

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

STATE AUDITOR'S REPORT

JUNE 30, 2015

CONTENTS

	<u>PAGE</u>
I. INDEPENDENT ACCOUNTANT'S REPORT ON APPLYING AGREED-UPON PROCEDURES	1
II. ACCOUNTANT'S COMMENTS	
SECTION A - VIOLATIONS OF STATE LAWS, RULES OR REGULATIONS	6
ACCOUNT CODING	7
FISCAL YEAR CUT OFF OF EXPENDITURES	8
REVIEW OF PROCUREMENT CARD PURCHASES	9
PERSONAL PROPERTY INVENTORY	10
REPORTING PACKAGES	11
ATTORNEY FEES	13
ASSET CAPITALIZATION	14
SECTION B - STATUS OF PRIOR FINDINGS	15



South Carolina
Office of the State Auditor

George L. Kennedy, III, CPA
State Auditor

INDEPENDENT ACCOUNTANT'S REPORT ON APPLYING AGREED-UPON PROCEDURES

June 13, 2016

The Honorable Nikki R. Haley, Governor
and
Members of the Board of Trustees
Wil Lou Gray Opportunity School
West Columbia, South Carolina

We have performed the procedures described below, which were agreed to by the governing body and management of Wil Lou Gray Opportunity School (the School), solely to assist you in evaluating the performance of the School for the fiscal year ended June 30, 2015, in the areas addressed. The School's management is responsible for its financial records, internal controls and compliance with State laws and regulations. This agreed-upon procedures engagement was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants. 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 below either for the purpose for which this report has been requested or for any other purpose.

The procedures and the associated findings are as follows:

1. **Cash Receipts and Revenues**

- We inspected nine selected recorded receipts to determine if these receipts were properly described and classified in the accounting records in accordance with the agency's policies and procedures and State regulations.
- We inspected five selected recorded receipts to determine if these receipts were recorded in the proper fiscal year.
- We made inquiries and performed substantive procedures to determine if revenue collection and retention or remittance were supported by law.
- We compared current year recorded revenues at the subfund and account level from sources other than State General Fund appropriations to those of the prior year. We investigated changes in the earmarked, restricted and federal funds to ensure that revenue was classified properly in the agency's accounting records. The scope was based on agreed upon materiality levels (\$7,800 – earmarked fund, \$10,000 – restricted fund, and \$3,500 – federal fund) and \pm 10 percent.

The individual transactions selected were chosen randomly. Our finding as a result of these procedures is presented in Account Coding in the Accountant's Comments section of this report.

2. Non-Payroll Disbursements and Expenditures

- We inspected twenty-five selected recorded non-payroll disbursements to determine if these disbursements were properly described and classified in the accounting records in accordance with the agency's policies and procedures and State regulations, were bona fide disbursements of the School, and were paid in conformity with State laws and regulations; if the acquired goods and/or services were procured in accordance with applicable laws and regulations.
- We inspected seventeen selected recorded non-payroll disbursements to determine if these disbursements were recorded in the proper fiscal year.
- We compared current year expenditures at the subfund and account level to those of the prior year. We investigated changes in the general, earmarked, restricted and federal funds to ensure that expenditures were classified properly in the agency's accounting records. The scope was based on agreed upon materiality levels (\$46,400 – general fund, \$6,300 – earmarked fund, \$9,600 – restricted fund, and \$3,900 – federal fund) and ± 10 percent.
- We followed up on a procurement card fraud identified by the School. We verified whether the School maintained written procedures and provided training for cardholders. We also judgmentally selected three months of procurement card usage statements to determine if the School properly completed monthly reconciliations and complied with the State's procurement card policy. We inspected the purchases to determine if they were reasonable; supported by adequate documentation; made by an authorized user for an allowable business expense; under the \$2,500 single transaction limit; and under established credit limits with no indication of transaction splitting.

The individual transactions selected were chosen randomly. Our findings as a result of these procedures are presented in Fiscal Year Cut Off of Expenditures and Review of Procurement Card Purchases in the Accountant's Comments section of this report.

