

INDEPENDENT ACCOUNTANTS' REPORT
ON APPLYING AGREED-UPON PROCEDURES

*SOUTH CAROLINA COMMISSION ON
HIGHER EDUCATION
COLUMBIA, SOUTH CAROLINA*

For The Year Ended June 30, 2010

State of South Carolina



Office of the State Auditor

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DEPUTY STATE AUDITOR

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June 10, 2011

The Honorable Nikki R. Haley, Governor
and
Members of the Commission
South Carolina Commission on Higher Education
Columbia, South Carolina

This report resulting from the application of certain agreed-upon procedures to certain internal controls and accounting records of the South Carolina Commission on Higher Education for the fiscal year ended June 30, 2010, was issued by The Hobbs Group, P.A., Certified Public Accountants, under contract with the South Carolina Office of the State Auditor.

If you have any questions regarding this report, please let us know.

Respectfully submitted,

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

RHGjr/trb

TABLE OF CONTENTS
SOUTH CAROLINA COMMISSION ON HIGHER EDUCATION
COLUMBIA, SOUTH CAROLINA
For the Year Ended June 30, 2010

I. Independent Accountants' Report on Applying Agreed-Upon Procedures	1
II. Accountants' Comments	
Section A – Violations of State Laws, Rules or Regulations	6
Comments	7
Section B – Other Weaknesses.....	8
Comments	9
Section C – Status of Prior Findings.....	10
Management's Response	11



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INDEPENDENT ACCOUNTANTS' REPORT ON APPLYING AGREED-UPON PROCEDURES

June 10, 2011

Mr. Richard H Gilbert, Jr., CPA
Deputy State Auditor
State of South Carolina
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*") and the South Carolina Office of the State Auditor solely to assist you in evaluating the performance of the Commission for the fiscal year ended June 30, 2010, 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 Commission'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. Effective November 2009, the Commission implemented the South Carolina Enterprise Information System (SCEIS). Upon implementation of SCEIS, STARS reports were no longer used by the Commission.
- 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 earmarked and restricted funds to ensure that revenue was classified properly in the Commission's accounting records. The scope was based on agreed upon materiality levels (\$37,000 - earmarked fund, \$730,000 - restricted fund, and \$29,000 – federal fund) and ± 10 percent.

Mr. Richard H. Gilbert, Jr., CPA
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June 10, 2011

- We made inquiries of management pertaining to the Commission's policies for accountability and security over permits, licenses, and other documents issued for money. We observed Commission 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 Timeliness of Receipts in the Accountants' 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 Commission's policies and procedures and State regulations, were bona fide disbursements of the South Carolina Commission on Higher Education, 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. Effective November 2009, the Commission implemented SCEIS. Upon implementation of SCEIS, STARS reports were no longer used by the Commission.
- 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 and restricted funds to ensure that expenditures were classified properly in the Commission's accounting records. The scope was based on agreed upon materiality levels for the operating fund (\$530,000 – general, \$35,000 – earmarked fund, \$820,000 – restricted fund, and \$41,000 – federal funds) 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 Commission'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. Effective November 2009, the Commission implemented SCEIS. Upon implementation of SCEIS, STARS reports were no longer used by the Commission.
- 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 Commission's policies and procedures, that employee's first and/or last paycheck was properly calculated and that the employee's leave payout was properly calculated in accordance with applicable State law.

Mr. Richard H. Gilbert, Jr., CPA
Deputy State Auditor
June 10, 2011

- 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. Effective November 2009, the Commission implemented SCEIS. Upon implementation of SCEIS, STARS reports were no longer used by the Commission.
- We compared current year payroll expenditures at the subfund and major object code level to those of the prior year. We investigated changes in the general and earmarked funds to ensure that expenditures were classified properly in the Commission's accounting records. The scope was based on agreed upon materiality levels (\$530,000 – general, \$35,000 – earmarked fund, \$820,000 – restricted fund, and \$41,000 – federal funds) 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 ± 5 percent to ensure that payroll expenditures were classified properly in the Commission's accounting records.

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

4. Journal Entries, Operating Transfers and Appropriation Transfers

- We inspected 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, 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 Commission'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 Approval of Journal Entries in the Accountants' Comments section of this report.

5. General Ledger and Subsidiary Ledgers

- We inspected selected entries and monthly totals in the subsidiary records of the South Carolina Commission on Higher Education to determine if the amounts were mathematically accurate; the selected monthly totals were accurately posted to the general ledger; and selected entries were processed in accordance with the Commission'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 South Carolina Commission on Higher Education for the year ended June 30, 2010, 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

Mr. Richard H. Gilbert, Jr., CPA
Deputy State Auditor
June 10, 2011

determined if necessary adjusting entries were made in the Commission's accounting records and/or in STARS. Effective November 2009, the Commission implemented SCEIS. Upon implementation of SCEIS, STARS reports were no longer used by the Commission.

