

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

STATE AUDITOR'S REPORT

JUNE 30, 2019



Independent Accountant's Report On Applying Agreed-Upon Procedures

May 18, 2020

Dr. Rusty Monhollon, President and 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), on the systems, processes and behaviors related to financial activity of the Commission for the fiscal year ended June 30, 2019. The Commission's management is responsible for the systems, processes and behaviors related to financial activity. 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 either for the purpose for 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 related to financial activity 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:

- Errors of less than \$1,000 related to cash receipts and non-payroll cash disbursements transactions.
- Errors of less than \$1,000 related to reporting packages.

This report is intended solely for the information and use of the governing body and management of 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 South Carolina Commission on Higher Education (H03)**

Cash Receipts/Revenues

1. Compare current year revenues at the fund and account level from sources other than State General Fund appropriations to those of the prior year. Obtain from management an understanding of variations in General Ledger Account 4520010000 (Refund of Prior Year Expenditure) in the Earmarked Fund, General Ledger Account 4520010026 (Refund of Prior Year Expenditure – Other) in the Restricted Fund and General Ledger Account 4280020000 (Federal Operating Grant Restricted) in the Federal Fund.
2. Haphazardly select fifteen cash receipts transactions and inspect supporting documentation to:
 - Ensure supporting documentation for transaction agrees with the general ledger as to amount, date, payor, document number, and account classification.
 - Determine that revenues/receipts were deposited in a timely manner, in accordance with Proviso 117.1 of the fiscal year 2019 Appropriation Act.
 - Ensure that both revenue collections and amounts charged are properly authorized by law.
 - Determine that receipts are recorded in the proper fiscal year.

Finding

The Commission recorded receipt transactions totaling \$3,870 in the wrong fiscal year. The Commission received the funds in June 2018 (fiscal year 2018) but posted them in fiscal year 2019.

Management Response

We agree with the finding. Three checks received by the Commission at the end of June 2018 were commingled with checks received on July 2, 2018 (fiscal Year 2019) and were mistakenly posted with those checks in fiscal year 2019. Staff have implemented a reconciliation process to ensure checks received at year end are posted in the correct fiscal year.

Cash Disbursements/Non-Payroll Expenditures

3. Compare current year non-payroll expenditures at the fund and account level to those of the prior year. Obtain from management an understanding of variations in the General Ledger Account Series: 503 – (Supplies and Materials) in the General Fund; General Ledger Account Series 503 – (Supplies and Materials), 510 – (Scholarships), and 517 – (Allocations) in the Restricted Fund; and General Ledger Account Series 517 – (Allocations) and General Ledger Account 5210010000 (Indirect Cost) in the Federal Fund.
4. Haphazardly select ten 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 are present and agree with the invoice.
 - The transaction is a bona fide expenditure of the Commission.
 - The transaction is properly classified in the general ledger.
 - Disbursement complied with applicable State laws, rules, and regulations including the State Consolidated Procurement Code, state travel regulations etc.

Cash Disbursements/Non-Payroll Expenditures (Continued)

- Disbursements are recorded in the proper fiscal year.
- Clerical accuracy / confirm proper sales/use tax.
- Lottery disbursement was monitored and expended in compliance with Proviso 3.1 of the fiscal year 2019 Appropriation Act.

For federally funded cash disbursements/non-payroll expenditures, 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 and applied uniformly to both federally assisted and other activities of the recipient.

5. Haphazardly select ten purchasing card transactions from the Office of the Comptroller General's (CG) listing of purchasing card transactions for fiscal year 2019 and inspect supporting documentation to determine:

- The cardholder is an authorized user and individual credit limits have been properly approved in accordance with Commission policies.
- The purchase is authorized based on the cardholder's job title/position.
- The monthly purchase summary was submitted along with applicable receipts and signed by both the supervisor and cardholder.
- The purchase did not exceed the single transaction limit or the individual credit limit and there was no indication of transaction splitting.

Findings

During our comparison of expenditure changes between fiscal years we observed that a \$500,000 payment for project management services was coded to general ledger account 5030010004 (Supplies and Materials – Subscriptions) in fiscal year 2019 instead of to general ledger account 5020077160 (Services, Maintenance and Warranties - Management and Administration).

We also observed the Commission did not charge any indirect costs to its federal grants in fiscal year 2019; as a result, no indirect cost revenue was remitted to the State General Fund.

Management Response

We agree that the project management services contract was coded to the wrong general ledger account in FY 19. We will continue to emphasize with staff the importance of accuracy in coding expenditure documents.

