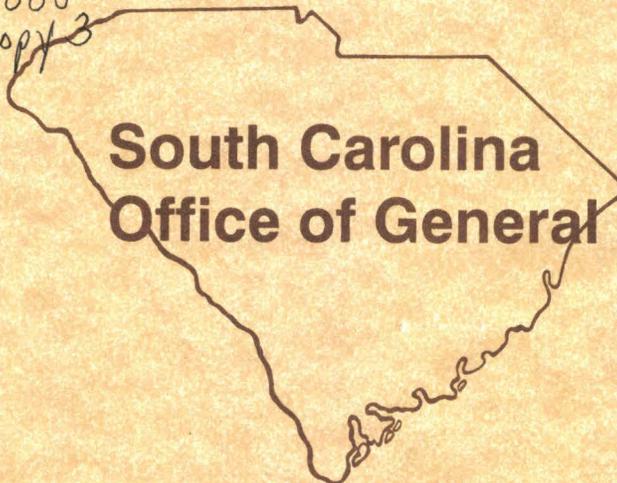


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**South Carolina
Office of General Services**

PROCUREMENT AUDIT AND CERTIFICATION

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STATE DOCUMENTS

HORRY COUNTY SCHOOL DISTRICT

AGENCY

JULY 1, 1995 – JUNE 30, 1998

DATE

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

JIM HODGES, CHAIRMAN
GOVERNOR

GRADY L. PATTERSON, JR.
STATE TREASURER

JAMES A. LANDER
COMPTROLLER GENERAL



JOHN DRUMMOND
CHAIRMAN, SENATE FINANCE COMMITTEE

ROBERT W. HARRELL, JR.
CHAIRMAN, WAYS AND MEANS COMMITTEE

RICK KELLY
EXECUTIVE DIRECTOR

ROBERT W. McCLAM
DIRECTOR

MATERIALS MANAGEMENT OFFICE
1201 MAIN STREET, SUITE 600
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R. VOIGHT SHEALY
ASSISTANT DIRECTOR

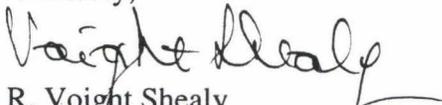
March 27, 2000

Mr. Robert W. McClam, Director
Office of General Services
1201 Main Street, Suite 420
Columbia, South Carolina 29201

Dear Robbie:

I have attached the procurement audit report of the Horry County School District for the period July 1, 1995 to June 30, 1998 and the recommendations made by the Office of Audit and Certification. The audit was performed in accordance with Section 11-35-70 of the South Carolina Consolidated Procurement Code. Since no action is required by the State Budget and Control Board, I recommend the report be presented as information.

Sincerely,


R. Voight Shealy
Materials Management Officer

**HORRY COUNTY SCHOOL DISTRICT
PROCUREMENT AUDIT REPORT
JULY 1, 1995 - JUNE 30, 1998**

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NOTE: The District's response to issues noted in the report has been inserted immediately following the issues they refer to.

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

JIM HODGES, CHAIRMAN
GOVERNOR

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R. VOIGHT SHEALY
ASSISTANT DIRECTOR

May 12, 1999

JOHN DRUMMOND
CHAIRMAN, SENATE FINANCE COMMITTEE

ROBERT W. HARRELL, JR.
CHAIRMAN, WAYS AND MEANS COMMITTEE

RICK KELLY
EXECUTIVE DIRECTOR

Mr. R. Voight Shealy
Materials Management Officer
Office of General Services
1201 Main Street, Suite 600
Columbia, South Carolina 29201

Dear Voight:

We have examined the procurement policies and procedures of the Horry County School District for the period July 1, 1995 through June 30, 1998. As part of our examination, we studied and evaluated the system of internal control over procurement transactions to the extent we considered necessary.

The evaluation was to establish a basis for reliance upon the system of internal control to assure adherence to section 11-35-70 of the Consolidated Procurement Code and the District's procurement policy. Additionally, the evaluation was used in determining the nature, timing and extent of other auditing procedures 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 judgments 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 professional care. However, because of the nature of audit testing, they would not necessarily disclose all weaknesses in the system.

