

**SOUTH CAROLINA  
COMMISSION ON HIGHER EDUCATION**

**COLUMBIA, SOUTH CAROLINA**

**STATE AUDITOR'S REPORT**

**JUNE 30, 1997**

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

June 3, 1998

The Honorable David M. Beasley, Governor  
and  
Members of the Commission  
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, solely to assist you in evaluating the performance of the Commission for the fiscal year ended June 30, 1997, in the areas addressed. This engagement to apply agreed-upon procedures was performed in accordance with standards established by the American Institute of Certified Public Accountants. The sufficiency of the procedures is solely the responsibility of the specified users of the 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. We tested selected recorded receipts to determine if these receipts were properly described and classified in the accounting records; collection and retention or remittance were supported by law; and accounting procedures and internal accounting controls over the reporting of the tested receipt transactions were adequate to provide proper control over these transactions. The items selected for testing were chosen randomly. The total of the selected items was less than one percent of the aggregate amount of all recorded receipts. We found no exceptions as a result of the procedures.
2. We tested 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; and were paid in conformity with State laws and regulations and if accounting procedures and internal accounting controls over the reporting of the tested disbursement transactions were adequate to provide proper control over these transactions. The items selected for testing were chosen randomly. The total of the selected items was four percent of the aggregate amount of all recorded non-payroll disbursements. We found no exceptions as a result of the procedures.

The Honorable David M. Beasley, Governor  
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3. We tested selected recorded payroll disbursements to determine if the tested payroll and fringe benefits were properly described, classified, and distributed in the accounting records; persons on the payroll were bona fide employees; and payroll transactions including employee payroll deductions were properly authorized by the employees and were in accordance with existing legal requirements and if accounting procedures and internal accounting controls over the reporting of the tested payroll transactions were adequate to provide proper control over these transactions. The items selected for testing were chosen randomly. The total of the selected items was two percent of the aggregate amount of all recorded payroll disbursements. Our findings as a result of these procedures are presented in Pay Calculations, Allocations of Fringe Benefits, and Personnel Records in the Accountant's Comments section of this report.
4. We tested selected recorded journal entries and interagency appropriation transfers and all operating transfers to determine if these transactions were properly described and classified in the accounting records; the accounting procedures and internal accounting controls over the reporting of these transactions were adequate to provide proper control over these transactions; and they agreed with the supporting documentation, were adequately documented and explained, were properly approved, and were mathematically correct. Journal entries determined to be individually significant items were selected for testing. Interagency appropriation transfers selected for testing were chosen randomly. The ratios of the totals of the selected journal entries and interagency appropriation transfers to the aggregate amounts of all such recorded transactions were not readily determinable. The numbers of selected journal entries and interagency appropriation transfers were three percent and seven percent, respectively, of the aggregate numbers of all such recorded transactions. We found no exceptions as a result of the procedures.
5. We tested 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 accounting procedures and internal accounting controls over the tested transactions were adequate to provide proper control over the books of original entry and the general ledger. The items selected for testing were chosen randomly. We found no exceptions as a result of the procedures.
6. We obtained all monthly reconciliations prepared by the Commission for the year ended June 30, 1997, and tested selected reconciliations of balances in the Commission's accounting records to those in the State's accounting system (STARS) as reflected on the Comptroller General's reports to determine if they were accurate and complete. For the selected reconciliations, we 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 that necessary adjusting entries were made in the Commission's accounting records or STARS. The reconciliations selected for testing were chosen judgmentally. Our finding as a result of these procedures is presented in Grants Accounting in the Accountant's Comments section of this report.



