

**WIL LOU GRAY OPPORTUNITY SCHOOL
WEST COLUMBIA, SOUTH CAROLINA**

STATE AUDITOR'S REPORT

JUNE 30, 2018



Independent Accountant's Report on Applying Agreed-Upon Procedures

July 10, 2019

Mr. Pat G. Smith, Director
and
Members of the Board of Trustees
Wil Lou Gray Opportunity School
West Columbia, South Carolina

We have performed the procedures described in Attachment 1, which were agreed to by the management of the Wil Lou Gray Opportunity School (the School), on the systems, processes and behaviors related to financial activity of the School for the fiscal year ended June 30, 2018. The School'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 School. 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 School 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 Board and management of the Wil Lou Gray Opportunity School 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 Wil Lou Gray Opportunity School (H71)**

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 \$30,000 – Earmarked Fund and 10%.
2. Randomly select ten 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 current year revenues to prior year revenues, we observed no revenue was posted to the Tuition and Student Fees general ledger account (4400020000) in fiscal year 2018. We determined the School did not record the reimbursement of fiscal year 2018 student expenses from its composite account to the South Carolina Enterprise Information System (SCEIS) until fiscal year 2019.

Also, a check totaling \$475 was not deposited in a timely manner in accordance with Proviso 117.1 of the Appropriation Act. The check was received on July 31, 2017 but was not deposited until August 16, 2017.

Management's Response

We concur. The department was understaffed and going through a transition stage. The Finance Department is currently fully staffed and all deposits are made within 2 to 3 business days.

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 \$50,000 – General Fund, \$50,000 – Earmarked Fund, and 10%.
4. Randomly select twenty-five non-payroll disbursements and inspect supporting documentation to determine:
 - Transaction is properly completed as required by School procedures; invoice(s) agree(s) with general ledger as to vendor, amount, number, and date.
 - All supporting documents and approvals required by School procedures are present and agree with the invoice.
 - The transaction is a bona fide expenditure of the School.
 - The transaction is properly classified in the general ledger.

Cash Disbursements/Non-Payroll Expenditures (Continued)

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

- The cardholder is an authorized user.
- 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

The School allowed the use of a purchasing card by a temporary staffer it contracted with through a temporary staffing company. The Materials Management Office Purchasing Card Procedures Manual, Section V. Program Compliance, Subsection C (2) requires that all cardholders must be full-time employees and states that cards may not be issued to part-time employees, temporary workers, or contractors.

Two monthly purchasing card summary statements were not signed by a supervisor. A similar finding was observed in the 2017 State Auditor's Report.

Management's Response

The card has been cancelled and this situation has been resolved.

The Finance Department is monitoring to ensure that all purchasing card holders have their supervisors review, sign and date their bank statement. This corrective action was implemented after the 2016 State Auditor's Report was issued in September 2017. However, a few statements were overlooked during our review.

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 \$50,000 – General Fund, \$50,000 – Earmarked Fund, 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%.

Payroll (Continued)

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%.
9. Randomly select ten 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 School.
 - 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 School.
 - Confirm the hourly rate and time sheets are properly approved; recalculate gross pay.
10. Haphazardly select five employees who terminated employment during the fiscal year to determine if they were removed from the payroll in accordance with the School'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 School's policies and procedures and that their first pay check was properly calculated in accordance with applicable State law.
12. Haphazardly select five bonus pay disbursements to determine:
 - Employee does not make more than \$100,000 annually.
 - Bonuses received during the year did not exceed \$3,000.
 - Payment agreed to supporting documentation.
 - Bonus pay was approved by the appropriate supervisor.

Findings

During our comparison of percent changes in personal service expenditures to the percent changes in employer contributions from 2018 and 2017, we observed a 208 percent decrease in employer contributions recorded in the earmarked fund. Upon further inspection we determined the School received a credit of \$36,017 from the Public Employee Benefit Authority (PEBA) in accordance with Proviso 117.151 to offset an increase in the employer contribution rate in fiscal year 2018. The School posted the entire credit amount to the earmarked fund which resulted in negative employer contributions expenditures at fiscal year-end. Negative expenditures caused misstatements to employer contributions for FY2018.

For one selected termination, we identified the employee was paid for one day not worked, resulting in an overpayment of \$275. A similar finding regarding payment errors was observed in the 2017 State Auditor's Report.

Payroll (Continued)

Findings (Continued)

Additionally, we observed that the School made manual pay corrections for differences between the SCEIS final paycheck and the School's manual recalculation of the final paycheck for two employees who terminated employment as follows:

- For one instance, we determined the School did not use the State's policy when calculating partial pay, resulting in a \$7 difference in final pay when compared to the employee's final paycheck. The School's calculation did not take into consideration that working days and hours are not consistent for each pay period.
- For another instance, we determined the School made a \$90 manual pay adjustment due to rounding differences with SCEIS when calculating the employee's deferred pay. The School determined final pay using a calculation that rounded to two decimal places. SCEIS did not limit decimal places in its calculation of final/deferred pay.

