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South Carolina
Division of General Services

PROCUREMENT AUDIT AND CERTIFICATION

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S.C. DEPARTMENT OF EDUCATION
AGENCY

MARCH 6, 1986
DATE

STATE OF SOUTH CAROLINA
BUDGET AND CONTROL BOARD
DIVISION OF GENERAL SERVICES
300 GERVAIS STREET
COLUMBIA, SOUTH CAROLINA 29201
(803) 758-3150

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CHAIRMAN,
HOUSE WAYS AND MEANS COMMITTEE

WILLIAM T. PUTNAM
EXECUTIVE DIRECTOR

TONY R. ELLIS
DIVISION DIRECTOR

March 6, 1986

MEMORANDUM

TO: Mr. Bill Putnam

FROM: Tony Ellis

SUBJECT: Department of Education

Attached is the Department of Education audit report prepared by the Office of Audit and Certification. A follow-up review was performed during which we observed that the Department has corrected the problem areas indicated in the report. Since Certification above the $2,500.00 allowed by the Consolidated Procurement Code Regulation was not requested, no Budget and Control Board action is required.

/kd

Attachment

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EXECUTIVE DIRECTOR

RICHARD W. KELLY
ASSISTANT DIVISION DIRECTOR

March 5, 1986

Mr. Tony Ellis
Division Director
Division of General Services
300 Gervais Street
Columbia, South Carolina 29201

Dear Tony:

Attached is the final Department of Education audit report and recommendations made by the Office of Audit and Certification. Since no certification request above the $2,500 allowed by law remains to be considered by the Budget and Control Board, I recommend that this report be presented to Mr. Putnam for his information.

Sincerely,

Richard W. Kelly

Richard W. Kelly
Assistant Division Director

RWK:kd
Attachment

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WILLIAM T. PUTMAN
EXECUTIVE DIRECTOR

RICHARD W. KELLY
ASSISTANT DIVISION DIRECTOR

February 4, 1985

Mr. Richard W. Kelly
Director of Agency Certification
and Engineering Management
Columbia, South Carolina

We have examined the procurement policies and procedures of the South Carolina Department of Education for the period of July 1, 1981 - September 30, 1984. As part of our examination, we made a study and evaluation of the system of internal control over procurement transactions to the extent we considered necessary.

The purpose of such evaluation was to establish a basis for reliance upon the system of internal control to assure adherence to the Consolidated Procurement Code and State and department procurement policy. Additionally, the evaluation was used in determining the nature, timing and extent of other auditing procedures that were necessary for developing an opinion on the adequacy, efficiency and effectiveness of the procurement system.

The administration of the Department of Education is responsible for establishing and maintaining a system of internal control over procurement transactions. In fulfilling this responsibility, estimates and judgements by management are required to assess the expected benefits and related costs of control proce-

dures. The objectives of a system are to provide management with reasonable, but not absolute, assurance of the integrity of the procurement process, that affected assets are safeguarded against loss from unauthorized use or disposition, and that transactions are executed in accordance with management's authorization and are recorded properly.

Because of inherent limitations in any system of internal control, errors or irregularities may occur and not be detected. Also, projection of any evaluation of the system to future periods is subject to the risk that procedures may become inadequate because of changes in conditions, or that the degree of compliance with the procedures may deteriorate.

Our study and evaluation of the system of internal control over procurement transactions as well as our overall examination of procurement policies and procedures were conducted with due professional care. They would not, however, because of the nature of audit testing, necessarily disclose all weaknesses in the system.

The examination did, however, disclose conditions, enumerated in this report which we believe to be subject to correction or improvement.

Corrective action based on the recommendations described in these findings will in all material respects place the Department of Education in compliance with the South Carolina Consolidated Procurement Code and ensuing regulations.

R. Voight Shealy

R. Voight Shealy
Director of Audit and Certification

INTRODUCTION

The Audit and Certification Section conducted an examination of the internal procurement operating procedures and policies and related manual of the South Carolina Department of Education.

Our on-site review was conducted October 23, 1984 through December 14, 1984, and was made under the authority as described in Section 11-35-1230(1) of the South Carolina Consolidated Procurement Code and Regulation 19-445.2020.

The examination was directed principally to determine whether, in all material respects, the procurement system's internal controls were adequate and the procurement procedures, as outlined in the Internal Procurement Operating Procedures Manual, were in compliance with the South Carolina Consolidated Procurement Code and its ensuing regulations.

