beyond the scope of an externally contracted financial statement audit. In my opinion a process such as this would be of value to Clemson




University and to the State of South Carolina. In my opinion, based on what I know, Mr. Troutman's grievance is meritorious.

FURTHER, YOUR AFFIANT SAYETH NAUGHT.

  
SCOTT LUDLOW

SWORN to and SUBSCRIBED before me

this 26<sup>th</sup> day of September, 2007

 (L.S.)  
NOTARY PUBLIC for South Carolina

My Commission Expires: 1-28-14

Clemson University

Review of Selected Financial and Managerial Information Relative to Tuition, Appropriations, and Cash Balances

From Audited Financial Statements for the Years Ended June 30, 2002 through June 30, 2006

Statements found on the Clemson University Web Site

24-Sep-07

Summary Analysis of Resources:						Total Change
	FY 2002	FY 2003	FY 2004	FY 2005	FY 2006	
Tuition and Fees	94,062,000	111,346,000	131,049,000	149,405,000	166,912,000	72,850,000
State E&G Appropriation	108,489,595	96,456,560	86,523,554	87,713,541	93,302,462	(15,187,133)
Resource Available	<u>202,551,595</u>	<u>207,802,560</u>	<u>217,572,554</u>	<u>237,118,541</u>	<u>260,214,462</u>	
Net Increase in Resources		5,250,965	9,769,994	19,545,987	23,095,921	<u>57,662,867</u>
Unrestricted Cash Balance*	84,641,385	90,978,873	110,720,665	126,768,920	137,453,768	52,812,383

Data From Audited Financial Statements:						
Tuition and Fees	94,062,000	111,346,000	131,049,000	149,405,000	166,912,000	72,850,000
Dollar Change		17,284,000	19,703,000	18,356,000	17,507,000	
% Change		18.38%	17.70%	14.01%	11.72%	
State E&G Appropriation	108,489,595	96,456,560	86,523,554	87,713,541	93,302,462	(15,187,133)
Unrestricted Cash Balance	84,641,385	90,978,873	110,720,665	126,768,920	137,453,768	52,812,383
Net Unrestricted Assets	43,669,984	52,569,847	68,091,071	77,732,929	91,363,635	
Dollar Change		8,899,863	15,521,224	9,641,858	13,630,706	47,693,651
% Change		20.38%	29.52%	14.16%	17.54%	109.21%

\* The Unrestricted cash balance is the result of multiple activities beyond the tuition and fee and state appropriations considered in this analysis. This however, does not change the fact that during the same period when the University was increasing tuition and fees that the available unrestricted cash balance, coincidentally or not, grew by nearly the same amount as the increase in tuition and fees with the state E&G appropriation reduction netted out.