

**SOUTH CAROLINA
COMMISSION ON HIGHER EDUCATION**

COLUMBIA, SOUTH CAROLINA

STATE AUDITOR'S REPORT

JUNE 30, 2007

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State of South Carolina



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INDEPENDENT ACCOUNTANT'S REPORT ON APPLYING AGREED-UPON PROCEDURES

August 6, 2008

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

We have performed the procedures described below, which were agreed to by the governing body and 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, 2007, 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 (\$1,400 – general fund, \$10,600 – earmarked fund, \$376,700 – restricted fund, and \$26,200 – federal fund) and ± 10 percent.

- We made inquiries of management pertaining to the agency's policies for accountability and security over permits, licenses, and other documents issued for money. We observed agency personnel performing their duties to determine if they understood and followed the described policies.

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

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

- We inspected selected recorded non-payroll disbursements to determine if these disbursements were properly described and classified in the accounting records in accordance with the agency's policies and procedures and State regulations, were bona fide disbursements of the Commission, and were paid in conformity with State laws and regulations; if the acquired goods and/or services were procured in accordance with applicable laws and regulations.
- We inspected selected recorded non-payroll disbursements to determine if these disbursements were recorded in the proper fiscal year.
- We compared amounts recorded in the general ledger and subsidiary ledgers to those in various STARS reports to determine if recorded expenditures were in agreement.
- We compared current year expenditures at the subfund and major object code level to those of the prior year. We investigated changes in the general, earmarked, restricted and federal funds to ensure that expenditures were classified properly in the agency's accounting records. The scope was based on agreed upon materiality levels (\$260,600 – general fund, \$9,900 – earmarked fund, \$348,100 – restricted fund, and \$31,000 – 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 inspected payroll transactions for selected new employees and those who terminated employment to determine if the employees were added and/or removed from the payroll in accordance with the agency's policies and procedures, that the employee's first and/or last pay check was properly calculated and that the employee's leave payout was properly calculated in accordance with applicable State law.

- We compared amounts recorded in the general ledger and subsidiary ledgers to those in various STARS reports to determine if recorded payroll and fringe benefit expenditures were in agreement.
- We compared the percentage change in recorded personal service expenditures to the percentage change in employer contributions; and computed the percentage distribution of recorded fringe benefit expenditures by fund source and compared the computed distribution to the actual distribution of recorded payroll expenditures by fund source. We investigated changes of ± 5 percent to ensure that payroll expenditures were classified properly in the agency's accounting records.

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

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

- We inspected selected recorded journal entries, and all 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, the purpose of the transactions was documented and explained, the transactions were properly approved, and were mathematically correct; and the transactions were processed in accordance with the agency's policies and procedures and State regulations.

The individual journal entry transactions selected were chosen randomly. We found no 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, 2007, 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.

The reconciliations selected were chosen randomly. 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 Agency's compliance with Appropriation Act general and agency specific provisos.

We found no exceptions as a result of the procedures.

8. **Closing Packages**

- We obtained copies of all closing packages as of and for the year ended June 30, 2007, 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.

We found no exceptions as a result of the procedures.

9. **Schedule of Federal Financial Assistance**

- We obtained a copy of the schedule of federal financial assistance for the year ended June 30, 2007, 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, 2006, to determine if the Commission had taken corrective action.

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

The Honorable Mark Sanford, Governor
and
Members of the Commission
The South Carolina Commission on Higher Education
August 6, 2008

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 Members of the Commission and management of the South Carolina Commission on Higher Education and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in black ink, appearing to read "Richard H. Gilbert, Jr.", written in a cursive style.

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.

RECEIPT DATE

We tested twenty-five cash receipt transactions. We noted that the date of receipt documented on three receipt transactions was between 1-6 days after the deposit date. We were unable to substantiate the actual date of receipt for these three transactions. Therefore, we could not determine if the receipts were deposited in accordance with Section 72.1 of the 2006-2007 Appropriation Act.

Section 72.1 of the Act states, "For the current year, except as hereinafter specifically provided, all general state revenues derived from taxation, licenses, fee, the sale of commodities and services, and income tax derived from any other department or institutional source or activity, must be remitted to the State Treasurer at least once week, when practical ..." In addition, the Commission's receipt procedure requires receipts to document the date of receipt.

We recommend the Commission ensure that agency staff responsible for processing accounting transactions adhere to agency policies and State laws, rules and regulations.

PAY PERIOD

We tested the personnel and payroll records of all newly hired employees. Two of the employees selected were not paid in accordance with the State's pay schedule. One employee began work on October 12, 2006. He received his first paycheck on November 16, 2006. His check included payment for work performed from October 12 through October 16. The employee should have received his first paycheck on November 1, 2006. The second employee began work on February 1, 2007. He received his first paycheck on March 1, 2007. His check included payment for work performed on February 1. The employee should have received his first paycheck on February 16, 2007. The employees were not paid in accordance with the State's pay schedule because the employees' timesheets were not submitted to the Commission's payroll office in a timely manner.