Additionally, our work was directed toward assisting the agency in promoting the underlying purposes and policies of the Code as outlined in Section 11-35-20 which include:

(1) to ensure the fair and equitable treatment of all persons who deal with the procurement system of this State;

(2) to provide increased economy in state procurement activities and to maximize to the fullest extent practicable the purchasing values of funds of the State;

(3) to provide safeguards for the maintenance of a procurement system of quality and

integrity with clearly defined rules for ethical behavior on the part of all persons engaged in the public procurement process.

SCOPE

Our examination encompassed a detailed analysis of the internal procurement operating procedures of S. C. Department of Education and the related policies and procedures manual to the extent we deemed necessary to formulate an opinion on the adequacy of the system to properly handle procurement transactions.

The Audit and Certification team statistically selected random samples for the period July 1, 1983 - September 30, 1984, of procurement transactions for compliance testing and performed other auditing procedures that we considered necessary in the circumstances to formulate this opinion. As specified in the Consolidated Procurement Code and related regulations, our review of the system included, but was not limited to, the following areas:

(1) adherence to provisions of the South Carolina Consolidated Procurement Code and regulations;

(2) procurement staff and training;

(3) adequate audit trails and purchase order registers;

(4) evidences of competition;

(5) small purchase provisions and purchase order confirmations;

(6) emergency and sole source procurements;

(7) source selections;

(8) file documentation of procurements;

(9) disposition of surplus property;

(10) economy and efficiency of the procurement process;

SUMMARY OF AUDIT FINDINGS

Our audit of the procurement system of the S. C. Department of Education produced findings and recommendations in the following areas:

	Page
I. Compliance General	11
A. Emergency and Sole Source Procurements	11
Several transactions did not show approval dates, were reported as emergency rather than sole source procurements, lacked bid solicitations that could have been obtained, or were reported when they should not have been as the procurements were for exempt items.	
B. Minority Business Utilization Plan	15
The MBE plan has not been approved by the Small and Minority Business Assistance Office.	

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II. Compliance - Goods and Services 16

A. Several transactions lacked competition as required by the Code. 16

B. Textbook rebinding services were not bid. 18

III. Compliance - Consultants 19

Several transactions were not made in compliance with the Code.

IV. Review of the New Centralized Procurement System 21

There is a need for a thorough review of the new procurement system.

V. General Transaction Control 29

Invoices from three vendors were not paid timely and several transactions were processed improperly due to the lack of adequate internal controls.

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VI. Property Management 32

Equipment had been sold but not removed from the equipment inventory records.

VII. Professional Development 33

Personnel training is one of the most critical factors in the successful operation of a procurement system. However, we found that professional development of the purchasing staff has been overlooked as a goal of the department.

VIII. Review of the Procurement Procedures Manual 35

Our review of the current manual indicated areas that needed to be added, changed or expanded.

DEPARTMENT RESPONSE

The Department of Education's response to the items cited in this summary are contained in the proceeding pages following each item as they are set forth in the body of the audit letter. Therefore, no response will be made to items listed in the summary.

RESULTS OF EXAMINATION

I. Compliance - General

A. Emergency and Sole Source Procurements

During a special review we examined the sole source and emergency procurements of the Department of Education for the period July 31, 1981 - December 31, 1982.

Since this was accomplished previously, during this audit we examined the quarterly reports of sole source and emergency procurements and all available supporting documents for the period January 1, 1983 - June 30, 1984, for the purpose of determining the appropriateness of the procurement actions taken and the accuracy of the reports submitted to the Division of General Services, as required by Section 11-35-2440 of the Consolidated Procurement Code. We found the majority of these transactions to be proper and accurately reported, but we did encounter some problems.

The following fiscal year 1983/84 sole source procurements had the appropriate designated approval signature but the determinations were not dated: purchase order numbers 17533, 17556, 17849, 17853, 17871, 74071, and 18481. Without the approval date we were unable to determine if the procurement was authorized prior to the actual purchase or not.

DEPARTMENT RESPONSE

Purchase order numbers 17533, 17556, 17849, 17853, 17871, 74071, and 18481 have been reviewed and it was determined that the procurements were authorized prior to purchase but the date was inadvertently left off on the sole source forms as cited. The State Department of Education has taken steps to insure that sole source and/or emergency purchase forms will contain proper dates prior to processing by the Office of Purchasing in the future.