The Honorable David M. Beasley, Governor  
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7. We tested 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 1997 by performing the applicable tests and procedures listed on the State Auditor's Office's Appropriation Act 1997 work program. Our finding as a result of these procedures is presented in Fidelity Bond in the Accountant's Comments section of this report.
8. We reviewed 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 our engagement for the fiscal year ended June 30, 1996, to determine if adequate corrective action has been taken. Our findings as a result of these procedures are presented in Pay Calculations, Personnel Records, Operating Leases Closing Package, and Grants Accounting in the Accountant's Comments section of this report.
9. We obtained copies of the accompanying schedules of expenditures - budget and actual for the year ended June 30, 1997, and notes thereto prepared by the Commission and agreed the amounts by line-item appropriation within budgetary fund category thereon to the accounting records of the Commission. We checked the schedules and notes for mathematical accuracy. We found no exceptions as a result of the procedures.
10. We obtained copies of all closing packages as of and for the year ended June 30, 1997, prepared by the Commission and submitted to the State Comptroller General and reviewed 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 finding as a result of these procedures is presented in Operating Leases Closing Package in the Accountant's Comments section of this report.
11. We obtained a copy of the schedule of federal financial assistance for the year ended June 30, 1997, prepared by the Commission and submitted to the State Auditor and reviewed it to determine if 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 Grants Accounting in the Accounting's Comments section of this report.

We were not engaged to, and did not, perform an audit, the objective of which would be the expression of an opinion on the specified areas, accounts, or items and on the effectiveness of the internal control structure over financial reporting described in paragraph one and procedures one through eleven of this report. Accordingly, we do not express such an opinion. 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.

The Honorable David M. Beasley, Governor  
and  
Members of the Commission  
South Carolina Commission on Higher Education  
June 3, 1998

This report is intended solely for the use of the specified users and should not be used by those who have not agreed to the procedures and taken responsibility for the sufficiency of the procedures for their purposes. However, this report is a matter of public record and its distribution is not limited.

Edgar A. Vaughn, Jr., CPA  
State Auditor

**SOUTH CAROLINA COMMISSION ON HIGHER EDUCATION**  
 Schedule of Expenditures -  
 Budget and Actual - Budgetary General Fund  
For the Year Ended June 30, 1997

	<u>Legal Basis Budget</u>	<u>Actual on Budgetary Basis</u>	<u>Variance</u>
<b>Expenditures:</b>			
Personal Services	\$1,370,094	\$1,370,089	\$ 5
Employer Contributions	303,685	303,685	-
Other Operating	556,517	592,841	(36,324)
Installment Purchase Program:			
Note Principal	68,773	68,773	-
Note Interest	21,013	21,013	-
<i>Special Items:</i>			
Southern Regional Education Board Contract Program - Scholarships	1,020,500	1,005,600	14,900
Southern Regional Education Board Contract Program - Fees and Assessments	141,000	141,000	-
Southern Regional Education Board Contract Program - Fees and Contracts	39,150	-	39,150
Arts Program	16,106	14,706	1,400
Professor of the Year	15,000	15,000	-
Educational Endowment	-	-	-
Palmetto Fellows Scholarships	141,300	30,320	110,980
Desegregation Programs	134,450	121,580	12,870
Total Quality Management	60,000	60,000	-
African - American Loan Program	100,000	100,000	-
Education Improvement Act Programs:			
Centers of Excellence	-	-	-
Teacher Recruitment Program	-	-	-
Partnership Assistance	-	-	-
Training for Science and Math Teachers	-	-	-
Higher Education Fund	-	-	-
Formula Funding	1,174,168	<u>-</u>	<u>1,174,168</u>
<b>Total Expenditures</b>	<u>\$5,161,756</u>	<u>\$3,844,607</u>	<u>\$1,317,149</u>

The accompanying notes are an integral part of this schedule.

**SOUTH CAROLINA COMMISSION ON HIGHER EDUCATION**  
 Schedule of Expenditures -  
 Budget and Actual - Other Budgeted Funds  
For the Year Ended June 30, 1997

