

INDEPENDENT ACCOUNTANTS' REPORT  
ON APPLYING AGREED-UPON PROCEDURES

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

June 30, 2013

*State of South Carolina*



*Office of the State Auditor*

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DEPUTY STATE AUDITOR

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May 15, 2014

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, 2013, 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

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*COLUMBIA, SOUTH CAROLINA*  
June 30, 2013

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## INDEPENDENT ACCOUNTANTS' REPORT ON APPLYING AGREED-UPON PROCEDURES

May 15, 2014

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, 2013, 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 (\$450 general fund, \$9,700 – earmarked fund, \$22,000 – restricted fund, and \$30,000 – 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 Commission personnel performing their duties to determine if they understood and followed the described policies.

The individual transactions selected were chosen haphazardly. Our findings as a result of these procedures are presented in Cash Receipts in the Accountants' Comments A and B 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 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 (\$419,000 – general fund, \$9,500 – earmarked fund, \$839,000 – restricted fund, and \$29,000 – federal fund) and  $\pm 10$  percent.

The individual transactions selected were chosen haphazardly. 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 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 (\$419,000 – general fund, \$9,500 – earmarked fund, \$839,000 – restricted fund, and \$29,000 – 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 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, 2013, 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 GAAP 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, 2013, 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, 2012, to determine if the Commission had taken corrective action.

Our finding as a result of these procedures are presented in Reporting Packages for the Refunds Receivable Reporting Package 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.

## REPORTING PACKAGES

### *Master Reporting Package:*

Our review of agency prepared reporting packages revealed the Commission did not accurately complete the master reporting package. The master reporting package states the Commission did not record any lease payments under lease agreements during the fiscal year, however, lease payments were made with an Operating Lease Reporting Package completed by management. Management mistakenly answered no which caused the reporting package to be inaccurate. Management did not resubmit a corrected master reporting package to reflect such assessment.

Section 1.7 Summary of Agency Responsibilities states "Each agency's executive director and finance director are responsible for submitting....reporting package...that are accurate and prepared in accordance with instructions."

We recommend the Commission ensure that personnel responsible for completing and approving are knowledgeable of the agency's activities and package is reviewed for accuracy prior to submission.

### *Refunds Receivable Reporting Package:*

The Commission's agreed upon procedures report for the fiscal year ended June 30, 2012 included a comment pertaining to certain closing packages not being submitted timely. We tested the Commission's fiscal year 2013 reporting packages to ensure that they were accurate, submitted timely, 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 Refunds Receivable Reporting Package for fiscal year 2013 due to unforeseen delays. As a result, the reporting packages were not received by the Comptroller General's Office by the due date.

The requirements and instructions for completing the reporting 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 recommend that the Commission ensure that all personnel responsible for completing and approving reporting packages are knowledgeable of the due dates.

### *Operating Lease Reporting Package:*

During our review of the 2013 Operating Lease Reporting Package we noted the Commission reported future minimum payments based on the lease year and not the fiscal year of the Commission. This error was the result of management's interpretation of the schedule and went undetected by the Commission during the review, causing the future minimum payment to be understated by \$285,892 in total.

The requirements and instructions for completing the reporting packages are included in the Reporting Policies and Procedures Manual. Section 1.7 Summary of Agency Responsibilities states "Each

Agency's executive director and finance director are responsible for submitting...reporting package...that are accurate and prepared in accordance with instructions."

We recommend that the Commission personnel responsible for completing and reviewing the reporting packages review instructions for completing the packages.

#### *Grants and Contribution Revenues Reporting Package*

In our review of the Grants Reporting Package we noted the beginning fund balance, grant receipts through June 30, and grant qualified payment through June 30 were incorrectly stated for one of the Commission's grants. Management erroneously duplicated a grant which resulted in the beginning fund balance being overstated by \$133,279 with the grant qualified receipts and grant qualified payments being overstated by \$1,026,365 and \$893,085, respectively.

