

**SOUTH CAROLINA  
COMMISSION ON HIGHER EDUCATION**

**COLUMBIA, SOUTH CAROLINA**

**STATE AUDITOR'S REPORT**

**JUNE 30, 2008**

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# State of South Carolina



## Office of the State Auditor

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### INDEPENDENT ACCOUNTANT'S REPORT ON APPLYING AGREED-UPON PROCEDURES

March 25, 2009

The Honorable Mark Sanford, Governor  
and  
Members of the Commission  
The South Carolina Commission on Higher Education  
Columbia, South Carolina

We have performed the procedures described below, which were agreed to by the management of the South Carolina Commission on Higher Education (the Commission), solely to assist you in evaluating the performance of the Commission for the fiscal year ended June 30, 2008, in the areas addressed. The Commission's management is responsible for its financial records, internal controls and compliance with State laws and regulations. This agreed-upon procedures engagement was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants. The sufficiency of these procedures is solely the responsibility of the specified parties in this report. Consequently, we make no representation regarding the sufficiency of the procedures described below either for the purpose for which this report has been requested or for any other purpose.

The procedures and the associated findings are as follows:

1. **Cash Receipts and Revenues**

- We inspected selected recorded receipts to determine if these receipts were properly described and classified in the accounting records in accordance with the agency's policies and procedures and State regulations.
- We inspected selected recorded receipts to determine if these receipts were recorded in the proper fiscal year.
- We compared amounts recorded in the general ledger and subsidiary ledgers to those in the State's accounting system (STARS) as reflected on the Comptroller General's reports to determine if recorded revenues were in agreement.
- We made inquiries and performed substantive procedures to determine if revenue collection and retention or remittance were supported by law.

- We compared current year recorded revenues at the subfund and object code level from sources other than State General Fund appropriations to those of the prior year. We investigated changes in the general, earmarked, restricted and federal funds to ensure that revenue was classified properly in the agency's accounting records. The scope was based on agreed upon materiality levels (\$3,700 - general fund, \$10,600 – earmarked fund, \$375,700 – restricted fund and \$32,000 – federal fund) and  $\pm 10$  percent.
- We made inquiries of management pertaining to the agency's policies for accountability and security over permits, licenses and other documents issued for money. We observed agency personnel performing their duties to determine if they understood and followed the described policies.

The individual transactions selected were chosen randomly. Our finding as a result of these procedures is presented in Receipt Date in the Accountant Comments section of this report.

2. **Non-Payroll Disbursements and Expenditures**

- We inspected selected recorded non-payroll disbursements to determine if these disbursements were properly described and classified in the accounting records in accordance with the agency's policies and procedures and State regulations, were bona fide disbursements of the Commission, and were paid in conformity with State laws and regulations; if the acquired goods and/or services were procured in accordance with applicable laws and regulations.
- We inspected selected recorded non-payroll disbursements to determine if these disbursements were recorded in the proper fiscal year.
- We compared amounts recorded in the general ledger and subsidiary ledgers to those in various STARS reports to determine if recorded expenditures were in agreement.
- We compared current year expenditures at the subfund and major object code level to those of the prior year. We investigated changes in the general, earmarked, restricted, and federal funds to ensure that expenditures were classified properly in the agency's accounting records. The scope was based on agreed upon materiality levels (\$318,100 – general fund, \$11,500 – earmarked fund, \$342,000 – restricted fund, and \$31,800 – federal fund) and  $\pm 10$  percent.

The individual transactions selected were chosen randomly. We found no exceptions as a result of the procedures.

3. **Payroll Disbursements and Expenditures**

- We inspected selected recorded payroll disbursements to determine if the selected payroll transactions were properly described, classified, and distributed in the accounting records; persons on the payroll were bona fide employees; payroll transactions, including employee payroll deductions, were properly authorized and were in accordance with existing legal requirements and processed in accordance with the agency's policies and procedures and State regulations.
- We inspected selected payroll vouchers to determine if the vouchers were properly approved and if the gross payroll agreed to amounts recorded in the general ledger and in STARS.

