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PROCUREMENT AUDIT AND CERTIFICATION

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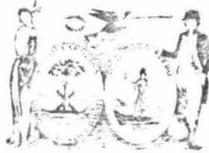
DEC 7 1989

STATE DOCUMENTS

HORRY COUNTY SCHOOL DISTRICT
AGENCY

JULY 1, 1986 - MARCH 31, 1989
DATE

STATE OF SOUTH CAROLINA
State Budget and Control Board
DIVISION OF GENERAL SERVICES



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JESSE A. COLES, JR., Ph.D.
EXECUTIVE DIRECTOR

September 25, 1989

Mr. Richard W. Kelly
Director
Division of General Services
1201 Main Street, Suite 400
Columbia, South Carolina 29201

Dear Rick:

Attached is the final Horry County School District procurement audit report and recommendations made by the Office of Audit and Certification. The audit was performed in accordance with Section 11-35-70 of the Consolidated Procurement Code. Budget and Control Board action is not required so I recommend that the report be presented to it as information.

Sincerely,

A handwritten signature in cursive script that reads "James J. Forth, Jr.".

James J. Forth, Jr.
Assistant Division Director

jlj

Attachment

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EXECUTIVE DIRECTOR

September 11, 1989

Mr. James J. Forth, Jr.
Assistant Division Director
Division of General Services
1201 Main Street, Suite 600
Columbia, South Carolina 29201

We have examined the procurement policies and procedures of the Horry County School District for the period July 1, 1986 through March 31, 1989. As a 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 District 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 Horry County School District is responsible for establishing and maintaining a system of internal control over procurement transactions. In fulfilling

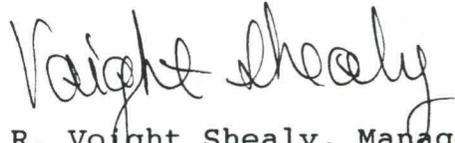
this responsibility, estimates and judgements by management are required to assess the expected benefits and related costs of control procedures. The objectives of a system are to provide management with reasonable, but not absolute, assurance of the integrity of the procurement process, that affected 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.

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 Horry County School District in compliance with Section 11-35-70 of the South Carolina Consolidated Procurement Code and its procurement code.



R. Voight Shealy, Manager
Audit and Certification

INTRODUCTION

The Office of Audit and Certification conducted an examination of the internal procurement operating procedures and policies of the Horry County School District. Our on-site reviews which were conducted February 15-25, 1988 (Interim Review-Exhibit A) and March 20 - April 7, 1989 were made under authority as described in Section 11-35-70 of the South Carolina Consolidated Procurement Code, hereinafter referred to as the State Code. The examination was directed principally to determine whether, in all material respects, that the procurement system's internal controls were adequate and that the procurement procedures, as outlined in the Horry County School District Procurement Code and Regulations, were in compliance with the State Code and its ensuing regulations.

As with our audits of state agencies, our work was directed also toward assisting Horry County School District in promoting the underlying purposes of the State Code which we believe to be applicable to all governmental bodies and which are outlined in Section 11-35-20, to 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 person engaged in the public procurement process.

SCOPE

Our examination encompassed a detailed analysis of the internal procurement operating procedures of the Horry County School District and its Procurement Code, hereinafter referred to as the District Code. We reviewed procurement transactions for the period July 1, 1986 - March 31, 1989, for compliance testing and performed other audit procedures that we considered necessary in the circumstances to formulate this opinion. Our review of the system included, but was not limited to, the following areas:

- (1) adherence to applicable laws, regulations and internal policy;
- (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) inventory and disposition of surplus property;
- (10) Minority Business Enterprise Utilization Plan.

Specifically, during the interim review and this audit we tested:

- 1) All sole source procurements
- 2) All emergency procurements

- 3) 114 sealed bid packages
- 4) Random samples of 32 purchase orders prepared by the District Purchasing Office
- 5) A block sample of 300 purchase orders in numerical sequence
- 6) 144 outside maintenance orders
- 7) School purchase orders for thirteen schools and five departments
- 8) Five construction projects

SUMMARY OF AUDIT FINDINGS

Our audit of the procurement system of Horry County School District, hereinafter referred to as the District, produced findings and recommendations in the following areas:

| | <u>PAGE</u> |
|---|-------------|
| I. <u>Compliance - Procurements Made Without Competition</u> | |
| A. <u>Procurement From A State Agency Not Competed</u> | 8 |
| One procurement was, in error, thought to be mandated by law. | |
| B. <u>Procurement Not Exempt From Code</u> | 8 |
| The procurement of electrical supplies from a power company was considered exempt. This is not correct. | |
| C. <u>Contract for Services Without Competition</u> | 8 |
| The District hired an asbestos consultant without soliciting competition. | |
| II. <u>Compliance - Multi-Term Determination and Intent To Award Not Prepared</u> | 9 |
| One procurement did not meet all award requirements. | |
| III. <u>Splitting of Orders by Schools</u> | 9 |
| Three schools appeared to split orders to avoid soliciting competition. | |
| IV. <u>Purchasing Procedures Manual</u> | 10 |
| A user and policy manual should be developed by the District. | |

RESULTS OF EXAMINATION

I. Compliance - Procurements Made Without Competition

A. Procurement From A State Agency Not Competed

The District procured water testing services from a state agency on purchase order number 53779 in the amount of \$5,500.00. District officials thought that it was mandated by law that the state agency perform the testing and, therefore, the procurement was exempt from the bidding requirements of the District Code.

