

**SOUTH CAROLINA COMMISSION ON HIGHER EDUCATION**

**COLUMBIA, SOUTH CAROLINA**

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

**JUNE 30, 2004**

State of South Carolina



Office of the State Auditor

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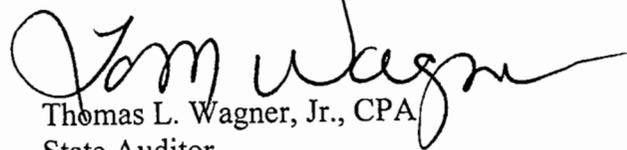
June 16, 2005

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, 2004, 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

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

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CERTIFIED PUBLIC ACCOUNTANTS AND FINANCIAL CONSULTANTS

## 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, 2004, 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 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. Our finding as a result of these procedures is presented in the Accountant's Comments section of this report.

**6. Reconciliations**

- We obtained all monthly reconciliations prepared by the Commission for the year ended June 30, 2004, 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 2004.

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, 2003, 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, 2004 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.

Our finding as a result of these procedures is presented in the Accountant's Comments section of this report.

**10. Status of Prior 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, 2002 to determine if adequate corrective action has been taken. No procedures were applied to the Commission's accounting records and internal controls for the year ended June 30, 2003

Our findings as a 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 27, 2005

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

**ACCOUNTANT'S COMMENTS  
JUNE 30, 2004**

**CLOSING PACKAGES**

**Accounts payable:**

Our review of vouchers paid in July and August, 2004 disclosed that two vouchers were not included on the accounts payable closing package totaling \$80,017 that should have been included.

Section 3.12 of the GAAP Closing Procedures Manual defines an accounts payable at June 30<sup>th</sup> as amounts owed for goods or services that are received on or before June 30 and paid for after June 30<sup>th</sup>. In addition, Section 1.8 directs the reviewer of the closing package to complete a reviewer's checklist; and directs the reviewer to trace all amounts to the appropriate closing package supporting documentation and to the accounting records.

We recommend additional care be exercised in reviewing vouchers paid after each fiscal year-end to determine whether they should be included in the Accounts Payable closing package.

**Operating leases:**

Our testing of the operating leases closing package disclosed one lease with future minimum lease payments of approximately \$14,100 that should have been included in the schedule of future minimum lease payments but was not. Also, the lease register showed that the lease term was from July 1, 2004 through June 30, 2005 and the actual lease term commenced on August 8, 2001 and required 17 quarterly payments and the lease register shows that the lease was cancelable when it was not.

Section 3.19 of the GAAP Closing Procedures Manual states that the agency must retain a fully completed lease register for each of its leases and that the agency complete the lease register form at the inception of each lease before making the first payment to help ensure that the lease is properly classified as capital or operating. Furthermore, Section 3.19 directs the reviewer of the closing package to agree information on the lease closing package forms to properly completed lease registers. Also, Section 3.19 states that the lease should only be treated as cancelable only if the agency regularly cancels a large proportion of such leases

We recommend that at the beginning of each lease that the agency correctly complete a lease register and that a responsible supervisor review it to ensure all required information is entered correctly and that the lease is properly classified as an operating or capital lease. All lease registers should be retained and used in preparation and review of the operating lease closing package. Furthermore, the employee performing the independent review of the lease closing package should agree information on the closing package to properly completed lease registers, other supporting documentation and the accounting records.

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

**ACCOUNTANT'S COMMENTS  
JUNE 30, 2004**

**Compensated Absences:**

Our testing of the individual leave balances reported in the compensated absences closing package disclosed variances in 9 of the 10 employees tested. After bringing this to the Commission's attention, they recalculated annual leave. The recalculated amount was approximately 16% higher than the amount reported in the closing package.

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.

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.

**Capital Assets:**

Our review of the capital assets closing package disclosed an error in the amount of current year's depreciation and accumulated depreciation reported. The errors occurred because the Commission was required to update the closing package for the prior year and did not update the supporting workpaper's to agree with the closing package. The reviewer of the closing package did not note that the amounts shown on the supporting workpaper for costs and accumulated depreciation did not agree with the amounts reported on the closing package.

Section 3.8 of the GAAP Closing Package Manual contains the requirements for the completion of the capital assets closing package and requires workpapers supporting the amounts reported and a detailed supervisory review of the closing package and supporting workpapers.

We recommend that additional care be taken in the preparation and review of the workpapers and closing packages.