- We inspected payroll transactions for selected new employees and those who terminated employment to determine if the employees were added and/or removed from the payroll in accordance with the agency's policies and procedures, that the employee's first and/or last pay check was properly calculated and that the employee's leave payout was properly calculated in accordance with applicable State law.
- We compared amounts recorded in the general ledger and subsidiary ledgers to those in various STARS reports to determine if recorded payroll and fringe benefit expenditures were in agreement.
- We compared current year payroll expenditures at the subfund and major object code level to those of the prior year. We investigated changes in the general, earmarked, restricted and federal funds to ensure that expenditures were classified properly in the agency's accounting records. The scope was based on agreed upon materiality levels (\$318,100 – general fund, \$11,500 – earmarked fund, \$342,000 – restricted fund and \$31,800 – federal fund) and  $\pm 10$  percent.
- We compared the percentage change in recorded personal service expenditures to the percentage change in employer contributions; and computed the percentage distribution of recorded fringe benefit expenditures by fund source and compared the computed distribution to the actual distribution of recorded payroll expenditures by fund source. We investigated changes of  $\pm 5$  percent to ensure that payroll expenditures were classified properly in the agency's accounting records.

The individual transactions selected were chosen randomly. Our findings as a result of these procedures are presented in Fund Source Coding, Calculation of Pay, and Payroll Variance Explanations in the Accountant's Comments section of this report.

4. **Journal Entries, Operating Transfers and Appropriation Transfers**

- We inspected selected recorded journal entries, all operating transfers and all interagency appropriation transfers to determine if these transactions were properly described and classified in the accounting records; they agreed with the supporting documentation, the purpose of the transactions was documented and explained, the transactions were properly approved, and were mathematically correct; and the transactions were processed in accordance with the agency's policies and procedures and State regulations.

The individual journal entry transactions selected were chosen randomly. We found no exception as a result of the procedures.

5. **General Ledger and Subsidiary Ledgers**

- We inspected selected entries and monthly totals in the subsidiary records of the Commission to determine if the amounts were mathematically accurate; the numerical sequences of selected document series were complete; the selected monthly totals were accurately posted to the general ledger; and selected entries were processed in accordance with the agency's policies and procedures and State regulations.

The transactions selected were chosen randomly. We found no exceptions as a result of the procedures.

6. **Reconciliations**

- We obtained all monthly reconciliations prepared by the Commission for the year ended June 30, 2008, and inspected selected reconciliations of balances in the Comptroller General's accounting records to those in STARS as reflected on the Comptroller General's reports to determine if accounts reconciled. For the selected reconciliations, we determined if they were timely performed and properly documented in accordance with State regulations, recalculated the amounts, agreed the applicable amounts to the Commission's general ledger, agreed the applicable amounts to the STARS reports, determined if reconciling differences were adequately explained and properly resolved, and determined if necessary adjusting entries were made in the Commission's accounting records and/or in STARS.

We judgmentally selected the fiscal year-end reconciliation and randomly selected one month's reconciliation for testing. We found no exceptions as a result of the procedures.

7. **Appropriation Act**

- We inspected agency documents, observed processes, and/or made inquiries of agency personnel to determine the Agency's compliance with Appropriation Act general and agency specific provisos.

We found no exceptions as a result of the procedures.

8. **Closing Packages**

- We obtained copies of all closing packages as of and for the year ended June 30, 2008, prepared by the Commission and submitted to the State Comptroller General. We inspected them to determine if they were prepared in accordance with the Comptroller General's GAAP Closing Procedures Manual requirements and if the amounts reported in the closing packages agreed with the supporting workpapers and accounting records.

Our findings as a result of the procedures are presented in Closing Packages in the Accountant's Comments section of this report.

9. **Schedule of Federal Financial Assistance**

- We obtained a copy of the schedule of federal financial assistance for the year ended June 30, 2008, prepared by the Commission and submitted to the State Auditor. We inspected it to determine if it was prepared in accordance with the State Auditor's letter of instructions; if the amounts agreed with the supporting workpapers and accounting records.

