

**SOUTH CAROLINA
COMMISSION ON HIGHER EDUCATION**

COLUMBIA, SOUTH CAROLINA

STATE AUDITOR'S REPORT

JUNE 30, 2016



INDEPENDENT ACCOUNTANT'S REPORT ON APPLYING AGREED-UPON PROCEDURES

October 5, 2017

Mr. Jeff Schilz, Interim Executive Director
and
Members of the Commission
South Carolina Commission on Higher Education
Columbia, South Carolina

We have performed the procedures described in Attachment 1, which were agreed to by the management of the South Carolina Commission on Higher Education (the Commission), solely to assist you in evaluating the systems, processes and behaviors of the Commission for the fiscal year ended June 30, 2016. 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 in Attachment 1 for the purpose of which the agreed-upon procedures report has been requested or for any other purpose.

This agreed-upon procedures engagement was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants. We were not engaged to and did not conduct an examination or review, the objective of which would be an opinion or conclusion, respectively, on the systems, processes and behaviors of the Commission. Accordingly, we do not express an opinion or conclusion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

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 \$1,000 related to processing cash receipts and cash disbursements transactions unless the errors occur in ten percent or more of the transaction class inspected.
- Clerical errors of less than \$1,000 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 inspected 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.

Mr. Jeff Schilz, Interim Executive Director
and
Members of the Commission
South Carolina Commission on Higher Education
October 5, 2017

This report is intended solely for the information and use of the governing body and management the South Carolina Commission on Higher Education and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.



George L. Kennedy, III, CPA
State Auditor

**South Carolina Office of the State Auditor
Agreed Upon Procedures Related to the South Carolina Commission on Higher Education (H03)**

Cash Receipts/Revenues

1. Compare current year revenues and operating transfers in at the subfund and account level from sources other than State General Fund appropriations to those of the prior year. Obtain and document an understanding of revenue variations over \$10,000 and 10% in general funds and \$50,000 and 10% in all other funds as well as operating transfer variations in the earmarked fund.
2. Randomly select twenty-five cash receipts transactions and inspect supporting documentation to:
 - Agree transaction amount, date, payor, document number, and account coding to the general ledger.
 - Determine that revenues/receipts were deposited in a timely manner.
 - Ensure that both revenue collections and amounts charged are properly authorized by law.
3. Randomly select seven cash receipts and inspect supporting documentation to determine that receipts are recorded in the proper fiscal year.

Finding

The date of receipt was not properly documented for two receipt transactions. As a result, we were unable to determine if these receipts were deposited in a timely manner in accordance with State law.

Management's Response

We agree that the date of receipt was not present on these two items. Since fiscal year 2016, and prior to this audit, our agency created policies regarding receipts which now include the requirement to date stamp all items. The presence of a date stamp on each item is verified by another individual to ensure compliance. Check and cash receipts are deposited within five days after the agency receives these items, and all individuals that deal with receipts are aware of the requirement of both depositing in a timely manner as well as the dating of receipts.

Cash Disbursements/Non-Payroll Expenditures

4. Compare current year non-payroll expenditures and operating transfers out at the subfund and account level to those of the prior year. Obtain and document an understanding of variations over \$500,000 and 10% in general funds, \$50,000 and 10% in earmarked funds, \$1,500,000 and 10% in restricted funds, and \$75,000 and 10% in federal funds as well as operating transfer variations in the earmarked fund.
5. Randomly select twenty-five non-payroll disbursements and inspect supporting documentation to determine:
 - The transaction is properly completed as required by Commission procedures; invoice(s) agree(s) with general ledger as to vendor, amount, number, and date.
 - All supporting documents and approvals required by Commission procedures and good business practice are present and agree with the invoice.
 - The transaction is a bona fide expenditure of the Commission, properly coded to the general ledger.
 - The disbursement complied with all State laws, rules, and regulations including the State Consolidated Procurement Code, state travel regulations, etc.
 - Clerical accuracy / verify proper sales/use tax.

Cash Disbursements/Non-Payroll Expenditures (Continued)

For federally funded cash disbursements/non-payroll expenditures we will inspect supporting documentation to determine:

- Charges are necessary and reasonable for the proper administration of the program, incurred during the approved grant period, given consistent accounting treatment (as other transactions above) and applied uniformly to both federally assisted and other activities of the recipient.

6. Randomly select twenty-five non-payroll disbursements and inspect supporting documentation to determine that disbursements are recorded in the proper fiscal year.