The reconciliations selected were chosen randomly. Our finding as a result of these procedures is presented in Reconciliations in the Accountants' Comments section of this report.

7. Appropriation Act

- We inspected Commission documents, observed processes, and/or made inquiries of Commission personnel to determine the Commission's compliance with Appropriation Act general and Commission 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, 2010, prepared by the South Carolina Commission on Higher Education and submitted to the State Comptroller General. We inspected them to determine if they were prepared in accordance with the Comptroller General's GAAP Closing Procedures Manual requirements and if the amounts reported in the closing packages agreed with the supporting workpapers and accounting records.

Our finding as a result of these procedures is presented in Closing Packages in the Accountants' Comments section of this report.

9. Schedule of Federal Financial Assistance

- We obtained a copy of the schedule of federal financial assistance for the year ended June 30, 2010, prepared by South Carolina Commission on Higher Education 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 and if the amounts agreed with the supporting workpapers and accounting records.

Our finding as a result of these procedures is presented in Schedule of Federal Financial Assistance in the Accountants' Comments section of this report.

10. SCEIS Implementation

- We compared cash, revenue and expenditure account closing balances from the Commission's legacy system to opening balances input into SCEIS to ensure that the Commission carried forward the proper account balances to SCEIS.

We found no exceptions as a result of the procedures.

11. 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 South Carolina Commission on Higher Education resulting from the engagement for the fiscal year ended June 30, 2008, 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, 2009.

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

Mr. Richard H. Gilbert, Jr., CPA
Deputy State Auditor
June 10, 2011

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, the governing body and management of the South Carolina Commission on Higher Education, and the Office of the State Auditor and is not intended to be and should not be used by anyone other than these specified parties.

The Halls Group, P.A.

Columbia, South Carolina

ACCOUNTANTS' COMMENTS

SECTION A – VIOLATIONS OF STATE LAWS, RULES OR REGULATIONS

Management of each agency is responsible for establishing and maintaining internal controls to ensure compliance with State Laws, Rules or Regulations. The procedures agreed to by the Commission 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.

TIMELINESS OF RECEIPTS

During our testing of cash receipt transactions, we noted 1 out of 25 instances in which the receipt was not deposited in a timely manner. We also noted 3 out of 25 instances in which the receipt was not posted to the General Ledger in a timely manner.

Section 89.1 of the Appropriations Act requires that “state revenues...must be remitted to the State Treasurer at least once each week.”

The above practices opens the Commission to the threat of a loss or theft of cash while it is on the premises and does not allow for proper reporting of receipts for decision making purposes. We recommend that the Commission implement internal control procedures to ensure that funds are deposited in the bank and posted to the accounting system in a timely manner.

RECONCILIATIONS

For the first four months of the fiscal year that the Commission used STARS, we noted that the Commission did not complete monthly reconciliations between balances in its internal accounting records and those in the State’s accounting and reporting system (STARS) as reflected on the Comptroller General’s reports. In November 2010, the Commission implemented SCEIS and was no longer required to complete reconciliations.

For timely detection and correction of errors, Section 2.1.7.20 of the Comptroller General’s Policies and Procedures Manual (STARS Manual) requires monthly reconciliations to be timely prepared, adequately documented, and independently reviewed.

Although the Commission is no longer required to complete monthly reconciliations due to the implementation of SCEIS, we recommend that the Commission develop and implement controls so that policies and procedures may be followed.

CLOSING PACKAGES

Our review of agency prepared closing packages revealed that the Commission did not timely submit the following closing packages: Master Closing Package, Accounts Payable Closing Package, Compensated Absences Closing Packages, and Capital Assets Closing Package.

The requirements and instructions for completing the closing packages are included in the GAAP Closing Procedures Manual (GAAP Manual). Section 1.8 of the GAAP manual provides, “Each agencies executive director and finance director are responsible for submitting...closing package forms...that are timely.”

We recommend that the Commission develop and implement procedures to ensure that Closing Packages are prepared, reviewed, and submitted by the due date as described in the GAAP Manual.

SECTION B – OTHER WEAKNESSES

The conditions described in this section have been identified while performing the agreed-upon procedures but they are not considered violations of State Laws, Rules or Regulations.

APPROVAL OF JOURNAL ENTRIES

During our testing of journal entries, we noted that 6 out of 25 journal entries tested did not have proper Commission approval. These journal entries were made before the Commission implemented SCEIS. SCEIS now requires a proper workflow of approval before journal entries are posted. We recommend that journal entries be independently reviewed at the appropriate agency level before being approved and sent to the Comptroller General's Office.

