

**SOUTH CAROLINA
DEPARTMENT OF EDUCATION
COLUMBIA, SOUTH CAROLINA**

STATE AUDITOR'S REPORT

JUNE 30, 2019



Independent Accountant's Report on Applying Agreed-Upon Procedures

July 10, 2020

The Honorable Molly M. Spearman
State Superintendent of Education
South Carolina Department of Education
Columbia, South Carolina

We have performed the procedures described in Attachment 1, which were agreed to by the management of the South Carolina Department of Education (the Department), on the systems, processes and behaviors related to financial activity of the Department for the fiscal year ended June 30, 2019. The Department'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 Department. 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 Department 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 Department of 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 the South Carolina Department of Education (H63)**

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: Earmarked Fund: General Ledger (G/L) accounts 4130040001 – Bus Permit-Hazardous Transportation, 4360020000 – Medicaid & Medicare Reimbursement, 4536050001 - Sale of Junk Buses, and 4890060000 – General Fund Appropriation Revenue Transfer; Restricted Fund: G/L accounts 4600060000 - Master Lease Proceeds, and 4890060000 - General Fund Appropriation Revenue Transfer.
2. Haphazardly select five cash receipts transactions and inspect supporting documentation to:
 - Ensure transaction amount, date, payor, document number, and account classification are properly reported in the general ledger.
 - 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.
3. Confirm that any Department fee increases are in accordance with Proviso 117.7 of the 2019 Appropriation Act, through inquiry and inspection as necessary.

Finding

We identified a transaction in the amount of \$20,745 for GED testing fees recorded in general ledger account 4310010000 (Fees & Receipts Other) that should have been recorded in general ledger account 4130010000 (GED Testing Service Fee).

Management's Response

This was a keying error and moving forward there will be closer attention to detail using the CG's account descriptions.

Cash Disbursements/Non-Payroll Expenditures

4. 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 for the following: General Fund G/L account series: 503 - Supplies and Materials, 508 - Interest (Debt Service Payments) and 517 - Allocations; Earmarked Fund G/L account series: 517 - Allocations; Restricted Fund G/L account series: 503 - Supplies and Materials, 517 - Allocations, and 518 - Allocations State Aid; Federal Fund G/L account series: 517 - Allocations.
5. Haphazardly select five non-payroll disbursements, including lottery disbursements, and inspect supporting documentation to determine:
 - The transaction is properly completed as required by Department procedures; invoice(s) agree(s) with general ledger as to vendor, amount, number, and date.
 - All supporting documents and approvals required by Department procedures are present and agree with the invoice.
 - The transaction is a bona fide expenditure of the Department.
 - 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.
- Lottery disbursement was monitored and expended in compliance with Proviso 3.1 of the fiscal year 2019 Appropriations 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.

6. Haphazardly select ten 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 Department 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

During our inspection of purchasing card transactions, we identified two transactions on the same date with the same vendor for a total of \$2,546. The Department circumvented the single transaction limit of \$2,500 by splitting the purchase into two transactions, one for \$2,500 and one for \$46.

Management's Response

We do not condone or allow splitting orders to circumvent the single transaction limit of \$2,500. We will reinforce that stance in our policies and procedures and in all procurement training offered.

Payroll

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% when the proportion of employer contribution to personal service expenditures also varies at a rate greater than 5% between fiscal years.
9. Haphazardly select five employees who terminated employment during the fiscal year to determine if they were removed from the payroll in accordance with the Department'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 Department's policies and procedures and that their first paycheck was properly calculated in accordance with applicable State law.

Payroll (Continued)

11. Haphazardly select eight bonus pay disbursements to determine:
 - The employee does not make more than \$100,000 annually.
 - The bonuses received during the year did not exceed \$3,000.
 - The payment amount agreed to supporting documentation and the bonus was given for a proper reason in accordance with Department policy.
 - The bonus pay was approved by the appropriate supervisor.
12. Confirm that any supplemental salaries paid to Department employees had proper approval and were reported by the employing agency to the Department of Administration as defined by Proviso 93.14.

We found no exceptions as a result of the procedures.

Journal Entries and Transfers

13. Haphazardly select five journal entries and/or 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 prepared and 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 Department prepared records. In addition, determine if amounts agree to State Treasurer's Office Composite Bank Account reports and year end reconciliations.
 - Prepaid Expenses Reporting Package

Determine if amounts agree to the SCEIS Yearend Rptg - Prepaid Expenses report and/or Department prepared records. In addition, haphazardly select five prepaid expenses to determine if the amounts were properly classified, calculated and reported based on inspection of the SCEIS general ledger and invoices.
 - 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 Department 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; and (2) haphazardly select and obtain the lease agreements for two operating leases and agree to applicable effective lease dates and future minimum payments on the Future Minimum Payment Schedule. In addition, confirm that the Department submitted copies of all leases to the CG in accordance with the CG's Reporting Policies and Procedures Manual.

