

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

STATE AUDITOR'S REPORT

JUNE 30, 2018



Independent Accountant's Report on Applying Agreed-Upon Procedures

May 14, 2019

Mike LeFever, 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, 2018. 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 Commission on Higher Education (H03)**

Cash Receipts/Revenues

1. Compare current year revenues at the subfund and account level from sources other than State General Fund appropriations to those of the prior year. Obtain from management an understanding of variations over \$200,000 and 10%.
2. Randomly select fifteen cash receipts transactions and inspect supporting documentation to:
 - Agree transaction amount, date, payor, document number, and account classification to the general ledger.
 - Determine that revenues/receipts were deposited in a timely manner, in accordance with Proviso 117.1 of the fiscal year 2018 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.

Findings

During our comparison of revenue, we identified \$104,302 of federal revenue that should have been recorded as a receivable in fiscal year 2018 or reported on the Accounts Receivable Reporting Package. The federal drawdown was requested in fiscal year 2018 but revenue was not recorded until February 2019 after the State Treasurer's Office notified the Commission of possible unclaimed ACH transfers.

During our inspection of cash receipts, we identified one receipt transaction that was not deposited in a timely manner. The revenue was deposited two weeks after it was received. A similar finding was noted in the 2017 State Auditor's Report.

Management's Response

We agree with the findings. The delays in recording the \$104,302 of federal revenue were caused by the inability to get timely confirmation from the State Treasurer's Office (STO) of receipt of funds from the federal agency. Although the funds were received by STO in July of 2018, the Commission did not receive confirmation of receipt until March of 2019. This was due to the amount received exceeding the reimbursement request along with the transitioning of agency personnel responsible for recording the federal revenue. New personnel have been trained in the process and work closely with the Treasurers' Office and the grantor to identify and book deposits in a timelier manner.

The deposit/check in question was given to the Finance Division two-weeks after it was received by the program area. We will continue to emphasize to staff the importance of submitting all checks to the Finance Division upon receipt.

Cash Disbursements/Non-Payroll Expenditures

3. Compare current year non-payroll expenditures at the subfund and account level to those of the prior year. Obtain from management an understanding of variations over \$200,000 and 10%.

Cash Disbursements/Non-Payroll Expenditures

4. Randomly select fifteen non-payroll disbursements and inspect supporting documentation to determine:

- 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.
- Determine that disbursements are recorded in the proper fiscal year.
- Clerical accuracy / confirm proper sales/use tax.

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 Comptroller General's listing of purchasing card transactions for fiscal year 2018 and inspect supporting documentation to determine:

- a. The cardholder is an authorized user.
- b. The purchase is authorized based on the cardholder's job title/position.
- c. The monthly purchase summary was submitted along with applicable receipts and signed by both the supervisor and cardholder.
- d. The purchase did not exceed the single transaction limit or the individual credit limit and there was no indication of transaction splitting.

We found no exceptions as a result of the procedures.

Payroll

6. Compare current year payroll expenditures at the subfund and account level to those of the prior year. Obtain from management an understanding of variations over \$200,000 and 10%.
7. 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%.
8. 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%.

Payroll (Continued)

9. Randomly select five employees and inspect supporting documentation during the fiscal year to:

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 confirming all changes to gross salary for the year. Determine that all changes have been properly approved.

For Hourly 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.
- Confirm the hourly rate and time sheets are properly approved; recalculate gross pay.

10. Haphazardly select eight 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.

11. 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.

Findings

We observed two hourly employees were not paid their first pay in accordance with the State's prescribed pay periods. One employee was paid for time worked from January 12, 2018 through March 1, 2018 on March 20, 2018 (an off-cycle pay date). The other employee was paid for time worked from July 19, 2017 through September 15, 2017 on September 29, 2017. In both instances, the employees' time was not keyed into the South Carolina Enterprise Information System (SCEIS) time system in a timely manner; therefore, pay checks were received late.