We found no exceptions as a result of the procedures.

The Honorable Mark Sanford, Governor  
and  
Members of the Commission  
The South Carolina Commission on Higher Education  
March 25, 2009

10. **Status of Prior Findings**

- We inquired about the status of the findings reported in the Accountant's Comments section of the State Auditor's Report on the Commission resulting from our engagement for the fiscal year ended June 30, 2007, to determine if the Commission had taken corrective action.

We found no exceptions as a result of the procedures.

We were not engaged to and did not conduct an audit, the objective of which would be the expression of an opinion on the specified elements, accounts, or items. Accordingly, we do not express such an opinion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

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



Richard H. Gilbert, Jr., CPA  
Deputy State Auditor

**ACCOUNTANT'S COMMENTS**

## **SECTION A - VIOLATIONS OF STATE LAWS, RULES OR REGULATIONS**

Management of each State agency is responsible for establishing and maintaining internal controls to ensure compliance with State Laws, Rules or Regulations. The procedures agreed to by the agency require that we plan and perform the engagement to determine whether any violations of State Laws, Rules or Regulations occurred.

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

## **FUND SOURCE CODING**

During our testing of payroll transactions we noted eleven instances in which the fund source code documented on the payroll warrant register did not agree to the Office of Human Resource Employee Profile form. The errors occurred because Commission personnel did not submit funding source changes to the Office of Human Resources (OHR) in a timely manner.

Section 19-701.05 of the South Carolina Human Resource Regulations states, "As required by 8-11-230 of the South Carolina Code of Laws, Human Resources Information System (HRIS) serves as the central database to maintain human resources data on all employees. To maintain the integrity and completeness of the compensation module of HRIS, all agencies are required to submit appropriate information in a timely manner."

We recommend the Commission implement procedures to ensure that fund source changes are reported to the HRIS in a timely manner.

## **CLOSING PACKAGES**

### **Compensated Absences**

During our review of the fiscal year 2008 compensated absences closing package, we noted the hourly rate reported on the Commission's Annual Leave Liability spreadsheet did not agree to the Office of Human Resources' employee profile for two out of ten employees tested. According to Commission personnel, the profiles had not been updated in a timely manner.

We also noted the Commission reported negative compensatory leave balances for two employees. According to Commission personnel, the employees miscalculated the compensatory time they accrued and therefore used more compensatory time than they had actually earned. These errors went undetected by the Commission.

Section 3.17 of the Comptroller General's GAAP Closing Procedures Manual (GAAP Manual) specifies that agencies must retain working papers supporting all information reported on the closing package. Section 3.17 also provides instructions to agencies regarding the calculation and reporting of compensatory leave.

### **Accounts Payable**

Section 3.12 of the GAAP Manual specifies that vouchers less than \$5,000 should be excluded from the closing package. During our review of the fiscal year 2008 accounts payable closing package, we noted the Commission incorrectly included expenditure transactions valued at less than \$5,000 on its accounts payable closing package.

### **Recommendation**

We recommend the Commission implement procedures to ensure closing packages contain accurate and complete information in accordance with GAAP Manual instructions. As required by the GAAP Manual, the Commission's closing package procedures should include an effective independent review before submitting the forms to the Comptroller General's Office. We also recommend the Commission develop and implement controls to ensure that compensatory leave is correctly calculated and accrued.

## **CALCULATION OF PAY**

The Commission miscalculated the employee pay calculations for two of the ten employees tested. The employees were underpaid \$659. One employee was not paid the accrued leave due at termination. The employee had accrued 28.125 hours of annual leave, but was paid for 21.875 hours. Another employee was not paid for all days worked. The employee worked ten out of eleven days in the pay period; however he was only paid for eight days.

Section 41-10-40 of the South Carolina Code of Laws states, "Every employer in the State shall pay all wages due in lawful United States money..."