The examination did, however, disclose conditions enumerated in this report which we believe need 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 the District's Code and ensuing regulations.

Sincerely,



Larry G. Sorrell, Manager
Audit and Certification

INTRODUCTION

We conducted an examination of the internal procurement operating policies and procedures of the Horry County School District. Our examination also included a review of the procurement activity related to the building program that was totally managed by a construction management company. Our on-site review was conducted November 9 through December 3, 1998, and was made under the authority of Section 11-35-70 of the South Carolina Consolidated Procurement Code.

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 Horry County School District Procurement Code and Internal Procurement Operating Procedures Manual, were in compliance with existing laws and regulations and with accepted public procurement standards.

Additionally, our work was directed toward assisting the District in promoting the underlying purposes and policies of the Code, which we believe to be appropriate for all governmental bodies, 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

We conducted our examination in accordance with Generally Accepted Auditing Standards as they apply to compliance audits. Our examination encompassed a detailed analysis of the internal procurement operating procedures of the Horry County School District and its 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.

We selected judgmental samples for the period July 1, 1996 through June 30, 1998, of procurement transactions for compliance testing and performed other audit procedures that we considered necessary to formulate this opinion. Specifically, the scope of our audit included, but was not limited to, a review of the following:

- (1) All sole source and emergency procurements for the period July 1, 1995 through June 30, 1998
- (2) Procurement transactions for the period July 1, 1996 through June 30, 1998 as follows:
 - a) One hundred nine judgmentally selected payments
 - b) A block sample of five hundred and five sequentially numbered purchase orders
- (3) Nine major construction contracts for approval and compliance with the South Carolina School Facilities Planning and Construction Guide and District's Procurement Code. No professional service selections related to construction were made during the audit period per District officials.
- (5) Minority Business Enterprise Plan and quarterly reports submitted to the Assistant Superintendent for Support Services
- (6) Internal guidelines for procurement and the District's Procurement Code and regulations
- (7) Economy and efficiency of the procurement system with adequate audit trails

SUMMARY OF AUDIT FINDINGS

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

	<u>PAGE</u>
I. <u>General Procurement Exceptions</u>	7
A. <u>Unauthorized Procurements</u>	
Four procurements were unauthorized. Three of these were not supported by solicitations of competition and the fourth was supported by inadequate solicitations.	
B. <u>Procurements Made Without Competition</u>	8
Seven procurements were not supported by evidence of solicitations of competition, sole source, or emergency procurement determinations. One invoice could not be reconciled to the bid schedule.	
C. <u>Procurements Made With Inadequate Solicitations of Competition</u>	13
Seven procurements were not supported by the appropriate levels of competition. One contract was awarded to the high bidder. One invoice could not be reconciled to the bid schedule.	
D. <u>Improper Contract Extensions</u>	15
Three contracts were improperly extended.	
E. <u>Bid Posting and Protest Rights Not Done</u>	16
The District has not been posting bid awards nor including vendor's right to protest statements in the award statements and bid solicitations. This requirement has been in effect since 1993.	
F. <u>Date and Time Stamping of Bid Documents</u>	17
Bids and quotes had not been date and time stamped showing that they were received prior to the openings. Even though the District's	

PAGE

Code does not require that bids and quotes be date and time stamped, we recommend it as a matter of internal control.

G. Missing Information 17

The District did not provide us with all of the requested information to perform the audit.

II. Sole Source and Emergency Procurements

A. Inappropriate Sole Sources 18

Six procurements made as sole sources were inappropriate and should have been competed.

B. Sole Source and Emergency Reporting Errors 19

Two sole source and fifteen emergency procurements were not reported as required by the Code.

III. Minority Business Enterprise Plans and Progress Reports 20

The District has made progress in this area but still was not in compliance with all provisions of the Code and regulations.

IV. Construction and Construction Related Procurements 20

Three notice of intent to award statements for major construction service procurements did not list the dollar amount of the award.