Management's Response

We agree with the finding that two temporary employees were not paid in a timely manner. The 2017 incident of delay occurred during the transition from in-house human resources to outsourced human resource services. CHE was still adjusting to standard procedures and there was a delay in supervisory approval of the remote hours worked. The 2018 incident was due to repeated technical difficulties of a remote worker to access and enter time in SCEIS. In lieu of entering time in SCEIS, the employee emailed a detailed list of hours worked and the hours were keyed manually by an HR representative. CHE recognizes the importance of time being entered into SCEIS during the corresponding payroll period in order for employees to be paid with a regular payroll check. CHE continues to appreciate the help and guidance provided through the Memorandum of Agreement with the S.C. Department of Administration Human Resources.

Journal Entries and Transfers

12. Haphazardly select six 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 transfer inspected the Commission could not provide documentation of approval. A similar finding was noted in the 2017 State Auditor's report.

Management's Response

We agree that approval documentation for a Journal Entry (JE) could not be provided. Journal Entries were electronically and physically saved by the previous Assistant Director. Unfortunately, we have been unable to retrieve the electronic and physical copies of the JE's with the change in Management. We are now saving copies of the JE's with approval documentation in a shared/public folder.

Reporting Packages

13. 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.
14. In addition to the procedure above, perform the following:
- Other Receivables Reporting Package
Determine if reported amounts are accurate based on inspection of the SCEIS general ledger, the SCEIS Yearend Rptg - Accounts Receivable Current with Customer report and/or Commission's prepared records. Haphazardly select five receivable transactions for inspection.
 - 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) Select five haphazardly selected contingent rental payments; (2) Select five haphazardly selected one time or unusual in nature rental payments; and (3) Future minimum rental payments for the sole property lease.
 - Litigation Reporting Package
Based on inspection of the SCEIS general ledger and the Yearend Rptg – Litigation Expense report, haphazardly select five transactions to determine if the Commission obtained approval from the Attorney General's Office to hire attorneys and that amounts paid were within approved limits and service date ranges.

Reporting Packages (Continued)

- 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.

Findings

The Commission was unable to provide us with documentation to support the effective and expiration dates for one lease reported on the Operating Leases Future Minimum Payment Schedule.

During our inspection of the one time or unusual in nature rental payments reported on the Operating Leases Reporting Package, we identified two transactions that were coded incorrectly. As a result of this miscoding, one time or unusual in nature rental payments were overstated by \$5,129 on the Operating Lease Summary Form. In addition, general ledger account 5021530000 (Catered Meals) and general ledger account 5040490000 (Rent – Other) were understated and overstated, respectively, by \$5,129. A similar finding regarding account coding was noted in the 2017 State Auditor's Report.

Management's Response

We agree with the finding that the Commission was unable to provide correct documentation to support the effective and expiration dates for the NEOPOST lease. The documentation used for the effective date of the lease was the purchase order which was dated 9/29/15. The correct effective and expiration dates for the lease are 11/4/15 through 11/3/20 which are based on the delivery and acceptance date of the equipment. The effective and expiration dates for this lease will be correctly reflected on future reporting packages.

We agree with the finding that two transactions were coded incorrectly on the reporting package. The General Ledger coding for a CHE sponsored conference was inadvertently switched. The catered meals item (\$8,024.90) was mistakenly charged to "Rent-Other". Rental of the Audio/Visual Equipment (\$2,896.23) was charged to, "Catered Meals". This circumstance resulted in a net overstatement of \$5,128.67 in the Operating Lease Reporting Package.

We will continue to refine the verification of our coding process to eliminate these compounding issues.

Minutes

15. 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.

Other Reports

16. Inquire of management of any reports issued by external parties and discuss any recommendation and/or issues.

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

South Carolina Higher Education Foundation

17. Obtain and inspect the operating agreement or memorandum of understanding between the Commission and the South Carolina Higher Education Foundation (the Foundation) to identify the roles and responsibilities of any Commission staff member who is assigned responsibilities for the Foundation.

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

Governance, Risk and Compliance (GRC) SCEIS Module

18. Select the sole control identified through the SCEIS GRC system that were in place during fiscal year 2018 and inspect mitigating control documentation. Confirm with management the controls are operating as designed.

We found no exceptions as a result of the procedure.

Appropriation Act

19. Inspect the Appropriation Act work program, provided to and completed by management, confirming areas of noncompliance, if any.
20. 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 procedures.

Status of Prior Findings

21. 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 the Commission has taken adequate corrective action on the findings, except for similar findings noted in **Cash Receipts/Revenues, Journal Entries and Transfers and Reporting Packages**.