

**SOUTH CAROLINA COMMISSION ON HIGHER EDUCATION**

**COLUMBIA, SOUTH CAROLINA**

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

**JUNE 30, 2005**

*State of South Carolina*



*Office of the State Auditor*

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COLUMBIA, S.C. 29201

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STATE AUDITOR

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May 30, 2006

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

This report resulting from the application of certain agreed-upon procedures to certain accounting records of the South Carolina Commission on Higher Education for the fiscal year ended June 30, 2005, 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,

A handwritten signature in cursive script that reads "Tom Wagner".

Thomas L. Wagner, Jr., CPA  
State Auditor

TLWjr/trb

**SOUTH CAROLINA DEPARTMENT OF HEALTH AND HUMAN SERVICES**

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

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

We have performed the procedures described below, which were agreed to by the South Carolina Office of the State Auditor and 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, 2005, in the areas addressed. The Commission is responsible for its financial records, internal controls and compliance with State laws and regulations. The agreed-upon procedures engagement was conducted in accordance with attestations standards established by the American Institute of Certified Public Accountants. The sufficiency of the 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 and internal controls over the selected receipt transactions were adequate to detect errors and/or irregularities.
- 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 Commission'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 from sources other than State General Fund appropriations with those of the prior year and we used estimations and other procedures to evaluate the reasonableness of collected and recorded amounts by revenue account.

The individual transactions selected were chosen randomly. Our findings as a result of these procedures are presented in the Accountant's Comments section of this report.



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## **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; were bona fide disbursements of the Commission; 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; and if internal controls over the selected disbursement transactions were adequate to detect errors and/or irregularities.
- 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 on various STARS reports to determine if recorded expenditures were in agreement.
- We compared current year expenditures with those of the prior year to determine the reasonableness of amounts paid and recorded by expenditure account.

The individual transactions selected were chosen randomly. Our findings as a result of these procedures are presented in the Accountant's Comments section of this report.

## **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 internal controls over the tested payroll transactions were adequate to detect errors and/or irregularities.
- We inspected selected payroll vouchers to determine that 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 internal controls over these transactions were adequate to detect errors and/or irregularities.
- We compared amounts recorded in the general ledger and subsidiary ledgers to those on various STARS reports to determine if recorded payroll and fringe benefit expenditures were in agreement.
- We compared current year payroll expenditures to those of the prior year; comparing the percentage change in personal service expenditures to the percentage change in employer contributions; and comparing the percentage distribution of recorded fringe benefit expenditures by fund source to the percentage distribution of recorded payroll expenditures by fund source to determine if recorded payroll and fringe benefit expenditures were reasonable by expenditure account.

The individual transactions selected were chosen randomly. Our findings as a result of the procedures are presented in the Accountant's Comments section of this report.

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

- We inspected selected recorded journal entries, operating transfers, and appropriation transfers to determine if these transactions were properly described and classified in the accounting records; they agreed with the supporting documentation, were adequately documented and explained, were properly approved, and were mathematically correct; and the internal controls over these transactions were adequate to detect errors and/or irregularities.

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

## 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 the internal accounting controls over the selected transactions were adequate to detect errors and/or irregularities.

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, 2005, and inspected selected reconciliations of balances in the Commission's accounting records to those in the State's accounting system (STARS) as reflected on the Commission's reports to determine if they were accurate and complete. 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 that 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.

The reconciliations selected were chosen randomly. Our finding as a result of these procedures is presented in the Accountant's Comments section of this report.

## 7. Compliance

- We confirmed through inspection of payroll and non-payroll disbursement vouchers, cash receipts and other documents, inquiry of agency personnel and/or observation of agency personnel performing their assigned duties the Commission's compliance with all applicable financial provisions of the South Carolina Code of Laws, Appropriation Act, and other laws, rules, and regulations for fiscal year 2005.

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, 2005, 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; if the amounts were reasonable; and if they agreed with the supporting workpapers and accounting records.

Our findings as a result of these procedures are presented 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, 2005 prepared by the Commission and submitted to the State Auditor. We inspected it to determine that it was prepared in accordance with the State Auditor's letter of instructions; if the amounts were reasonable; and if they agreed with the supporting workpapers and accounting records.

We found no exceptions as a result of our procedures.

10. **Status of Prior Year Findings**

- We inquired about the status of the deficiencies described in the findings reported in the Accountant's Comments section of the State Auditor's report on the Commission resulting from the engagement for the fiscal year ended June 30, 2005 to determine if adequate corrective action has been taken.

Our findings as of result of these procedures are presented in the Status of Prior Findings section of this report.

