

**JOHN DE LA HOWE
SCHOOL FOR AGRICULTURE
MCCORMICK, SOUTH CAROLINA**

STATE AUDITOR'S REPORT

JUNE 30, 2019



Independent Accountant's Report on Applying Agreed-Upon Procedures

March 24, 2020

Dr. Sharon Wall, Interim President
and
Members of the John de la Howe School Board
McCormick, South Carolina

We have performed the procedures described in Attachment 1, which were agreed to by the management of the John de la Howe School for Agriculture (the School), on the systems, processes and behaviors related to financial activity of the School for the fiscal year ended June 30, 2019. 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 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 the John de la Howe School for Agriculture (L12)**

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 for the following general ledger (G/L) accounts: Earmarked Funds: G/L account 4280020000 (Federal Operating Grants – Restricted) and Restricted Funds: G/L account 4890090000 (Allocations Education Improvement Act).
2. Haphazardly select ten 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 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

G/L Account Coding – Utility Reimbursement – The School miscoded reimbursements of utilities totaling \$1,112 remitted by employees living in residences on the School’s campus to G/L account 4470010000 (Rent – Residence). These amounts should have been recorded to the appropriate utility account where corresponding expenditures were recorded, G/L account 5150039400 (Electricity).

G/L Account Coding – Sale of Timber – The School recorded the receipt of a performance bond totaling \$3,500 to G/L account 4390010000 (Sale of Timber). This revenue should have been coded to G/L account 4530030000 (Miscellaneous Revenue).

G/L Account Coding – Sale of Surplus Property/Vehicles – The School recorded proceeds from a sale of vehicles to G/L account 4536050000 (Sale of Vehicles). However, \$25,566 of the amount received were proceeds from assets not recorded properly as capital assets at their acquisition date and should have been coded to G/L account 4480070000 (Sale of Surplus Property).

Fund Coding – Pension Credit – The School recorded the FY19 pension credit totaling \$31,517 to the earmarked fund, resulting in a negative balance for the 513- G/L accounts (Fringe Benefits). No salary or fringe benefit expenditures were recorded in the earmarked fund in FY19. This transaction should have been recorded as a split between the general and restricted funds where salaries were recorded.

Management’s Response

G/L Account Coding – Utility Reimbursement – The School will begin separating out the rental portion for utilities into G/L account 5150039400. With these homes not receiving an individual invoice from the electric utility provider, the rental agreement may be structured in the future to include utilities.

G/L Coding – Sale of Timber – Future performance bond amounts will be coded to Miscellaneous Revenue G/L account 4530030000.

G/L Coding – Sale of Surplus Property/Vehicles – The surplus vehicles were over 10 years old and obtained prior to the current SCEIS process. However, going forward, the School will ensure that at acquisition date, vehicles are recorded as capital assets if the acquisition cost meets the threshold and sale of surplus vehicles will be recorded in the Sale of Surplus Property G/L 4480070000.

Cash Receipts/Revenues (Continued)

Management's Response (Continued)

Fund Coding – Pension Credit – Future pension credits will be recorded in the appropriate general and restricted funds along with relevant salaries.

Cash Disbursements/Non-Payroll Expenditures

3. Compare current year expenditures at the fund and account level to those of the prior year. Obtain from management an understanding of variations for the following G/L account series: General Funds: 501- G/L account series (Salaries), 513- G/L account series (Fringe Benefits), and 515- G/L account series (Utilities).
4. Haphazardly select twenty non-payroll disbursements and inspect supporting documentation to determine:
 - The 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.
 - Disbursement complied with applicable State laws, rules, and regulations including the State Consolidated Procurement Code, state travel regulations etc.
 - Disbursements are recorded in the proper fiscal year.
 - Clerical accuracy / confirm proper sales/use tax.
5. Haphazardly select five purchasing card transactions from the Office of the State 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 School 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.

Finding

G/L Account Coding – The School coded a transaction totaling \$27,900 for the expanded installation of network switches across the School's campus, completed by a third-party vendor, to G/L account 5030067110 (Equipment and Supply – Data Network). Based on the nature of this transaction, being completed by a third-party vendor, it should have been coded to G/L account 5020077110 (Services, Maintenance and Warranty – Data Network).

Management's Response

G/L Account Coding – Future information technology third-party vendor services for expanded installation of the network will be coded to G/L account 5020077110 (Services, Maintenance and Warranty – Data Network).

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%.
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% when the proportion of employer contribution to personal service expenditures also varies at a rate greater than 5% between fiscal years.
8. Haphazardly select five employees and one pay period and inspect supporting documentation during the fiscal year to:
 - 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.

For Salaried Employees:

- 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:

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

9. Haphazardly select ten 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.
10. 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.
11. In the event of a reduction in force, confirm that the School head took five days of furlough and that the School reported information regarding furloughs to the Department of Administration as required by Proviso 117.71 of the Appropriation Act.
12. Confirm that the fair market rental value of any residence furnished to a state employee is reported by the School furnishing the residence to the Agency Head Salary Commission and the Department of Administration by October 1 of the fiscal year, in compliance with Proviso 117.15 of the Appropriation Act.

We found no exceptions as a result of the procedures.

Journal Entries and Transfers

13. Haphazardly select five 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.

We found no exceptions as a result of the procedure.