3. Payroll Disbursements and Expenditures

- We inspected twenty-five selected recorded payroll disbursements to determine if the selected payroll transactions were properly described, classified, and distributed in the accounting records; persons on the payroll were bona fide employees; and payroll transactions were properly authorized and were in accordance with existing legal requirements and processed in accordance with the agency's policies and procedures and State regulations.
- We inspected payroll transactions for five selected new employees and five individuals who terminated employment to determine if the employees were added and/or removed from the payroll in accordance with the agency's policies and procedures, that the employee's first and/or last pay check was properly calculated and that the employee's leave payout was properly calculated in accordance with applicable State law.

- We inspected six bonus pay disbursements to determine that the selected bonus did not exceed \$3,000; agreed to supporting documentation; was properly approved; and was not awarded to an employee earning a salary greater than \$100,000.
- We compared current year payroll expenditures at the subfund and account level to those of the prior year. We investigated changes in the general, earmarked, restricted and federal funds to ensure that expenditures were classified properly in the agency's accounting records. The scope was based on agreed upon materiality levels (\$46,400 – general fund, \$6,300 – earmarked fund, \$9,600 – restricted fund, and \$3,900 – federal fund) and ± 10 percent.
- We compared the percentage change in recorded personal service expenditures to the percentage change in employer contributions; and computed the percentage distribution of recorded fringe benefit expenditures by fund source and compared the computed distribution to the actual distribution of recorded payroll expenditures by fund source. We investigated changes of ± 10 percent to ensure that payroll expenditures were classified properly in the agency's accounting records.

The individual transactions selected were chosen randomly. Our finding as a result of these procedures is presented in Account Coding in the Accountant's Comments section of this report.

4. **Journal Entries and Interagency Appropriation/Cash Transfers**

- We inspected five selected recorded journal entries and all interagency appropriation/cash transfers to determine if these transactions were properly described and classified in the accounting records; they agreed with the supporting documentation, the purpose of the transactions was documented and explained, the transactions were properly approved, and were mathematically correct; and the transactions were processed in accordance with the agency's policies and procedures and State regulations.

The individual transactions selected were chosen randomly. Our finding as a result of these procedures is presented in Account Coding in the Accountant's Comments section of this report.

5. **Composite Reservoir Accounts**

Reconciliations

- We obtained all monthly reconciliations prepared by the School for the year ended June 30, 2015, and inspected two selected reconciliations of balances in the School's accounting records to those reflected on the State Treasurer's Office monthly reports to determine if accounts reconciled. For the selected reconciliations, we determined if they were timely performed and properly documented in accordance with State regulations, recalculated the amounts, agreed the applicable amounts to the School's general ledger, agreed the applicable amounts to the State Treasurer's Office monthly reports, determined if reconciling differences were adequately explained and properly resolved, and determined if necessary adjusting entries were made in the School's accounting records.

Cash Receipts and Revenues

- We inspected seven selected recorded receipts to determine if these receipts were properly described and classified in the accounting records in accordance with the agency's policies and procedures and State regulations.
- We inspected the same selected recorded receipts to determine if these receipts were recorded in the proper fiscal year.
- We made inquiries and performed substantive procedures to determine if revenue collection and retention or remittance were supported by law. We obtained all monthly reconciliations prepared by the School.

Non-Payroll Disbursements and Expenditures

- We inspected twenty-five selected recorded non-payroll disbursements to determine if these disbursements were properly described and classified in the accounting records in accordance with the agency's policies and procedures and State regulations, were bona fide disbursements of the School, and were paid in conformity with State laws and regulations; if the acquired goods and/or services were procured in accordance with applicable laws and regulations.
- We inspected the same selected recorded non-payroll disbursements to determine if these disbursements were recorded in the proper fiscal year.

The reconciliations and transactions selected were chosen randomly. We found no exceptions as a result of the procedures.

6. **Appropriation Act**

- We inspected agency documents, observed processes, and/or made inquiries of agency personnel to determine the School's compliance with Appropriation Act general provisos as listed in the Appropriation Act work program, and agency specific provisos, if applicable.

Our finding as a result of these procedures is presented Personal Property Inventory in the Accountant's Comments section of this report.

7. **Reporting Packages**

- We obtained copies of all reporting packages as of and for the year ended June 30, 2015, prepared by the School and submitted to the State Comptroller General. We inspected them to determine if they were prepared in accordance with the Comptroller General's Reporting Policies and Procedures Manual requirements and if the amounts reported in the reporting packages agreed with the supporting workpapers and accounting records

Our findings as a result of these procedures are presented in Reporting Packages, Attorney Fees, and Asset Capitalization in the Accountant's Comments section of this report.