Reporting Packages (Continued)

- Accounts Payable

Determine if responses and reported amounts are reasonable/accurate based on inspection of the SCEIS general ledger, SCEIS Yearend Rptg - Prior Year Payables with Vendor report and/or Department prepared records. In addition, haphazardly select five payable transactions and determine if amounts were properly classified, calculated and reported.

- Interfund Payables Reporting Package

Determine if reported amounts are reasonable/accurate based on inspection of the SCEIS general ledger, SCEIS Yearend Rptg – Inter-Agency Prior Year Payables with Vendor report and/or Department prepared records. In addition, haphazardly select three payable transactions and determine if 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 Department 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

Cash and Investments Reporting Package – According to the composite reservoir bank statement, the ending balance should have been reported as \$0, rather than \$26,192, resulting in an overstatement on the package.

Accounts Payable Reporting Package –

- The Department failed to report interdepartmental payables that were individually under \$100,000 on the package in accordance with the CG's Reporting Policies and Procedures Manual. These unreported payables totaled \$72,724.
- The Department misclassified several State college and university payables which resulted in a \$480,884 overstatement of intergovernmental payables and understatement of vendor payables on the package, as well as a \$105,385 overstatement of intergovernmental payables and understatement of vendor payables on the Subsequent Events Accounts Payable Worksheet.
- The Department incorrectly included the entire amount for one document as a payable. This transaction should have been identified as a partial accounts payable as it related to two fiscal years, resulting in a payables overstatement of \$15,488.

Management's Response

Cash and Investments Reporting Package – The Fiscal Accounting Manager will ensure amounts reported agree with the statements and supporting documentation received. This was a keying error and moving forward there will be closer attention to detail.

Accounts Payable Reporting Package – The Accounts Payable Lead and Fiscal Accounting Manager will ensure that a thorough review of the amounts reported, and the classification of vendors will be conducted when completing this package in the future.

Assets and Personal Property

16. Haphazardly select three capital 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.

Assets and Personal Property (Continued)

17. 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 Department's books/general ledger in accordance with the CG's Reporting Policies and Procedures Manual.
18. Inspect the Department's portion of the Summary of Permanent Improvement Projects from the South Carolina 2018 Comprehensive Permanent Improvement Plan for the Plan Years 2019-2023 in accordance with South Carolina Code of Laws Section 2-47-55. Through inquiry with management, document the status of each project to determine if the plan is an accurate representation of the Department's activities.
19. Confirm that an inventory of Department property, excluding expendables, was completed during the fiscal year as required by South Carolina Code of Laws Section 10-1-140.

Findings

We identified an asset which was retired in error. A Ford fuel tanker was retired in FY19, but is being used in the collision repair shop for spare parts.

Additionally, the Department sold the following assets prior to FY19 but did not remove the assets until FY19:

- A Thomas school bus was approved for removal and sold in April of FY18 but was not removed from SCEIS until FY19.
- A large underground tank at a bus shop was part of the bus shop property that was sold in FY16, and therefore should have been removed from SCEIS at that time.

Management's Response

Better management of the Department policy should help eliminate the error in the future. The Department's Office of Transportation has corresponded with the bus shops regarding the proper procedures that should be followed. This was simply an oversight as the tanker was placed on the retirement listing in error.

Related to any future retirement of a capital asset, once it is decided that a capital asset is to be retired, all incorporated assets will be identified, and included in the disposal.

Governance, Risk and Compliance (GRC) SCEIS Module

20. Select the one new control identified through the SCEIS GRC system that was put in place during fiscal year 2019 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 / Department-Specific Provisos

21. Confirm that the Department 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.
22. Confirm compliance with the selected agreed-upon Department-specific state provisos by inquiring with management and observing supporting documentation, where applicable.
We found no exceptions as a result of the procedures.

Non-Recurring Revenue Proviso 118.15

23. Confirm compliance with the non-recurring revenue proviso appropriations, inspecting Department supporting documentation to agree to stated proviso purpose and amount.

We found no exceptions as a result of the procedure.

Status of Prior Findings

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

The Department has taken adequate corrective action on prior findings, except for those related to accounts payable and capital asset retirements. See related findings above.