V. Recommended Changes to District's Code, Regulations and Manual 21

Due to recent changes in the State's Procurement Code and some internal changes within the District, several changes are needed to the District's Code.

RESULTS OF EXAMINATION

I. General Procurement Exceptions

We tested one hundred nine randomly selected transactions as well as performed other tests to determine compliance with the District's Code.

A. Unauthorized Procurements

The following procurements were unauthorized.

<u>Item</u>	<u>PO</u>	<u>Description of Purchase</u>	<u>Amount</u>
1	School PO 21489	Copier paper	\$ 4,279
2	School PO 55421	Training tables	1,575
3	School PO 52075	Camcorder	1,630
4	1164	Irrigation system	13,483

Regulation 3.9(a) defines an unauthorized procurement as an act obligating the District by an individual who does not have the authority either by appointment or delegation to do so. The first two purchase orders were issued by the same school but one year apart. The third purchase order was issued by a different school. Each procurement exceeded the delegated procurement authority of \$1,500 resulting in each being unauthorized. No solicitations of competition supported the three procurements. Regulation 18.b(2) requires solicitation of three verbal quotations on procurements between \$1,500 and \$5,000.

The requisition and the invoice for the irrigation system were both dated March 6, 1998. The purchase order was subsequently issued on March 19, 1998. The sequence of dates indicates the irrigation system was installed and invoiced before approval of the Procurement Department was obtained. Therefore, the procurement was unauthorized. Furthermore, inadequate solicitations of competition supported the procurement since only five verbal quotes were solicited. Regulation 18.b(4) requires five written solicitations of written quotes plus advertisement for procurements from \$10,000 to \$25,000.

We recommend that each unauthorized procurement be submitted for ratification from

the Superintendent or the Assistant Superintendent for Support as required by Regulation 3. a(2). The District should also adhere to appropriate levels of competition as defined in the regulations.

DISTRICT RESPONSE

The District acknowledges that these procurements were unauthorized. At the time that these purchases occurred for items 1-3, the Office of Procurement Services received the copy of the purchase order after the fact. The schools were authorized to make purchases up to \$1,500 and anything over that had to be processed and approved by the Office of Procurement Services. With the implementation of the Wide Area Network Procurement System, the Office of Procurement Services, prior to the purchase, must approve all purchase orders. This eliminates the possibility of unauthorized procurements by the schools/departments. For purchase order 1664, the District was not aware that the irrigation system had been installed prior to the issuance of the purchase order. The District agrees that five written quotations should have been obtained and that the solicitation should have been advertised. The Office of Procurement Services has implemented a procedure whereby the Accounts Payable Staff notifies procurement of any invoices that are dated prior to the purchase order date. The invoice is then forwarded to the Coordinator of Procurement Services who conducts a research to determine the circumstances surrounding the purchase and then submits the request for ratification to the Assistant Superintendent for Fiscal Services.

B. Procurements Made Without Competition

Seven procurements were not supported by evidence of solicitations of competition, sole source, or emergency procurement determinations.

<u>Document</u>	<u>Description</u>	<u>Amount</u>
PO 11801	Consultant for scoring and reporting student performance	\$289,720
PO 347	Pipe and sprinkler heads	8,000
PO 12878	Instructional software and equipment	3,756
Check 207580	Dump truck services	19,052
Check 212397	School floor waxing services	3,360
Check 212077	Install underground utility services	16,970
Check 231347	Plumbing work for gas fired hot water heater	6,124

Because a consultant canceled a contract, the District used the emergency procurement method without seeking competition to obtain services on purchase order 11801 from a new consultant. Section V.7 of the Code provides for the emergency procurement but also requires that as much competition as is practical under the circumstances be solicited. The emergency procurement was authorized on February 9, 1998, for scoring and reporting of student performance to begin in the spring. While the District may not have had time to solicit competition using prescribed request for proposal procedures, time was available to solicit some type of competition.

The District maintains that competition was solicited for the pipe and sprinkler heads. However, the procurement file was not supported with any evidence of solicitations of competition. Regulation 18.b(3) requires solicitation of three written quotes for procurements between \$5,000 and \$10,000.