SCHEDULE OF FEDERAL FINANCIAL ASSISTANCE

The Commission did not prepare an accurate Schedule of Federal Financial Assistance that agrees to SCEIS. While the sum of each balance by CFDA number was accurate, the balances by individual grant number did not agree to the balances in SCEIS. This finding can be attributed to error by management in reporting expenditures and revenues in the appropriate time period of each grant. The Schedule must be submitted timely and report accurate information in order for the report to be useful to the Commission as well as the State.

We recommend the Commission ensure that the Schedule of Federal Financial Assistance is done properly and is in agreement with SCEIS.

PAYROLL VARIANCE EXPLANATIONS

We performed certain analytical procedures to test for account misclassification. One such test compared the relationship between personal service expenditures and employer contributions. Our comparison of the percentage change in personal service expenditures to the percentage change in employer contribution expenditures from the fiscal year 2009 to fiscal year 2010 identified significant variances in the general, earmarked, restricted, and federal funds. Commission personnel were unable to provide adequate explanations for these variances; therefore, we were unable to determine if these increases/decreases between years were reasonable.

A good system of internal controls requires management to be sufficiently involved in the day-to-day operations to identify significant variances in accounts. Variance reports or interim financial reports should be used to monitor such operations.

We recommend the Commission periodically monitor account balances to ensure actual balances are meeting expected results. Expectations can be based on budgeted amounts or prior year actual results. Periodic monitoring helps ensure the completeness and accuracy of accounting information and allows management to make sound financial decisions based on accurate accounting information.

SECTION C – 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 South Carolina Commission on Higher Education for the fiscal year ended June 30, 2008, and dated March 25, 2009. We applied no procedures to the Commission's accounting records and internal controls for the year ended June 30, 2009. We determined that the Commission has taken adequate action on each of the findings, except for the repeat finding, Payroll Variance Explanations.

MANAGEMENT'S RESPONSE



South Carolina Commission on Higher Education

Mr. Kenneth B. Wingate, Chair
Dr. Bettie Rose Horne, Vice Chair
Ms. Natasha M. Hanna
Ms. Elizabeth Jackson
Dr. Raghu Korrapati
Ms. Leah B. Moody
Vice Admiral Charles Munns, USN (ret.)
Mr. Y. W. Scarborough, III
Dr. Jennifer B. Settlemyer
Mr. Rodney A. Smolla
Mr. Guy C. Tarrant, CCIM
Mr. Hood Temple
The Honorable Lewis R. Vaughn
Dr. Garrison Walters, Executive Director

June 14, 2011

Mr. Richard H. Gilbert, Jr., CPA
Deputy State Auditor
State of South Carolina
Columbia, South Carolina

Dear Mr. Gilbert:

The Commission on Higher Education appreciates the professionalism and diligence demonstrated by the auditors from the Hobbs Group during the conduct of our Agreed-upon Procedures audit. We offer the following comments regarding the findings made.

TIMELINESS OF RECEIPTS

The transaction cited above was the result of human oversight. The personnel involved in the receipt and timely deposit of licensing fees have been informed of the oversight and awareness of the importance of ensuring that all checks are retrieved from application documentation and deposited within the prescribed timelines has been heightened. We do not expect a recurrence of this finding in the future.

RECONCILIATIONS

As stated, implementation of SCEIS eliminated the need to perform monthly reconciliations. We were aware that the pre-SCEIS reconciliations were in arrears. Indications that the SCEIS team was ensuring STARS / SCEIS reconciliation was accepted in lieu of our traditional effort and all resources were directed to a successful SCEIS migration.

CLOSING PACKAGES

The Commission regrets the late submission of the aforementioned closing packages. We did inform the GAAP team and submitted the packages as quickly as possible. Additional emphasis will be placed on timely submission in the future.

SECTION B – OTHER WEAKNESS(ES)

APPROVAL OF JOURNAL ENTRIES

Approval of all financial transactions to include journal vouchers is now ensured by proper approval mapping in SCEIS.

SCHEDULE OF FEDERAL FINANCIAL ASSISTANCE

Untimely turnover in the grants accountant position combined with our transition to SCEIS attributed to the variances noted. All grant accounting processes have been refined and we have identified more appropriate SCEIS supporting reports. We do not expect a recurring finding related to the SFFA in the future.

PAYROLL VARIANCE EXPLANATIONS

Due to limited staffing and time constraints, we were not able to reconcile payroll variances identified during the audit. Our ability to explain the variances was further complicated by key staff turnover and transition to SCEIS. Steps have been taken to refine our procedures and supported by SCEIS as a consistent data source, we should be able to successfully explain any material variances that may be detected in the future.

Sincerely,

A handwritten signature in black ink that reads "Gary S. Glenn". The signature is written in a cursive, flowing style.

Gary S. Glenn, Director
Division of Finance, Facilities, and MIS
SC Commission on Higher Education