	Legal Basis <u>Budget</u>	Actual on Budgetary <u>Basis</u>	<u>Variance</u>
<b>Expenditures:</b>			
Personal Services	\$ 559,805	\$ 434,054	\$ 125,751
Employer Contributions	106,470	98,937	7,533
Other Operating	630,461	566,813	63,648
Installment Purchase Program:			
Note Principal	170,423	105,765	64,658
Note Interest	62,825	36,686	26,139
<i>Special Items:</i>			
Southern Regional Education Board Contract Program - Scholarships	-	-	-
Southern Regional Education Board Contract Program - Fees and Assessments	-	-	-
Southern Regional Education Board Contract Program - Fees and Contracts	-	-	-
Arts Program	-	-	-
Professor of the Year	-	-	-
Educational Endowment	14,882,376	5,320,749	9,561,627
Palmetto Fellows Scholarships	-	-	-
Desegregation Programs	-	-	-
Total Quality Management	-	-	-
African - American Loan Program	-	-	-
Education Improvement Act Programs:			
Centers of Excellence	387,850	327,466	60,384
Teacher Recruitment Program	1,409,686	1,409,686	-
Partnership Assistance	49,458	42,160	7,298
Training for Science and Math Teachers	888,597	593,582	295,015
Higher Education Fund (Note 3)	32,000,000	-	32,000,000
Formula Funding	-	-	-
<b>Total Expenditures</b>	<u>\$51,147,951</u>	<u>\$8,935,898</u>	<u>\$42,212,053</u>

The accompanying notes are an integral part of this schedule.

**SOUTH CAROLINA COMMISSION ON HIGHER EDUCATION**  
 Schedule of Expenditures -  
 Budget and Actual - Total Budgeted Funds  
For the Year Ended June 30, 1997

	Legal Basis <u>Budget</u>	Actual on Budgetary <u>Basis</u>	<u>Variance</u>
<b>Expenditures:</b>			
Personal Services	\$ 1,929,899	\$ 1,804,143	\$ 125,756
Employer Contributions	410,155	402,622	7,533
Other Operating	1,186,978	1,159,654	27,324
Installment Purchase Program:			
Note Principal	239,196	174,538	64,658
Note Interest	83,838	57,699	26,139
<i>Special Items:</i>			
Southern Regional Education Board Contract Program - Scholarships	1,020,500	1,005,600	14,900
Southern Regional Education Board Contract Program - Fees and Assessments	141,000	141,000	-
Southern Regional Education Board Contract Program - Fees and Contracts	39,150	-	39,150
Arts Program	16,106	14,706	1,400
Professor of the Year	15,000	15,000	-
Educational Endowment	14,882,376	5,320,749	9,561,627
Palmetto Fellows Scholarships	141,300	30,320	110,980
Desegregation Programs	134,450	121,580	12,870
Total Quality Management	60,000	60,000	-
African - American Loan Program	100,000	100,000	-
Education Improvement Act Programs:			
Centers of Excellence	387,850	327,466	60,384
Teacher Recruitment Program	1,409,686	1,409,686	-
Partnership Assistance	49,458	42,160	7,298
Training for Science and Math Teachers	888,597	593,582	295,015
Higher Education Fund (Note 3)	32,000,000	-	32,000,000
Formula Funding	<u>1,174,168</u>	<u>-</u>	<u>1,174,168</u>
<b>Total Expenditures</b>	<b><u>\$56,309,707</u></b>	<b><u>\$12,780,505</u></b>	<b><u>\$43,529,202</u></b>

The accompanying notes are an integral part of this schedule.

# SOUTH CAROLINA COMMISSION ON HIGHER EDUCATION

Notes to Schedules

June 30, 1997

## NOTE 1 - BUDGET POLICY

The Commission is granted an annual appropriation for operating purposes by the General Assembly. The appropriation as enacted becomes the legal operating budget for the Commission. The Appropriation Act authorizes expenditures from funds appropriated from the General Fund of the State and authorizes expenditures of total funds. The Total Funds column in the Appropriation Act for each individual budgetary unit authorizes expenditures from all budgeted resources. A revenues budget is not adopted for individual budgetary units. The General Assembly enacts the budget through passage of line-item appropriations by program within budgetary unit within budgetary fund category, State General Fund or other budgeted funds. Budgetary control is maintained at the line-item level of the budgetary entity. Agencies may process disbursement vouchers in the State's budgetary accounting system only if enough cash and appropriation authorization exist.

Transfers of funds may be approved by the State Budget and Control Board under its authority or by the agency as set forth in 1997 Appropriation Act Proviso 72.9. as follows: Agencies are authorized to transfer appropriations within programs and within the agency with notification to the Board's Division of Budget and Analyses and to the State Comptroller General. No such transfer may exceed 20 percent of the program budget. Transfers from personal services accounts or from other operating accounts may be restricted to any level set by the Board.

