

**SOUTH CAROLINA  
COMMISSION ON HIGHER EDUCATION**

**COLUMBIA, SOUTH CAROLINA**

**STATE AUDITOR'S REPORT**

**JUNE 30, 2015**

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**South Carolina  
Office of the State Auditor**

**George L. Kennedy, III, CPA  
State Auditor**

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

April 19, 2016

The Honorable Nikki R. Haley, 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, 2015, 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 twenty-five 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 ten 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 agency's accounting records. The scope was based on agreed upon materiality levels (\$3,300 – general fund, \$23,200 – earmarked fund, \$43,000 – restricted fund, and \$38,900 – federal fund) and  $\pm 10$  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 agency personnel performing their duties to determine if they understood and followed the described policies.

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

2. **Non-Payroll Disbursements and Expenditures**

- We inspected twenty-five 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 twenty-five 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 agency's accounting records. The scope was based on agreed upon materiality levels (\$489,800 – general fund, \$23,900 – earmarked fund, \$1,022,900 – restricted fund, and \$46,200 – federal fund) and  $\pm 10$  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 twenty-five 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; and 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 inspected payroll transactions for five selected new employees and five individuals who terminated employment to determine if the employees were added and/or removed from the payroll in accordance with the agency's policies and procedures, that the employee's first and/or last pay check 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 agency's accounting records. The scope was based on agreed upon materiality levels (\$489,800 – general fund, \$23,900 – earmarked fund, \$1,022,900 – restricted fund, and \$46,200 – federal fund) and  $\pm 10$  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  $\pm 10$  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.

4. **Journal Entries and Interagency Appropriation/Cash Transfers**

- We inspected ten selected recorded journal entries and five interagency appropriation/cash 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. We found no exceptions as a result of the procedures.

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 provisos as listed in the Appropriation Act work program, and agency specific provisos, if applicable.

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, 2015, 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. **Schedule of Federal Financial Assistance**

- We obtained a copy of the schedule of federal financial assistance for the year ended June 30, 2015, 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 our engagement for the fiscal year ended June 30, 2013, 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, 2014.

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

The concept of materiality does not apply to findings to be reported in an agreed-upon procedures engagement. Therefore, all findings from the application of the agreed-upon procedures must be reported unless the definition of materiality is agreed to by the specified parties. Management of the Commission has agreed that the following deficiencies will not be included in the State Auditor's Report on Applying Agreed-Upon Procedures:

- Clerical errors of less than \$100 related to processing cash receipts and cash disbursements transactions unless the errors occur in ten percent or more of the transaction class tested.
- Clerical errors of less than \$100 related to reporting packages.
- Errors in applying account coding definitions to accounting transactions unless it is determined that ten percent or more of the accounting transactions tested were found to be in error.
- Reporting packages which are submitted less than three business days after the due date unless it is determined that more than two of the reporting packages were submitted late.
- Submission of the Schedule of Federal Financial Assistance less than three business days late.

We were not engaged to and did not conduct an examination, 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 Commission and is not intended to be and should not be used by anyone other than these specified parties.



George L. Kennedy, III, CPA  
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.

## **REPORTING PACKAGES**

### **Condition:**

We noted the following during our testing of the Commission's fiscal year 2015 reporting packages:

1. During our review of the Refund Receivables Reporting Package, we determined the Commission was not required to complete the Refund Receivables and Related Accounts Summary Form (Form 3.05.2) because no expected refunds were outstanding as of June 30.
2. During our review of the Operating Leases Summary Form (Form 3.09.1), we noted the Commission reported \$18,181 of contingent rentals as Other Adjustments.
3. During our review of the Accounts Payable Reconciliation Form (Form 3.12.1), we determined the Commission included an interfund payable of \$120,301 in its reported total payable amount of \$228,081. The interfund payable should have been reported on the Interfund Payables Summary Form (Form 3.18.1) since it was >\$100,000 and total accounts payable should have been reported as \$107,780. We also determined the Commission improperly classified its reported payables on the Accounts Payable Summary Form (Form 3.12.2). The Commission reported Intergovernmental Payables of \$220,975 and Vendor Payables of \$7,106. We determined the amounts should have been reported as \$2,000 and \$105,780, respectively.
4. During our review of the Other Payroll Liabilities Reporting Package, we determined the Commission reported 27 Full Time Equivalent (FTE) earning annual leave instead of 37 FTE on the Compensated Absences Summary Form (Form 3.17.1). We also determined the Commission was not required to report amounts on Part 2 of the form because it stated in Part 1 that its report of compensated absences received from SCEIS was accurate and complete.

### **Cause:**

Commission personnel stated the reporting packages were incomplete or incorrect due to employee error.

### **Effect:**

1. Current Net Receivables were overstated by \$1,614 on Form 3.05.2.
2. Contingent Rentals were understated by \$18,181 and Other Adjustments were overstated by \$18,181 on Form 3.09.1.
3. Total accounts payables reported on Form 3.12.1 was overstated by \$120,301. Vendor payables were understated by \$98,674 in Fund 10010000 and intergovernmental payables were overstated by \$218,975 in Fund 10010000 on Form 3.12.2.
4. The number of FTEs reported on Form 3.17.1 was understated by 10. Also, because the Commission reported amounts on Form 3.17.1, this caused an overstatement of annual leave liability in the following funds: 10010000 - \$188,181; 30350000 - \$47,019; 43B10000 - \$20,078; 47C80000 - \$9,576; 49730000 - \$4,601; 50380000 - \$26,819; 50550000 - \$30,267.

**Criteria:**

Section 1.7 of the Comptroller General's Year-End Reporting Package Policies and Procedures Manual states, "Each agency's executive director and finance director are responsible for submitting to the Comptroller General's Office reporting packages and/or financial statements that are: accurate and prepared in accordance with instructions, complete, and timely".

**Recommendation:**

We recommend the Commission strengthen its procedures to ensure reporting packages are prepared and completed in accordance with the CG's Policies and Procedures Manual. Commission personnel responsible for completing and reviewing the reporting packages should review instructions for completing the packages and compare the supporting working papers prior to submission to eliminate errors.

**Management's Response:**

The Commission on Higher Education appreciates the professionalism and diligence demonstrated by State Auditor's Office during the conduct of our agreed-upon procedures audit. We acknowledge the findings concerning the variances noted with regard to the preparation and submission of our fiscal year 2015 closing packages. The Commission has recently filled a key vacancy in the Fiscal Affairs division. This position will provide an additional layer of review for the reporting packages to ensure we are completing the reporting packages in accordance with the CG's Policies and Procedures.

## **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, 2013, and dated May 15, 2014. We applied no procedures to the Commission's accounting records and internal controls for the year ended June 30, 2014. We determined that the Commission has taken adequate corrective action on the deficiency titled Cash Receipts. We did, however, note additional deficiencies during our testwork which will be reported in a similar finding titled Reporting Packages in Section A of the report.

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