We recommend the Commission develop and implement procedures to ensure that payments to employees are correctly calculated. This should require an independent review of payroll calculations to ensure the calculations are mathematically accurate and agree to source documentation.

## **SECTION B – OTHER WEAKNESSES**

The conditions described in this section have been identified while performing the agreed-upon procedures but are not considered violations of State Laws, Rules or Regulations.

## **RECEIPT DATE**

Commission policy requires accounting personnel to record cash receipt transactions in its receipt log when revenue is received. The purpose of the receipt log is to maintain accountability from the point of receipt until the time the revenue is deposited. One of the 25 transactions tested was not recorded in the receipt log.

We recommend the Commission ensure that personnel adhere to its policies and procedures pertaining to accountability over cash receipts.

## **PAYROLL VARIANCE EXPLANATIONS**

We perform certain analytical procedures to test for account misclassification. One such test compares the relationship between personal service expenditures and employer contributions. Our comparison of the percentage change in personal service expenditures to the percentage change in employer contribution expenditures from fiscal year 2007 to fiscal year 2008 identified significant variances in the restricted and federal funds. Commission personnel were unable to provide adequate explanations for these variances; therefore, we were unable to determine if these increases/decreases between years were reasonable.

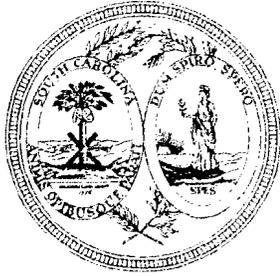
A good system of internal controls requires management to be sufficiently involved in the day-to-day operations to identify significant variances in accounts. Variance reports or interim financial reports should be used to monitor such operations.

We recommend the Commission periodically monitor account balances to ensure actual balances are meeting expected results. Expectations can be based on budgeted amounts or prior year actual results. Periodic monitoring helps ensure the completeness and accuracy of accounting information and allows management to make sound financial decisions based on accurate accounting information.

## **SECTION C - STATUS OF PRIOR FINDINGS**

During the current engagement, we reviewed the status of corrective action taken on each of the findings reported in the Accountant's Comments section of the State Auditor's Report on the South Carolina Commission on Higher Education for the fiscal year ended June 30, 2007, and dated August 6, 2008. We determined that the Commission has taken adequate corrective action on each of the findings.

**MANAGEMENT'S RESPONSE**



## South Carolina Commission on Higher Education

Mr. Kenneth B. Wingate, Chair  
Dr. Bettie Rose Horne, Vice Chair  
Douglas R. Forbes, D.M.D.  
Mr. Kenneth W. Jackson  
Dr. Raghu Korrapati  
Dr. Louis B. Lynn  
Ms. Cynthia C. Mosteller  
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Mr. Charles L. Talbert, III, CPA  
Mr. Guy C. Tarrant, CCIM  
Mr. Hood Temple  
Mr. Neal J. Workman, Jr.  
Dr. Mitchell Zais

June 4, 2009

Dr. Garrison Walters, Executive Director

Mr. Richard H. Gilbert, Jr., CPA  
Deputy State Auditor  
Office of the State Auditor  
1401 Main Street, Suite 1200  
Columbia, South Carolina 29201

Re: Findings from the Performance of Agreed Upon Procedures  
For the Year Ended June 30, 2008

Dear Mr. Gilbert:

We have received and reviewed the contents of the above captioned report and, through this letter, authorize its immediate release.

We would like to thank your audit team for the professionalism they demonstrated and the other courtesies extended to us on their visit. We found their advice to be especially helpful.

For the most part, we concur with the auditors' findings. We have taken affirmative steps to preclude repetition in the future. Operations staff have been briefed thoroughly on this matter and no recurrence is expected.

Please feel free to contact me directly at 737-2263 or [Jrichards@che.sc.gov](mailto:Jrichards@che.sc.gov) with any questions about this matter.

A handwritten signature in black ink, appearing to read "Jeff Richards", is written over a faint circular stamp or watermark.

Jeff Richards  
Director of Operations

Cc: Dr. Garrison Walters, Executive Director  
Operations Staff

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