Procurement of these services should have been competed, as it is not mandated by law that the state agency perform the testing. The services are available from commercial vendors.

District Response

Water testing services were procured from South Carolina Department of Health and Environmental Control because a card was sent mandating this service. The card was interpreted to mean that the services were mandated, and that they had to be performed by SCDHEC. Therefore, it was considered to be exempt from the District Code.

B. Procurement Not Exempt From Code

A procurement of electrical supplies was made from the local electrical power company without bids being solicited. Purchase order number 52487 in the amount of \$1,255.15 was issued without competition.

The District's Code exempts regulated services from competition, but not the procurement of supplies. The District should have sought competition.

District Response

The purchase of electrical supplies in the amount of \$1,255.15 was originally thought to be a small purchase (under \$500) when

the purchase order number was given to a maintenance man in the field. Therefore, normal procedures were followed for a small purchase. However, a misunderstanding by the maintenance employee led to an unauthorized purchase of this amount.

C. Contract For Services Without Competition

A contract was entered into with an architect in regards to the Asbestos Emergency Response Act (AHERA) without competition.

The District should have used the request for proposal method to acquire these services competitively.

District Response

The original contract was entered into with Mr. Westbury prior to the implementation of the code, and in November of 1987, his contract was extended.

II. Compliance - Multi-Term Determination and Intent to Award Not Prepared

The District entered into a three year contract for auditing services without preparing a multi-term determination or issuing an intent to award. A multi-term determination must be prepared when the duration of a contract can reasonably be expected to exceed one year in duration. An intent to award must be prepared and sent to all offerors when a contract has a potential to exceed \$50,000.00. This contract has a potential of \$73,200.00.

We recommend that the District pay special attention to contracts of longer than one year and those which could exceed \$50,000.00.

District Response

In regards to the contract for auditing services, the purchasing department considered the signature of the Coordinator of Purchasing on the bid solicitation as the multi-term determination. We were unaware that a separate document must be prepared. In addition, due to a misinterpretation of the regulations concerning the intent to award, the District did not

consider such regulation as applying to the full potential length of the contract. The District will pay close attention to these areas in the future. As a further note, by bidding this service, the District saved \$17,000 for year #1 and a total of \$51,000 for the three year contract.

III. Splitting of Orders by Schools

All schools in the District have procurement authority up to \$500.00 for items which are not exempt from the Code. These procurements are made by the individual schools and are sent directly to accounting. Purchasing is required by District policy to review the orders on a regular basis.

We found three schools in which some procurements appeared to be split to avoid soliciting competition or sending the requisition to the District Purchasing Office for processing.

We recommended while on site that the District ratify those school orders which appeared to be split. We also recommended that the District institute corrective action procedures for violations of the District Code. The District has issued the requested documents which should be incorporated into a purchasing procedures manual.

District Response

The purchasing department will continue to review school purchase orders, and time will be devoted to correcting this area of concern. In addition, the District has distributed the corrective action procedures for split orders to appropriate school and district office personnel. These procedures have also been incorporated into the District Purchasing Manual.

IV. Purchasing Procedures Manual

During our audit, we noted that District procurement policies and procedures have not been consolidated and in some cases have

not been clearly defined. We do not take exception with the policies and procedures as they exist, but we believe the District would be well served by an internal purchasing policies and procedures manual.

We recommend that such a manual be developed to clearly establish District procurement authority, policies and procedures not addressed by the District Code.

District Response

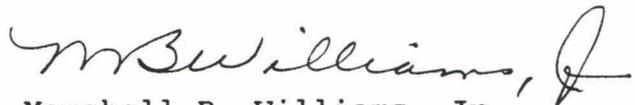
The District Purchasing Manual rough draft has been completed and is being reviewed by your staff.

CONCLUSION

The Scope section of this report outlines the extensive testing that we performed during this audit. Considering the large number of procurement actions that were tested, the audit results reflect the professionalism of procurement management at Horry County School District.

As enumerated in our transmittal letter, the limited corrective action based on the recommendations described in the findings in the body of this report, we believe, will in all material respects place Horry County School District in compliance with it's procurement code and regulations.

Subject to this corrective action, we recommend that Horry County School District be allowed to continue procuring all goods and services, construction, information technology and consulting services as outlined in Section 11-35-70 of the South Carolina Consolidated Procurement Code.