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 areas, accounts, or items. Accordingly, we do not express such opinions. Had we performed additional procedures or had we conducted an audit or review of the Commission's financial statements or any part thereof, other matters might have come to our attention that would have been reported to you.

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

*Rogers + Lalan, PA*

May 11, 2006

**SOUTH CAROLINA COMMISSION ON HIGHER EDUCATION  
COLUMBIA, SOUTH CAROLINA**

**ACCOUNTANT'S COMMENTS  
JUNE 30, 2005**

**CLOSING PACKAGES**

**Operating leases:**

Our testing of the operating leases closing package disclosed that the Commission included payments to Greenville Technical College pursuant to the 2004-05 Appropriations Act as rent expense instead of as Aid to other State Agencies.

The Comptroller General provides a manual with the various expenditure classifications that all State agencies are to use.

We recommend that additional care be taken to ensure that all expenditures are coded correctly.

**Compensated Absences:**

Our testing of the individual leave balances reported in the compensated absences closing package disclosed variances in 2 of the 10 employees tested. After bringing this to the Commission's attention, they recalculated annual leave. The following errors were detected:

1. The balance of annual leave for one employee brought forward as of January 1, 2005 was incorrectly shown as 144.657 hours instead of the 43.872 hours shown on the individual leave records.
2. The spreadsheet showed that one employee used 67.75 hours of annual leave from January 1 to June 30 but the individual's leave record showed that they used 74.75 hours during the period.

In addition, we determined that the Commission accrued six months of accrued leave for the period January 1 to June 30 for two new employees that were employed in February and March.

Section 3.17 of the GAAP Closing Package Manual requires the Department to keep all supporting documentation for the schedule of compensated absences that includes the accumulated accrued unused annual leave earned by its employees which is the actual annual leave balance in the Department's records for each employee at June 30. Section 19-709.02 of the Office of Human Resources manual contains the requirements for employees to earn annual leave.

We recommend additional care be exercised in preparing the schedule supporting the compensated absences closing package to ensure that the amount of the liability for each employee is calculated and reported correctly.

**CONTROLS OVER RECEIPTS**

Our testing of controls over receipts disclosed that the Commission prepared the receipt on July 19, 2004 for one check that was received and deposited on July 6, 2004. The deposit was not posted to the general ledger until September 29, 2004.

Good accounting controls require procedures to be in place to ensure that all funds are timely receipted and recorded in the general ledger.

We recommend that the Commission implement procedures to ensure that all funds are timely received and recorded.

### **CONTROLS OVER NONPAYROLL DISBURSEMENTS**

Our testing of nonpayroll disbursements disclosed the following:

1. The Commission did not have listings of students with social security numbers to support Life Scholarship fund disbursements.
2. The purchase order was not signed by the requestor or their director in four cases.
3. Two travel vouchers did not contain the purpose of the trips. .
4. One employee was reimbursed \$60 more than the actual charges for lodging.
5. The Commission is not maintaining documentation to verify that goods are received before the invoices for the goods are paid.

State procurement laws and the Commission's policies require all travel vouchers to contain the purpose of the travel. The Commission's policies require the institutions to submit listings of students and their social security numbers to support Life Scholarship fund awards. The Commission's internal policies requires that purchase orders be signed by the requester and that their Director initial it in the lower right corner. Good controls require that the Commission maintain documentation that goods are received before payments are made.

We recommend that the Commission ensure that all forms are properly completed and documentation obtained before payments are made. Additional care should be taken to ensure that all amounts paid are accurate.

### **PAYROLL DISBURSEMENTS**

Our testing of ten payroll disbursements disclosed the following:

1. The salary of the Executive Director was being charged to an account for temporary employees in the Comptroller General's records instead of the account set up for the salary of the Executive Director.
2. The salary for one employee who had been with the Commission for more than one year was charged to the account for temporary employees.
3. One employee handles all human resource functions including salary increases, source of funds changes, etc. and also enters all human resource transactions into the Human Resource Systems. There is no independent review to make sure all data is entered correctly.

Good internal controls require that there be an adequate separation of duties to ensure that errors are detected. The STARS Policies and Procedures Manual states that temporary positions are for employees of the State whose positions have not been established specifically within the State Personnel Data System. Duration of temporary employment must not exceed one year.

We recommend that the Commission ensure that all employees' salaries are charged to the correct accounts in the accounting records and implement controls to ensure an adequate separation of duties.

### **JOURNAL ENTRIES**

Our testing disclosed that the Director of Operations did not approve 3 of the 25 journal entries tested. In addition, we noted that the Commission did not input the Federal appropriations into their general ledger system and incorrectly loaded one appropriation to the wrong account.

Commission policies and good internal controls require that an individual other than the preparer approve all journal entries. The Commission is also required to load the State appropriation into their general ledger.

