

**SOUTH CAROLINA HIGHER EDUCATION
TUITION GRANTS COMMISSION**

COLUMBIA, SOUTH CAROLINA

STATE AUDITOR'S REPORT

JUNE 30, 2013

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State of South Carolina



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INDEPENDENT ACCOUNTANT'S REPORT ON APPLYING AGREED-UPON PROCEDURES

August 14, 2014

The Honorable Nikki R. Haley, 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, 2013, 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 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 account level from sources other than State General Fund appropriations to those of the prior year. We investigated changes in the general, earmarked and restricted funds to ensure that revenue was classified properly in the agency's accounting records. The scope was based on agreed upon materiality levels (\$900 – general fund, \$200 – earmarked fund, and \$32,200 – restricted fund) and ± 10 percent.

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The individual transactions selected were chosen randomly. Our finding as a result of these procedures is presented in Fiscal Year Cut Off of Revenue 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 current year expenditures at the subfund and account level to those of the prior year. We investigated changes in the general, earmarked and restricted funds to ensure that expenditures were classified properly in the agency's accounting records. The scope was based on agreed upon materiality levels (\$132,700 – general fund, \$200 – earmarked fund, and \$93,000 – restricted fund) and ± 10 percent.

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

3. **Payroll Disbursements and Expenditures**

- We inspected selected recorded payroll disbursements to determine if the selected payroll transactions were properly described, classified, and distributed in the accounting records; persons on the payroll were bona fide employees; payroll transactions 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 compared current year payroll expenditures at the subfund and account level to those of the prior year. We investigated changes in the general fund to ensure that expenditures were classified properly in the agency's accounting records. The scope was based on an agreed upon materiality level of \$132,700 and ± 10 percent.
- 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 ± 10 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.

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4. **Journal Entries and Appropriation Transfers**

- We inspected selected recorded journal entries 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 transactions selected were chosen randomly. Our finding as a result of these procedures is presented in Journal Entries in the Accountant's Comments section of this report.

5. **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.

6. **Reporting Packages**

- We obtained copies of all reporting packages as of and for the year ended June 30, 2013, 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 Reporting Policies and Procedures Manual requirements and if the amounts reported in the reporting packages agreed with the supporting workpapers and accounting records.

Our findings as a result of these procedures are presented in Reporting Packages in the Accountant's Comments section of this report.

7. **Status of Prior Findings**

- We inquired about the status of the finding 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, 2011, to determine if the Commission had taken corrective action. We applied no procedures to the Commission's accounting records and internal controls for the year ended June 30, 2012.

Our findings as a result of these procedures are presented in Reporting Packages in the Accountant's Comments section of this report.

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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.

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.

FISCAL YEAR CUT OFF OF REVENUE

During our cut-off test of revenue, we noted that the Commission recorded a refund of lottery funds in period 1 of fiscal year 2014 instead of period 12 of fiscal year 2013.

The State Treasurer Office's fiscal year end requirements memo dated May 1, 2013 states "Use Period 12 until July 5th...for funds deposited in July 2013 for Refunds of Expenditures...for Fiscal Year 2012-2013...".

The refund was deposited on July 2, 2013 in time to be recorded in fiscal year 2013. Commission personnel stated they had been informed that it did not matter whether refunds of lottery funds were processed in the prior year or the current year.

We recommend the Commission develop and implement procedures to ensure revenue is recorded in the proper fiscal year in accordance with State guidelines.

ACCOUNT CODING

During our testing of expenditure transactions, we noted the following coding errors:

- 1) Email account expenditures were improperly coded to 50200070000 (Data Processing Services) instead of 5020090000 (Telephone & Telegraph).
- 2) Two transactions for in-state mileage were improperly coded to 5050041000 (HR-In State - Auto Mileage) instead of 5050040000 (In State - Auto Mileage).
- 3) A purchase of toner and a fax machine were improperly coded to 5030060000 (Data Processing Supplies) instead of 5030020000 (Copying Equipment Supplies).
- 4) Another purchase of toner was improperly coded to 5030010000 (Office Supplies) instead of 5030020000 (Copying Equipment Supplies).

Commission personnel stated that for the email charges, toner, and fax machine the Commission was unaware they were using the incorrect account code and that the in-state mileage was improperly coded due to oversight.

