

Lander University

OMB Circular A-133 Reports

For the year ended June 30, 2015

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**Independent Auditor's Report on Internal Control Over
Financial Reporting and on Compliance and Other Matters
Based on an Audit of Financial Statements Performed in
Accordance with *Government Auditing Standards***

Board of Trustees
Lander University
Greenwood, South Carolina

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the business-type activities and discretely presented component unit of Lander University (the University) as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the University's basic financial statements, and have issued our report thereon dated October 1, 2015. The financial statements of The Lander Foundation were not audited in accordance with *Government Auditing Standards* and accordingly this report does not include reporting on internal control over financial reporting or instances of reportable noncompliance associated with The Lander Foundation.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the University's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the University's internal control. Accordingly, we do not express an opinion on the effectiveness of the University's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Internal Control Over Financial Reporting, Continued

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and questioned costs that we consider to be a significant deficiency (Finding 2015-001).

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the University's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Lander University's Response to Finding

The University's response to the finding identified in our audit is described in the accompanying schedule of findings and questioned costs. The University's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



Greenville, South Carolina
October 1, 2015



**Independent Auditor's Report on Compliance for
Each Major Federal Program, Report on
Internal Control Over Compliance, and Report on the Schedule of
Expenditures of Federal Awards Required by OMB Circular A-133**

Board of Trustees
Lander University
Greenwood, South Carolina

Report on Compliance for Each Major Federal Program

We have audited Lander University's (the University) compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the University's major federal programs for the year ended June 30, 2015. The University's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the University's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the University's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the University's compliance.

Opinion on Each Major Federal Program

In our opinion, Lander University complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2015.

Report on Internal Control Over Compliance

Management of the University is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the University's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the University's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A significant deficiency in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

Report on Schedule of Expenditures of Federal Awards Required by OMB Circular A-133

We have audited the financial statements of the business type activities and the discretely presented component unit of the University, a component unit of the State of South Carolina, as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the University's basic financial statements. We issued our report thereon dated October 1, 2015, which contained unmodified opinions on those financial statements. Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditure of federal awards is fairly stated in all material respects in relation to the basic financial statements as a whole.



Greenville, South Carolina
October 1, 2015

Lander University*Schedule of Expenditures of Federal Awards**For the year ended June 30, 2015*

Federal grantor/ Pass-through grantor/Program or Cluster title	Federal CFDA number	Pass through entity identifying number	Federal expenditures
Student Financial Assistance Cluster			
United States Department of Education			
Direct Programs:			
Federal Supplemental Educational Opportunity Grant	84.007		\$ 98,330
Federal Direct Student Loans	84.268		16,876,760
Federal Work-Study Program	84.033		121,439
Federal Perkins Loan Program	84.038		225,208
Federal Pell Grant Program	84.063		<u>5,884,905</u>
Total Student Financial Assistance Cluster			<u>23,206,642</u>
TRIO Cluster			
United States Department of Education			
Direct Programs:			
Student Support Services	84.042A		<u>194,083</u>
Special Education Cluster			
United States Department of Education			
Passed through South Carolina Commission on Higher Education:			
Special Education Grants to States (Project CREATE)	84.027A	07-CO-305-01	<u>139,168</u>
Other Programs			
United States Department of Health and Human Services			
Passed through South Carolina Developmental			
Disabilities Council: Developmental			
Disabilities State Grant program	93.630	03-21-0010	<u>24,996</u>
Total Federal assistance expended			<u>\$ 23,564,889</u>

See Notes to the Schedule of Expenditures of Federal Awards

Lander University

Notes to the Schedule of Expenditures of Federal Awards For the year ended June 30, 2015

Note 1. Basis of Presentation

The accompanying schedule of expenditures of federal awards includes the federal grant activity of Lander University (the University) and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Because the schedule presents only a selected portion of the operations of University, it is not intended to and does not present the financial position, changes in net position or cash flows of University.

Note 2. Summary of Significant Accounting Policies

Expenditures reported on the schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in OMB Circular A-21, *Cost Principles for Education Institutions*, wherein certain types of expenditures are not allowable or are limited as to reimbursement. Passthrough entity identifying numbers are presented where available.