For one selected new hire, we observed that the employee was added to the SCEIS payroll system as a temporary employee but has never subsequently been paid. The School added a temporary staffer paid through a contract to the system in order to give the person SCEIS access to perform certain roles in the system.

Management's Response

We concur with the finding. In FY19 we followed the instructions received from PEBA to record the credit.

Additionally, we concur with the finding regarding the employee who was overpaid in error. We have implemented corrective measures to run payroll reports to ensure the accuracy of employee payments in the future.

We also concur with the findings regarding manual pay calculations. As a corrective measure we will use the State's policy when calculating partial pay and will also use the SCEIS calculation formula to ensure accuracy of employee payments.

We concur with the finding regarding a contractor that was added to SCEIS as a temporary employee. During the fall of 2017, two long term employees of the School retired. The only remaining employee in the Finance Department had less than 6 months experience. The School rehired a former employee through a state contract to help during the transition. The action chosen to add the employee in SCEIS would not allow completion without entering a salary. In the future, the school will use a "Quick Hire" action and assign roles as necessary.

Journal Entries and Transfers

13. Haphazardly select four journal entries and one transfer 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 the procedures.

Reporting Packages

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

- Cash and Investments Reporting Package

Determine if responses and reported amounts are reasonable/accurate and all required supplemental information was properly prepared and submitted based on inspection of the SCEIS general ledger, the SCEIS Yearend Rptg - Cash and Investments report and/or School prepared records. In addition, determine if amounts agree to State Treasurer's Office Composite Bank Account reports and year end reconciliations.

- 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 School prepared records.

- Operating Leases Reporting Package

Based on inspection of invoices, lease agreements, and SCEIS/School accounting records, determine if rental payments were properly classified, coded and calculated by inspecting and recalculating the following reported amounts: (1) Three haphazardly selected contingent rental payments; (2) All costs of property leased to others under operating leases; and (3) All future rental payments to be received for property leased to others.

- 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 School prepared records. Additionally, select all (five) payable transactions and determine if reported amounts were properly identified, classified, and reported on the reporting package.

- 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 School prepared records.

Findings

The School submitted one reporting package two business days after the CG's established due date.

Reporting Packages (Continued)

Findings (Continued)

Cash and Investments Reporting Package - Based on the School's responses, the reporting package directed the School to provide additional information to the CG's Office regarding its composite reservoir account since the account is not reflected in SCEIS. Upon further inquiry with the School, they did not provide this additional information.

Operating Leases Reporting Package - The School understated the fiscal year 2019 minimum future rental payments to be received from non-State entities under non-cancelable operating leases by \$1,380. Based on inspection of the fiscal year 2019 employee housing agreements, we determined future rental payments from one employee were omitted from the amount reported on the Operating Lease Summary Form - Lessor.

Subsequent Events Questionnaire - School personnel indicated they were not aware of any instances of fraud or suspected instances of fraud since the end of fiscal year 2018. Based on procedures performed regarding purchasing cards and inquiry with School personnel, we determined the School was aware of an instance of fraud subsequent to fiscal year 2018. Therefore, the School failed to provide the CG's Office with the additional information as directed by the questionnaire.

Capital Assets Reporting Package - See finding regarding documentation of the year-end personal property inventory at **Appropriation Act**.

Management's Response

We concur with the finding on the Cash and Investment package. The backup documentation should've been sent with the package. Regarding the Operating Leases Package finding, we concur the amount was miscalculated. We have corrected these packages for FY19.

After further understanding of the Subsequent Events package, we concur with the finding. We have reported the information on the Master Reporting Package for FY19.

Composite Reservoir Accounts

15. Obtain a listing of School composite reservoir accounts and confirm with School management that the listing is complete.
16. Obtain the fiscal year 2018 monthly reconciliations for the composite reservoir account and for the year-end reconciliation perform the following procedures:
 - Determine that selected reconciliations were timely performed, reviewed, and properly documented within a month of month-end, and are mathematically correct.
 - Agree applicable amounts from reconciliations to the School's accounting records.
 - Agree applicable amounts from reconciliations to the State Treasurer's Office monthly reports.
 - Determine if reconciling differences were adequately explained and properly resolved.
 - Determine if necessary adjusting entries were made in the accounting records.

Composite Reservoir Accounts (Continued)

For the final ending school cycle that occurred within fiscal year 2018:

- Obtain the reconciliation of applicable composite reservoir account balances to the liability for assets held in custody for others and determine mathematical accuracy.
 - Agree the reconciled balance of the liability for assets held in custody for others per the reconciliation to the School's accounting records.
17. Haphazardly select and inspect five composite reservoir account receipts to determine that they were properly described and classified in the accounting records in accordance with the School's policies and procedures and State regulations that they were recorded in the proper fiscal year, and that any retention or remittance of revenue is supported by law.
 18. Haphazardly select and inspect five composite reservoir account disbursements to determine if these disbursements were properly described and classified in the accounting records in accordance with the School's policies and procedures and State regulations, were bona fide disbursements of the School, and were recorded in the proper fiscal year.