8. **Schedule of Federal Financial Assistance**

- We obtained a copy of the schedule of federal financial assistance for the year ended June 30, 2015, prepared by the School and submitted to the State Auditor. We inspected it to determine if it was prepared in accordance with the State Auditor's letter of instructions; if the amounts agreed with the supporting workpapers and accounting records.

We found no exceptions as a result of the procedures.

9. **Status of Prior Findings**

- We inquired about the status of the findings reported in the Accountant's Comments section of the State Auditor's Report on the School resulting from our engagement for the fiscal year ended June 30, 2014, to determine if the School had taken corrective action.

Our finding as a result of these procedures is presented in Reporting Packages in the Accountant's Comments section of this report.

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:

- Clerical errors of less than \$100 related to processing cash receipts and cash disbursements transactions unless the errors occur in ten percent or more of the transaction class tested.
- Clerical errors of less than \$100 related to reporting packages.
- Errors in applying account coding definitions to accounting transactions unless it is determined that ten percent or more of the accounting transactions tested were found to be in error.
- Reporting packages which are submitted less than three business days after the due date unless it is determined that more than two of the reporting packages were submitted late.
- Submission of the Schedule of Federal Financial Assistance less than three business days late.

We were not engaged to and did not conduct an examination, the objective of which would be the expression of an opinion on the specified elements, accounts, or items. Accordingly, we do not express such an opinion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

This report is intended solely for the information and use of the Governor and of the governing body and management of the School and is not intended to be and should not be used by anyone other than these specified parties.



George L. Kennedy, III, CPA
State Auditor

ACCOUNTANT'S COMMENTS

SECTION A - VIOLATIONS OF STATE LAWS, RULES OR REGULATIONS

Management of each State agency is responsible for establishing and maintaining internal controls to ensure compliance with State Laws, Rules or Regulations. The procedures agreed to by the agency require that we plan and perform the engagement to determine whether any violations of State Laws, Rules or Regulations occurred.

The conditions described in this section have been identified as violations of State Laws, Rules or Regulations.

ACCOUNT CODING

Condition:

1. During our Test of Revenue we noted one transaction in which revenue for the sale of meals was coded to G/L Account 4470010000 (Rent – Residence) instead of G/L Account 4480030000 (Sale of Meals) and revenue for residential rent was coded to G/L Account 4480030000 (Sale of Meals) instead of G/L Account 4470010000 (Rent – Residence).
2. During our analytical review of revenue, we noted a refund of prior year expenditures of \$1,890 was coded to G/L Account 4890450000 (Refund Pyr Rev) instead of G/L Account 4520010000 (Refund Pyr Exp). The School prepared a journal entry to correct the coding error, which we tested in our Test of Journal Entries; however we noted the error still existed because the journal entry did not fully correct the error.
3. During our testing of bonus pay we noted \$105,000 was coded to G/L Account 5010580000 (Classified Positions) instead of G/L Account 5010990000 (Bonus Pay).

Cause:

School personnel stated the incorrect codings were due to employee error. Additionally, School personnel stated incorrect guidance was given regarding the coding of bonus pay.

Effect:

The School was not in compliance with the Comptroller General's Policies and Procedures.

Criteria:

The Comptroller General's Policies and Procedures provide account code definitions to help agencies to determine the proper account code and ensure consistent account treatment.

Recommendation:

We recommend the School ensure that the person performing the independent review of accounting transactions verify that the preparer used the proper account code.

Management's Response:

We agree that these particular transactions were not coded correctly. However, due to the volume of transactions processed in a year, errors do occur and the majority of our transactions are in compliance. As to the bonus coding, the guidance from the Office of Executive Budget and the Comptroller's General has been to be consistent with the coding. Had we been informed of the change anytime during the last five years, we would have corrected the coding well before this citation.

FISCAL YEAR CUT OFF OF EXPENDITURES

Condition:

During our Cut-Off Test of Expenditures, we noted two transactions were not posted in the fiscal year in which the good/service was provided. The expenditures were for services and supplies provided in July 2015 but were posted in fiscal year 2015.