During the fiscal year-end closeout period in July, agencies may continue to charge vendor, interagency, and interfund payments for the fiscal year to that fiscal year's appropriations. Any unexpended State General Fund monies as of June 30 automatically lapse to the General Fund of the State on July 31 unless authorization is received from the General Assembly to carry over the funds to the ensuing fiscal year. State law does not require the use of encumbrance accounting.

State law does not precisely define the budgetary basis of accounting. The current Appropriation Act states that the General Assembly intends to appropriate all State funds and to authorize and/or appropriate the use of all other monies to operate State government for the current fiscal year. The State's annual budget is prepared primarily on the modified accrual basis of accounting with several exceptions, principally the cash disbursements basis for payroll expenditures.

The schedules of expenditures - budget and actual present actual expenditures on the budgetary basis of accounting compared to the legally adopted and modified budget on a line-item expenditure basis. The level of legal control for each agency for each fiscal year is reported in a publication of the State Comptroller General's Office titled A Detailed Report of Appropriations and Expenditures.

**SOUTH CAROLINA COMMISSION ON HIGHER EDUCATION**

Notes to Schedules

June 30, 1997

**NOTE 2 - STATE APPROPRIATIONS**

The following is a reconciliation of the 1997 Appropriation Act as originally enacted by the General Assembly to amounts available for the Commission's budgetary general fund expenditures as reported on Schedule 1 for the year ended June 30, 1997.

Original Appropriation	\$ 4,214,482
State Budget and Control Board Allocations:	
Employee Base Pay Increases and Related	
Employee Benefits (Proviso 17C.19.)	36,163
Employer Contributions (Proviso 72.17.)	524
Total Quality Management Program (Proviso 17A.2.)	60,000
Supplemental Appropriations from Fiscal Year	
1996 Surplus State General Fund Revenues	
(Part V of the 1997 Appropriation Act):	
South Carolina Alliance for Minority Participation	600,000
Matching Funds - Experimental Program to	
Stimulate Competitive Organized Research	2,000,000
Greenville Higher Education Consortium - Physical	
Therapy Program	300,000
Southern Regional Education Board Contract	
Program - Fees and Contracts	39,150
Capital Reserve Fund Appropriation (June 1996	
Joint Resolution R521, H4602) for Higher Education	
Formula Funding	33,700,000
Allocations to Other State Agencies:	
Higher Education Formula Funding	(32,525,832)
South Carolina Alliance for Minority Participation	(600,000)
Matching Funds - Experimental Program to Stimulate	
Competitive Organized Research	(2,000,000)
Greenville Higher Education Consortium	(300,000)
Access and Equity (Desegregation) Program	(260,593)
African-American Teacher Loan Program	(130,000)
Revised Appropriation - Legal Basis	5,133,894
Plus: 1996 Appropriation Brought Forward (1997	
Proviso 72.44.)	27,862
Legal Basis Appropriation Available for 1997	
Expenditures	<u>\$ 5,161,756</u>

# **SOUTH CAROLINA COMMISSION ON HIGHER EDUCATION**

Notes to Schedules

June 30, 1997

## **NOTE 2 - STATE APPROPRIATIONS (CONTINUED)**

Pursuant to Proviso 72.44. of the 1998 Appropriation Act, the Commission carried forward \$75,631 of unspent State General Fund appropriations from the current year into the next fiscal year. This amount includes the \$39,150 originally appropriated for the Southern Regional Education Board Contract Program - Fees and Contracts appropriated from 1996 Surplus State General Fund Revenues, which may be carried forward and expended for the same purpose. This proviso authorized a maximum carry-forward of 10 percent of an agency's original appropriation with certain limitations for reductions and separate carry-forward authority.

Pursuant to Proviso 73.1. of the 1997 Appropriation Act, the Commission carried forward \$1,174,168 of undistributed Capital Reserve Fund Appropriations from the current year into the next fiscal year to be used for Higher Education Formula Funding.