Finding

See finding regarding reimbursement of student expenses from the composite reservoir account at **Cash Receipts/Revenues**.

Fiscal Monitoring of Schools

19. Compare current year trial balance account balances, excluding revenues and expenditures, to those of the prior year. Obtain and document an understanding of variances over \$500,000 and 10%.
20. Inspect budget allocations for the current year and previous four years to determine consistent budgeting to support the School.
21. Compare School district total revenues to total expenditures for the current year and obtain an explanation from management for any year in which the School's expenditures exceeded revenues and appropriations.
22. Through inquiry with management, determine and document the School's reserves/funding to maintain school operations if an emergency or budget shortfall should occur.

We found no exceptions as a result of the procedures.

Governance, Risk and Compliance (GRC) SCEIS Module

23. Select all (four) controls 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 procedures.

Housing Agreements

24. Obtain a listing of the School's housing agreements with its employees during fiscal year 2018. For the employee(s) who pay monthly rent, inspect the rental agreement and ensure payments were accurate and timely. For the other employee(s) who do not pay monthly rent (on-call employees), inspect the rental agreements and confirm in SCEIS that the rent is correctly reported as a taxable benefit.

We found no exceptions as a result of the procedure.

Asset Under Construction

25. For the School's sole asset under construction (AUC), inquire with management and determine:
- The asset under construction was for a project that was properly approved by the Joint Bond Review Committee / State Fiscal Accountability Authority.
 - The project related to the asset under construction was accurately included and reported on the South Carolina Comprehensive Permanent Improvement Plan.
 - The progress and status of the asset under construction at the end of the fiscal year end and whether the project was ongoing or substantially complete.
 - The financial activity for the asset under construction was properly tracked and recorded in SCEIS.

Finding

Based on inspection of supporting documentation and inquiry with the School, we determined that the School's AUC, with expenditures totaling \$498,548, was completed before the end of fiscal year 2018 but was still classified in SCEIS as an AUC. Since the project was complete, it should have been reclassified from AUC to the appropriate capital asset category. Additionally, the School's AUC was not included on the 2017 South Carolina Comprehensive Permanent Improvement Plan, which should reflect all projects for plan years 2018-2022.

Management's Response

We have corrected the AUC and adjustments will be made to the accumulated depreciation.

Board of Trustee Minutes

26. Inspect the School's approved Board 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.

Appropriation Act

27. Inspect the Appropriation Act work program, provided to and completed by management, confirming areas of noncompliance, if any.
28. Confirm compliance with the selected agreed-upon School-specific state provisos by inquiring with management and observing supporting documentation, where applicable.

Findings

The School was unable to provide adequate documentation of when its fiscal year 2018 year-end inventory of personal property was completed as required by South Carolina Code of Laws Section 10-1-140. A similar finding was reported in the 2017 State Auditor's Report.

The School did not submit to the State Human Affairs Commission the required employment and vacancy data as required by Proviso 117.13 by the established due date. Additionally, the School did not report the fair market rental value of residences furnished to employees to the required agencies as mandated by Proviso 117.5 by the established due date.

The School used a Statewide contract to procure temporary accounting services. The accounting services included in this contract were intended for staff level services with a minimum hourly rate of \$20.00 per hour. The School paid a temporary staffer through this contract for management level accounting services at a rate of \$42.00 per hour.

Our inspection of this procurement also revealed that the temporary staffer approved two of the invoices for payment to the temporary staffing agency. The School should exercise caution when using temporary accounting services to ensure that its internal controls maintain their integrity and that all provisions of the State's procurement code are followed.

Management's Response

We completed the FY18 personal property inventory. Our documentation was signed but not dated. Our corrective measure is to ensure the inventory documentation is signed and dated upon completion.

We concur with the finding of the late submission to the State Human Affairs Commission. We will ensure reports are submitted by their due dates in the future.

Regarding the State contract finding, the contract states "Using Governmental Units (UGU) may request that temporary personnel be paid a higher wage than listed. If the UGU requests a higher wage be paid, the contract provider will invoice utilizing the requested wage plus their mark-up." This contractor was a former employee who had 30 years of knowledge and experience. The School never acted outside the purview of the contract established by the State Fiscal Accountability Authority. In addition, the contractor currently has no management responsibilities.

Also, the department was short-handed. No other employee had approval authority. The School has hired full-time staff that now have approval rights so this should not be an issue going forward.

Status of Prior Findings

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

We found similar exceptions regarding procurement card purchases, payment of employees, and year-end inventory count documentation. See findings in **Cash Disbursements/Expenditures**, **Payroll**, and **Appropriation Act**.