Purchase orders 18322 for $3,540.00 and 18318 for $8,588.75 for the "printing of teacher evaluation instruments, training manuals and accompanying forms and supplements" should have been classified as emergency procurements rather than sole sources, since time was of the essence.

DEPARTMENT RESPONSE

Purchase orders 18322 for $3,540.00 and 18318 for $8,588.75 were handled as sole source purchases because of an improper interpretation by Department personnel. These items should have been declared emergency procurements. Subsequent clarification by the Division of General Services concerning sole source procurements and emergency procurements should insure that future determinations will be made in compliance with the regulations.

Purchase order 18307 for $900 for printing binders should not have been handled as a sole source. Two quotes, as required by the Code for this type purchase, could have been obtained.

DEPARTMENT RESPONSE

Purchase order 18307 for $900.00 was handled as a sole source procurement. This procurement should not have been sole sourced. Bids should have been obtained through normal procedures. The new centralized procurement system should prevent future occurrences of this type.

Purchase orders 02519 and 01442 were for copyrighted film series which are exempt from the Procurement Code and should not have been reported. Unnecessary reporting of sole source transactions results in an overstatement of sole source procurements to the General Assembly.

DEPARTMENT RESPONSE

At the time that purchase orders 02519 and 01442 were processed, the Department had not received the appropriate exemption documentation for these items; therefore, they were reported as sole source purchases. The new centralized procurement system should prevent future occurrences of this type.

Purchase order 01442, above, included the procurement of thirty projectors. The brand name projectors, Fairchild, are an open product line and should have been competitively bid through State Procurements. The price paid for these was $12,750, which exceeds the department's authority. We contacted the local authorized dealer for these projectors and obtained a written quotation of $11,910 for the same items. This is $840 less than the price paid.

DEPARTMENT RESPONSE

The thirty projectors purchased on purchase order 01442 could have been bought as a separate procurement; however, the Department chose to go with a package deal to include the films. The new centralized procurement system should prevent future occurrences of this type.

Section 19-445.2105, Subsection B, states in part, "Sole source procurement is not permissible unless there is only a single supplier.... In case of reasonable doubt, competition should be solicited."

We recommend that a more concerted effort be made to eliminate exempt procurements from sole source procurement procedures. Sole source procurements should be avoided where possible, as was the case in these examples. Emergency procurements must be made with as much competition as

practicable, as defined in Section 11-35-1570 of the Code.

B. Minority Business Utilization Plan

The Department of Education's Minority Business Enterprise Utilization Plan for fiscal year 1984-85 has not received approval from the Small and Minority Business Assistance Office (SMBAO). The plan was submitted by the required date but the department was not advised that it had been approved or rejected. We recommend that the department contact the SMBAO to work out problems with the plan in order to affect compliance with the Procurement Code.

DEPARTMENT RESPONSE

A Minority Business Utilization Plan for FY '84-85 was submitted for approval to the Small and Minority Business Assistance Office. The plan is similar in scope to the FY '83-84 plan which received approval from the SMBAO. The Department feels that compliance with the requirements as specified in the Consolidated Procurement Code concerning responsibility for filing the plan has been met. The SMBAO has been contacted by the Department of Education concerning the Minority Business Utilization Plan for FY '84-85, and personnel of the SMBAO stated that the plan was still under review.

II. Compliance - Goods and Services

A. Several transactions lacked competition as required by the Code.

Our examination of sixty-one randomly selected transactions in the goods and services area indicated the following procurements, which were made prior to centralization of the procurement process on July 1, 1984, that were not made in compliance with the Consolidated Procurement Code and regulations. These transactions are categorized as follows:

Lack of Proper Competition

	P.O. Number	Voucher Number	Amount
1.	6938	987	$1,963.00
2.	1056	7195	1,695.00
3.	655	9026	2,634.97

Competition was not solicited for item 2.

DEPARTMENT RESPONSE

Purchase order 01056 covered public employee blanket bond insurance. Bids were obtained from Firemen's Fund Insurance - $1,695.00; Etna Insurance - $1,946.00; Crum and Forster - $1,872.00; and Peerless - $1,809.00. These bids were obtained by Allied Assurance of South Carolina, Inc., for the Department.