The procurement for instructional software and equipment was not competed. While some of the items on the purchase order were exempt, the equipment cost of \$3,223 was not and should have been competed. Regulation 18.b(2) requires a minimum of three verbal quotes for procurements between \$1,500 and \$5,000.

The procurements for the dump truck and floor waxing services were both based on previous solicitations. No competition was sought for the services we cited. Our exception lists payment amounts only and not the contract values because we could not determine the total amount expended without purchase order numbers. Further, the vendor awarded the contract for floor waxing services was not the low bidder on the original solicitation. For the services cited, another separate quote was included in the file from the awarded vendor. The scope of the quote was not specific to services for any one school, but was a quote per square foot for floor waxing services for the new schools in the District. No other quotes for this scope of services were solicited. The quoted price was \$.07 per square foot. The lowest quote in the original bid was \$.05 per square foot. After reviewing the procurement file, we can not determine the basis of the award, how much was awarded or the scope of services in terms of

the number of schools to be waxed. Because the file did not show the amount of the award, we can not determine the proper solicitation method. The file did show that four written quotes were obtained on the original solicitation. Additionally, the vendor provided a quote based on a square footage rate but the invoice was billed in a lump sum. We can not determine if the vendor invoiced at the quoted rate.

On the last two procurements listed for underground utilities and plumbing work, no competition was solicited. Regulation 18.b(4) requires advertisement and five written solicitations of written quotes for procurements from \$10,000 to \$25,000. Regulation 18. b(3) requires solicitation of three written quotes for procurements from \$5,000 to \$10,000.

We recommend the District compete contracts in accordance to its Code. The emergency procurement method should be authorized with as much competition as practical being solicited. The District should require vendors to itemize invoices based on bid schedules.

DISTRICT RESPONSE

PO 11801 - The schools purchased testing materials that were developed by the vendor. These testing materials are exempt from the Code. Whenever the testing was completed and ready for scoring, the vendor could not meet the deadline that was needed by schools. Therefore, the consultant from the vendor who developed the software was sent to the schools to train the schools' employees on the use of the software for scoring. This procurement should have been processed a sole source rather than emergency due to the fact that the consultant was the only one that can provide training on the software developed by the vendor.

PO 347 - The backup for the solicitation of vendors for the pipe and sprinkler heads is unavailable. Horry County Schools Procurement Services will strive to retain all information relating to competition in the future.

PO 12878 - This was an oversight and the District will obtain competition in the future.

CHECK 207580 A construction management company managed the procurement for the District and submitted, through the District, the following response. On 4/3/96, bids were solicited for unit pricing to load/haul and haul only non-structural fill material furnished by the District to one of the new school sites. The trip route originated at a development off of highway 501 in Conway and terminated in Garden City at a new school site. Unit price bids were received on 4/8/96. The vendor submitted the winning bid. The fill material that was necessary to be hauled as a result of this bid was topsoil. At the time the material was being furnished to the District by a developer in an effort to dispose of the developer's excess

material as soon as possible and to assist the District. This material was paid for separately. However, during the construction of the roads on the campus of the Carolina Forest Education Center in June of 1997 in preparation of opening the school in August, it became necessary to transport structural fill material to be placed under the roads on the school campus. With a unit price contract already in place for the haul, unit prices were solicited from different suppliers for the material. Another vendor on Highway 378 was determined to have the best price for this material. At the time, the combination of hauling under an existing contract and purchasing the material separately was judged to be in the best interest of the District based on the conditions and the time frame involved.

The District's response to our recommendation can be found on pages 24 and 25 of this report.

CHECK 212397 A construction management company managed the procurement for the District and submitted, through the District, the following response. A request for proposal for floor waxing for Forestbrook Middle and Myrtle Beach Middle schools was faxed to 5 companies. The low bidder was awarded the projects listed in the solicitation. However, the vendor was working on the 2 referenced schools at the time the District advised us that the District's maintenance personnel could not perform the waxing of the floors at Aynor Elementary School. Aynor Elementary School was ready to open and the floors had to be waxed before school started. Since there was not enough time to advertise another request for proposal, we contacted the next lowest bidder on the solicitation for the floor waxing at Forestbrook Middle and Myrtle Beach Middle schools to perform the work. The waxing of floors was not in the original scope of work addressed by us in the Phase One Building Program. The District reimbursed the building program for one half of the total cost for the work.

