

INDEPENDENT ACCOUNTANTS' REPORT
ON APPLYING AGREED-UPON PROCEDURES

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

For the Fiscal Year Ended June 30, 2012

State of South Carolina



Office of the State Auditor

1401 MAIN STREET, SUITE 1200
COLUMBIA, S.C. 29201

RICHARD H. GILBERT, JR., CPA
DEPUTY STATE AUDITOR

(803) 253-4160
FAX (803) 343-0723

June 19, 2013

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, 2012, 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, 2012

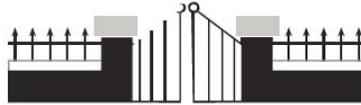
I. Independent Accountants' Report on Applying Agreed-Upon Procedures.....1

II. Accountants' Comments

 Section A – Violations of State Laws, Rules or Regulations.....5

 Section B – Status of Prior Findings8

 Management's Response9



1704 Laurel Street
Columbia, SC 29201

PO. Box 2411
Columbia, SC 29202

TheHobbsGroup
CERTIFIED PUBLIC ACCOUNTANTS & CONSULTANTS, PA

Phone (803) 799-0555
Fax (803) 799-4212

www.hobbscpa.com

INDEPENDENT ACCOUNTANTS' REPORT ON APPLYING AGREED-UPON PROCEDURES

June 17, 2013

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

We have performed the procedures described below, which were agreed to by the South Carolina Office of the State Auditor 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, 2012, 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 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, restricted, and federal funds to ensure that revenue was classified properly in the Commission's accounting records. The scope was based on agreed upon materiality levels (\$680–general fund, \$16,400 – earmarked fund, \$1,040,000 – restricted fund, and \$1,100,000 – federal fund) and ± 10 percent.
- 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 haphazardly. We found no exceptions as a result of the procedures.

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 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, restricted and federal funds to ensure that expenditures were classified properly in the Commission's accounting records. The scope was based on agreed upon materiality levels (\$650,000 – general fund, \$14,400 – earmarked fund, \$1,160,000 – restricted fund, and \$29,800 – federal fund) and ± 10 percent.

The individual transactions selected were chosen haphazardly. Our findings as a result of these procedures is presented in Account Coding and Expenditure Cut-Off in the Accountants' 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 Commission's policies and procedures and State regulations.
- 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 the 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.
- We compared current year payroll expenditures at the subfund and account level to those of the prior year. We investigated changes in the general, earmarked, restricted, and federal funds to ensure that expenditures were classified properly in the Commission's accounting records. The scope was based on agreed upon materiality levels (\$650,000 – general fund, \$14,400 – earmarked fund, \$1,160,000 – restricted fund, and \$29,800 – federal fund) 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 Commission's accounting records.

The individual transactions selected were chosen haphazardly. We found no exceptions as a result of the procedures.

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 haphazardly. We found no exceptions as a result of the procedures.

5. 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.

6. Reporting Packages

- We obtained copies of all reporting packages as of and for the year ended June 30, 2012, 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 the procedures are presented in Reporting Packages in the Accountants' Comments section of this report.

7. Schedule of Federal Financial Assistance

- We obtained a copy of the schedule of federal financial assistance for the year ended June 30, 2012, prepared by the Commission and submitted to the State Auditor. We inspected it to determine if it was prepared in accordance with the State Auditor's letter of instructions; if the amounts agreed with the supporting workpapers and accounting records.

We found no exceptions as a result of the procedures.

8. Status of Prior Findings

- We inquired about the status of the findings reported in the Accountant's Comments section of the State Auditor's Report on the Commission resulting from the engagement for the fiscal year ended June 30, 2010, 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, 2011.

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

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 South Carolina Office of the State Auditor and is not intended to be and should not be used by anyone other than these specified parties.

The Hobbs Group, P.A.

The Hobbs Group, PA
Columbia, South Carolina

ACCOUNTANTS' 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 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.

ACCOUNT CODING

We investigated significant changes between current year and prior year expenditures at the subfund and account level to ensure that expenditures were classified properly in the Commission's accounting records. Through this procedure, management became aware of an expenditure that was miscoded. The Commission inappropriately coded \$58,335 as Allocation- Entities (General Ledger Account 5170750000) when the amount should have been coded to Allocations- State Agencies (General Ledger Account 5170700000) within the Federal – Pass Through fund (Fund Code 50550P00).

We also noted 4 different expenditure accounts in which a transaction was miscoded in fiscal year 2011. While we have not applied procedures to the Commission's accounting records and internal controls for the year ended June 30, 2011, we have identified the lack of review and approval of disbursement coding as an ongoing issue.