Item number 1 was only partially bid since the solicitation did not cover labor and crane charges of $484 and $140 respectfully. Further, when it was discovered that the repair kit, which was bid, was wrong for the job, the same vendor was given the award based on his previous bid. Competition was not solicited for the new repair kit.

DEPARTMENT RESPONSE

Purchase order 06938 did have competition solicited for the performance of what was thought to be the need and awarded to the low bidder. Upon evaluation by the vendor, it was found that the equipment needing repair was different from that which was bid. Based upon the time frame under which the Department was operating, the repairs could not wait to be re-bid. This situation should have been covered as an emergency procurement and the proper paperwork completed to declare it as such. The new centralized procurement system should prevent future occurrences of this type.

The required competition was not solicited for item 3 due to poor planning and incomplete specifications, which resulted in the procurement exceeding $2,500.00, the department's authorized limit. Consequently, this procurement must be ratified by the Materials Management Officer in accordance with Section 19.445.2015, Subsection A of the regulations.

DEPARTMENT RESPONSE

Purchase order 00655 was issued to Wentworth Printing Company based upon three bids obtained by telephone for the cost of $369.90 per issue for a publication entitled "Palmetto Apple." The purchase order was to cover five issues of 1,500 copies per issue. Based on demand, additional copies of individual issues were printed which caused the procurement to exceed the $2,500.00

limit. The Department requested ratification of this procurement by the Materials Management Officer which was granted on April 25, 1985. The new centralized procurement system should prevent future occurrences of this type.

As noted above, all of these exceptions occurred prior to the department's centralization of the procurement function. In our opinion, the new procedures should contribute to the elimination of these types of compliance violations. However management should evaluate this situation to ensure that this does not reoccur.

B. Textbook rebinding services were not bid

As part of our audit, we reviewed an expenditure totalling $5,780 for rebinding textbooks.

Purchase order 2442 was issued in August of 1983 without any solicitation for this service. The same vendor has been doing the rebinding work since the 1940's.

Section 11-35-1210 of the South Carolina Procurement Code and Regulation 19-445.2000 allow for a differential dollar limit that an agency can make direct procurements if the agency is certified to perform the procurement. Certification has not been granted the Department of Education.

The agency failed to submit this procurement to the Materials Management Office for processing.

We recommend that future procurements of this type of services to be solicited competitively and made in accordance with the Code. Pursuant to Regulation 19-445.2015(2) this procurement will require the ratification of the Materials Management Officer.

DEPARTMENT RESPONSE

Purchase order 02442 for the rebinding of textbooks was issued without prior knowledge that bids were required by the Procurement Code when contracting for services provided by another state agency. Henceforth it will be the Department's policy to solicit bids for textbook rebinding services. The Department requested ratification of this procurement by the Materials Management Officer which was granted on April 25, 1985.

III. Compliance - Consultants

Prior to centralizing purchasing on July 1, 1984, the director of each office in the Department of Education was authorized to enter into contracts to procure consultant services subject to the Procurement Code and regulations. Our examination of samples from the consultant area revealed two consultant contracts that were not made in compliance with the Code or internal policy.

The first contract was established by the Office of School Food Services and was processed on IDT D000275 to Winthrop College. The contract was for Winthrop "to deliver a program of

instruction to provide training to school food service personnel at the supervisory level on a statewide basis". This contract for $12,000 was awarded via a competitive sealed proposal.

The second contract included a review of $21,000 worth of vouchers for training. These payments were to a company and its instructors "to instruct South Carolina personnel in a program for effective teaching." This contract was established by the Director of the Office of Accreditation and Administration. The contract was neither competitively bid nor sole sourced.

Regulation 19-445.2000, Subsection C, Item 1, states, "a governmental body may make direct procurements above $2,500 ... if certified to do so by the Materials Management Officer...." The Department of Education's certification limit in consultant services is $2,500. Therefore, the department exceeded its authority in the procurement of both of these contracts.

The department must request ratification of these contracts by the Materials Management Officer, in accordance with Section 19-445.2015 of the regulations. The new centralized procurement system should help eliminate this problem in the future.