The District's response to our recommendation can be found on pages 24 and 25 of this report.

CHECK 212077 A construction management company managed the procurement for the District and submitted, through the District, the following response. The awarded vendor is a local electrician that bid and was awarded a previous prime contract to install lighting around the football field at Conway High School. The amount of \$16,970 pertains to work completed at the Carolina Forest Education Center, known at the time as the 8th Attendance Zone High/Middle School. At the time of the invoice, preparations were being made to open the school in August of 1997. The prime electrical contractor, knowing that the District had to have a paved student parking lot with lights, presented a change order for an exorbitant amount of money, in addition to that which included in the base contract, to install the parking lot lighting conduits per revised plans. At about the same time, the awarded vendor was under contract to the District to complete the electrical work at Conway High School. At our request on behalf of the District, the awarded vendor presented a substantially more reasonable price to perform this work which was in agreement with an estimate provided by our estimator in Columbia. Based on the large spread in pricing for the work to be completed and the extremely short period of time to complete, we felt it was in the best interest of the District to provide a change order to the awarded vendor to complete this work under the vendor's existing contract with the District. This work amounted to a total cost of \$14,600. The

remaining amount of \$2,370 pertains to the electrical wiring for an irrigation well installed by others at Carolina Forest Education Center. The scope of the work as well as the price involved for this work was identical to that included in the awarded vendors existing contract at Conway High School. Again, in an effort to expedite this work at the request of the District and because the scope and cost was the same as what was bid and installed elsewhere, we again felt it to be in the best interest of the District to proceed with this work as a change order to the existing contract the awarded vendor held with the District at that time. A formal change order will be issued to complete the file for with work. At present, the contract has not been closed out.

The District's response to our recommendation can be found on pages 24 and 25 of this report.

CHECK 231347 A construction management company managed the procurement for the District and submitted, through the District, the following response. As noted previously, the Carolina Forest Education Center was opened in August of 1997, which marked the beginning of the one-year warranty period for those portions of the school accepted and occupied by the District. A particular gas water heating system was specified to be installed in the kitchens at all of the new schools. Prior to the date of the invoice, sometime in the spring of 1998, the South Carolina Department of Health and Environmental Control (DHEC) visited the kitchen as part of their routine inspection schedule and noted that the boiler system supplying hot water to the dishwasher was not delivering the hot water at the proper temperature on a consistent basis. We immediately called the school to investigate. We learned at that time the use of the dishwasher had been disallowed by DHEC because of the problem. At that time, the school was feeding a minimum of 1,200 students on a daily basis. Continued and uninterrupted use of the dishwasher was absolutely necessary. Upon closer investigation, it was determined that the version of the heater installed at the school was incorrectly specified but was installed according to the bid plans and specifications. This oversight by the engineer went undetected until this time. In order to correct the problem, the system would have to be modified in place in an extremely short period of time, that being over the up-coming weekend. The plumbing contractor for this school has a well documented history of charging an excessive amount for change order work. As this plumbing contractor was the original installer, so as to not void the manufacturer's warranty, the work had to be completed by either the original installer or the manufacturer's local representative. In an effort to pay the lowest price to complete this work in the shortest time frame possible, it was determined in a telephone conversation between us and the District, that in the best interest of the District, the manufacturer's local representative should be directed to complete the work. In hindsight, in our opinion, this was without a doubt the correct choice. The manufacturer's equipment warranty remained intact and the vendor provided a one-year material and labor warranty for that work which they performed. DHEC was brought back to the school the following Monday, tested the hot water at the dishwasher and consequently authorized the continued use of the dishwasher.

The District's response to our recommendation can be found on pages 24 and 25 of this report.

