

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

STATE AUDITOR'S REPORT

JUNE 30, 2017



Independent Accountant's Report on Applying Agreed-Upon Procedures

September 24, 2018

The Honorable Molly M. Spearman
State Superintendent of Education
and
Members of the Board
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, 2017. 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:

- Clerical errors of less than \$1,000 related to processing cash receipts and cash disbursements transactions unless the errors occur in ten percent or more of the transaction class inspected.
- Clerical errors of less than \$1,000 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 inspected 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.

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 and document an understanding of variations for the following: Earmarked Fund: bus permit – hazardous transportation general ledger account and Restricted Fund: miscellaneous transfer – other fund general ledger account.
2. Randomly select fifteen cash receipts transactions, excluding transactions from general ledger account 4530030000 (Miscellaneous Revenue), and inspect supporting documentation to:
 - Agree transaction amount, date, payor, document number, and account coding 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.
3. Randomly select fifteen cash receipts and inspect supporting documentation to determine that receipts are recorded in the proper fiscal year.

We found no exceptions as a result of these procedures.

Cash Disbursements/Non-Payroll Expenditures

4. Compare current year non-payroll expenditures at the subfund and account level to those of the prior year. Obtain and document an understanding of variations for the following: General Fund: supplies and materials account series; Earmarked Fund: land, buildings, infrastructure account series and allocations account series; and Restricted Fund: supplies and materials account series.
5. Randomly select twenty-five non-payroll disbursements and inspect supporting documentation to determine that disbursements are recorded in the proper fiscal year.

We found no exceptions as a result of these procedures.

Payroll

6. Haphazardly select ten bonus pay disbursements to determine:
 - The employee does not make more than \$100,000 annually.
 - Bonuses received during the year did not exceed \$3,000.
 - The transaction was appropriately documented and approved.
7. Haphazardly select fifteen 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.
8. Haphazardly select twenty-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.

Payroll (Continued)

9. 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%.
10. 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 changes greater than 10%.

We found no exceptions as a result of these procedures.

Journal Entries and Transfers

11. Randomly select twenty-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 these procedures.

Appropriation Act

12. Inspect the Appropriation Act work program, provided to and completed by management, confirming areas of noncompliance, if any.
13. 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 these 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.
15. In addition to the procedure above, perform the following:
 - Inventory Reporting Package

Determine if reported amounts agree to the South Carolina Enterprise Information System (SCEIS) Yearend Reporting - Inventory report. In addition, determine if the Department's physical inventory was properly completed by agreeing amounts to the SCEIS general ledger and/or Department prepared records.
 - Accounts Payable Reporting Package

Determine if responses and reported amounts are reasonable/accurate based on the inspection of the SCEIS general ledger, SCEIS Yearend Reporting - 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.

Reporting Packages (Continued)

- 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 three 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

Inventory Reporting Package

The total inventory reflected in the Department's physical count records did not agree to the amount recorded in SCEIS. Ultimately, the Department did not record an entry in SCEIS at yearend to accurately adjust the inventory balance. As a result, fiscal year 2017 inventory was overstated by \$49,051 in the SCEIS general ledger.

Accounts Payable Reporting Package

Three payables selected for inspection, totaling \$536,310, were improperly classified as intergovernmental payables on the accounts payable summary form. As these transactions did not relate to intergovernmental entities, each should have been classified as vendor payables.

In addition, one of these payables was also overstated on the summary form. The related invoice was for services applicable to calendar year 2017. Therefore, only a portion of the invoice represented a payable as of 6/30/2017. However, the entire invoice amount was incorrectly reported on the package. As a result, fiscal year 2017 payables were overstated by \$38,000.

Subsequent Events Questionnaire

All three payables selected for inspection were improperly classified on the subsequent events accounts payable worksheet. One payable, totaling \$95,927, was improperly classified as vendor payables rather than intergovernmental payables. Also, two payables, totaling \$11,018, were improperly classified as intergovernmental payables rather than vendor payables.

Management's Responses

Inventory Report Package

We agree with the finding. Fiscal Accounting received the inventory totals after the fiscal year 2017 journal entry deadline. Therefore, we were unable to process the necessary journal entry to adjust the inventory total. In fiscal year 2018, we timely communicated the deadline for the inventory totals, and we will continue to communicate timely each year to ensure any necessary journal entries are completed.

Accounts Payable Reporting Package

We agree with the finding. We will develop a more robust review process to ensure any initial misclassification made during the report preparation process is quickly identified and corrected. We have also created a process that requires greater management review of prior year payable invoices during the payment process.

Subsequent Events Questionnaire

We agree with the finding. We will develop a more robust review process to ensure any initial misclassification made during the report preparation process is quickly identified and corrected.

Procurement Card Transactions

16. Haphazardly select ten procurement card purchases and inspect supporting documentation to determine:
- The cardholder is an authorized user.
 - The purchase is reasonable based on the cardholder's position.
 - The monthly purchase statement was submitted along with applicable receipts and signed by both the cardholder and supervisor.
 - The transaction did not exceed the single transaction limit or the individual credit card limit.

Finding

The monthly purchase statements associated with two inspected purchases were not signed and approved by a supervisor prior to payment.

Management's Response

We agree with this finding. The agency's Procurement Manager will send periodic email notices reminding agency procurement card holders and supervisors/managers that signatures are required on the monthly statement prior to any payments being processed related to the procurement card.

School Bus Disbursements/Expenditures

17. Randomly select twenty-five 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.

Finding

Three disbursements selected for inspection, totaling \$6,395, were incorrectly coded in the SCEIS general ledger. Specifically, two disbursements for tire repair services were coded to a supplies/materials general ledger account and one disbursement for the purchase of oil mats was coded to a services general ledger account.

Management's Response

We agree with this finding. Management within Fiscal Accounting will continue to provide education and training to staff members to ensure proper utilization of general ledger coding.

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 2017 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 these procedures.

Minutes

19. Inspect the Board's approved 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.

Audit Reports

20. Inspect the Department's internal audit reports as well as any external audit reports that were finalized during fiscal year 2017.

Matter Observed

We observed one matter related to our agreed-upon procedures. During a fiscal year 2017 internal audit of one of the State's bus shops, the Department was unable to verify the related petty cash fund due to its inaccessibility. However, the Department followed up with an additional audit during fiscal year 2018, at which time the petty cash fund was found to be accurate and properly maintained.

Status of Prior Findings

21. 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.

We found no exceptions as a result of these procedures.