Proviso 18A.26. of the 1998 Appropriation Act authorizes the Commission to carry forward Palmetto Fellows Scholarship funds from 1997 into the next fiscal year to fund additional scholarships. Pursuant thereto, the Commission carried forward \$110,980.

## **NOTE 3 - BUDGET VARIANCES**

The Commission's budget in the other budgeted funds category included a \$32 million line-item for Higher Education Fund expenditures. However, the authority to collect the related fees was never granted by the General Assembly; therefore, no expenditures were incurred. As a result, Schedule 2 reflects a \$32,000,000 favorable budget variance for the Higher Education Fund account in the other budgeted funds category.

The Commission incorrectly recorded two refunds of prior year expenditures totaling \$37,670 as reductions of current year other operating expenditures in the budgetary general fund. State law requires agencies to remit refunds of prior year budgetary general fund expenditures to the State General Fund. The Commission also incorrectly recorded \$5,960 of registration fees revenue derived from conducting an Access and Equity conference as reductions of desegregation programs expenditures in the budgetary general fund. Adjusting entries which were made to properly record revenues and to increase expenditures on Schedules 1 and 3 resulted in the reporting of an unfavorable expenditure budget variance of \$36,324 on Schedule 1.

**ACCOUNTANT'S COMMENTS**

**SECTION A - MATERIAL WEAKNESSES AND/OR VIOLATIONS OF STATE LAWS, RULES OR REGULATIONS**

The procedures agreed to by the agency require that we plan and perform the engagement to obtain reasonable assurance about whether noncompliance with the requirements of State Laws, Rules, or Regulations occurred and whether internal accounting controls over certain transactions were adequate. Management of the entity is responsible for establishing and maintaining an internal control structure. A material weakness is a condition in which the design or operation of one or more of the specific internal control structure elements does not reduce to a relatively low level the risk that errors or irregularities in amounts that would be material in relation to the financial statements may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Therefore, the presence of a material weakness or violation will preclude management from asserting that the entity has an effective internal control structure.

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

## **PAY CALCULATIONS**

We tested the calculations of the first pay of each of the ten new hires and the final pay of each of the ten employees who terminated employment during fiscal year 1997. We also tested 25 payroll transactions randomly selected throughout the fiscal year. The Commission overpaid one of the employees tested, and it incorrectly distributed the expenditures by fund source for another employee. Such payment errors, as discussed below, indicate a weakness in accounting controls over payroll. Similar errors in pay calculations were cited in our reports on the Commission for the years ended June 30, 1996 and 1995.

When the Commission calculated the semi-monthly pay for an employee hired effective September 3, 1996, it used a salary that was \$200 less than the approved salary. The Commission paid this employee the incorrect semi-monthly pay for nine payrolls after which time the Commission granted the employee a salary increase and correctly calculated the new semi-monthly pay. The underpayments for the nine payrolls totaled \$75. In addition, the Commission did not deduct from the employee's first semi-monthly pay the September 2, 1996 Labor Day holiday for which the employee was not in pay status resulting in an overpayment of \$127. The net overpayment to the employee of \$52 resulted from the Commission's lack of an adequate review process over payroll calculations.

The Commission granted an employee a pay increase, effective November 17, 1996, and at the same time it changed the funding for the position from 100% State funds to 95% State funds and 5% federal funds. However, the Commission incorrectly allocated the semi-monthly pay at 93% State funds and 7% percent federal funds. This incorrect allocation occurred for the remainder of fiscal year 1997 and resulted in an underpayment of \$513 from State funds and an overpayment from federal funds in the same amount. (We did not review any payments to the employee subsequent to June 30, 1997.)

Section 8-11-30 of the 1976 South Carolina Code of Laws, as amended, states that it is unlawful for anyone to receive any salary from the State which is not due and for anyone employed by the State to pay salaries that are not due. Any violation is punishable by a fine or by imprisonment.

We again recommend that the Commission use greater care when calculating the pay for employees. The Commission should implement procedures to ensure that payroll calculations, including distribution by fund source(s), are checked for mathematical accuracy and are verified with documentation, such as rate of pay, support document for approved fund source(s), etc., by someone other than the preparer. We further recommend that the Commission pursue recovery of the \$52 overpayment made to the one employee and make adjusting entries to correct the under and overpayments between funds for the other employee.