Finding

One invoice was not submitted to the Office of the Comptroller General for payment within thirty work days of acceptance of the related services and proper invoice.

Management's Response

We agree that the referenced invoice was not paid within thirty work days of acceptance. Our agency has provided training and informed all employees that receive invoices of the requirement of paying in a timely manner. Each division has been informed of the need to immediately send all invoices to accounts payable as soon as possible to ensure payment within the thirty work days.

Payroll

7. Compare current year payroll expenditures at the subfund and account level to those of the prior year. Obtain an understanding of variations over \$500,000 and 10% in general funds, \$50,000 and 10% in earmarked funds, \$1,500,000 and 10% in restricted funds, and \$75,000 and 10% in federal funds.

8. For six randomly selected salaried employees and one haphazardly selected hourly employee, perform the following:

For Salaried Employees:

- Obtain and inspect the employee's payroll and/or personnel file for various forms, communications, etc., to confirm that the person is a bona fide employee of the Commission.
- Agree gross pay to supporting documentation noting all changes to gross salary for the year. Determine that all changes have been properly approved.

For Hourly Employee:

- Obtain and inspect the employee's payroll and/or personnel file for various forms, communications, etc., to confirm that the person is a bona fide employee of the Commission.
- Confirm the hourly rate and time sheets are properly approved; recalculate gross pay.

9. Randomly select five bonus pay disbursements to determine:

- The employee does not make more than \$100,000 annually.
- Bonuses received during the year did not exceed \$3,000.
- The transaction was appropriately documented and approved.

Payroll (Continued)

10. Randomly select five bonus pay disbursements authorized by the 2015-2016 Supplemental Appropriations to determine:
 - The employee is a permanent state employee in a full-time equivalent position who has been in continuous state service for at least six months prior to July 1, 2015.
 - The employee does not make more than \$100,000 annually.
 - Bonus pay was split between funds according to the ratio of the employee's base salary, if applicable, and paid from the employee's approved funding source.
11. Randomly select five employees hired during the fiscal year to determine if they were added to the payroll in accordance with the Commission's policies and procedures and that their first pay check was properly calculated in accordance with applicable State law.
12. Randomly select five employees who terminated employment during the fiscal year to determine if they were removed from the payroll in accordance with the Commission's policies and procedures, that the employee's last pay check was properly calculated and that the employee's leave payout was properly calculated in accordance with applicable State law.
13. Compare the percentage change in personal service expenditures between the current year and prior year to the percentage change in employer contributions expenditures between the current year and prior year. Obtain an explanation of changes of +/- 10%.
14. Compute the percentage distribution of fringe benefit expenditures by fund source and compare to the actual distribution of recorded personal service expenditures by fund source. Obtain an explanation of changes of +/- 10%.

Finding

The Commission could not locate documentation to support the approval of the hourly rate paid to two employees. As a result, we were unable to verify the rates and determine whether the employees' first paychecks were properly calculated.

Management's Response

We agree with the finding that there was no documentation regarding the approval of the hourly rate for two employees. However, there is no indication that the agency improperly paid any employees. The human resource files were not properly maintained on these two employees. In fiscal year 2018, the Commission on Higher Education transferred administration of the agency's human resource functions to the Department of Administration. As a result, our human resource files are now being properly maintained, and any personnel or payroll action requires documentation that will be placed in the relevant file.

Journal Entries and Transfers

15. Randomly select four journal entries and six transfers for the fiscal year to:
 - Trace postings to the general ledger, confirming amounts agree with supporting documentation.
 - Confirm transaction is properly approved.
 - Inspect supporting documentation to confirm the purpose of the transaction.

We found no exceptions as a result of these procedures.

Appropriation Act

16. Inspect the Appropriation Act work program, provided to and completed by management, noting areas of noncompliance, if any.
17. Confirm compliance with Commission-specific state provisos by inquiring with management and observing supporting documentation.

Findings

The Commission did not complete an inventory of personal property in fiscal year 2016 as required by State law.

Payments made to a contracted accounting firm for auditing services exceeded the amount approved by the Office of the State Auditor by \$1,200.

Management's Response

Our agency did not conduct an inventory in fiscal year 2016. On October 12, 2017, our agency began the inventory of personal property and will have the inventory complete in November 2017 to ensure compliance in the current fiscal year. We are fully aware of this requirement and will conduct this inventory process every fiscal year.