We recommend that the Commission ensure that all journal entries are properly approved before they are posted to the accounting records and that all appropriations are correctly loaded into the general ledger.

### **RECONCILIATIONS**

The cash reconciliation between the Commission's general ledger and the Comptroller General's reports omitted one of the accounts for the May and year-end reconciliations.

The Comptroller General's policies require that all accounts be reconciled with the State's records on a monthly basis.

We recommend that the Commission reconcile all accounts on a monthly basis and at year-end.

**SOUTH CAROLINA COMMISSION ON HIGHER EDUCATION  
COLUMBIA, SOUTH CAROLINA**

**STATUS OF PRIOR YEAR FINDINGS  
JUNE 30, 2005**

During the current engagement, we reviewed the status of corrective action plan taken on each of the findings reported in the Accountant's Comments section of the State Auditor's Report for the fiscal year ended June 30, 2004, dated May 27, 2005.. We determined that the Commission has taken adequate corrective action on each of the findings regarding accounts payable, operating leases, capital assets, grant/contribution receivables and deferred revenue, schedule of federal financial assistance and voucher missing from numerical sequence. Similar findings to those prior year findings regarding compensated absences, controls over receipts, controls over nonpayroll disbursements, payroll disbursements, journal entries and reconciliations are repeated in this year's Accountant's Comments section of this report.

# **MANAGEMENT'S RESPONSE**

## **ATTACHMENT A**



Dr. Conrad D. Festa  
Executive Director

June 9, 2006

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

Mr. Barry S. Laban, CPA  
Rogers & Laban, P.A.  
1919 Bull Street  
Columbia, South Carolina 29201

Re: Findings from the Performance of Agreed Upon Procedures  
For the Year Ended June 30, 2005

Dear Messrs. Gilbert and Laban:

We have reviewed those findings reported for the recently concluded engagement captioned above. We do appreciate the professional manner in which your audit team performed its work and genuinely believe that assessments of this nature help us to improve our operations.

We take this opportunity to discuss the Accountant's Comments in their order of appearance in the report.

CLOSING PACKAGES

Operating leases:

Our testing of the operating leases closing package disclosed that the Commission included payments to Greenville Technical College pursuant to the 2004-05 Appropriations Act as rent expense instead of as Aid to Other State Agencies.

The Comptroller General provides a manual with the various expenditure classifications that 311 State agencies are to use.

We recommend that additional care be taken to ensure that all expenditures are coded correctly.

We concur with the Auditor's comments regarding this matter, but would note that the expenditure classification code used for these disbursements had been in use and

tested by auditors for over ten years. However, we accept the Auditor's recommendation and will classify these expenditures as "Aid to Other State Agencies" beginning in fiscal year 2007.

#### Compensated Absences:

Our testing of the individual leave balances reported in the compensated absences closing package disclosed variances in 2 of the 10 employees tested. After bringing this to the Commission's attention, they recalculated annual leave. The following errors were detected:

1. The balance of annual leave for one employee brought forward as of January 1, 2005 was incorrectly shown as 144.857 hours instead of the 43.872 hours shown on the individual leave records.
2. The spreadsheet showed that one employee used 87.75 hours of annual leave from January 1 to June 30 but the individual's leave record showed that they used 74.75 hours during the period.

In addition, we determined that the Commission accrued six months of accrued leave for the period January 1 to June 30 for two new employees that were employed in February and March.

Section 3.17 of the GA.AP Closing Package Manual requires the Department to keep all supporting documentation for the schedule of compensated absences that includes the accumulated accrued unused annual leave earned by its employees which is the actual annual leave balance in the Department's records for each employee at June 30. Section 19-709.02 of the Office of Human Resources manual contains the requirements for employees to earn annual leave.

We recommend additional care be exercised in preparing the schedule supporting the compensated absences closing package to ensure that the amount of the liability for each employee is calculated and reported correctly.

We concur with the Auditor's comments. These errors were detected by the Operations staff and corrected in the current fiscal year.

#### CONTROLS OVER RECEIPTS

Our testing of controls over receipts disclosed that the Commission prepared the receipt on July 19, 2004 for one check that was received and deposited on July 8, 2004. The deposit was not posted to the general ledger until September 29, 2004.

Good accounting controls require procedures to be in place to ensure that all funds are timely receipted and recorded in the general ledger. We recommend that the Commission implement procedures to ensure that all funds are timely receipted and recorded.

We concur with the Auditor's comments and submit that our current procedures are quite adequate for this purpose. We state that this was an isolated incident.

#### CONTROLS OVER NONPAYROLL DISBURSEMENTS

Our testing of nonpayroll disbursements disclosed the following:

1. The Commission did not have listings of students with social security numbers to support Life Scholarship fund disbursements.
2. The purchase order was not signed by the requestor or their director in four cases.

