

**SOUTH CAROLINA HIGHER EDUCATION
TUITION GRANTS COMMISSION**

COLUMBIA, SOUTH CAROLINA

STATE AUDITOR'S REPORT

JUNE 30, 2008

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INDEPENDENT ACCOUNTANT'S REPORT ON APPLYING AGREED-UPON PROCEDURES

April 15, 2009

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

We have performed the procedures described below, which were agreed to by the governing body and management of the South Carolina Higher Education Tuition Grants Commission (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 (\$2,100 – general fund, \$5,100 – earmarked fund, \$66,500 – restricted fund, and \$10,900 – federal fund) and ± 10 percent.

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

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 (\$96,400 – general fund, \$4,900 – earmarked fund, \$74,000 – restricted fund, and \$10,900 – federal fund) and ± 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 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 (\$96,400 – general fund, \$4,900 – earmarked fund, \$74,000 – restricted fund, and \$10,900 – federal fund) and ± 10 percent.
- We compared the percentage change in recorded personal service expenditures to the percentage change in employer contributions. We investigated changes of ± 5 percent to ensure that payroll expenditures were classified properly in the agency's accounting records.

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

4. **Journal Entries and Appropriation Transfers**

- We inspected selected recorded journal entries 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 transactions selected for our test of journal entries were chosen randomly. We found no exceptions 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 Commission'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. Our finding as a result of these procedures is presented in Reconciliations in the Accountant's Comments section of this report.

7. **Appropriation Act**

- We inspected agency documents, observed processes, and/or made inquiries of agency personnel to determine the Commission'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 finding as a result of these procedures is presented in Compensated Absences Closing Package 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.

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.

Our finding as a result of these procedures is presented in Reconciliations in the Accountant's Comments 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 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 governing body and management of the South Carolina Higher Education Tuition Grants Commission 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.

RECONCILIATIONS

We obtained the agency-prepared fiscal month 13 reconciliation. We traced the ending cash balances from the reconciliation to the Commission's accounting records and to the Statewide Accounting and Reporting System (STARS) reports. Based on the procedures performed, we identified a difference between the Commission's accounting records and the STARS reports for subfund 3035. We determined the Commission's reconciliation did not identify and document this difference. Because the Commission did not properly perform a cash reconciliation, any adjustment that might have been necessary as a result of this difference was not made. A similar finding was noted in fiscal year 2007.

Section 2.1.7.20. C. of the Comptroller General's Policies and Procedures Manual (STARS manual) requires that all agencies perform monthly reconciliations between their accounting records and STARS to ensure timely detection and correction of errors. Separate reconciliations must be performed of cash, revenue, expenditure accounts and must be performed at the level of detail in the Appropriation Act. Reconciliations must be performed monthly (i.e., shortly after month – end), be documented in writing in an easily understandable format with all supporting workpapers maintained for audit purposes, and be reviewed and approved in writing by an appropriate agency official other than the preparer. Further the STARS manual states that errors discovered through the reconciliation process must be promptly corrected in the agency's accounting records and/or STARS as appropriate.

We again recommend the Commission develop and implement procedures to ensure that reconciliations are performed in accordance with applicable State regulations.

COMPENSATED ABSENCES CLOSING PACKAGE

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 Report for all four employees did not agree to the employees' Office of Human Resources' employee profile. According to Commission personnel, the leave report is printed automatically from the BARS system and they are unsure of why the report was incorrect. The Commission did not reconcile the leave report to the employee profiles. As a result, the annual leave liability was understated by \$771.

Section 3.17 of the Comptroller General's GAAP Closing Procedures Manual (GAAP Manual) states that the compensated absences liability for an employee is based on the hourly pay rate that is in effect as of June 30.

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.

SECTION B - STATUS OF PRIOR FINDINGS

During the current engagement, we reviewed the status of corrective action taken on the finding reported in the Accountant's Comments section of the State Auditor's Report on the Commission for the fiscal year ended June 30, 2007, and dated March 13, 2008. We determined the deficiency described in our prior report in the finding titled Reconciliations still exists; consequently we have repeated a similar finding in Section A of the report.

MANAGEMENT'S RESPONSE

Response to Accountant’s Comments for the State Auditor’s Report of the South Carolina Higher Education Tuition Grants Commission’s audit for fiscal year ending June 30, 2008.

Section A – Violation of State Laws, Rules or Regulations – Reconciliations

This finding indicates that “the Commission did not properly perform a cash reconciliation” and recommends that “the Commission develop and implement procedures to ensure that reconciliations are performed in accordance with applicable State regulations.”

Management Response:

After the previous audit findings for this item, the Commission met with representatives from the State Auditor’s Office to insure that it was reconciling correctly and that it was using the required Comptroller General’s Office reports to conduct correct and compliant reconciliations. Based on the list of reports provided by the State Auditor’s Office in that meeting, the Commission changed its reconciliation method and the reports that it was using to perform its monthly reconciliations to coincide with the auditor’s recommendations and to insure compliance with reconciliation requirements. In the Commission’s Management Response to the 2006-2007 audit findings in April 2008 it indicated “*The state auditor who reviewed the Commission’s audit for 2006-2007 has reviewed the monthly reconciliations performed by the Commission since July 2007 and has found them to be in compliance with requirements which should be reflected as a correction to the finding in the next audit of the Commission.*” However, based on this same item being a finding again for the 2007-2008 audit, the Commission learned in its May 12, 2009 Exit Interview with the State Auditor’s Office that, despite being told in April 2008 that it was in compliance, the Commission was in fact not provided a complete list of required reports in its previous Exit Interview and that, despite following the guidance given by the State Auditor’s Office, the Commission was still out of compliance with one area of its reconciliations. Based on the latest guidance provided by the State Auditor’s Office, the Commission has again adjusted its reconciliation method and the reports that it uses for reconciliations and should now be in full compliance with reconciliation regulations and requirements and expects that this finding will not occur again.

Section A – Violation of State Laws, Rules or Regulations – Compensated Absences Closing Package

This finding indicates that “the hourly rate reported on the Commission’s Annual Leave Liability Report . . . did not agree to the employees’ Office of Human Resources employee profile” causing the annual leave liability to be “understated by \$771” and recommends that “the Commission implement procedures to ensure closing packages contain accurate and complete information in accordance with GAAP Manual instructions.”

Management Response:

In completing the Compensated Absences Closing Package, the Commission used a BARS system report that had not been correctly updated with current year salaries and failed to crosscheck and verify the accuracy of the salaries against employee profiles prior to submission of the report. The Commission will verify correct salaries from current employee profiles in completing this report in the future prior to submission.

Section B – Status of Prior Findings

This finding indicates that “the deficiency described in our prior report titled Reconciliations still exists.”

Management Response:

As noted in the Management Response to Section A above, the Commission had followed the direction given by the State Auditor’s Office from this finding in a previous audit with the expectation that doing so would bring it into full compliance. That did not happen. Again, based on the latest direction that the Commission has received from the State Auditor’s Office, it has again changed its reconciliation method and the CG’s Office reports used and believes that this error is again corrected.

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