We agree that payments made to a contracted accounting firm for auditing services exceeded the amount approved by the Office of the State Auditor by \$1,200. These payments occurred between October 16, 2015 through December 22, 2015. Neither the division responsible for approving the payments to the accounting firm nor the accounts payable group responsible for processing the payments kept a running total of payments to the firm over the fiscal year. As a result, payment in excess of the approval amount was disbursed. Beginning in fiscal year 2018, all payments that need approval by the Office of the State Auditor will have a running payment total included in the supporting documentation before payment is processed. This will ensure the total payments over the fiscal year does not exceed the approval from the Office of the State Auditor.

Reporting Packages

18. Obtain copies of fiscal year end reporting packages submitted to the Office of the State Comptroller General (CG). Inspect the Master Reporting Package Checklist to determine the appropriate reporting packages were prepared and submitted by the due date established by the CG's Reporting Policies and Procedures Manual.
19. In addition to the procedure above, we will perform the following:
 - Grants and Contributions Revenue Reporting Package
 - Haphazardly select five grants to determine if the reported beginning and ending fund balances, receipts, qualified expenditures, adjustments, fund, grant number, and CFDA number agree to the SCEIS general ledger and/or SCEIS Display Grant Master. In addition, recalculate the reported total receivables and deferred revenue to determine accuracy.
 - Other Receivables Reporting Package
 - Determine if reported amounts are accurate based on inspection of the SCEIS general ledger, the SCEIS Year-end Reporting – Accounts Receivable Current with Customer report and/or Commission prepared records.
 - Capital Assets Reporting Package
 - Determine if responses and reported amounts are reasonable/accurate based on inspection of the SCEIS general ledger, the SCEIS Asset History Sheet and/or Commission prepared records.

Reporting Packages (Continued)

- Operating Leases Reporting Package
 - Determine if amounts agree to the SCEIS general ledger, the SCEIS Year-end Reporting – Operating Lease Expense with Vendor report and/or Commission prepared records. In addition, based on inspection of invoices and lease agreements, determine if rental payments were properly classified, coded and calculated by inspecting and recalculating the following reported amounts: (1) One haphazardly selected contingent rental payment for each vendor; (2) All current and future operating lease payments; and (3) One haphazardly selected payment for each vendor included in the remaining rental payment classifications (One Time Rental Payments and Other Adjustments).
- Accounts Payable Reporting Package
 - Haphazardly select ten payables to determine if the amounts were properly classified, calculated and reported based on inspection of the SCEIS general ledger, SCEIS Year-end Reporting – Prior Year Payables with Vendor report and/or Commission prepared records.
- Subsequent Events Questionnaire
 - Determine if responses are reasonable/accurate and any required supplemental information was properly prepared and submitted based on inspection of the SCEIS general ledger and/or Commission prepared records. In addition, inspect the Subsequent Events Accounts Payable Worksheet and determine if the amounts were properly classified, calculated and reported and excluded from the original Accounts Payable Reporting Package submission.

Finding

The payments associated with one maintenance agreement, three operating leases, and various car rentals were improperly classified on the Operating Leases Summary Form – Lessor. As a result, the amount reported for Contingent Rental Payments was overstated by \$8,069 and the amounts reported for Other Adjustments and Required Minimum Lease Payments for Operating Leases were understated by \$4,122 and \$3,947, respectively. In addition, the operating lease payments were improperly excluded from the Operating Leases Future Minimum Payment Schedule. Further, the maintenance agreement payment was improperly coded in the SCEIS general ledger as a rental rather than a contractual service.

Management's Response

We agree with the findings. These errors occurred due to staff misunderstanding of the definitions of Contingent Rental and Operating Leases. As a result, some of the items reported on the Operating Leases Reporting Packet submitted on August 23, 2016 was not categorized properly. Subsequent staff training and understanding of the Reporting Policies and Procedures Manual will ensure this error does not occur again. We received clarification from the Office of Comptroller General regarding the categorization of various car rentals and will properly categorize those going forward. Maintenance agreements will now be coded as a contractual service. These were improperly coded as a rental due to a misunderstanding of what the invoice was actually for.

Commission Minutes

20. We will inspect the Commission's approved minutes beginning with the end date of prior year fieldwork through the end of our fieldwork.

We found no other matters related to our agreed-upon procedures.

Status of Prior Findings

21. Through inquiry and inspection, determine if the Commission has taken appropriate corrective action on the findings reported in the Accountant's Comments section of the engagement for the prior fiscal year.

We found similar exceptions regarding the Operating Leases Reporting Package. See finding in Reporting Packages.