Effective internal controls include procedures to ensure that transactions are properly recorded. The Comptroller General's Policies and Procedures provide account code definitions to help agencies to determine the proper account code and ensure consistent accounting treatment.

We recommend that the Commission strengthen its internal controls over the recording of financial transactions. The Commission should ensure that the person performing the independent review of accounting transactions verify that the preparer used the proper account code.

JOURNAL ENTRIES

During our test of the Commission's journal entries, we noted a journal entry to record a correction of a lottery fund transfer of \$1,200,203 was incorrectly debited to general ledger account 6100010000 (Oper Transf In [From]) instead of general ledger account 6200010000 (Oper Transf Out [To]). Commission personnel stated the transaction was debited to this account upon instruction from the Comptroller General's Office. We also noted a \$3,885,223 journal entry related to the Children's Endowment Fund monies that was unnecessary and ultimately should not have even been posted. Because of this posting, general ledger account 5100010000 (Scholarships Non-St Emp) was overstated and general ledger account 5100030000 (Scholarships - State Contract Prog) was understated by \$3,885,223. Commission personnel stated this error was due to oversight.

Effective internal controls include procedures to ensure that transactions are properly recorded. The Comptroller General's Policies and Procedures provide account code definitions to help agencies to determine the proper account code and ensure consistent accounting treatment.

We recommend that the Commission strengthen its internal controls over the recording of financial transactions. The Commission should ensure that the person performing the independent review of accounting transactions verify that the preparer used the proper account code.

REPORTING PACKAGES

Introduction

The Office of the Comptroller General (CG) obtains certain generally accepted accounting principles (GAAP) data for the State's financial statements from agency prepared reporting packages. We determined that the Commission submitted to the CG certain fiscal year 2013 reporting packages that were incorrectly prepared and/or misstated. To accurately report the Commission's and the State's assets, liabilities, and current year operations, the GAAP reporting packages must be complete and accurate. Furthermore, Reference 1.7 of the Comptroller General's Reporting Policies and Procedures Manual states that "The accuracy of reporting package data is extremely important. Large errors jeopardize the accuracy of the State's financial statements. The existence of even "small" errors tends to cast doubt on the State internal control structure's ability to detect and correct errors. We all must work together to implement procedures that keep reporting package errors to an absolute minimum. Adequate internal controls include safeguards to ensure that *your agency* detects and corrects its own reporting package errors. Whenever the Comptroller General's Office or auditors detect errors, it means that your agency's internal controls have failed and should be improved." Reference 1.7 further states that a supervisory employee should perform a review that includes tracing all amounts from the appropriate agency accounting records or other original sources to the working papers and finally to the reporting package itself. The following describes the errors noted on certain fiscal year 2013 reporting packages:

Refund Receivables

During our testing of the Refund Receivables Reporting Package, we noted the following:

- 1) The Commission incorrectly answered yes to the question “Is the net receivables balance recorded in SCEIS?” on the Refund Receivables and Related Accounts Summary Form 3.5.2. The answer should have been no because there was a zero balance in the receivables account in SCEIS at year-end.
- 2) On the Funds with Zero Refund Receivables and Related Accounts Form 3.5.3, the Commission answered true to the statement “No amounts were identified for reporting of refund receivables and related accounts for the indicated fund” for fund 43B10000. This answer should have been false based on the Commission's responses on Form 3.5.2 that stated there was a refund receivable at year-end. Due to this incorrect response, the Refund Collected and Related Transactions Form 3.5.1 was not completed for fund 43B10000.
- 3) On the Refund Receivables and Related Accounts Summary Form 3.5.2, the Commission reported a non-current net refund receivable of \$2,975. This amount should have been reported as a current net refund receivable since it was expected to be received within the next fiscal year, based on the definition of current and non-current located in the Glossary Section of the Comptroller General's Year-End Reporting Package Policies and Procedures Manual.

Commission personnel stated these errors were due to oversight. She also stated that due to the Commission's response of true for question (1) of Form 3.5.3 for fund 43B10000, she thought that Form 3.5.1 was not required to be completed.

Prepaid Expenses

During our testing of the Prepaid Expenses Reporting Package, we noted that the Prepaid Expense Summary Form 3.7.1a did not report prepaid expense balances for general ledger account number 5040510000 due to an input error, resulting in an understatement of \$983.