## ALLOCATIONS OF FRINGE BENEFITS

For three months of fiscal year 1997 the Commission paid from State funds the salary of an employee approved by the Commission to be paid from earmarked (other budgeted) funds. The Commission noted the error and processed a journal entry to correct the recording of personal services expenditures. However, the Commission failed to correct the recording of the related employer contributions expenditures for the three months and health and dental insurance for the entire year. Consequently, the Commission overpaid employer contributions from State funds by \$3,424 and underpaid employer contributions from earmarked funds by the same amount during fiscal year 1997.

Also, during fiscal year 1997, the Commission changed the funding source for four employees paid 100% from State funds to 85% State funds and 15% federal funds for two of the employees and 25% State funds and 75% federal funds for the other two employees. However, the Commission paid all of the health and dental insurance costs for these four employees from State funds resulting in an overpayment of \$2,084 in employer contributions from State funds and an underpayment from federal funds in the same amount.

Proviso 17F.1. of Part IB of the 1997 Appropriation Act states:

It is the intent of the General Assembly that any agency of the State Government whose operations are covered by funds from other than General Fund Appropriations shall pay from such other sources a proportionate share of the employer costs of retirement, social security, workmen's compensation insurance, unemployment compensation insurance, health and other insurance for active and retired employees, and any other employer contributions provided by the State for the agency's employees.

We recommend that the Commission reimburse the General Fund of the State \$5,508 for the overpayments of employer contributions from State funds in fiscal year 1997 by paying \$3,424 from earmarked funds and \$2,084 from federal funds. We also recommend that the Commission develop and implement control procedures to ensure that it properly allocates employer contributions, exercising particular care when it changes the funding source(s) of an employee's salary.

## **PERSONNEL RECORDS**

The Commission failed to complete annual Employee Performance Management System (EPMS) appraisals due during fiscal year 1997 for two of twenty employees tested. Also, for four of the twenty employees tested, the Commission completed EPMS appraisals that spanned review periods of one and one-half to two years. In the prior two engagements, we cited the Commission for its failure to prepare all annual appraisals when due.

State Human Resources Regulation 19-704.02 A. states, "Each agency shall develop an Employee Performance Management System (EPMS) that shall function as an effective management tool within the agency and provide a sound process for the evaluation of the performance and productivity of its employees." Further, State Human Resources Regulation 19-708.03 A. requires each agency to maintain copies of all annual performance appraisals in an employee's personnel file.

We again recommend that the Commission timely complete annual performance evaluations and maintain copies of all annual EPMS documents in each employee's personnel file.

## OPERATING LEASES CLOSING PACKAGE

The State Comptroller General obtains certain generally accepted accounting principles (GAAP) data for the State's financial statements from agency-prepared closing packages. The State's accounting system (STARS) is on the budgetary basis. In prior years auditors have reported various errors and omissions in the Commission's closing packages. We determined that the Commission failed to complete an operating leases closing package for fiscal year 1997 although it had entered into a five year noncancelable operating lease agreement for building space ending July 31, 2001. The remaining terms of the Commission's noncancelable operating leases in effect at June 30, 1996, did not exceed one year, and it correctly reported no future obligations in the prior year. However, we cited the Commission in our fiscal year 1995 report for its failure to report its current year payments and future obligations of \$217,544 for each of the fiscal years ending June 30, 1995, 1996, and 1997 for its noncancelable operating leases with initial or remaining terms at June 30, 1995, exceeding one year.

The Commission's failure to complete the closing package resulted in understatements on the State's financial statements as of and for the year ended June 30, 1997, for current year minimum lease payments and future minimum lease payments as follows:

Current Year	\$ 215,790
Fiscal Year 1998	217,282
Fiscal Year 1999	217,282
Fiscal Year 2000	217,282
Fiscal Year 2001	217,282
Fiscal Year 2002	<u>18,107</u>
Total	<u>\$1,103,025</u>

Manual) states, the following:

Your agency is responsible for completing Lease Register forms for all leases in accordance with the State Treasurer's Lease Reporting Package. **Note that for audit purposes you must retain a completed Lease Register, including the shaded portions, for each lease your agency has entered into.** The State Treasurer requires that you complete a Lease Register at the beginning of the lease term, before making the first lease payment. This helps to ensure that you properly classify each lease as a capital lease or an operating lease in accordance with generally accepted accounting principles.