Section 8-11-35 of the 1976 Code of Laws states, in part, “To provide a regular and permanent schedule for payment of employees, the payroll period begins on June 2nd of the prior fiscal year with the first pay period ending on June 16th of the prior fiscal year. The payroll period continues on a twice monthly schedule as established by the State Budget and Control Board.”

We recommend the Commission implement procedures to ensure that required payroll support documentation is submitted timely to the payroll office to ensure prompt payment to employees in accordance with the State’s pay schedule.

RECONCILIATIONS

We obtained the agency prepared fiscal month 13 reconciliation. We traced the year-to-date revenue and expenditure 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 two differences between the Commission’s accounting records and STARS reports. We determined that the Commission’s reconciliation did identify and document the differences. However, the Commission did not follow required procedures in STARS to make necessary adjustments.

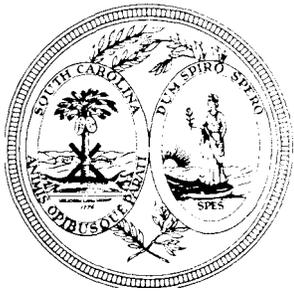
Section 2.1.7.20 C. of the Comptroller General’s Policies and Procedures Manual (STARS manual) requires that all agencies perform regular monthly reconciliations between their accounting records and STARS to ensure timely detection and correction of errors. Further, the STARS manual states that errors discovered through the reconciliation process must be promptly corrected in the agency’s accounting records and/ or STARS as appropriate.

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

SECTION B - STATUS OF PRIOR FINDINGS

During the current engagement, we reviewed the status of corrective action taken on each of the findings reported in the Accountant's Comments section of the State Auditor's Report on the Commission for the fiscal year ended June 30, 2006, and dated September 21, 2007. We determined that the Commission has taken adequate corrective action on the findings entitled Timely Deposit, Voucher Cancellation, Voucher Preparation, Schedule of Federal Financial Assistance, and Capital Assets Closing Package. The Commission had not corrected the deficiency titled Pay Period. This finding is repeated in Pay Period in Section A of this report.

MANAGEMENT'S RESPONSE



South Carolina Commission on Higher Education

September 23, 2008

Layton McCurdy, M.D., Chairman
Mr. Daniel Ravenel, Vice Chairman
Douglas R. Forbes, D.M.D.
Dr. Bettie Rose Home
Mr. Kenneth W. Jackson
Dr. Raghu Korrapati
Dr. Louis B. Lynn
Ms. Cynthia C. Mosteller
Mr. James R. Sanders
Mr. Hood Temple
Mr. Randy Thomas
Mr. Kenneth B. Wingate
Mr. Neal J. Workman, Jr.
Dr. Mitchell Zais

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

Dr. Garrison Walters, Executive Director

Re: Findings from the Performance of Agreed Upon Procedures
For the Year Ended June 30, 2007

Dear Mr. Gilbert:

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

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

We have reviewed the findings contained in your report and have taken affirmative steps to preclude repetition in the future. We take this opportunity to discuss the Accountant's Comments in their order of appearance in the report.

RECEIPT DATE

We tested twenty-five cash receipt transactions. We noted that the date of receipt documented on three receipt transactions was between 1-6 days after the deposit date. We were unable to substantiate the actual date of receipt for these three transactions. Therefore, we could not determine if the receipts were deposited in accordance with Section 72.1 of the 2006-2007 Appropriation Act.

We concur with the Auditor's comments. We attribute this condition to the illness of a staff member. The member has since resigned for medical reasons. Existing Operations staff have been briefed thoroughly on this matter and no recurrence is expected.

PAY PERIOD

We tested the personnel and payroll records of all newly hired employees. Two of the employees selected were not paid in accordance with the State's pay schedule. One employee began work on October 12, 2006. He received his first paycheck on November 16, 2006. His check included payment for work performed from October 12 through October 16. The employee should have received his first paycheck on November 1, 2006. The second employee began work on February 1, 2007. He received his first paycheck on March 1, 2007. His check included payment for work performed on February 1. The employee should have received his first paycheck on February 16, 2007. The employees were not paid in accordance with the State's pay schedule because the employees' timesheets were not submitted to the Commission's payroll office in a timely manner.

We concur with the Auditor's comments. A standard letter explaining the payroll process has been developed for hourly personnel. The letter will be provided to the employee at the time of in-processing and a copy will be sent to the employee's residence along with a schedule for the submission of timesheets.

RECONCILIATIONS

We obtained the agency prepared fiscal month 13 reconciliation. We traced the year-to-date revenue and expenditure 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 two differences between the Commission's accounting records and STARS reports. We determined that the Commission's reconciliation did identify and document the differences. However, the Commission did not follow required procedures in STARS to make necessary adjustments.

We concur with the Auditor's comments with qualification. Existing controls caused the variance to be identified and corrected in the Commission's ledgers. However, the cited variance was not identified within the twelve calendar days from the date the Comptroller General's Office would accept fiscal year 2007 journal voucher corrections. Operations staff have been briefed thoroughly on this matter and no recurrence is expected.

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



Jeff Richards
Director of Operations

Cc: Dr. Garrison Walters, Executive Director
Operations Staff

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