DEPARTMENT RESPONSE

Procurements referred to on the previous page were procured and processed on the Department's form 732-C. The Department's 732-C process for making procurements has been abolished. Under the new centralized system, these types of services are procured by the Office of Purchasing in accordance with state law and Budget and Control Board rules and regulations. The Department

requested ratification of this procurement by the Materials Management Officer which was granted on April 25, 1985.

IV. Review of the New Centralized Procurement System

As indicated previously, prior to July 1, 1984, the Department of Education had a decentralized procurement system. This system allowed each of the forty-four school bus maintenance shops and the bus depot the authority to procure items and to issue purchase orders. Within the Rutledge Building, the state headquarters of the Department of Education, the purchasing agent and twenty-two program directors could also issue purchase orders. Thus, the Department had sixty-eight separate departments that could issue purchase orders.

Invoices from vendors were received at the bus shop, depot, or department within the Rutledge Building that issued the purchase order. After the appropriate signature(s) were obtained, the invoices were processed for payment.

A centralized purchasing system was implemented on July 1, 1984. Under this new system, the procurement authority is no longer decentralized. All procurements are handled within the purchasing department. They issue purchase orders based upon requisitions that are submitted from the various departments. Invoices are received directly in the finance department for payment.

During our audit of the school bus shops and the school bus depot, we became aware of several problems that are directly related to the new purchasing system.

1. The turnaround time between the date the requisition was signed by the originator and the date the purchase order was received by the bus shops or the depot varied from two days up to seventeen days.

DEPARTMENT RESPONSE

Turnaround time from date of requisition to issuance of purchase order has been reduced to an average of five days, provided that funds are available to make the procurement.

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2. The policies and procedures pertaining to changes on purchase orders and the status of purchase orders, as to either cancellation or back-order, have not been communicated fully between the various sections within the department.

DEPARTMENT RESPONSE

The policies and procedures pertaining to changing purchase orders have been modified to provide for better communication between the various sections of the Department and the Office of Purchasing.

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3. Any difference between the purchase order information and the invoice issued against that purchase order resulted in amendments to the originally issued purchase order no matter how minor the changes were.

DEPARTMENT RESPONSE

A system has been developed and is operational which allows for Accounts Payable and the staff of the Office of Purchasing to reconcile invoices and purchase order differences prior to final payment.

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4. School buses could be setting idle for an excessive amount of time due to the time span involved just to get the purchase order issued.

DEPARTMENT RESPONSE

Due to the uniqueness of certain parts needed to repair school buses, there will always be situations where parts are not readily available from the local or contract vendor. This causes buses to sit idle for a period of time waiting for parts to be delivered. With the implementation of the new system and increased efficiency in processing requisitions to purchase orders, these types of situations have been reduced.

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5. Repair parts inventories have increased because bus shop managers are concerned about order turnaround time. This ties up department funds unnecessarily when they could be invested by the State in interest drawing accounts. Some of this is inevitable with centralization. Efforts should be made, however, to ensure that this is held to a minimum.

DEPARTMENT RESPONSE

To a certain degree, inventories had to be increased to account for the time period necessary to process requisitions for issuing purchase orders. In some cases there was an over-reaction on the part of the bus shops to the new system. With a better understanding of the system and through a more efficient purchasing process, the inventories have dropped back to normal levels.

Section 11-35-1210(2) of the Procurement Code indicates that one of the criteria for certification is "responsiveness to user needs". The department has not requested certification but the idea applies to this situation. Responsiveness to user needs is one of the central objectives of any procurement system.

Centralization of authority, responsibility and accountability are important elements of an effective procurement system. The department's centralization of procurement authority was necessary to control the procurement function and we concur with the change.

However, in fulfilling this responsibility, estimates and judgements by management are required to assess the expected benefits and related costs of control procedures. The objectives of a system are to provide management with reasonable, but not absolute, assurance of the integrity of the procurement process, that affected assets are safeguarded against loss from unauthorized use or disposition, and that transactions are executed in accordance with management's authorization and are recorded properly.

The new purchasing system has been operational since July 1, 1984 and, like all new systems, it should be critically evaluated six months to one year after implementation. Our audit revealed some inefficiencies in the new system which indicate possible over-control. Based on these reasons, we recommend that the procurement system be thoroughly scrutinized to determine solutions necessary to make it more efficient. Consideration should be given to the following suggestions:

DEPARTMENT RESPONSE

The internal auditor for the Department of Education has scheduled an evaluation to be completed by the end of FY '86.