Commission personnel stated this error was due to oversight.

Capital Assets

During our testing of the Capital Assets Reporting Package, we noted that the Commission submitted the reporting package on October 14, 2013 which is after the September 27, 2013 due date.

Commission personnel stated she was unaware this reporting package should have been submitted because the Commission's answers to questions #19 and #20 on the Master Reporting Checklist were no. The Comptroller General's Office informed her that the responses to these two questions were incorrect and that the reporting package needed to be submitted. The Commission then prepared and submitted the reporting package on that same day.

Operating Leases

During our review of the Operating Leases Future Minimum Payment Schedule, Form 3.09.1a, we noted the Commission reported \$7,350 of future minimum payments for fiscal year ended June 30, 2014. Based on our review of the lease agreement, the future minimum payment for fiscal year ended June 30, 2014 was \$18,375; therefore, the future minimum lease payment was understated by \$11,025.

Commission personnel stated the future minimum lease payment was calculated on a calendar year basis instead of a fiscal year basis.

Accounts Payable

During our review of the Accounts Payable Summary Form 3.12.1, we noted the Commission reported a \$19 vendor payable balance recorded as a liability in SCEIS in fund 43B10000. A review of the Commission's agency wide trial balance disclosed a zero balance in all accounts payable accounts at fiscal year-end. Also, based on our review, the \$19 reportable payables should have been reported under fund 10010000, not 43B10000. Due to these reporting errors, the Commission responded incorrectly to question (1) for funds 10010000 and 43B10000 and (2) for fund 43B10000 on the Funds with Zero Balance Accounts Payable Form 3.12.2.

Commission personnel stated these errors were due to oversight.

Recommendation

We recommend the Commission implement procedures to ensure reporting packages are completed when applicable and in accordance with the Comptroller General's Reporting Policies and Procedures Manual.

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, 2011, and dated July 13, 2012. We determined that the Commission has taken adequate corrective action on the finding titled Reporting Packages. However, we noted other deficiencies during our testing of fiscal year 2013 Reporting Packages which will be reported in Section A of the report.

MANAGEMENT'S RESPONSE



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EARL L. MAYO, JR.
DIRECTOR

September 17, 2014

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

Dear Mr. Gilbert:

In response to your letter dated August 28, 2014, regarding the preliminary draft of the performance of the agreed-upon procedures to the accounting records of the Higher Education Tuition Grants Commission (H06) for the fiscal year ended June 30, 2013, please receive this letter indicating that we have reviewed the preliminary draft and that we authorize release of the report.

Because the Commission wants to insure that its staff completely understands the findings and how it can insure that they are corrected, a formal exit conference to discuss the multiple recommendations of the report was held today.

Included with this letter is Management's Response to the Accountant's Comments in writing. The electronic copy of Management's Response to the Accountant's Comments will be sent via e-mail to Ms. Sally Gaines.

I appreciate your office's assistance with helping the Commission to insure that its accounting records are in compliance with State regulations and laws. Please let me know should you have any questions or need further information.

Sincerely,

A handwritten signature in blue ink, appearing to read "Earl L. Mayo, Jr.", is written over the typed name and title.

Earl L. Mayo, Jr.
Director

Enclosure

Response to the Accountant's Comments for the State Auditor's Report of the Higher Education Tuition Grants Commission's audit for fiscal year ending June 30, 2013.

Section A – Violation of State Laws, Rules or Regulations – Fiscal Year Cut Off of Revenue

This finding indicates that “the Commission recorded a refund of lottery funds in period 1 of fiscal year 2014 instead of period 12 of fiscal year 2013” and recommends that “the Commission develop and implement procedures to ensure revenue is recorded in the proper fiscal year in accordance with State guidelines.”

Management Response:

The Commission's accountant responded to this finding that she "had been informed that it did not matter whether refunds of lottery funds were processed in the prior year or the current year." This is clearly an incorrect response and a failure to understand State refund requirements and Commission Management agrees that this was an error. Agency management will verify all refunds as they are processed by the staff accountant and will insure that they are correctly posted and processed in the correct fiscal year.

Response to the Accountant's Comments for the State Auditor's Report of the Higher Education Tuition Grants Commission's audit for fiscal year ending June 30, 2013.

