

**SOUTH CAROLINA
COMMISSION ON HIGHER EDUCATION**

COLUMBIA, SOUTH CAROLINA

STATE AUDITOR'S REPORT

JUNE 30, 2002

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State of South Carolina



Office of the State Auditor

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INDEPENDENT ACCOUNTANT'S REPORT ON APPLYING AGREED-UPON PROCEDURES

April 16, 2003

The Honorable Mark Sanford, 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 (the Commission), solely to assist you in evaluating the performance of the Commission for the fiscal year ended June 30, 2002, 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:

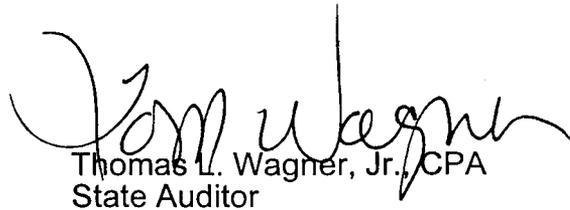
1. We tested selected recorded receipts to determine if these receipts were properly described and classified in the accounting records and internal controls over the tested receipt transactions were adequate. We also tested selected recorded receipts to determine if these receipts were recorded in the 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 from sources other than State General Fund appropriations to those of the prior year and, using estimations and other procedures, tested the reasonableness of collected and recorded amounts by revenue account. We also tested the accountability and security over permits, licenses, and other documents issued for money. The individual transactions selected for testing were chosen randomly. Our finding as a result of these procedures is presented in Remittance of Indirect Cost Recoveries in the Accountant's Comments section of this report.

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; if the acquired goods and/or services were procured in accordance with applicable laws and regulations; and if internal controls over the tested disbursement transactions were adequate. We also tested 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 to those of the prior year to determine the reasonableness of amounts paid and recorded by expenditure account. The individual transactions selected for testing were chosen randomly. We found no exceptions as a result of the procedures.
3. We tested selected recorded payroll disbursements to determine if the tested 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. We tested 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 also tested payroll transactions for selected new employees and those who terminated employment to determine if internal controls over these transactions were adequate. 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 performed other procedures such as comparing current year recorded payroll expenditures to those of the prior year; comparing the percentage change in recorded personal service expenditures to the percentage change in employer contributions; and computing the percentage distribution of recorded fringe benefit expenditures by fund source and comparing the computed distribution to the actual distribution of recorded payroll expenditures by fund source to determine if recorded payroll and fringe benefit expenditures were reasonable by expenditure account. The individual transactions selected for testing were chosen randomly. Our findings as a result of these procedures are presented in Payroll Section in the Accountant's Comments section of this report.
4. We tested 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. The individual transactions selected for testing were chosen randomly. 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 internal controls over the tested transactions were adequate. The transactions 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, 2002, and tested 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 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 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 for testing were chosen randomly. We found no exceptions as a result of the procedures.
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 2002. We found no exceptions as a result of the procedures.
8. We obtained copies of all closing packages as of and for the year ended June 30, 2002, prepared by the Commission and submitted to the State Comptroller General. We 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. We found no exceptions as a result of the procedures.
9. We obtained a copy of the schedule of federal financial assistance for the year ended June 30, 2002, prepared by the Commission and submitted to the State Auditor. We 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. We found no exceptions as a result of the procedures.

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 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 Commission on Higher Education and is not intended to be and should not be used by anyone other than these specified parties.


Thomas L. Wagner, Jr., CPA
State Auditor

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 internal controls. A material weakness is a condition in which the design or operation of one or more of the specific internal control components 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 effective internal controls.

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

PAYROLL

Dual Employment

During our payroll testing we noted five instances in which the Commission did not follow State Human Resource Regulations regarding dual employment. We noted several areas in which procedures were not followed. We will expand on these areas individually in the following paragraphs.

- Approval – The Commission did not gain proper approval prior to the beginning of the dual employment relationship. We noted that the dual employment request forms were approved after employees had completed the required work. According to the State Human Resource Regulation 19-713.01, “The agency heads or their designees of the employing and requesting agencies, or the agency head or his designee when the dual employment is in the same agency, are responsible for approving dual employment requests prior to the beginning of the dual employment relationship.”
- Request Forms – The Commission did not submit request forms to the Office of Human Resource for final approval. Section 4.2.11.1-2 of the STARS manual states, “The requesting (secondary) agency shall, in conjunction with the employing (home) agency, present requests for dual employment to the State Budget and Control Board, through the Office of Human Resources, using the Dual Employment Request form . . . “
- Timely Pay – The Commission did not compensate dual employees in a timely manner. According to the State Human Resource Regulations 19-713.01, “Payment of dual employment compensation shall be made in a timely manner. The secondary agency must make payment of funds approved for and earned under dual employment within forty-five days of the beginning of the employment.” We noted that the employees were compensated between 120 and 127 working days from the start of their employment.

We recommend that the Commission establish and implement policies and procedures over dual employment to ensure all State Human Resource Regulations are complied with. In the future, the Commission should complete all request forms prior to the dual employment relationship in order to provide timely compensation to those employees involved.

Office of Human Resource Employee Profiles

During our testing of payroll we noted that the Commission had not accurately updated their Office of Human Resource Employee Profiles. We noted two instances in which we were unable to agree employee's gross pay to their profiles. We also noted nine instances in which we were unable to agree fund source percentages to the Office of Human Resource Employee Profiles. The State Human Resource Regulation 19-720.02 states in part the following:

Each agency shall establish and maintain an official human resources file for each employee which shall include, but not necessarily be limited to the following:

1. A copy of the employment application;
2. Copies of all human resources actions reflecting the employee's work history with the agency;
3. Documentation directly related to the employee's work record; and
4. Copies of all performance evaluations.

We recommend that the Commission ensure that all Office of Human Resource Employee Profiles are updated in a timely manner in order to maintain accurate records.

REMITTANCE OF INDIRECT COST RECOVERIES

During our testing of revenue we noted that the Commission had not determined the amount of indirect cost recoveries required to be remitted to the State General Fund for fiscal year ending June 30, 2002, and therefore has not remitted the costs in a timely manner.

Section 2-65-70 of the South Carolina Code of Laws, as amended, states in part the following:

(A) "All agencies receiving federal grants or contracts shall recover the maximum allowable indirect costs on projects, subject to applicable federal laws and regulations. All indirect cost recoveries must be credited to the general fund of the State . . ."

We recommend the Commission determine the amount of indirect costs due to the State General Fund for fiscal year 2002 and remit those costs immediately. Policies and procedures should be established to ensure that indirect cost calculations are completed timely and the costs are remitted to the State General Fund in a timely manner.

MANAGEMENT'S RESPONSE



John E. Smalls
Interim Executive Director

May 20, 2003

Mr. Thomas L. Wagner, Jr., CPA
State Auditor
1401 Main Street, Suite 1200
Columbia, South Carolina 29201

Re: Findings from the Performance of Agreed Upon Procedures
For the Year Ended June 30, 2002

Dear Mr. Wagner:

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

While we hold that these findings do not constitute a material risk to the Commission's ability to properly utilize and safeguard its resources, we are in general agreement with those issues cited by your audit team. We have at this time taken action to address these matters and are confident that there will be no recurrence of these findings.

Please feel free to contact me by phone at 737-2263, or via e-mail at jrichard@che400.state.sc.us.



Jeff Richards
Operations Manager

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