C. Procurements Made With Inadequate Solicitations of Competition

Seven procurements were not supported by the appropriate levels of competition.

<u>Item</u>	<u>Document</u>	<u>Description of Purchase</u>	<u>Amount</u>
1	Check 209492	School kitchen equipment	\$ 23,673
2	PO 194471	Bleachers	17,750
3	PO 22846	Outdoor gazebo	13,000
4	Check 206120	Furniture moving services	13,273
5	PO 391	Play structure	12,425
6	Bid 9596-98	Housekeeping Services	139,843/year
7	Check 212305	Shop building roof replacement	179,875

Five written quotes were solicited for items 1, 2, and 3. Regulation 18.b(4) requires advertisement plus five written solicitations of written quotes for procurement transactions between \$10,000 and \$25,000. The District did not prepare written solicitations nor were the solicitations advertised.

The procurement for furniture moving services had evidence of three solicitations of competition. Regulation 18.b(4) requires advertisement plus five written solicitations of written quotes. Further, our review of the responses showed that the high bidder was awarded the contract. Finally, we could not verify the invoice. The bid was based on an hourly rate whereas the invoice was a total for the entire job.

For the play structure, the District made five written solicitations of written quotes but failed to advertise the procurement as required by Regulation 18.b(4). Bid 9596-98 for a five year contract for housekeeping services was not advertised either.

The procurement for the roof replacement was not advertised. Regulation 30.b(2)(c) requires that all construction procurements be done in accordance to the South Carolina

School Facilities Planning and Construction Guide, and the District's regulations. Section 8.04, paragraph 2, of the Guide requires advertisement of construction procurements.

We recommend the District adhere to the competitive requirements of its Code including the advertisement requirements. The District should also request that invoices be itemized as noted in the solicitations.

DISTRICT RESPONSE

CHECK 209492 - A construction management company managed the procurement for the District and submitted, through the District, the following response. The kitchen equipment for the building program was advertised and public bids taken. The contract was awarded to the low bidder. This contract was for the purchase and installation of all kitchen equipment for 8 schools. However during the construction of 2 of the 8 schools, the awarded vendor could not furnish the equipment due to credit problems with the supplier. We, on behalf of the District, contacted the manufacturer of the equipment and arranged for delivery to the 2 schools. The amount of the invoice was deducted from the remaining balance due the awarded vendor on their original contract sum for the 2 schools.

The District's response to our recommendation can be found on pages 24 and 25 of this report.

PO 194471 - Five written quotations were solicited and received for these bleachers, however the District neglected to advertise this solicitation.

PO 22846 - The District neglected to advertise this solicitation

CHECK 206120 - A construction management company managed the procurement for the District and submitted, through the District, the following response. An advertisement was placed in a local newspaper for the moving of furniture for 4 school projects in the Phase One Building Program. However, at the time, all of the detailed information concerning the move was not known. Subsequently, a proposal request for moving was faxed to 4 moving companies in the Horry County area. The moving company with the resulting lowest price could not move all of the required schools. Therefore, the next lowest bidder was contacted. Originally, only 3 schools were to be moved. However, immediately prior to the opening of school in August of 1997, we were directed to move 2 additional schools. This work was more than could be accomplished by 1 moving company. Therefore, all of the responsive bidders were used during this process.

The District's response to our recommendation can be found on pages 24 and 25 of this report.

PO 391 - The District acknowledges that it failed to advertise for this solicitation. We will strive to follow the Code that requires us to advertise for solicitations over \$10,000.

CHECK 212305 - The total of this check is \$45,244 to Spann Roofing for the reroofing of the shop at Aynor Conway Career Center. George Eslinger an Architect/Engineer hired by Horry County Schools handled the sealed bid process. The District will secure and provide the backup information for this project to the auditors.

D. Improper Contract Extensions

The following contracts were improperly extended.