**Grant/Contribution Receivables and Deferred Revenue**

Our review of the grant/contribution receivables and deferred revenue closing package disclosed that the Commission overstated federal receivables by \$77,418 because it made a change to its schedule of federal financial assistance and did not make the same change on this closing package. In addition, the Commission overstated the receivable by \$377,506 and deferred revenue by \$51,424 because it included pass-through grants in its schedule.

Good internal controls require the agreement of amounts between various schedules prepared by the Commission. Section 3.3 of the GAAP Closing Package Manual requires that grants that are passed through to other State agencies be excluded from the closing package.

We recommend that additional care be taken to ensure that all amounts included on the closing package are correct and that the closing package only include the required amounts.

## **SCHEDULE OF FEDERAL FINANCIAL ASSISTANCE**

Our review of the Schedule of Federal Financial Assistance (SFFA) disclosed that the schedule did not foot correctly resulting in an overstatement of \$77,418 in the ending fund balance. This appeared to occur because the Commission did not change the totals when they transferred an amount from the "other additions" to the "other deductions" column on the schedule.

We recommend that additional care be exercised to ensure that all schedules are mathematically correct.

## **CONTROLS OVER RECEIPTS**

Our testing of controls over receipts disclosed that the Commission does not have procedures in place to ensure that all receipts recorded in the cash receipt book are recorded in the general ledger. Also, our testing disclosed instances of the same individual receipting, recording and depositing funds. We also noted that one receipt tested was not deposited in a timely manner.

Good accounting controls and the Commission's procedures manual requires that various personnel are utilized in the process to ensure an adequate separation of duties. Good accounting controls also require procedures to be in place to ensure that all receipted funds are recorded in the general ledger. Proviso 72.1 of the 2003-2004 Appropriations Act requires funds to be remitted at least weekly.

We recommend that the Commission implement procedures to ensure that all receipted funds are recorded in the general ledger. The Commission should also ensure that multiple people are involved in the process to ensure that there is an adequate separation of duties and that all funds are deposited in a timely manner.

## **CONTROLS OVER NONPAYROLL DISBURSEMENTS**

Our testing of nonpayroll disbursements disclosed the following:

1. The Commission did not have the required W-9 form as required for a \$1,000 Teaching Scholarship Grant award.
2. There was no purchase order or purchase requisition to support one of the disbursements.
3. Two travel vouchers did not contain the purpose of the trips and the amount reimbursed was less than the amount claimed on one of the vouchers.
4. The Commission did not follow State procurement laws for two purchases totaling \$4,000.

The Commission is required to have a W-9 before payments are made under the Teaching Scholarship Grant award program. State procurement laws require the Commission to have purchase orders or requisitions for all purchases and all travel vouchers should contain the purpose of the travel. State procurement laws require bids for purchases over a certain amount.

We recommend that the Commission ensure that all required forms are present and complete and that State procurement laws are followed before payments are made for goods or services. The Commission should also consider reimbursing the remaining amount owed on the travel voucher.

## **PAYROLL DISBURSEMENTS**

Our testing of ten payroll disbursements disclosed the following:

1. One employee was to receive a salary adjustment of \$82 per pay period effective January 16, 2004 and the payroll distribution between funding sources was to be updated based on a payroll advice form in the

employee's file. The actual change in the payroll amount and distribution did not take place until July 1, 2004. The employee was underpaid for this period.

2. One employee was being paid \$46,000 per year effective January 1, 2004 which agreed to a letter in the employee file but the Office of Human Resources profile form reflected an annual pay rate of \$46,605.
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 Information System. There is no independent review to make sure all data is entered correctly.
4. 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.

Good internal controls require procedures to ensure that all employees are paid the proper amounts and that there is 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 review its procedures to ensure that all information is entered into the systems correctly and that all employees are paid the correct amounts. The Commission should also ensure that all employees' salaries are charged to the correct accounts in the accounting records.

### **JOURNAL ENTRIES**

Our testing disclosed that the Director of Finance did not approve 10 of the 25 journal entries tested.

Commission policies and good internal controls require that an individual other than the preparer approve all journal entries.

We recommend that the Commission ensure that all journal entries are properly approved before they are posted to the accounting records.

### **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.

### **VOUCHER MISSING FROM NUMERICAL SEQUENCE**

In reviewing vouchers for one month to account for the numerical sequence, we determined that one voucher was missing. There was no documentation that the Commission had accounted for the missing voucher number.