Section A – Violation of State Laws, Rules or Regulations – Account Coding

This finding indicates that the Commission improperly coded five different transactions to the incorrect General Ledger codes and recommends "that the Commission strengthen its internal controls over the recording of financial transactions" and that "the Commission ensure that the person performing the independent review of accounting transactions verify that the preparer used the proper account code."

Management Response:

The agency accountant responded that she was unaware that several of the charges were made using the incorrect account codes and that two transactions were oversights (i.e., mistakes). The agency has done its best to interpret the multitude of account code definitions in the Comptroller General's Policies and Procedures and has even reached out to the CG's Office on numerous occasions to receive assistance with proper interpretations of General Ledger Codes. Sometimes this even required CG's Office staff to receive further help themselves before they could provide the Commission with the proper codes. The Commission staff on multiple levels will continue to seek assistance from the CG's Office whenever it is unable to understand the definitions for GL codes used for accounting transactions and will strive to insure that correct GL codes are used in the future and that preparer mistakes are corrected by agency management before completion of processing. Additionally, to insure correct GL codes are used, the Commission staff, during the purchasing stage of processing, is verifying that it is using correct GL codes since they automatically flow over to the payment process.

Response to the Accountant's Comments for the State Auditor's Report of the Higher Education Tuition Grants Commission's audit for fiscal year ending June 30, 2013.

Section A – Violation of State Laws, Rules or Regulations – Journal Entries

This finding indicates that the Commission incorrectly recorded two journal entries and recommended that "the Commission strengthen its internal controls over the recording of financial transactions" and that "the Commission should ensure that the person performing the independent review of accounting transactions verify that the preparer used the proper account code."

Management Response:

The agency accountant responded that she was instructed by the Comptroller General's Office to make one journal entry the way it was done. Because of that instruction, agency management when reviewing the preparer's work would not have disputed the direction received. The other JE was an oversight (i.e., mistake) by the staff accountant concerning "other account funds" provided to the Tuition Grants Program from another state agency. These funds were clearly posted to the wrong account. The Commission staff will strive to insure that correct journal entries are made in the future and that preparer errors, if found, are corrected by agency management before completion of processing.

Response to the Accountant’s Comments for the State Auditor’s Report of the Higher Education Tuition Grants Commission’s audit for fiscal year ending June 30, 2013.

Section A – Violation of State Laws, Rules or Regulations – Reporting Packages

This finding indicates that “the Commission submitted to the CG certain fiscal year 2013 reporting packages that were incorrectly prepared and/or misstated” and recommends that “the Commission implement procedures to ensure reporting packages are completed when applicable and in accordance with the Comptroller General’s Reporting Policies and Procedures Manual.”

Management Response:

Refund Receivables: Because of incorrect answers to two questions, this created three errors. Each year as GAAP packages are received, the instructions are reviewed as thoroughly as possible by the staff accountant and the agency management before responding. Despite the agency's best efforts to understand and interpret instructions and definitions, and despite attempting to obtain additional understandings by contacting CG's Office staff, errors were made. The agency will continue to review instructions as thoroughly as possible and obtain direction from CG's office staff to correctly answer the questions and avoid future errors while completing all sections of the GAAP package.

Prepaid Expenses: An error was made by not correctly including a prepaid expense balance. The agency staff will review instructions in this section as thoroughly as possible to correctly answer the questions and avoid future errors while completing all sections of the GAAP package.

Capital Assets: Because of an error in understanding the definition of Capital Assets and that the Commission needed to complete this section of the Closing Package, the deadline for submission was missed. Upon notification by the CG's Office that it had to be completed, it was completed and submitted the same day. The agency staff will review instructions and definitions for completion of the GAAP package as thoroughly as possible to correctly complete all required sections of the GAAP package.

Operating Leases: An error was made by Commission staff of calculating Future Minimum Payments by using the incorrect time period. This should have been done correctly as it has been in the past. The agency staff will correctly calculate operating leases for future reporting packages and agency management will verify correct calculations before completion.

Accounts Payable: The agency accountant responded that the two errors in this section including using the incorrect account code were an oversight (i.e., error) on her part. The agency staff will review instructions in this section as thoroughly as possible to correctly answer the questions and avoid future errors while completing all sections of the GAAP package.

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