Reporting Packages

14. 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.
15. In addition to the procedure above, perform the following:
 - **Cash and Investments Reporting Package**

Determine if responses are reasonable/accurate based on inspection of the South Carolina Enterprise Information System (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**

Determine if amounts agree to the SCEIS general ledger, the SCEIS Yearend Rptg Operating Lease Expense with Vendor report and/or School 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) Three 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). In addition, confirm that the School submitted copies of all leases to the CG in accordance with the CG's Reporting Package Instructions.
 - **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

Capital Assets Reporting Package – The School did not complete Form 3.08.5 (Reconciliation of SCEIS Asset History Report Activity to General Ledger Activity), resulting in an overstatement of credits and debits for G/L account 1801029000 (Agriculture Equipment) of \$89,591.

Operating Leases Reporting Package – The School incorrectly classified \$1,599 as contingent rental expense; this amount should have been classified as a current expense for the associated lease on the Operating Leases Future Minimum Payment Schedule.

Management's Response

Capital Assets Reporting Package – The School will ensure proper completion of Form 3.08.5 to avoid overstatements in G/L account 1801029000.

Operating Leases Reporting Package – The School will update the contingent rental expense as a current expense for the Operating Leases Future Minimum Payment Schedule.

Composite Reservoir Accounts

16. Obtain a listing of School composite reservoir accounts and confirm with School management that the listing is complete.
17. Confirm that the School submitted the required Bank Account Transparency and Accountability Report to the State Fiscal Accountability Authority by October first of the fiscal year in accordance with Proviso 117.83 of the Appropriation Act.
18. Obtain fiscal year monthly reconciliations for the composite reservoir account and for three of the reconciliations, perform the following procedures:
 - Determine that selected reconciliations were timely performed, reviewed, and properly documented in accordance with State regulations, and are mathematically correct.
 - Agree applicable amounts from reconciliations to the general ledger.
 - 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.
19. 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, were paid in conformity with State laws and regulations and that goods and/or services were procured in accordance with applicable laws and regulations.

Finding

Timely Reconciliation – The School did not reconcile composite account activity for the month ending 2/28/19 until 5/6/19.

Management's Response

Timely Reconciliation – The School composite account did not have any activity during the referenced period, but we will ensure that reconciliations will occur in a timely fashion (within 10 business days of receipt in the Business Office).

Assets and Personal Property

20. Haphazardly select five asset acquisitions and inspect supporting documentation, the SCEIS general ledger and the SCEIS Asset History Sheet to determine that each asset was properly capitalized and posted to the general ledger as to amount and account and assigned the proper useful life in accordance with the CG's Reporting Policies and Procedures Manual.
21. Haphazardly select three capital asset retirements and inspect supporting documentation, and the SCEIS Asset History Sheet, to determine that each asset was approved for removal, and that the asset was properly removed from the School's books/general ledger in accordance with the CG's Reporting Policies and Procedures Manual.
22. Confirm that an inventory of School property, excluding expendables, was completed during the fiscal year as required by South Carolina Code of Laws Section 10-1-140.
23. Haphazardly select ten assets from the SCEIS Asset History Report and confirm their existence through physical observation and identification of the assets at the School.

Assets and Personal Property (Continued)

Findings

Asset Acquisition – The School recorded an asset valued at \$8,589 incorrectly as a low value asset in SCEIS. This value exceeds the CG's capitalization threshold of \$5,000 and should have been recorded as a capital asset.

Physical Asset Inspection – The School could not physically locate two of the selected assets from the School's SCEIS Asset History Sheet.

Management's Response

Asset Acquisition – The School will ensure that assets acquired above the CG's capitalization threshold of \$5,000 are recorded as a capital asset.

Physical Asset Inspection – The School could not locate the two assets that were over 20 years old and will update the inventory asset history sheet to reflect this status.

Fiscal Monitoring of School

24. Inquire of management regarding any investigation, audit or review associated with the School which was ongoing or completed during the fiscal year. Inspect reports of any completed investigation, audit or review associated with the School to determine impact on our agreed upon procedures.
25. Through inquiry with management, document the status of the School's transition process, including capital projects, repairs, requests for state funding and special funding, enrollment of students and hiring of faculty, the status of composite accounts and outstanding receivables/debt, and any agreements entered into to help further the School's mission.

We found no exceptions or other matters related to our engagement as a result of the procedures.

Foundation and Alumni Association

26. Through inquiry with management, determine the status of the memorandum of understanding between the School and the John de la Howe Foundation as well as the School and the Alumni Association. Additionally, inspect the bylaws of the John de la Howe Foundation to determine if there are any areas of noncompliance.

We found no exceptions as a result of the procedure.

Additional Provisos

27. Confirm that the School 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 Appropriation Act.
28. Confirm compliance with the selected agreed-upon School-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 Finding

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

We found no exceptions as a result of the procedure.

Recommendations

Sale of Farm and Nursery Products, and Sale of Timber – The School should create written procedures regarding the sale of natural goods, animals, and associated byproducts grown and housed on the School’s property.

Inventory of Non-Capitalized Works of Art and Historical Treasures – The School should conduct a comprehensive inventory of non-capitalized works of art and historical treasures. A listing of these items should then be provided to the CG as part of the Capital Assets Reporting Package submission.

Composite Account Policies and Procedures – The School should update, and strengthen written procedures regarding their composite account, including specific procedures regarding timely reconciliation.

Memorandum of Understanding – The School should create a written memorandum of understanding between the School and the John de la Howe Foundation as well as between the School and the Alumni Association.