

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

STATE AUDITOR'S REPORT

JUNE 30, 2018



Independent Accountant's Report on Applying Agreed-Upon Procedures

July 15, 2019

The Honorable Molly M. Spearman
State Superintendent of Education
and
Members of the State Board 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, 2018. 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 Department 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 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 for the following accounts: general fund: refund of prior year expenditures; earmarked fund: school bus use permit, miscellaneous revenue, and sale of junk buses – scrap; and restricted fund: refund of prior year expenditures, and master lease proceeds.
2. Randomly select eight 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 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.

We found no exceptions as a result of the procedures.

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 for the following general ledger account series: general fund: debt service payments; earmarked fund: supplies and materials; restricted fund: fixed charges; and federal fund: supplies and materials.
4. Randomly select eight non-payroll disbursements, except for school bus related disbursements, and inspect supporting documentation to determine:
 - 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.
 - 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.

Cash Disbursements/Non-Payroll Expenditures (Continued)

5. Haphazardly select ten purchasing card transactions from the Office of the State Comptroller General's (CG) 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.

We found no exceptions as a result of the procedures.

School Bus Disbursements/Expenditures

6. Randomly select six non-payroll disbursements related to school buses 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, properly coded to the general ledger.
 - The disbursement complied with Provisos 1.15, 1.20, and 1.21, when applicable.
 - Clerical accuracy / confirm proper sales/use tax.

We found no exceptions as a result of the procedure.

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 contributions to personal service expenditures also varies at a rate greater than 5% between fiscal years.
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 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 ten 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 pay check was properly calculated in accordance with applicable State law.

Payroll (Continued)

11. Haphazardly select ten 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.

Finding

During our inspection of the Department's bonus pay, we identified one employee who erroneously received a \$500 bonus in June 2018. The employee, who began working at the Department in February 2018, did not qualify for the bonus based on the Department's criteria.

Management's Response

The agency used information from SCEIS generated reports to determine the amount of bonuses for employees in the Office of Transportation. The employee transferred from another agency and the staff did not update the agency hire date reflecting employment with SCDE. The agency will review procedures of verifying data within transferred records with staff.

Journal Entries and Transfers

12. Haphazardly select a total of 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

13. 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.

14. 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 if applicable.

Reporting Packages (Continued)

- Inventory Reporting Package

Determine if reported amounts agree to the SCEIS Yearend Rptg - Inventory report. In addition, determine if the Department's reconciliation of physical inventory to SCEIS was properly completed by agreeing amounts to the SCEIS general ledger and/or Department prepared records.

- 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 Department prepared records. In addition, haphazardly select five payables from the accounts payable summary form and determine if the amounts were properly classified, calculated and reported.

- 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; (2) two haphazardly selected payments, from each remaining grouping for a total of eight payments, classified as month to month rentals, cancelable leases, payment for supplies, and other rental charges not classified; and (3) haphazardly select two future minimum lease payments to ensure proper reporting.

- Litigation Reporting Package

Determine if the Department had approval from the Attorney General's Office to hire attorneys and to ensure proper coding of legal and attorney payments based on inspection of the SCEIS general ledger and the Yearend Rptg – Litigation Expense. Haphazardly select five transactions to inspect for proper approval, amounts charged within approved limits, and service date range.

- 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

The Department submitted the interfund payables reporting package five business days late on August 31, 2018.

Reporting Packages (Continued)

Findings (Continued)

For the cash and investments reporting package, the Department failed to include a bank account reconciliation in the Department records. The Department provided the State Treasurer's Office bank account statement summary with amounts traced to their bank account statement. However, this was not a reconciliation to the Department's books.

For the accounts payable and subsequent events reporting packages, the Department failed to report interdepartmental transfer (IDT) payables that were individually under \$100,000 on either the subsequent events accounts payable worksheet or the accounts payable reporting package in accordance with the CG's Reporting Policies and Procedures Manual. These unreported IDT payables totaled \$496,137 (accounts payable – \$483,060 and subsequent events accounts payable worksheet – \$13,077).

Also, the Department did not maintain consistency with the classification of their payables on both the accounts payable reporting package and the subsequent events accounts payable worksheet. Specifically, payables related to vendors and intergovernmental payables were misclassified between each other.

Additionally, the Department overstated their payables by a combined total of \$12,471 related to several different funds on the accounts payable reporting package. This was due to reporting duplicate payable amounts where the total payable amounts were split between multiple funds.

For the operating lease reporting package, the amount reported for month to month rentals was overstated by \$3,254. The current expense amount for leases with required minimum payments was understated by \$3,254 for one lease. The Department only reported eleven of the twelve payments when calculating the current expense for a lease with required minimum payments. One payment was misclassified as a month to month rental.

Additionally, the Department overstated the cancelable lease amount by \$3,078 and understated the contingent rental amount by \$3,078 on the reporting package. This was due to misclassifications of a few transactions.

Management Response

Interfund payables reporting package - The report provided by the Comptroller General's office on August 1, 2018 was the basis for determining information to be reported on the Interfund Payable Packet. Since the report was dated prior to the closing of all agency yearend transactions, it was not all inclusive for reporting package purposes. Therefore, in the future this yearend report will be generated before packet submission to ensure up to date information is reported, and the package is submitted timely.

Cash and investments reporting package - A bank reconciliation will be performed by the Governor's School for Science and Math at the end of each fiscal year for the composite account reported on the cash and investment package.

Accounts payable/subsequent events reporting package - Special attention will be paid to the classification of vendors when completing the accounts payable and subsequent events reporting packages moving forward.

Capital Assets

15. 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.
16. 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 proper documentation supports the retirement in accordance with the CG's Reporting Policies and Procedures Manual.

Finding

During our inspection of capital asset retirements, the Department was unable to provide adequate supporting documentation for the retirement of an asset in the amount of \$5,441. Per our inquiry, the asset was disposed of in a junk vehicle sale. We observed a lack of proper approval for the retirement of the asset.

Management Response

The retired vehicle was no longer used for its intended purpose (i.e. providing services related to students), however it was retained by SCDE for spare parts for other operating vehicles. The vehicle was included in a Microsoft Access database used to track all vehicles and buses regardless of how they are used (i.e. transporting students or for spare parts). The Access database assists SCDE in monitoring and reporting vehicles and buses on hand. In FY19, SCDE implemented a new disposal policy for buses that aligns with the State's Surplus Property Office requirements, therefore buses will no longer be retained long term for spare parts.

Audit Reports

17. Inspect the Department's internal audit reports as well as any external audit reports that were finalized during fiscal year 2018 for matters related to our engagement.

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

Education Finance Act Allocations to School Districts

18. Inquire of management regarding the approved formula utilized to allocate Education Finance Act appropriations to school districts. Inspect the funds allocated to ten school districts in fiscal year 2018 to determine that the methodology was properly applied in accordance with Proviso 1.4 and the allocations were properly calculated and reported.

We found no exceptions as a result of the procedure.

Governance, Risk and Compliance (GRC) SCEIS Module

19. Select all ten 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 procedure.

Appropriation Act

20. Inspect the Appropriation Act work program, provided to and completed by management, confirming areas of noncompliance, if any.
21. 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.

Minutes

22. Inspect the Department's approved minutes beginning with the end date of prior year fieldwork through the end of our fieldwork for matters related to our engagement.

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

Status of Prior Findings

23. 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. See related finding under the Reporting Packages Findings section above.