Cause:

The errors noted above were due to employee oversight.

Effect:

The School was not in compliance with State law.

Criteria:

Proviso 118.1 of the fiscal year 2014-2015 Appropriations Act sets forth guidelines for the posting of year end accounts payable transactions.

Recommendation:

We recommend the School strengthen its policies and procedures to ensure expenditures are posted in the proper fiscal year.

Management's Response:

Once again, we agree that these two transactions were coded incorrectly but the school processes a large volume with a small staff. Errors do occur and we review as closely as possible. Therefore, the majority of our transactions are in compliance.

REVIEW OF PROCUREMENT CARD PURCHASES

Condition:

During a monthly procurement card reconciliation the School discovered an employee was using a procurement card for personal use for \$190. The School terminated his employment and the funds were repaid to the School. Based on this information we performed tests to determine the School had procedures in place over the procurement card and noted the following:

1. The supervisor or independent reviewer did not indicate proper review and approval on eleven bank statements.
2. Two transactions were not supported by receipts or other supporting documentation.

Cause:

1. Cardholders submitted their bank statements directly to Finance rather than to their supervisor. The Accounts Payable clerk was new to the agency in fiscal year 2015 and did not realize that supervisors needed to sign the statements.
2. Receipts were requested from the cardholders; however, they were never received. In order to meet the deadline for procurement card transactions, the purchases were processed prior to receiving the documentation.

Effect:

The School did not comply with the State's procurement card procedures. Procurement card purchases were not properly reviewed and approved prior to payment.

Criteria:

The Materials Management Office's Purchasing Card Policy and Procedures manual states that supervisor responsibilities include reviewing all documentation to ensure invoices/receipts have the required information and signing the cardholder activity statements signifying review and approval for payment. Additionally, the manual states minimum documentation requirements for procurement card purchases include an itemized receipt or invoice.

Recommendation:

We recommend the School strengthen its procedures over the procurement card to ensure all purchases and monthly bank statements are properly reviewed and approved.

Management's Response:

We discovered late in 2015-2016 that the statements were not given to supervisors for approval. It has already been corrected. We also agree that receipts must be given as documentation. The missing receipts are aberration rather than the norm.

PERSONAL PROPERTY INVENTORY

Condition:

The School did not complete an inventory of personal property in fiscal year 2015.

Cause:

School personnel stated the responsibility for the inventory of personal property shifted from one employee to another and the inventory was overlooked during the fiscal year.

Effect:

The School was not in compliance with State law.

Criteria:

Section 10-1-140 of the 1976 South Carolina Code of Laws, as amended, states, "The head of each department, agency or institution of this State is responsible for all personal property under his supervision and each fiscal year shall make an inventory of all such personal property under his supervision, except expendables."

Recommendation:

We recommend the School develop and implement procedures to ensure its annual inventory count is performed in compliance with Section 10-1-140 of the 1976 South Carolina Code of Laws.

Management's Response:

We agree that it is important to do an inventory every year. The inventory was in process but was not completed by the fiscal year end. One has been completed for Fiscal Year 2015-2016 and will be done every subsequent year at the end/beginning of the calendar year.

REPORTING PACKAGES

Condition:

We noted the following during our testing of the School's fiscal year 2015 reporting packages:

1. The School did not indicate on the Master Reporting Package that it was aware of any instances of fraud occurring during fiscal year 2015 even though it encountered one instance of procurement card fraud.
2. The School responded on the Capital Assets Questionnaire (Form 3.08.1) that its acquisitions plus transfer-in and retirements plus transfers-out equal the debit and credit balances reflected in SCEIS, respectively. However, we noted a variance of \$99,576 between these balances.

Cause:

1. School personnel stated they did not respond correctly due to oversight.
2. School personnel did not deem it necessary to reconcile the balances since the balance reported on the SCEIS Asset History Sheet agreed to the balance reported in the SCEIS ZGLA.

Effect:

The School did not submit a letter to the Comptroller General's Office describing the fraud of \$190 as well as the actions taken by management to prevent further fraudulent activity nor did it prepare a Reconciliation of SCEIS Asset History Report to General Ledger Activity (Form 3.08.5). Both of these documents are required by the Comptroller General's Reporting Policies and Procedures Manual.