We do not concur with the Auditor's comments on these two matters and believe that the procedures referenced were outdated. Revised guidance in the Operation Division's procedures manual eliminates these requirements.

3. Two travel vouchers did not contain the purpose of the trips.
4. One employee was reimbursed \$60 more than the actual charges for lodging.
5. The Commission is not maintaining documentation to verify that goods are received before the invoices for the goods are paid.

State procurement laws and the Commissions policies require all travel vouchers to contain the purpose of the travel. The Commissions policies require the institutions to submit listings of students and their social security numbers to support Life Scholarship fund awards. The Commission's internal policies requires that purchase orders be signed by the requester and that their Director initial it in the lower right corner. Good controls require that the Commission maintain documentation that goods are received before payments are made.

We recommend that the Commission ensure that all forms are properly completed and documentation obtained before payments are made. Additional care should be taken to ensure that all amounts paid are accurate.

We concur with the Auditor's comments on items 3 through 5.

#### PAYROLL DISBURSEMENTS

Our testing of ten payroll disbursements disclosed the following:

1. The salary of the Executive Director was being charged to an account for temporary employees in the Comptroller Generals records instead of the account set up for the salary of the Executive Director.

We do not concur with the Auditor's comments regarding this matter. We submit that Section 8-17-320 of the Code of Laws as it applies to the mechanisms and conditions of employment, pertains in this particular situation, as opposed to Section 63.13 of the 2004 - 2005 Appropriations Act.

2. The salary for one employee who had been with the Commission for more than one year was charged to the account for temporary employees.
3. One employee handles all human resource functions including salary increases, source of funds changes, etc. and also enters all human resource transactions into the Human Resource Systems. There is no independent review to make sure all data is entered correctly.

Good internal controls require that there be an adequate separation of duties to ensure that errors are detected. The STARS Policies and Procedures Manual states that temporary positions are for employees of the State whose positions have not been established specifically within the State Personnel Data System. Duration of temporary employment must not exceed one year.

We recommend that the Commission ensure that all employees' salaries are charged to the correct accounts in the accounting records and implement controls to ensure an adequate separation of duties.

We concur with the Auditor's comments regarding this matter in as much as the Commission did not thoroughly document its actual practices for making salary adjustments or changes to an employee's source of salary funds. Decisions pertaining to these matters are not made unilaterally. We have adopted measures requiring the Executive Director, or the Deputy Director in his/her absence, to review and sign all salary adjustment documentation. Individual Division Directors review and sign source of salary funds changes. The Commission will revisit the issue of hiring a dedicated human resource coordinator as funding becomes available.

#### JOURNAL ENTRIES

Our testing disclosed that the Director of Operations did not approve 3 of the 25 journal entries tested. In addition, we noted that the Commission did not input the Federal appropriations into their general ledger system and incorrectly loaded one appropriation to the wrong account. Commission policies and good internal controls require that an individual other than the preparer approve all journal entries. The Commission is also required to load the State appropriation into their general ledger.

we recommend that the Commission ensure that all journal entries are properly approved before they are posted to the accounting records and that all appropriations are correctly loaded into the general ledger.

We concur with the Auditor's comments on these matters. We agree that Federal appropriations ought to be input into the Commission's accounting system. However, we stipulate that the omission of this data does not create a weakness or material deficiency in operating practices. The dollar amount used by the General Assembly for its Federal appropriation is determined by the Director of Operations in August of the previous fiscal year and is subject to change by the time the actual Federal appropriations become available in October of the current fiscal year.

#### RECONCILIATIONS

The cash reconciliation between the Commissions general ledger and the Comptroller General's reports omitted one of the accounts for the May and year-end reconciliations.

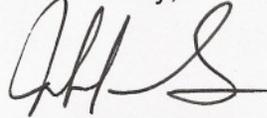
The Comptroller General's policies require that all accounts be reconciled with the State's records on a monthly basis.

We recommend that the Commission reconcile all accounts on a monthly basis and at year-end.

We concur with the Auditor's comments. This finding relates to a trust account. Our current accounting software did not lend itself to recording interest revenue from non-state sources in FY 05. In FY 06 we used a subsidiary ledger account for this purpose. Discussions with software technicians indicate that recording this interest revenue may become automated in FY 07.

Please feel free to contact me by phone at 737-2263, or via e-mail at [jrichards@che.sc.gov](mailto:jrichards@che.sc.gov).

Sincerely,

A handwritten signature in black ink, appearing to read 'Jeff Richards', with a stylized flourish at the end.

Jeff Richards  
Director of Operations