The Commission could not provide evidence that it completed a lease register at the inception of the lease.

The GAAP Manual also states that the Operating Leases Closing Package applies to all agencies with one or more noncancelable operating leases in effect at year-end with remaining terms at June 30 exceeding one year. It notes that a lease, such as the Commission's, that permits cancellation only upon the occurrence of a remote contingency or only if the General Assembly fails to appropriate adequate funds is considered noncancelable.

We recommend that the Commission complete a lease register at the beginning of each lease term, before it makes the first payment, to allow for the proper classification of that lease. We also recommend that the Commission establish controls to ensure that any noncancelable operating leases in effect at year-end with remaining terms at June 30 exceeding one year are reported on the operating leases closing package in accordance with Section 3.19 of the GAAP Manual.

## **GRANTS ACCOUNTING**

Section 11-9-125 of the South Carolina Code of Laws, as amended, requires agencies to “maintain separate accounting records for each grant for cash, revenues, and expenditures to ensure a proper audit trail.” However, the Commission records its grant activity by program instead of by individual grant. In fiscal year 1997, the Commission prepared automated spreadsheets to monitor current year receipts and expenditures on a grant basis, but it had many grants from prior years open on its and the State's books. The Commission needs to close these prior year grants and keep only current active grants open.

The Commission reported a net cash balance of \$9,533 in four Troops to Teachers grants which had no activity during the year, and it reported an ending cash balance of \$90,946 for the current year grant. The Commission had seven veterans educational assistance grants (CFDA #64.124) open on the State's records, but only two had current year activity. The inactive grants had a net cash balance of \$45,198. Also, the Commission had two license division grants (reported as CFDA #64.124) open on the State's records with no current activity and a net deficit cash balance of \$219,099. It had ten Eisenhower Math and Science grants (CFDA #84.164) open on the State's records but reported current year activity in only two of these grants. The ten grants had a net deficit cash balance of \$161,689, including a positive cash balance of \$486,151 in three Eisenhower grants that were not reported in the prior year. The Commission reported approximately \$113,000 in cash at the beginning and end of the year for the 1996 Eisenhower Professional Development grant (CFDA #84.281).

Further, the Commission cannot reconcile its accounting records for federal funds to the Comptroller General's report as required by the Comptroller General's Policies and Procedures Manual (STARS Manual). Section 2.1.7.20 C. of the STARS Manual states, "Agencies with federal subfunds are required to perform monthly reconciliations between the CSA 467CM report (Trial Balance By Subfund, Project, and GLA) and the agency's records for each project and phase code. Errors discovered through the reconciliation process must be promptly corrected in the agency's accounting records and/or in STARS as appropriate." Section 3.2.3.2 A. states, "Ultimate responsibility for the management of Federal funds rests with the individual State agencies. Each agency is responsible for ... Preparing monthly reconciliations between the CSA 467CM report ... and the agency records for each project and phase code."

We reported similar errors in the Commission's grants accounting records and deficiencies in reconciliation procedures in our report on the Commission for the year ended June 30, 1996.

We recommend that the Commission adopt and implement internal control procedures to record transactions in its accounting records by grant and by project and phase code, credit revenues to the proper grant, charge expenditures to the proper grant period, and close all inactive grants. We again recommend that the Commission reconcile its grants accounting records to the STARS records as required by the STARS Manual. Further, the Commission should reconcile its grants accounting records to the federal financial reports submitted to its grantors. Any errors discovered through the reconciliation process should be promptly corrected in the agency's accounting records, in STARS, and/or in the federal financial reports as appropriate.