Good internal controls require that the numerical sequence of all accounting documents be accounted for.

We recommend that the Commission perform a monthly review of all records to determine that all documents are accounted for.

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

**STATUS OF PRIOR FINDINGS  
JUNE 30, 2004**

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, 2002, dated April 16, 2003. No procedures were applied to the Commission's accounting records and internal controls for the year ended June 30, 2003. We determined that the Commission has taken adequate corrective action on each of the findings except for the finding regarding the Office of Human Resource Employee profile forms.

# **MANAGEMENT'S RESPONSE**

## **ATTACHMENT A**



Dr. Conrad D. Festa  
Executive Director

June 28, 2005

Mr. Thomas L. Wagner, Jr., CPA  
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, 2004

Dear Messrs. Wagner and Laban:

We have reviewed those findings reported for the recently concluded engagement captioned above.

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

CLOSING PACKAGES

Accounts payable:

Our review of vouchers paid in July and August, 2004 disclosed that two vouchers were not included on the accounts payable closing package totaling \$80,011 that should have been included.

Section 3.12 of the GAAP Closing Procedures Manual defines an accounts payable at June 30th as amounts owed for goods or services that are received on or before June 30 and paid for after June 30th. In addition, Section 1.8 directs the reviewer of the closing package to complete a reviewer's checklist; and directs the reviewer to trace all amounts to the appropriate closing package supporting documentation and to the accounting records.

we recommend additional care be exercised in reviewing vouchers paid after each fiscal year-end to determine whether they should be included in the Accounts Payable closing package.

We concur with the Auditor's comments regarding this matter.

Operating leases:

Our testing of the operating leases closing package disclosed one lease with future minimum lease payments of approximately \$14,100 that should have been included in the schedule of future minimum lease payments but was not. Also, the lease register showed that the lease term was from July 1, 2004 through June 30, 2005 and the actual lease term commenced on August 8, 2001 and required 17 quarterly payments and the lease register shows that the lease was cancelable when it was not.

Section 3.19 of the GAAP Closing Procedures Manual states that the agency must retain a fully completed lease register for each of its leases and that the agency complete the lease register form at the inception of each lease before making the first payment to help ensure that the lease is properly classified as capital or operating. Furthermore, Section 3.19 directs the reviewer of the closing package to agree information on the lease closing package forms to properly completed lease registers. Also, Section 3.19 states that the lease should only be treated as cancelable only if the agency regularly cancels a large proportion of such leases .

We recommend that at the beginning of each lease that the agency correctly complete a lease register and that a responsible supervisor review it to ensure all required information is entered correctly and that the lease is properly classified as an operating or capital lease. All lease registers should be retained and used in preparation and review of the operating lease closing package. Furthermore, the employee performing the independent review of the lease closing package should agree information on the closing package to properly completed lease registers, other supporting documentation and the accounting records.

We do not concur with the Auditor's comments regarding this matter. We read the referenced lease agreement as unrestrictive in its cancellation clause and find the GAAP Closing Procedures Manual citation regarding past practices as pertaining to real property leases as opposed to the subject equipment lease.

Compensated Absences:

Our testing of the individual leave balances reported in the compensated absences closing package disclosed variances in 9 of the 10 employees tested. After bringing this to the Commission's attention, they recalculated annual leave. The recalculated amount was approximately 16% higher than the amount reported in the closing package.

Section 3.17 of the GAAP Closing Procedures 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.

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 regarding this matter. The Commission completed its full conversion to a new electronic leave recording system in fiscal year 2003 - 2004. We are confident that our accumulated experience with this system will prevent a recurrence of this finding in future years.

#### Capital Assets:

Our review of the capital assets closing package disclosed an error in the amount of current year's depreciation and accumulated depreciation reported. The errors occurred because the Commission was required to update the closing package for the prior year and did not update the supporting workpapers to agree with the closing package. The reviewer of the closing package did not note that the amounts shown on the supporting workpaper for costs and accumulated depreciation did not agree with the amounts reported on the closing package.

Section 3.8 of the GAAP Closing Procedures Manual contains the requirements for the completion of the capital assets closing package and requires workpapers supporting file amounts reported and a detailed supervisory review of the closing package and supporting workpapers.

We recommend that additional care be taken in the preparation and review of the workpapers and closing packages.

