



PROCUREMENT EXAMINATION

**FOR THE PERIOD
JULY 1, 2020 THROUGH JUNE 30, 2021**



TABLE OF CONTENTS

	<u>Page</u>
Independent Accountant's Report	1-3
EXHIBIT 1 – Findings and Recommendations	4
EXHIBIT 2 – District's Corrective Actions	7



Jaramillo Accounting Group LLC

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INDEPENDENT ACCOUNTANT'S REPORT

Board of Trustees and
Dr. Akil Ross, Superintendent of
School District Five of Lexington and Richland Counties
Irmo, South Carolina

We have examined the internal procurement operating policies and procedures of School District Five of Lexington and Richland Counties (the "School District" or the "District") for the period July 1, 2020 through June 30, 2021. This examination was directed principally to determine whether the procurement procedures were in compliance with the School District's Procurement Code and its ensuing regulations, in all material respects. Management is responsible for the School District's compliance with the specified requirements. Our responsibility is to express an opinion on the School District's compliance with the specified requirements based on our examination.

Our examination was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants. Those standards require that we plan and perform the engagement to obtain reasonable assurance about whether the School District complied, in all material respects, with the specified requirements referenced above. An examination involves performing procedures to obtain evidence about whether the School District complied with those specified requirements. The nature, timing, and extent of the procedures depended on our judgment, including an assessment of the risks of material noncompliance, whether due to fraud or error. Accordingly, this included examining, on a test basis, evidence about the School District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that the evidence we obtained is sufficient and appropriate to provide a reasonable basis for our opinion. We are required to be independent of the District and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements related to our examination engagement. Our examination does not provide a legal determination on the School District's compliance with specified requirements.

Specifically, the scope of our examination included, but was not limited to, a review of the following:

1. We obtained answers to the South Carolina State Fiscal Accountability Authority's (the "Authority") questionnaire for evaluating internal control efficiency and effectiveness of the School District's Procurement Operations and evaluated those answers.
2. We inquired of the School District concerning any transactions between Foundations, Eleemosynary, or 501(c)(3) groups affiliated with the School District and any gifts between these entities to determine if the transactions were subject to the School District's Procurement Code. According to the District's Procurement Manual, Section 40.2, these transactions are not subject to their Procurement Manual.

3. Minority Business Enterprise Utilization annual plan ("MBE Plans") was created submitted to and approved by the Board of Trustees timely (Section 11-35-5240 includes goals for spending with Minority Businesses of at least 10% of the District's total dollar amount of funds expended), periodic progress reports were filed timely, and in FY21 The District's minority business utilization rate was 5.7%. The total dollar amount of funds expended was \$7,825,761 and minority vendor expenditures were \$442,393.
4. We reviewed the School District's Purchasing Card Program Policies and Procedures to confirm the establishment of internal controls and cardholder spending limits and ensured that adequate separation of duties exist between cardholder purchases and the review/approval of these purchases prior to payment. We also determined that the School District has a training program for new card holders and liaisons, no School District employee has been issued more than one card, the School District had no unassigned cards other than those permitted by the School District's Purchasing Card Program Policies and Procedures, and attempted purchases with blocked Merchant Category Codes are blocked by the financial institution. We reviewed a two-month sample of procurement card purchases for the fiscal year for potential splitting, proper competition was solicited for purchases greater than \$2,500, and to determine if they were being managed in compliance with the School District's Procurement Code and Purchasing Card Program Policies and Procedures.
5. The School District did not have any blanket purchase agreement files during the period July 1, 2020 through June 30, 2021.
6. We reviewed a block sample of two hundred (200) numerical purchase orders to check for splitting of vendors, favored vendors, and any questionable procurements.
7. We reviewed all the School District's procurements of revenue generating contracts to determine that they were done in accordance with the School District's Procurement Code. We noted the School District did not have any revenue generating contracts during the period July 1, 2020 through June 30, 2021.
8. We reviewed 100% of unauthorized procurements for the period July 1, 2020 through June 30, 2021 to determine if they were properly addressed and authorized in accordance with the School District's Procurement Code.
9. We reviewed copies of all sole source and emergency procurements. Determinations and Findings and related purchased orders or vouchers for the period July 1, 2020 through June 30, 2021 to determine if each procurement transaction was adequately explained and appropriate, properly approved, and accurately reported.
10. We reviewed all trade-in files to determine that proper approval was obtained and that the trade-in was accurately reported. The School District did not have any trade-ins during the period July 1, 2020 through June 30, 2021.
11. We selected a sample of ten (10) disposals and sales of surplus property, five (5) from each fiscal year, to determine that they were handled in accordance with the School District's Procurement Code.

12. We selected and tested a sample of ninety (90) procurement transactions for the period July 1, 2020 through June 30, 2021 due to higher risk. These procurements were tested for compliance with the Authority's standard matrix. (Findings and Recommendations – Exhibit 1)
13. One (1) of the procurements selected (the only qualified) was tested for compliance with the Authority's Major Construction matrix, and the School District's Procurement Code. (Findings and Recommendations – Exhibit 1)
14. We selected and tested change orders from the applicable construction projects selected for testing. (Findings and Recommendations – Exhibit 1)
15. We inquired of the School District concerning the use of Indefinite Delivery Contracts. The School District did not have any Indefinite Delivery Contracts for the period July 1, 2020 through June 30, 2021.