## **FIDELITY BOND**

The Commission does not carry fidelity bond coverage on its employees to insure against losses arising from theft, misappropriation, and destruction, but it did not realize that it was assuming the risks of such claims losses. Because the Commission had stewardship over more than \$50 million in fiscal year 1997, we believe that the Commission could suffer a huge financial burden in the event that an employee commits theft or misappropriation of funds.

Sound management practices require the safeguarding of an entity's assets, including establishment and implementation of procedures to minimize the adverse effects of losses, commonly known as risk management. The retention of risks should result from a deliberate decision by management after all relevant facts are considered.

We recommend that the Commission obtain a fidelity bond. The bond must be approved by the State Auditor, the designee of the Budget and Control Board, as to the amount and by the Attorney General as to form and execution as required by Section 1-11-180 of the South Carolina Code of Laws, as amended.

## **REFUNDS OF PRIOR YEAR EXPENDITURES**

The Commission received two refunds of prior year expenditures totaling \$37,670 in fiscal year 1997. Because the prior year expenditures were originally paid from State funds, the Commission should have remitted the \$37,670 to the General Fund of the State as required by Section 11-9-125 of the South Carolina Code of Laws, as amended. The Commission incorrectly recorded the receipts as refunds of current year expenditures by reducing other operating expenditures in its budgetary general fund in fiscal year 1997. This incorrect recording of the receipts caused an understatement of expenditures and an understatement of revenues on both the Commission's records and the State's records. Adjustments made to properly record these prior year refunds as revenues and to increase expenditures on Schedules 1 and 3 resulted in the reporting of an unfavorable expenditure budget variance on Schedule 1.

We recommend that the Commission remit the \$37,670 to the General Fund of the State. We further recommend that the Commission establish and implement controls to ensure that all refunds of prior year expenditures of State funds are remitted to the General Fund of the State as required by law.

## **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, 1996, and dated June 27, 1997.

We determined that the Commission has taken adequate corrective action on the reported deficiencies regarding indirect cost recoveries, recording of revenues, classification of expenditures, voucher processing, time sheets, and leave pool. However, in Section A hereof we have repeated the same or similar findings regarding GAAP closing packages, personnel records, pay calculations, and grants accounting. In the comment on grants accounting we have repeated portions of the prior year comments on reconciliations and the schedule of federal financial assistance.

**MANAGEMENT'S RESPONSE**

## SOUTH CAROLINA COMMISSION ON HIGHER EDUCATION

Attachment

### Corrective Actions Taken in Response to Specific Findings

**Pay Calculations** – The Commission has added a policy to its Operations Manual to ensure the accuracy of pay calculations and sufficiency of employment related documentation for permanent personnel. Payroll calculations are examined for mathematical accuracy and appropriateness of fund source by a qualified staff member in addition to the person who prepares the payroll. The Commission has also taken corrective actions with regard to the findings noted for this topic in the State Auditor’s Report.

**Allocation of Fringe Benefits** – The policy referenced above also includes a provision that fund source changes are to be approved by the Director of Finance, with written instructions issued to the Business Accountant. The policy provides instruction on the use of journal entries regarding employer contribution adjustments.

**Personnel Records** – The Operations Manual have been expanded to require that the Personnel Officer maintain a ledger of Employee Performance Management System evaluation due dates. Reports of noncompliance with evaluation requirements are presented to Management for action.

**GAAP Operating Lease Closing Package** – The Commission has obtained and utilizes a complete GAAP Manual for use in preparing end-of-year closing reports. The Commission completes a lease register at the beginning of each term as recommended. Copies of active lease agreements and supporting documentation are attached to the register as a control mechanism.

**Grants Accounting** – The prescribed forms have been submitted to the Budget and Control Board and Comptroller General’s Office to delete inactive grant accounts from their respective records. Commission grant records are currently maintained by individual grant and reconciled to applicable state and federal reports with error correction as necessary.

**Fidelity Bond** – The Commission concurs with the recommendation contained in the report and will obtain indemnity coverage for its employees.

**Refunds of Prior Year Expenditures** – The Commission accepts the recommendation for this finding as it appears in the Auditor’s report. STARS and BARS reports are monitored regularly to ensure that all refunds of prior year expenditures, should they occur, are remitted to the General Fund in a timely manner.