The requirements and instructions for completing the reporting 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 recommend that the Commission personnel responsible for completing and reviewing the reporting packages review instructions for completing the packages

#### CASH RECEIPTS

In performing tests over cash receipts, we found one receipt that was not stamped when received and as a result appears that it was not deposited in a timely manner. We noted a check was dated December 14, 2012 and was not deposited until January 4, 2013 due to staff holidays and vacations taken during that time. The lack of timely deposits increases the possibility of loss or theft of cash. It could also impact management decisions because accounting transactions are not recorded timely in the Commission's accounting records.

Section 89.1 of the Appropriations Acts states revenues "must be remitted to the State Treasurer at least once each week".

We recommend the Commission adhere to policies and procedures it has in place that requires all receipts are stamped when received and deposits are made on a timely basis.

## SECTION B – OTHER WEAKNESS

The condition described in this section has been identified while performing the agreed-upon procedures but it is not considered a violation of State Laws, Rules or Regulations.

## CASH RECEIPTS

In performing tests over cash receipts, we found five receipts that did not document preparer or approver of deposit. The preparer and approver overlooked the receipts and did not sign off. We were unable to determine if the same person prepared the deposit and approved the deposit. Best practices would require the preparer to list all of monies received with the approver comparing the deposit slip to the list to ensure that all receipts are deposited. The lack of approval could result in receipts not being deposited or mishandled by the preparer.

We recommend the Commission implement procedures that require the person approving the deposit be independent of the deposit preparation. We also recommend the Commission require the preparer and approver sign and date the supporting documentation to document the performance of their task.

## 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, 2012, and dated June 19, 2013. We applied no procedures to the Commission’s accounting records and internal controls for the year ended June 30, 2012. 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

Brig Gen John L. Finan, USAF (Ret.), Chair  
Dr. Bettie Rose Horne, Vice Chair  
Ms. Natasha M. Hanna  
Ms. Elizabeth Jackson  
Ms. Dianne C. Kuhl  
Ms. Leah B. Moody  
Vice Admiral Charles Munns, USN (ret.)  
Mr. Kim F. Phillips  
Ms. Terrye C. Seckinger  
Dr. Jennifer B. Settlemeyer  
Mr. Hood Temple  
  
Dr. Richard C. Sutton  
Executive Director

May 19, 2014

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.

### REPORTING PACKAGES:

#### Master Reporting Package

We acknowledge that an incorrect indicator was included on our original Master Reporting Package regarding the need to prepare an Operating Lease Package. However, we discovered the error prior to the reporting date for the Operating Lease Package and submitted the package in a timely manner. Based on an email received after the submission of the Operating Lease Package, we did not think it necessary to amend the Master. However, should a similar situation arise in the future, we will submit the correction.

#### Refunds Receivable Reporting Package

As a recurring finding, the Commission regrets that the actions taken to address late submission of all closing packages were not effective. Although significant progress was made, our efforts were not successful in ensuring that the Refunds Receivable Reporting Package met the submission standard. We will continue to stress the important of timely submission and focus on fully eliminating this finding in the future.

#### Operating Lease Reporting Package

The error on the Operating Lease Reporting Package resulted from an inaccurate interpretation of the guidance received. With the auditor's assistance, we have now created a template that correctly measures the lease payable going forward and do not expect a recurring finding regarding this package.

## Grants Contribution Revenues Reporting Package

Staff made an error in recording the payment on one grant by picking up a total line rather than the disaggregated line from the Schedule of Federal Financial Assistance, which was prepared correctly. This error went undetected in the review as well. This undetected human error was not the result of weak process or procedure. However, we will continue to focus on the quality of our work and ensuring that additional time is available to provide for a more robust review in the future.

### CASH RECEIPTS

We have taken steps to strengthen our receipt process to ensure that we deposit all receipts in a timely manner, that all receipts are date stamped by the receiving unit, and that all deposit slips are signed and cosigned.

Sincerely,



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