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BY: *Office of Supt.*
8:56 p.m.

June 22, 2022

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

Re: Executive Summary of Phase I Report on Preliminary Procedures

We have been engaged to review procurement of the School District Five of Lexington and Richland Counties' (the "District") for the period July 1, 2016 through June 30, 2021 and to examine other risk areas which may be outside this period. Our services are directed to answer Board and administration questions regarding procurement and other areas of compliance. Management is responsible for the District's internal controls, fraud prevention and detection, and compliance with all requirements. Our examination does not provide a legal determination on the District's compliance with specified requirements. This is a preliminary report, an executive summary, on our first phase procedures regarding the District's compliance and indicating risks areas we recommend further procedures on. These are not final conclusions and follow up is in process.

- A. *Sewer Taps* – The District purchased sewer taps in March 2012, July 2013, and November 2014. In all three instances, at least one common District employee was party to the communications. This employee and perhaps others knew, or should have known, that the November 2014 purchases were unnecessary since the July 2013 taps remained unused. The District did not follow up to ensure the taps from Mungo Homes were transferred at the County and they expired, causing this to be a loss of a public asset of \$178,750. All three transactions included purchase order violations but could have been exempt from procurement under 9.a. utilities and energy expenses, water/sewer costs. Although there was a SLED investigation, it did not appear former employees or Mungo Homes were interviewed in order to identify the root causes of this significant waste of taxpayer money.
- B. *Accounts Payable* – We have identified significant fraud, waste, and abuse risk areas, material weaknesses, and significant deficiencies in internal controls within the transaction cycle of disbursement of District funds. These include but are not limited to: Improperly issuing or not issuing IRS Form 1099s, \$2,383,678 and \$73,345, respectively for Fiscal Year 2021 (FY21). Direct expenditure vouchers, "direct pays", without Purchase Orders which need to be researched; \$1,206,957 which are not employee reimbursements or routine utilities expenses for FY21 alone. Blanket purchase orders of almost \$10MM for FY21 alone which increase risks significantly and should be rare so that purchasing checks and balances remain in place.
- C. *Temporary Staffing* – During FY17-21 the District paid approximately \$7.8MM in direct pays which need research for temporary services charged over the approved contractual rates (with over 15 contracted staff paid over \$500/day). It has been reported to us, and evidence corroborates, that no one in central office would take responsibility for reviewing and approving these invoices, this allowed employees to "double dip" with retirement, and effectively avoided obtaining Board approval for FTEs. It is possible a former CFO overrode internal controls and directed District staff to pay these invoices without approvals and supporting, approved, documents do not exist, per Finance and HR.
- D. *Tone at the Top* – It is clear from the outside looking in with an independent viewpoint that people who questioned the District's leadership were chastised, minimized, ignored, and/or attacked, as evidenced by communications in emails, meetings, and legal bills. There were extraordinary amounts of energy and legal expenses paid to argue with those who asked questions such as Board Candidates and Board Members. There was a pattern of non-transparent behavior within the District and not reporting violations and lack of compliance and



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internal controls. We note prior audits are missing or never passed along to Finance and prior audit reports did not discover and/or report significant violations and deficiencies in internal controls. It has been very difficult to obtain information and staff has not always been available for our procedures. We observe that the current Board is addressing these issues.

- E. *Ethics* – There are alleged ethics violations over the years regarding topics such as: donations to Board Candidates/Members, various conflicts of interest related to attorney services, and awarding contracts.
- F. *Bonds, Journal Entries* – We noted material journal entries which moved expenses into the 2008/9 bond referendum, including approximately \$1.2MM in legal fees, and \$1.4MM in bond balances/transfers which merit further testing to prove/disprove validity. Additionally, our testing identified approximately 100 journal entries which have disappeared from the previous accounting system, Smartfusion. There is risk there are non-bond related operational expenditures charged to the 2008/9 (or other) bond funds.
- G. *Construction & Architect Vendors* – There are procurement violations relating to construction and architect vendors. It appears certain vendors had unfair advantages in the procurement processes. One contractor is currently providing additional information for our testing, as there are expenditures which appear to be beyond what was necessary or approved in the procurement and contract and reported unnecessary risks shifted to the District. The Board's change order procedures were not followed, and conflicts of interest were not reported as required.
- H. *Procurement* – We noted there are possible violations of procurement and ethics without consequences to employees. There are numerous violations for lack of Board approval for contracts deemed exempt from procurement by Administration. The District and its former attorney could not provide us with any communication or documentation of "all appropriate steps" taken by the Chief Procurement Officer, Procurement Director, and other District employees to ensure the District did *not* knowingly enter into purchase commitments that *could* result in a conflict of interest. The District's conflict of interest policy form includes prohibiting participation if there is the "potential to result in a biased opinion or unfair advantage." In procurement card testing, we noted attempted and declined purchases to inappropriate vendors such as Victoria's Secret and Adidas. We have further detailed testing to complete on exceptions or missing items we have noted and will follow up with management.

We have recommended to the former CFO, the Superintendent, and the Board to early alert the SC State Auditor, SCDE, the State Fiscal Accountability Authority (SFAA) Division of Procurement Services (DPS) Office of Audit and Certification, *and any other* applicable oversight or law enforcement agencies this engagement is in-process. We have also recommended the Superintendent report any ethics or other violations by staff who are certified, in accordance with SCDE requirements. To date, only the following notification has been submitted: Pursuant to S.C. Law 59-20-90, the Board has notified SCDE regarding this in-process engagement and the likelihood of reportable conditions.

The District has committed to ensuring that any potential malfeasance is reported to the proper law enforcement agencies and the District's Finance Department will develop a Financial Recovery Plan approved by the Board of Trustees and submitted to SCDE (and perhaps other agencies as necessary). The Financial Recovery Plan will address the possible recovery of funds as well as process remediation to ensure future vendor payments are correctly reviewed and authorized prior to payment.

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