We agree that indirect cost was not charged for our federal grants in fiscal year 2019. Staff that typically processed indirect cost left the agency and the remaining staff was unaware of this remittance requirement. The Fiscal Affairs division is developing a handbook documenting procedures and functional tasks. This handbook will include a section on indirect costs. We believe that this handbook will mitigate the risk of a similar future finding.

Payroll

6. 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 variations greater than 10%.

Payroll (Continued)

7. 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 greater than 10%.
8. Haphazardly 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.
9. Haphazardly 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.
10. Confirm that any supplemental salary paid to Commission employee had proper approval and was reported by the Commission to the Department of Administration as defined by Proviso 93.14 of the fiscal year 2019 Appropriation Act.

Finding

One employee who terminated employment in March 2017 was not removed from the South Carolina Enterprise Information System (SCEIS) payroll system until December 2018. In addition, a temporary employee who was hired in August 2017 was not removed from SCEIS until December 2018. State Human Resources Regulation 19-700 defines a temporary employee as a full-time or part-time employee who does not occupy an FTE position, whose employment is not to exceed one year. We determined the employee was not paid after July 2018; however the employee remained on the payroll one year after her hire date.

Management Response

We agree with the finding that two employees were not removed from the South Carolina Enterprise Information System (SCEIS) until months past their last pay check. The Commission currently contracts with the Department of Administration Shared Services (the Department) to aid with human resource functions. We will ask the Department to implement a procedure that sets a maximum length of time a temporary employee can remain on SCEIS without receiving a payroll payment. In addition, the Commission's Administrative division has implemented periodic trainings with division directors and supervisors around hiring and removing temporary employees.

Journal Entries and Transfers

11. Haphazardly select eight journal entries and 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.

Finding

For one journal entry inspected the Commission could not provide documentation of approval. A similar finding was noted in the 2018 State Auditor's Report.

Journal Entries and Transfers (Continued)

Management Response

We agree that the journal entry did not have a second approver. The journal entry was completed by the division director who has approval authority for agency journal entries in SCEIS. Therefore, the journal entry was approved in SCEIS upon creation. The auditors confirmed that the journal entry entered was correct based on the supporting documentation provided. The Commission will change the workflow in SCEIS so that documents created by the director workflows to another employee with approval authority.

Reporting Packages

12. Obtain copies of fiscal year end reporting packages submitted to the CG. Inspect the Master Reporting Package Checklist to determine the appropriate reporting packages were submitted by the due date established by the CG's Reporting Policies and Procedures Manual.

13. In addition to the procedure above, perform the following:

- Operating Leases Reporting Package

Determine if amounts agree to the SCEIS general ledger, the SCEIS Yearend Rptg 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) Five haphazardly selected contingent rental payments; (2) One haphazardly selected payment for each vendor included in the remaining rental payment classifications (One time or unusual in nature rental payments, other rental charges and It equipment); and (3) The periodic minimum payment, current expense, and future minimum lease payments for all leases included. In addition, confirm that the Commission submitted copies of all leases to the CG in accordance with the CG's Reporting Package Instructions.

- Accounts Payable

Determine if responses and reported amounts are reasonable/accurate based on the inspection of the SCEIS general ledger, SCEIS Yearend Rptg - Prior Year Payables with Vendor and/or Commission prepared records. Haphazardly select six payables from the Accounts Payable Summary Form and determine if the amounts were properly classified, calculated and reported.

- 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, haphazardly select five payables from 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

Operating Leases Reporting Package - The Commission overstated future minimum lease payments for two leases by \$2,259 on the Operating Leases Future Minimum Payment Schedule.

Reporting Packages (Continued)

Management Response

We agree with the finding. The Department of Administration (the Department) prepares reporting packages on behalf of the agency. The Department has reviewed the Operating Lease Reporting Package finding with the Year End Reporting staff and has implemented a review process to ensure typos and missed calculations will be corrected going forward.

Assets and Personal Property

14. Confirm that an inventory of Commission property, excluding expendables, was completed during the fiscal year as required by South Carolina Code of Laws Section 10-1-140.

We found no exceptions as a result of the procedure.

Appropriation Act / Commission-Specific Provisos

15. Confirm that the Commission submitted to the State Human Affairs Commission employment and filled vacancy data by race and sex by October thirty-first of the fiscal year in accordance with Proviso 117.13 of the fiscal year 2019 Appropriation Act.
16. Confirm compliance with the selected agreed-upon Commission-specific state provisos by inquiring with management and observing supporting documentation, where applicable.

We found no exceptions as a result of the procedure.

Status of Prior Findings

17. Through inquiry and inspection, determine if the Commission has taken appropriate corrective action on the findings reported during the engagement for the prior fiscal year.

We determined that the Commission has taken adequate corrective action on the findings reported during the engagement for the prior fiscal year, except for the finding noted at **Journal Entries and Transfers**.