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1. The need for three signatures on a requisition should be reviewed as this signature process takes, at a minimum, three work days. When combined with the time involved to get a purchase order prepared and mailed, the function of

the bus shops would be more effective if the approval process was streamlined.

DEPARTMENT RESPONSE

The Department has reviewed the requirement of three signatures on the requisition for processing and has modified the procedure to create grater efficiency.

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2. All of the policy and procedure changes, updated parts books, and the amendments to the purchase orders should be directly communicated to the bus shops. As part of our audit we visited several school bus shops. We received different answers to policy and procedure questions, which indicates confusion among the personnel directly involved in day-to-day procurement. This indicates that the department should consider conducting training seminars for the personnel who use the system routinely.

DEPARTMENT RESPONSE

Since the review, follow-up training sessions have been conducted with bus shop personnel to clear up areas of confusion involving the day-to-day procurement operation.

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3. The department should consider development of a system whereby a purchase order can be issued that will allow a vendor to ship items to various bus shops without the required signature of the vendor on the purchase order as currently required for an over the counter purchase order.

4. Consideration should be given to allow the bus shops to procure small dollar items, up to an established dollar amount. The bus shops should be authorized to procure items, under state contract, with a reasonable dollar amount, in order to eliminate the time lag involved in processing a purchase order to get a bus operational. This authority should not be released until the responsibility is clearly assigned in the policies and procedures manual of the department. This should detail each person in each bus shop who is authorized to procure and clearly indicate that they are totally accountable for their actions.

5. One of the motivating factors that lead to the implementation of the new purchasing system was the inability to capture the encumbrances associated with the purchase orders that had been issued. If the agency decides to allow the bus shops to procure under the aspects of item 4 above, they must develop a system to encumber the funds pertaining to these types of procurements.

DEPARTMENT RESPONSE

The Department is currently reviewing the procedures for issuing overcounter purchase orders. Should changes be warranted, modifications will be made. In addition, the Department is exploring the possibility of increasing the petty cash funds in the bus shops to help reduce the need for purchase order issuance for miscellaneous procurements made locally.

A possible solution would be to establish monthly blanket purchase agreements for each bus shop with local contract vendors. The required dollar amounts might be based on a review of past activity at each shop. Funds could be encumbered when the purchase order is established each month.

All requirements for blanket purchase agreements, as shown in Section 19-445.2100, Subsections C and D of the regulations should be adhered to.

This process streamlines the procurement function by eliminating the requirement for individual purchase orders for each procurement. The required control is available, particularly since contracts have been established previously with these vendors. Finally, this system assures that funds are properly encumbered.

V. General Transaction Control

A. Invoices from three vendors had not been paid.

During our audit we discovered that the Department of Education had past due invoices from three vendors for parts procured under state contracts. Due to the procedures that became effective July 1, 1984 associated with the new procurement system, the workload did not allow for any follow up procedures on invoices that did not agree, as to quantity ordered, quantity received, item ordered, or unit price, with the purchase order. In one example, an invoice dated October 15, 1984 for $1,426.41 received against purchase order #3842 was not paid, as of December 18, 1984 because the unit price difference of $0.14 on sixty items.

Section 17 of Article 21 of the Procurement Code requires that invoices be delivered to the Comptroller General's Office for payment within thirty work days. The department did not have adequate procedures in place and working to process vendor invoices for payment in a timely manner. We did note during our field work that once the finance department was made aware of the past due invoice situation, they assigned one person to the full time task of following up on them. Additionally, a vacant position within the finance department was being filled, thus allowing for additional time that would be devoted to the payment process.

Once the vacant position is filled, the department should have adequate staff to process payments within the required time frame. We do, however, recommend that the procedures associated with the payment of invoices be adequate to insure timely payment.

DEPARTMENT RESPONSE

The Department has taken appropriate steps to insure that invoices are paid in a timely fashion. The Accounts Payable Section staff has been increased, and procedures for correcting and amending purchase orders have been modified to insure invoice processing in a timely fashion.

B. Several transactions were processed due to the lack of adequate internal controls.

Our examination of transactions in the goods and services area indicated a lack of internal control in the following areas:

Two signatures not on invoice

Under the previous procurement system, two signatures were required on invoices before payment would be processed. We found thirteen vouchers where this was not done.