#### Grant/Contribution Receivables and Deferred Revenue:

Our review of the grant/contribution receivables and deferred revenue closing package disclosed that the Commission overstated federal receivables by \$77,418 because it made a change to its schedule of federal financial assistance and did not make the same change on this closing package. In addition, the Commission overstated the receivable by \$377,506 and deferred revenue by \$51,424 because it included pass-through grants in its schedule.

Good internal controls require the agreement of amounts between various schedules prepared by the Commission. Section 3.3 of the GAAP Closing Procedures Manual requires that grants that are passed through to other State agencies be excluded from the closing package.

We recommend that additional care be taken to ensure that all amounts included on the closing package are correct and that the closing package only include the required amounts.

#### SCHEDULE OF FEDERAL ANANCIAL ASSISTANCE

Our review of the Schedule of Federal Financial Assistance (SFFA) disclosed that the schedule did not foot correctly resulting in an overstatement of \$77,418 in the ending fund balance. This appeared to occur because the Commission did not change the totals when they transferred an amount from the "other additions" to the "other deductions" column on the schedule.

We recommend that additional care be exercised to ensure that all schedules are mathematically correct.

We concur with the Auditor's comments regarding these matters. The Division of Internal Operations has modified its GAAP closing procedures to require that workpapers (spreadsheet calculations) be re-generated, not annotated by hand, in the event that external agencies require after-the-fact adjustments to previously submitted closing packages. In the matter of the SFFA, we would expect the end-using agency, instructing that the adjustment be made, to re-foot the final report.

#### CONTROLS OVER RECEIPTS

Our testing of controls over receipts disclosed that the Commission does not have procedures in place to ensure that all receipts recorded in the cash receipt book are recorded in the general ledger. Also, our testing disclosed

instances of the same individual receipting, recording and depositing funds. We also noted that one receipt tested was not deposited in a timely manner.

Good accounting controls and the Commission's procedures manual requires that various personnel are utilized in the process to ensure an adequate separation of duties. Good accounting controls also require procedures to be in place to ensure that all receipted funds are recorded in the general ledger. Proviso 72.1 of the 2003 - 2004 Appropriations Act requires funds to be remitted at least weekly.

We recommend that the Commission implement procedures to ensure that all receipted funds are recorded in the general ledger. The Commission should also ensure that multiple people are involved in the process to ensure that there is an adequate separation of duties and that all funds are deposited in a timely manner.

We do not concur with the Auditor's comments regarding this matter. We state that the conditions cited were an exception to the Commission's standard practice of segregating the duties of those employees responsible for receiving negotiable instruments. At the time of occurrence two of the four positions in the Internal Operations Division were vacant. The employee responsible for revenue management was away at a week-long seminar. As a safeguard, the Director of Internal Operations does not make entries into the Commission's accounting ledgers.

#### CONTROLS OVER NONPAYROLL DISBURSEMENTS

Our testing of nonpayroll disbursements disclosed the following:

1. The Commission did not have the required W-9 form as required for a \$1,000 Teaching Scholarship Grant award.

We concur in part with the Auditor's comments regarding this matter. The grant W-9 form could not be located in the Commission's files. However, the voucher was successfully processed and paid by the Comptroller General's office. The Comptroller General has subsequently waived the W-9 requirement for recipients of the Teacher Scholarship Grant and Commission procedures have been amended to reflect this fact.

2. There was no purchase order or purchase requisition to support one of the disbursements.

We concur with the Auditor's comments regarding this matter. Two employees were late registrants for attendance at a conference previously approved for other staff. Internal Operations staff failed to amend the previously issued purchase order to include these employees.

3. Two travel vouchers did not contain the purpose of the trips and the amount reimbursed was less than the amount claimed on one of the vouchers.

We concur with the Auditor's comments regarding this matter. Commission procedures require that the purpose of travel be clearly annotated on travel support documents submitted for payment. In the instance where the traveler has made a claim for unallowable expenses or miscalculated the amount to be claimed, and where the amounts are not material in nature, Internal Operations staff will make the necessary corrections on-site as a courtesy without requiring re-submission of the travel support document.

4. The Commission did not follow State procurement laws for two purchases totaling \$4,000.

We concur with the Auditor's comments regarding this matter. This finding is comprised of two procurement actions, \$1,500.00 and \$2,500.00. The first action was the engagement of a consultant for a FY 2003 - 2004 grant. In circumstances where the procurement of consultant service is anticipated and necessary to the function of a given program, we allow an engagement letter, signed by a Division Director or designee, to serve as both requisition and authorization for the service. In this first instance, the letter cannot be located. The second action (\$2,500.00) was taken to redress a violation of the practice described above by a former employee in FY 02. Payment for services rendered by the vendor was declined until FY 04 when sufficient supporting documentation was presented to the Internal Operations Division by Commission staff.