In our opinion, except for the material noncompliance with procedures 12-14 as more fully described in our Phase I, II, and III reports and in Exhibit 1, the School District complied, in all material respects, with the aforementioned requirements for the period July 1, 2020 through June 30, 2021.

This report is intended solely for the information and use of The Board of Trustees and management of the School District, the South Carolina Budget and Control Board, Division of General Services, Material Management Office, and their designees and is not intended to be and should not be used by anyone other than these specified parties.



Jaramillo Accounting Group LLC (JAG)
Albuquerque, New Mexico
January 31, 2023

EXHIBIT 1

Findings and Recommendations

For further information on these areas of material noncompliance, please see the Phase I, II, and III reports.

Direct Expenditure Vouchers

Condition – The District paid over \$37 million in FY21 to vendors without a purchase order. A temporary substitute services vendor was paid material amounts with direct payments without approval or support on-file as described further below under Temporary Substitute Services. In general, drawbacks to using direct payments include lack of control, insufficient record-keeping, lack of transparency, inability to track spending, and reduced competition. Most were for “quick pay processing” payments, which were a result of purchase orders not rolled forward.

Recommendation – Management should carefully consider the benefits and drawbacks of direct payments and minimize their use. Accounts Payable team members should be trained to not use direct pay only because a purchase order is not rolled forward. Direct payments should not be sent only from an email request and without documented approval on-file as occurred with temporary services. The District should add preventative and detective controls around their usage to prevent fraud, waste, and abuse and to ensure procurement compliance.

Purchase Orders Not Rolled Forward

Condition – During our testing of direct payments, we noted purchase orders were not rolled forward to the appropriate fiscal year in multiple transactions over various fiscal years. This may lead to potential overstatement or understatement of expenditures in the current fiscal year, the inability to accurately budget or forecast for the future, and noncompliance with regulations related to financial reporting.

Recommendation – Management has contacted iVisions (the District’s accounting software) on several occasions and is working toward a solution. The District has talked to its bookkeepers about these input errors in the past and will continue to train on these inputs because it does affect whether they will roll forward to the new year (or not) in the system. To address this issue, we recommend the District establish procedures and controls to ensure that purchase orders are rolled to the appropriate fiscal year. This may include regular reviews and monitoring of the purchase order process followed by a documented fiscal year close out procedure to identify and reconcile outstanding purchase orders. Additionally, training of related staff and documented procedures may assist in the consistent application of the purchase order process.

Blanket Purchase Orders

Condition – The District issued over \$9.9 million in blanket purchase orders for FY21. Although certain agreements may fall within the District’s “Procurement Code Exemption” policy, items classified as blanket purchases have required provisions as prescribed in section 1550.4.2 of the District Five Procurement Manual 2008 which include: Description of the agreement, period of performance, dollar ceiling price, delivery instruction, invoicing requirements, competition guidance, communication guidance, acceptance requirements, and review procedures.

Recommendation – To ensure compliance with organizational policy and applicable regulations, we recommend the District clearly distinguish between BPOs and regular Purchase Orders in their procurement processes. This can be achieved by implementing specific procedures and controls for BPOs, such as requiring all BPO agreements to include the provisions outlined in section 1550.4.2 of the manual, and by properly training employees on the differences between BPOs and Purchase Orders including the process flow for allowable exemptions. We also recommend issuing BPOs for utilities, so budget is properly encumbered and tracked. Additionally, regular monitoring and review of BPOs should be conducted to ensure compliance with District policy and applicable regulations.

Construction Expenditures and Closeout

Condition – The District paid the Piney Woods Elementary School construction vendor approximately \$16.8 million in FY21. There were material weaknesses and noncompliance relating to this procurement, contract, payments, and closeout process, which was completed in FY22. This is more fully detailed in our Phase II report based on limited information made available to us.

Recommendation – We recommend corrective action such as: increasing staffing in procurement, as deemed necessary, implementing an Internal Audit function reporting to the Board of Education, ensuring complete documentation is retained (including emails), proper review and approval of all details, following the procurement policy, protecting the District’s interests contractually, improving tone at the top, following up with legal counsel on any violations, submitting all change orders to the Board in accordance with the policy, etc.

Campaign Contributions

Condition – Although not quantitatively material, there were potentially illegal campaign contributions to District Board Trustees which are qualitatively material to the community either individually or when aggregated with the other noncompliance reported as it relates to procurement and competitive bidding processes. The District has experienced the heavy impacts to public opinion and strife from accusations of possible conflicts of interest with vendors temporary contractors which in part, led to this engagement.

Recommendation – We have provided example policies and forms regarding conflicts of interest to the District. One of these forms includes requiring vendors to list with their quote/bid (and possibly prior to contract with their IRS Form W-9 submission) a listing of all Campaign Contributions to District board members and any conflicts with employees. Procurement can look this up along with suspension and debarment checks during the procurement process as well.