Marshall B. Williams, Jr.
Supervisor, Audit and Certification



R. Voight Shealy
Manager, Audit and Certification

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CHAIRMAN,
HOUSE WAYS AND MEANS COMMITTEE

JESSE A. COLES, JR., Ph.D.
EXECUTIVE DIRECTOR

March 17, 1988

Mr. John W. Dawsey
Superintendent
Horry County School District
P.O. Box 1739
Conway, South Carolina 29526

Dear Mr. Dawsey:

Under authority granted by Act 493 of 1984, as amended by Act 109 of 1985, the Office of Audit and Certification of the Division of General Services conducted an interim review of Horry County School District's purchasing policies and procedures on February 15th through February 25th. We reviewed selected procurements in all areas covered by the District's Procurement Code and regulations.

We found no exceptions or violations to the District's Code and regulations and congratulate the District on its compliance. We did formulate some recommendations for your consideration which we have attached to this letter along with the scope of our review.

We wish to thank you and your staff for their assistance and help during our stay in Conway. We will return in 1989 to conduct a regular audit of purchasing at Horry County School District.

Sincerely,

A handwritten signature in cursive script that reads "Voight Shealy".

R. Voight Shealy, Manager
Audit and Certification

Attachment

cc: Mr. Harrell W. Hardwick - Horry County School District
Mr. Gregg S. Long - Horry County School District
Mr. D.L. McMillin - General Services
Mr. Marshall B. Williams, Jr. - General Services

Horry County School District

1. Area Reviewed: Purchase orders written by ten schools and five departments for fiscal year 1987/1988.

Findings: All orders were under \$500.00 each and no evidence of splitting orders was detected.

Recommendations: None

2. Area Reviewed: Five construction projects including architect and contractor selection.

Findings: Files were in good order with no exception noted. We were not provided with copies of advertisements in newspapers which are required for both architect and contractor selection. We will review these in the regular audit.

Recommendations: None

3. Area Reviewed: All outside maintenance orders (144) for November, 1987.

Findings: All orders were under \$500.00 with only 9 orders exceeding \$200.00.

Recommendations: Consider using some blanket agreements with a suggested maximum of \$200.00 in conjunction with small purchase authority to \$200.00. Consider having the maintenance buyer execute all purchase orders in excess of \$200.00 and review other procurements in the maintenance area.

4. Area Reviewed: All purchase orders (193) executed by central purchasing for the month of November, 1987.

Findings: All procurements were in accordance with Code and regulations.

Recommendations: None

5. Area Reviewed: Files of sixty-one sealed bids for fiscal year 1987/1988.

Findings: No exceptions noted.

Recommendations: Several changes or modifications could strengthen the sealed bid process.

1) Bid schedule should show vendor name or signature.

2) Bidders list application - Central file should be set up and maintained. Set up bidders list on computer. Applications should be sent only to new bidders.

3) All sealed bids should be time-and-date stamped at central mailroom.

4) All bid tabulations should be certified by the preparer and witnessed.

5) Many bids have a low number of responses. This could be due to the seven to ten days allowed by purchasing for the vendor to respond. We recommend fourteen to twenty-one days as the standard time frame. It may be shortened to as little as seven days in emergencies.

6. Area Reviewed: Minority Business Enterprises Plan.

Findings: The District has an approved plan.

Recommendations: Develop a strategy to implement the plan and encourage participation.

7. Area Reviewed: Sole source and emergency procurements.

Findings: No exceptions noted.

Recommendations: None

8. Area Reviewed: Property control.
- Findings: No exceptions.
- Recommendations: When a fixed asset is transferred from a school to surplus, no surplus inventory is set up at the warehouse. An account should be set up to record those assets held for surplus or salvage.
9. Area Reviewed: Surplus sales.
- Findings: No exceptions.
- Recommendations: Control would be strengthened if the property manager would sign-off on small sales made by the maintenance department.

CONCLUSION

We wish to state that the recommendations stated above may strengthen the procurement system. Each should be evaluated on its merit and decisions made. There is no requirement that they be implemented and are provided only as suggestions.

STATE OF SOUTH CAROLINA
State Budget and Control Board
DIVISION OF GENERAL SERVICES



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CHAIRMAN, WAYS AND MEANS COMMITTEE

JESSE A. COLES, JR., Ph.D.
EXECUTIVE DIRECTOR

September 19, 1989

Mr. James J. Forth, Jr.
Assistant Division Director
Division of General Services
1201 Main Street, Suite 600
Columbia, South Carolina 29201

Dear Jim:

The Office of Audit and Certification has cooperated with Horry County School District toward development of a district purchasing manual. Completion of this task combined with our observations and other communication with district officials have resolved all audit issues with Horry County School District.

In accordance with Section 11-35-70 of the Consolidated Procurement Code, I recommend that this report be presented to the Budget and Control Board for information.

Sincerely,

A handwritten signature in cursive script that reads "Voight Shealy".

R. Voight Shealy, Manager
Audit and Certification

jlj