The centralized purchasing procedures that became effective on July 1, 1984, eliminated the two signature requirement. Therefore, we are not making a recommendation on that exception.

DEPARTMENT RESPONSE

The exceptions taken concerning the requirement for two signatures on an invoice has been eliminated with the implementation of the new centralized purchasing procedures.

Purchase order date later than invoice date

P.O. Number	Date	Invoice Date
1056	10/19/83	09/28/83
1731	01/26/84	01/18/84
2960	05/25/84	05/01/84
3371	09/11/84	08/24/84

This indicates lack of control over the procurement process.

DEPARTMENT RESPONSE

Purchase orders 01056, 02960, and 03371 are prepayment of goods and services which are on an accept or decline basis. The agreement does not take effect until the purchase order is issued. The purchase order cannot be issued until the cost has been determined through invoicing which acts as a price quote. The requisition is then processed with the invoice attached. At that time, the Department has the option to accept the goods and services, thus issuing a purchase order, or to reject the goods or services with no obligation to the state.

Purchase order 03371 is cited as needing ratification by the State Superintendent. Based upon the explanation above, we feel that the State Superintendent's ratification is not necessary.

Good internal control procedures are effective only when those charged with performing the control function perform in accordance with the agency's policies. This can only be assured and responsibility clearly assigned when documentation of the procedure performed is available. We recommend that purchasing take the necessary steps to ensure that the Department of Education's procedures are followed.

VI. Property Management

Our examination of property control revealed that five items of communication equipment are still being carried on the fixed asset inventory, although they were sold in September, 1983. These equipment items are Motorola radios and are listed on the agency's inventory records at $3,483. The used radios were sold for $468.00 to the Williamsburg County School District after approval by State Surplus Property. The identification numbers of these radios are; 260-00034, 260-00070, 260-00085, 260-00126, and 264-00030.

Fixed asset management theory and State law dictate a complete accounting of all property receipts, transfers, and disposals to reflect accurate data for accountability. This is critical for financial statement presentation and to ensure adequate insurance coverage.

The department did not have a centralized inventory control system or a specific person that was responsible for the accountability of fixed assets until September, 1984. Before then, different sections of the agency were assigned this inventory accountability duty. As seen above, the removal of some fixed assets from the inventory records has been missed resulting in an overstatement of the agency's fixed assets. The new centralized fixed asset system should help prevent such oversights.

We recommend the above items be deleted from the fixed assets inventory records.

DEPARTMENT RESPONSE

The Department has taken steps to insure that the instances cited in paragraph one will not occur in the future. The equipment which was found to be on the Department's inventory but that had been sold through surplus property have since been removed based on Department policies and procedures.

VII. Professional Development

Personnel training is one of the most critical factors in the successful operation of a procurement system. However, we found that professional development of the purchasing staff has been overlooked as a goal of the department.

Two new buyer positions were created in July, 1984 with the establishment of the centralized office of purchasing. Neither of the two persons hired as buyers had previous governmental purchasing experience, nor have they been trained in governmental procurement. Other weaknesses in the area of professional development are as follows:

1. We found no professional development goals established for the purchasing staff.
2. Only the Assistant Director of Purchasing has attended any of the purchasing classes sponsored by the National Institute of Governmental Purchasing.
3. Only the Assistant Director of Purchasing is a member of a professional purchasing organization.

Per Section 11-35-20(k), one of the primary purposes and policies of the Procurement Code is "to train procurement officials in the techniques and methods of public procurements." To help accomplish this, the Training and Research Section of the Division of General Services was established.

We are aware of budgetary restrictions placed on state government. Many times professional development is one of the first items cut. We also are aware that the office of purchasing has had to concentrate on getting established on a sound footing. We understand that the buyers attended the Procurement Code update seminar in December, 1984. This was an appropriate first step in their training.

We recommend the Office of Purchasing implement a program promoting professional development of procurement personnel through the following:

1. Including a policy statement on professional development goals in the Internal Procurement Operating Procedures Manual.
2. Budgeting available funds for procurement training such as the basic, intermediate, and advanced purchasing seminars given by the National Institute of Governmental Purchasing.
3. Promoting the attainment of professional certification of the purchasing staff such as Professional Public Buyer (PPB) or Certified Public Purchasing Officer (CPPO). These certifications are a part of the Universal Certification Requirements for Public Procurement

Personnel developed by the National Institute of Governmental Purchasing (NIGP) and the National Association of State Purchasing Officials (NASPO).