Temporary Substitute Staffing

Condition – We noted material noncompliance and concerns relating to the District’s temporary substitute staffing services such as: scope services did not agree to the procurement without board approval, certain daily rates charged were extremely high and did not agree to the contract, there were not documented approvals of positions, individuals, and rates, a lack of oversight, circumventing the Board’s budgetary controls, and incorrect estimates of annual and total costs of the services.


Recommendation – It is imperative that the District thoroughly review the contracts, invoices, and expenses related to temporary staffing to ensure that the billing process is fair and transparent, and that the District is not incurring unnecessary expenses in regard to staffing. The District should implement proper controls and approvals over billing rates and payments, including a review of invoices and documentation to support elevated rates of pay. The District should also establish rigorous procedures for monitoring employee time worked vs charged and implement controls over direct payments, such as requiring approval from multiple levels of management before processing payments.

In conclusion, internal controls and compliance over the District's procurement should be strengthened and the District should implement an Internal Audit function and perform regular risk assessments and monitoring. The District is at higher risk of non-compliance with laws, contracts, and regulations, fraud, and errors without strong enough accountability in place. Allegations and complaints decrease public trust in government. We have reported in separate Phase I, II, and III reports possible fraud, waste or abuse, non-compliance, and risk areas the District is in the process of addressing. The District's oversight agencies have been notified and the Board of Trustees, Superintendent, and CFO continue to work through corrective actions and future prevention. The following Exhibit 2 details corrective actions by the District.

EXHIBIT 2
District's Corrective Actions



MEMORANDUM

To: Members of the Board of Trustees
From: Maddison Paul,
Chief Financial Officer 
Date: March 7, 2023
Re: Financial Recovery Plan

School District Five of Lexington and Richland Counties has shown tremendous growth over the past eighteen months to promote financial accountability and transparency. The leadership at School District Five is committed to strengthening internal controls, creating a culture of integrity and serving as a steward of taxpayer funds.

In fiscal year 2022, the administration revised the District's Procurement Code and Regulations and received a written opinion from the State Fiscal Accountability Authority that the code was substantially similar to the South Carolina Consolidated Procurement Code and Regulations as required by SC Code Ann. § 11-35-5340. The newly adopted code was fully implemented on July 1, 2022. Once Phase III of the procurement audit is finalized by JAG, the administration will revise the procurement manual to include recommendations from the external auditor. The procurement manual will be posted on the District's website and the administration recommends that key personnel take part in trainings to review procedures, accountability and consequences for violations.

On January 23, 2023, the Board of Trustees for School District Five of Lexington and Richland Counties approved the budget amendment for FY2023, which included a new Internal Auditor position as recommended by JAG. This position will report functionally to the Board of Trustees and administratively to the Superintendent. The Internal Auditor will be charged with establishing a detailed audit and risk assessment plan to be presented to the Board prior to implementation.

On February 13, 2023, the Board of Trustees voted to approve the revisions of Board Policy DI/DIE “Fiscal Accounting/Audits” for final reading. The revisions include Fort Mill School District’s complete Board Policy DIE “Internal Controls.” The revised language includes procedures for implementing internal controls, the responsibilities of all levels of the organization regarding internal controls, and reporting procedures for resolution of incidents regarding internal controls. The policy also includes language regarding the Internal Auditor’s role and responsibilities.

During FY2023, the administration has reviewed the purchasing card program and provided details of this review to the Board of Trustees. New cardholders receive training and must sign indicating they understand the written procedures and responsibilities regarding the use of their purchasing card. The program, administered through Bank of America, blocks certain merchant category codes from processing on the District's purchasing card. The District also has written procedures and forms for any violation of the purchasing card program. The cardholder and supervisor must meet to discuss the violation and provide written information regarding disciplinary and corrective actions. All violations are then reviewed by the Chief Financial Officer.

The administration is working to adopt an annual Financial Services Manual similar to the Financial Services Policies and Procedures Manuals as presented by Fort Mill School District and Anderson County School District 5. This manual will serve as a written guide for fraud mitigation and internal controls and provide procedures for financial, accounting and procurement related activities. The manual will also include references to the South Carolina Department of Education’s Funding Manual and Financial Accounting Handbook to promote transparency to the end user. Annual training is recommended for all staff members involved in financial, accounting or procurement practices. The Financial Services Policies and Procedures Manual will be adopted by the administration prior to next school year.

The administration has also evolved in leadership and established a “tone at the top” organizational culture. For the first half of FY2022, the District operated under the leadership of an interim superintendent. As Interim Superintendent, Dr. Akil Ross, Sr., attended procurement committee meetings with board members that helped to establish new policies and guidelines regarding the District’s procurement process. In February 2022, the Board voted to approve Dr. Akil Ross, Sr. as the new Superintendent of School District Five. The District also hired a new Chief Financial Officer in August 2022 after the resignation of the previous CFO in March 2022. In November 2022, four new board members were sworn in to the Board of Trustees. Each of these new leaders will be vital in continuing to change the organizational structure of the District to a more transparent and accountable organization.