Criteria:

Section 1.7 of the Comptroller General's Policies and Procedures Manual states, "Each agency's executive director and finance director are responsible for submitting to the Comptroller General's Office reporting packages and/or financial statements that are: accurate and prepared in accordance with instructions, complete, and timely."

Recommendation:

We recommend the School strengthen its procedures to ensure reporting packages are prepared and completed in accordance with the CG's Reporting Policies and Procedures Manual. School personnel responsible for completing and reviewing the reporting packages should review instructions for completing packages and compare the supporting working papers prior to submission to eliminate errors.

Management's Response:

It was not our intention appear to hide or misreport this occurrence. As a matter of fact, we told the Auditors about the situation in our entry conference for the Fiscal Year Ending June 30, 2014 agreed upon procedures audit even though it was outside of their year. We did not report it on the closing package because the situation was handled in the same period it occurred and we had already recovered the State's money. However, we will include any occurrences in the future but hopefully will never have this happen again.

As to the variances, the variances did not affect the overall balance. The variances were within the detail balances and had a zero effect overall. However, we will make sure the detail variance is explained.

ATTORNEY FEES

Condition:

During our review of the School's Litigation Reporting Package, we noted attorney fees paid to one firm exceeded the amount approved by the Attorney General's Office. According to the "South Carolina Attorney General Request for Authorization to Employ Associate Counsel" form dated July 8, 2014 the School was authorized to pay the firm a maximum of \$2,500; however, the School paid the firm \$2,700.

Cause:

School personnel stated payments to the firm were not appropriately monitored.

Effect:

The School was not in compliance with State law.

Criteria:

Section 1-7-170 of the 1976 South Carolina Code of Laws, as amended, states, "A department or agency of state government may not engage on a fee basis an attorney at law except upon the written approval of the Attorney General and upon a fee as must be approved by him."

Recommendation:

We recommend the School strengthen its procedures to ensure compliance with State law regarding attorney fees.

Management's Response:

A similar finding was noted in the Fiscal Year Ending June 30, 2014 agreed upon procedures audit. However, the audit was not performed until after Fiscal Year Ending June 30, 2015 was closed. Therefore, we did not have the opportunity to fix for Fiscal Year Ending June 30, 2015. We increased our amount not to exceed to \$5,000 for Fiscal Year Ending June 30, 2016. The School spent less than \$300 for the Fiscal Year Ending June 30, 2016.

ASSET CAPITALIZATION

Condition:

During our test of asset acquisitions, we noted the School did not capitalize one asset at the correct amount. The School capitalized the asset at \$22,875; however, the asset should have been capitalized at \$23,635.

Cause:

School personnel stated an entry error was made when the asset was recorded in the capital assets system. Freight and a portion of sales tax were excluded from the calculation.

Effect:

Capital assets were understated by \$760 and depreciation expense was understated by \$152 in fiscal year 2015.

Criteria:

Section _.8 of the Comptroller General's Office Reporting Policies and Procedures Manual states that the historical cost of a purchased capital asset includes sales tax and delivery costs.

Recommendation:

We recommend the School strengthen its procedures to ensure all assets are capitalized at the proper amount in accordance with Comptroller General's Office policies and procedures. The School should also make the appropriate adjustment for the asset in question.

Management's Response:

Concur. We will correct the asset.

SECTION B - STATUS OF PRIOR FINDINGS

During the current engagement, we reviewed the status of corrective action taken on each of the findings reported in the Accountant's Comments section of the State Auditor's Report on the School for the fiscal year ended June 30, 2014, and dated September 21, 2015. We determined that the School has taken adequate corrective action on the deficiencies titled Grants and Contribution Revenue Reporting Package, Other Payroll Liabilities Reporting Package and Timely Submission. In response to our inquiries, we were told that the School has developed and implemented procedures to correct the deficiency titled Prepaid Expenses Reporting Package reported in the prior year. However, because procedures were implemented after June 30, 2015, we did not perform tests of new procedures.

4 copies of this document were published at an estimated printing cost of \$1.52 each, and a total printing cost of \$6.08. Section 1-11-425 of the South Carolina Code of Laws, as amended, requires this information on printing costs be added to the document.