4. Promoting participation in professional purchasing organizations such as the National Association of State Purchasing Officials (NASPO), the National Institute of Governmental Purchasing (NIGP), or the South Carolina Association of Governmental Purchasing Officers (SCAGPO).
5. Continuing to attend Code updates given by the Materials Management Office.

DEPARTMENT RESPONSE

The Office of Purchasing is currently reviewing the training needs of its personnel and will develop a plan to include proper funding in order to take the steps necessary to train the staff to better make the procurements of the Department of Education.

The recommendations set forth concerning professional development programs for State Department of Education personnel will be taken into consideration in the development of the training plan.

VIII. Review of the Procurement Procedures Manual

The Department of Education gave us a draft copy of the Internal Procurement Operating Procedures Manual for review in order to determine that written internal operating procedures as

submitted are consistent with the Consolidated Procurement Code and regulations.

Our review of the manual revealed that the following areas need to be added, changed, or expanded:

1. Change all references from Central State Purchasing to read State Procurements.
2. Under the duties of the Assistant Director, it does not clearly define his authority in regards to solicitation of quotations or issuing purchase orders.
3. The signature block on the department's purchase orders reads "Director of Purchasing"; however, the buyers as well as the Assistant Director are signing purchase orders. We recommend that either the Director of Purchasing sign all purchase orders or the signature block be changed to read "Procurement Officer".
4. The list of items exempted needs to be updated in the manual.
5. The manual only addresses procurement of professional consultant services on a fee basis for expenditures up to $500.00 - what about above $500.00?
6. The manual does not address the procedures for the procurement of architect, engineer or construction services. The manual only addresses the requirement for the approval of the Joint Bond Review Committee when the amount exceeds $9,999.99. The manual needs to incorporate the procedures for these procurements; and the amount of the expenditures that require approvals from

the Joint Bond Review Committee and the Budget and Control Board should be changed to reflect the current amount of $30,000.

7. The manual should include a purchase requisition flow chart.

8. The Office of Finance should insure the completion of the property control procedures including the disposal of surplus property.

9. Pertinent exhibit appendix.

10. The following areas should also be addressed:

    - Professional development
    - Leasing of real property and equipment
    - Late payment penalty
    - Procurement of printing services and printing equipment

DEPARTMENT RESPONSE

The Department of Education will review the suggestions made in the audit letter concerning the State Department of Education's procurement procedures manual. Where applicable, the suggestions will be incorporated in the appropriate areas of the manual prior to submission for approval to the Office of Agency Certification and Engineering Management of the Budget and Control Board.

CONCLUSION

As enumerated in our transmittal letter, corrective action based on the recommendations described in the findings in the body of this report, we believe, will in all material respects place the S. C. Department of Education in compliance with the South Carolina Consolidated Procurement Code and ensuing regulations.

In accordance with Code Section 11-35-1230(1) the agency should take this corrective action prior to June 30, 1985, the end of the next subsequent quarter.

Subject to this corrective action and because additional certification was not requested, we recommend that the S. C. Department of Education be allowed to continue procuring all goods and services, construction, information technology and consulting services up to the basic level as outlined in the Procurement Code.

Larry G. Sorrell
Audit Manager

Voight Shealy
Director of Audit and Certification

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March 5, 1986

Mr. Richard W. Kelly
Director of Agency Certification
and Engineering Management
Division of General Services
300 Gervais Street
Columbia, South Carolina 29201

Dear Rick:

We have returned to the Department of Education to determine the progress made toward implementing the recommendations in our audit report covering the period July 1, 1983, through September 30, 1984. During this visit we followed up on each recommendation made in the audit report through inquiry, observation and limited testing.

The Office of Audit and Certification observed that the Department has corrected the problem areas found in the audit, thus strengthening the internal controls over the procurement system. We feel that the system's internal controls are adequate to insure that procurements are handled in compliance with the Consolidated Procurement Code and ensuing regulations.

Additional certification was not requested, therefore we recommend that the Department be allowed to continue procuring all goods and services, construction, information technology and consulting services up to the basic level as outlined in the Procurement Code.

Sincerely,

R. Voight Shealy

R. Voight Shealy, Manager
Audit and Certification

/kd

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