The Commission is required to have a W-9 before payments are made under the Teaching Scholarship Grant award program. State procurement laws require the Commission to have purchase orders or requisitions for all purchases and all travel vouchers should contain the purpose of the travel. State procurement laws require bids for purchase over a certain amount.

We recommend that the Commission ensure that all required forms are present and complete and that State procurement laws are followed before payments are made for goods or services. The Commission Should also consider reimbursing the remaining amount owed on the travel voucher.

#### PAYROLL DISBURSEMENTS

Our testing of ten payroll disbursements disclosed the following:

1. One employee was to receive a salary adjustment of \$82 per pay period effective January 16, 2004 and the payroll distribution between funding sources was to be updated based on a payroll advice form in the employee's file. The actual change in the payroll amount and distribution did not take place until July 1, 2004 . The employee was underpaid for this period.

We do not concur with the Auditor's comments regarding this matter. Post audit investigation reveals that salary adjustment discussed was not intended to occur. Commission procedures require that the employee be notified in writing of any salary changes. No such documentation can be located and the employee had only been hired with the Commission for approximately 45 days. The dollar amount noted is equal to the three percent across-the-board general increase the Commission employees received on July 1, 2004. We believe this a dating error on an electronically saved P-10 form that was corrected prior to the July 1, 2004 payroll disbursement.

2. One employee was being paid \$46,000 per year effective January 1, 2004 which agreed to a letter in the employee file but the Office of Human Resources profile form reflected an annual pay rate of \$46,605.

We concur with the Auditor's comments regarding this matter and attribute this situation to a keying error.

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 Information System. There is no independent review to make sure all data is entered correctly.

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.

4. 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.

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 in this particular situation, as opposed to Section 63.15 of the 2003 - 2004 Appropriations Act.

Good internal controls require procedures to ensure that all employees are paid the proper amounts and that there is 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 review its procedures to ensure that all information is entered into the Systems correctly and that all employees are paid correct amounts. The Commission should also ensure that an employees' salaries are charged to the correct accounts in the accounting records.

#### JOURNAL ENTRIES

Our testing disclosed that the Director of Finance did not approve 10 of the 25 journal entries tested. Commission policies and good internal controls require that an individual other than the preparer approve all journal entries.

We recommend that the Commission ensure that all journal entries are properly approved before they are posted to the accounting records.

We concur with the Auditor's comments regarding this matter. This responsibility now lies with the Director of Internal Operations. The Commission will give greater emphasis to adhering to its procedures to prevent a recurrence of this finding.

#### RECONCILIATIONS

The cash reconciliation between the Commission's general ledger and the Comptroller Generals 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 regarding this matter. The referenced DayCo trust account activity appears on the revenue reconciliation report, but unexplainably not on the cash reconciliation report. The Commission will create a subsidiary ledger to reconcile revenue, expenditures, and cash for this account to the Comptroller General's reports.

VOUCHER MISSING FROM NUMERICAL SEQUENCE

In reviewing vouchers for one month to account for the numerical sequence, we determined that one voucher was missing. There was no documentation that the Commission had accounted for the missing voucher number.

Good internal controls require that the numerical sequence of all accounting documents be accounted for.

We recommend that the Commission perform a monthly review of all records to determine that all documents are accounted for.

We concur with the Auditor's comments regarding this matter. The missing voucher number was the result of a void in the Commission's accounting system software. We will adopt the Auditor's recommendation into Internal Operations' procedures.

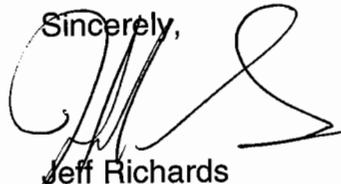
STATUS OF PRIOR FINDINGS  
JUNE 30, 2004

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, 2002, dated April 16, 2003. No procedures were applied to the Commission's accounting records and internal controls for the year ended June 30, 2003. We determined that the Commission has taken adequate corrective action on each of the findings except for the finding regarding the Office of Human Resource Employee profile forms.

We concur with the Auditor's comments regarding this matter and reiterate our intentions regarding the addition of a human resource coordinator should sufficient funding become available in the future.

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,



Jeff Richards  
Director of Operations