Note 3. Federal Student Loan Programs

The federal student loan programs listed subsequently are administered directly by the University and balances and transactions relating to these programs are included in the University's basic financial statements. Loans made during the year are included in the federal expenditures presented in the schedule. The balance of loans outstanding at June 30, 2015 consists of:

<u>CFDA Number</u>	<u>Program Name</u>	<u>Outstanding Balance</u>
84.038	Perkins Loan Program	\$ 1,479,309

Lander University**Schedule of Findings and Questioned Costs****For the year ended June 30, 2015**

Section I – Summary of Auditor’s Results**Financial Statements**

Type of auditor’s report issued: Unmodified

Internal control over financial reporting:

- Material weakness identified? No
- Significant deficiencies identified? Yes

Noncompliance material to financial statements noted? No

Federal Awards

Internal control over major programs:

- Material weakness identified? No
- Significant deficiencies identified? None reported

Type of auditor’s report issued on compliance for major programs: Unmodified

Any audit findings disclosed that are required to be reported in accordance with section 510(a) of OMB Circular A-133? No

Identification of major programs:

<u>CFDA Numbers</u>	<u>Name of Federal Program or Cluster</u>
84.007; 84.268; 84.033; 84.038; 84.063	Student Financial Assistance Cluster

Dollar threshold used for distinguishing between type A and B Programs: \$ 706,947

Auditee qualified as low-risk auditee? Yes

Lander University

Schedule of Findings and Questioned Costs

For the year ended June 30, 2015

Section II – Financial Statement Findings

Significant Deficiency

Finding 2015-001

Payroll and Information Technology Controls

- Condition:** In April 2015, the University discovered a fraud perpetrated by an accounting staff member that had been occurring for multiple years.
- Criteria:** A key element of financial reporting is management's ability to design internal controls to timely prevent and detect fraud.
- Cause:** The fraud was perpetrated by one employee and involved the editing of two files – the payroll ACH file going to the bank and an interface file of accounting entries between the payroll and the general ledger systems. Specifically, the person committing the fraud had the access rights to edit the text based ACH file once it was created as part of the payroll process and prior to sending the ACH file to the bank. This individual also had the access rights to edit the file created by the payroll process to post the associated accounting entries to the general ledger module. Since user intervention (interface schedule was not automated) was required to actually post the contents of this interface file to the general ledger, the file was able to be edited prior to posting. The ability of one individual to edit both of these two files served as the mechanisms of the fraud. The details of the fraud were discovered internally by management. While the fraud was not material in any given year to the financial statements, the fraud went undetected primarily due to a lack of information technology (IT) and payroll related internal controls.
- Effect:** The University's cash as of June 30, 2015 was misappropriated by approximately \$350,000 over the entire period of the fraud.
- Recommendation:** Periodically review internal control policies and procedures, perform an IT control gap assessment, address IT control gaps, and reassign employee responsibilities to ensure adequate segregation of duties within the payroll cycle.
- View of Responsible Official and Corrective Actions:** In response to the fraud event, new payroll processes were implemented in the month after the fraud was identified:
- Payroll processing personnel had their edit access rights to the interface table removed ensuring that payroll processing personnel will no longer be able to edit the interface file going forward. The payroll processes were reviewed and utilization of source Banner payroll functionality and reports was further utilized. These changes provide stronger controls to assure payroll ACH files agree to the source payroll register and also the general ledger entries created from the payroll process.

Lander University

Schedule of Findings and Questioned Costs

For the year ended June 30, 2015

Section II – Financial Statement Findings, Continued

Finding 2015-001, continued

View of Responsible
Official and Corrective
Actions, continued:

- An acknowledgement process from the bank was implemented whereby the bank sends an email to confirm the amount of the ACH file received by the bank. The email is received by the person who uploaded the ACH file to the bank. However, the email and the source payroll register are provided to the Controller to independently verify the ACH amount sent. Comparing this to a source payroll register would reveal any deviations.
- The check request process to reimburse the bank for the payroll funds was modified to provide enhanced supporting documentation and is now initiated by the Controller.
- Overall heightened awareness of security and the importance of segregation of duties and professional skepticism.
- Specific aspects of the payroll processing were moved to the Controller to enhance segregation of duties and provide increased oversight. Detailed documentation of each payroll process is now maintained, including a payroll register from the source system.

Section III – Federal Award Findings and Questioned Costs

None reported

Lander University***Summary Schedule of Prior Audit Findings******For the year ended June 30, 2015***

The prior year single audit disclosed no findings in the *Schedule of Findings and Questioned Costs* and no uncorrected or unresolved findings exist from the prior audit's *Summary of Prior Audit Findings*.