We recommend the Commission ensure that the person responsible for approving accounting transactions review account coding more closely for accuracy.

EXPENDITURE CUT-OFF

In performing tests over non-payroll disbursements, we found three disbursements out of fifty were not recorded in the proper fiscal year. These errors occurred because of the lack of proper review of expenditures to determine whether or not they are included in the proper fiscal year.

The State Treasurer year-end close-out procedures require that expenditures be recorded in the same fiscal year that the good or service occurs.

We recommend that the Commission adhere to State Treasurer year-end close-out procedures and ensure that all expenditures are recorded in the proper fiscal year.

REPORTING PACKAGES

The Commission's agreed upon procedures report for the fiscal year ended June 30, 2010 included a comment pertaining to certain closing packages not being submitted timely. We tested the Commission's fiscal year 2012 reporting packages to ensure that they were accurate, supported by the Commission's accounting records and in compliance with the Office of the Comptroller General's Reporting Policies and Procedures Manual. Our review of agency prepared reporting packages revealed that the Commission did not timely submit the following reporting packages for fiscal year 2012: Master Reporting Package, Grants and Contributions Receivable Reporting Package, Accounts Payable Reporting Package, Compensated Absences Reporting Packages, Interfund Payable Reporting Package, and Capital

Assets Reporting Package. In addition to the reporting packages being late, the following were prepared and reviewed by the same individual: Master Reporting Package, Operating Lease Reporting Package, Accounts Payable Reporting Package, Compensated Absences Reporting Package, and Interfund Payables Reporting Package. These deviations from required procedures were caused by a lack of internal controls over the preparation and submission of reporting packages.

The requirements and instructions for completing the closing packages are included in the Reporting Policies and Procedures Manual provided by the Office of the Comptroller General. Section 1.7 of the manual provides, "Each agency's executive director and finance director are responsible for submitting...reporting packages...that are accurate and prepared in accordance with instructions, complete, and timely." We noted the cause of this fin

We recommend that the Commission develop and implement procedures to ensure that Reporting Packages are prepared, reviewed, and submitted by the due date as described in the manual. Additionally, we recommend someone other than the person preparing the reporting package review the package for any errors before it is sent to the Comptroller General's Office.

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 Independent Accountants’ Report on Applying Agreed-Upon Procedures on the Commission for the fiscal year ended June 30, 2010, and dated June 10, 2011. We applied no procedures to the Commission’s accounting records and internal controls for the year ended June 30, 2011. We determined that the Commission has taken adequate corrective action on each of the findings except we have repeated the finding Reporting Package noted in Section A.

MANAGEMENT'S RESPONSE

Attachment A



South Carolina Commission on Higher Education

Dr. Bettie Rose Horne, Acting Chair
Ms. Natasha M. Hanna
Ms. Elizabeth Jackson
Dr. Raghav Korrapati
Ms. Leah B. Moody
Vice Admiral Charles Munns, USN (ret.)
Mr. Kim F. Phillips
Mr. Y. W. Scarborough, III
Dr. Jennifer B. Settlemeyer
Mr. Hood Temple
The Honorable Lewis R. Vaughn

Dr. Richard C. Setton
Executive Director

June 28, 2013

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.

ACCOUNT CODING

The Commission has continued improvements implemented to ensure the correct coding of expenditures. The exception noted was miscoded with the single digit variance not recognized during the review process. We will continue to focus on our document approval process and do not expect a recurrence of this finding in the future.

EXPENDITURE CUT-OFF

This finding resulted from a misunderstanding of the instructions from the Comptroller General. SCEIS provides an opportunity to annotate a voucher as a "Prior Year Payable", but this opportunity is time limited. We erroneously deferred to vouchers with the annotation in completing our closing package per line 5 on the reviewer checklist. We failed to recognize that line 7 on the checklist referenced all documents through the date of the review, not just those appropriately annotated. We now understand that all vouchers meeting the criteria must be reported.

CLOSING PACKAGES

As a recurring finding, the Commission regrets that the actions taken to address late submission of the closing packages were not effective. An unanticipated personnel departure impacted our timely completion of the packages noted in the audit. We are pleased that, although late, there were no findings related to the quality of the work performed. We did inform the GAAP team and submitted the packages as quickly as possible. Limited personnel also impacted our ability to have several of the packages independently reviewed prior to submission. We chose to disclose this rather than having the package "reviewed" by an inappropriate staff person. We now have staff in place who have been given primary responsibility for closing package preparation which will then allow for appropriate review and timely submission in the future.

Sincerely,

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