<u>Document</u>	<u>Description</u>	<u>Amount</u>
Bid 9697-14	Copier maintenance	\$ 9,570
Bid 9394-89	Portable classroom relocation	1,266 each
PO 138	Telephone system lease	52,349

The copier maintenance procurement was awarded in two different lots to different vendors with an option to extend for three additional years on both contracts. Each vendor was responsible for different locations within the District. After the first year the District attempted to extend the contracts to both vendors. One of the vendors declined to accept the extension. The District then awarded that portion of the contract to the other vendor. The District based the award of the canceled portion on the original bid price awarded. At least that portion of the contract should have been re-bid. The contract extension was improper.

For portable classroom relocation, the District issued a contract for one year with an option to extend for three additional years. After all extension options were exercised, the District incorrectly extended the contract an additional year. Bids should have been solicited instead.

The telephone lease was extended one year after the final contract extension expired. Prior to the expiration, the District competed a new contract with new equipment but could not fully fund the new contract. The new contract was not totally implemented as a result. The decision was made to continue the old contract at least one additional year beyond its expiration for some of the schools. To keep the old contract in effect after its expiration and in compliance with the Code, the District should have considered declaring an emergency procurement for the additional extension.

We recommend the District not extend contracts beyond their extension options. If circumstances warrant such an extension or change in vendors, compliance with the District's Code is still required.

DISTRICT RESPONSE

Bid 9697-14 - The District is now aware that this contract was improperly extended. This contract will be re-bid for the 1999-2000 school year.

Bid 9394-89 - The District agrees that this contract extension should have been declared an emergency rather than an extension of the existing contract.

PO 138 - The District now realizes that this extension should have been declared an emergency as opposed to an extension for the existing contract as suggested in the audit report. The District will seek guidance from Audit and Certification on questionable issues such as this.

E. Bid Posting and Protest Rights Not Done

The notice of award and the notice of intent to award statements were not posted nor did they contain the bidder's right to protest. Additionally, the solicitations did not contain the bidder's protest provisions.

We recommend the District post the notice of award and notice of intent to award statements and include the bidder's right to protest on each statement. Also, we recommend the posted award statement be dated as to the date posted and the effective date of the contract award. This step is essential in determining the timeliness of any protest. The applicable statement should be placed in the solicitation file after posting to verify compliance to the regulation. Competitive sealed bid solicitations must include a statement of a bidder's right to protest.

DISTRICT RESPONSE

The District has taken steps to correct. As suggested by the auditors, the Office of Procurement Services now has a contract award notebook that is housed in the main portable of the Office of Procurement Services. As contracts are awarded, the contract award is placed in this book, date and time stamped and remains in an area that is easily accessible to the public. The contract award is also date and time stamped when it is removed from the book and placed in the bid file. A statement of the vendor's right to protest has been added to the general conditions of the schools' boilerplate for bid solicitations. Additionally, all contract

awards now contain the vendor's right to protest statement along with instructions on how to file a protest.

F. Date and Time Stamping of Bid Documents

We noticed that bids and quotes had not been date and time stamped showing that they were received prior to the openings. The date and time stamp machine is a secure instrument that requires a key to change the settings. Even though the District's Code does not require that bids and quotes be date and time stamped, we recommend it as a matter of internal control. This procedure helps protect the District and the procurement officers conducting the openings.

DISTRICT RESPONSE

The District's policy for stamping of bid documents as they are received has been done by writing the date and time on the envelope and/or box with the writer's initials. The District concurs with the recommendation that we use a date and time stamp machine for this recording. A machine was purchased and is now being used by the Office of Procurement Services for bids, quotes, and request for proposal.

G. Missing Information

The District did not provide us with the following requested information to perform the audit.

<u>Document</u>	<u>Payment Amount</u>	<u>Missing Information</u>
Bid 9495-119	\$2,304	Bid file not provided
Bid 9293-128	52,349	Bid file not provided
Bid 9293-69	52,349	Bid file not provided
Install new chillers at Socastee High School	46,000	Missing performance bond, labor & material payment bond and contractor's certificate of insurance

We recommend the District evaluate its file documentation system to assure that documents are retained.

DISTRICT RESPONSE

Bids 9495-119, 9293-128, 9293-69 These bid files have been destroyed and disposed. The Office of Procurement Services regrets that we are unable to provide these documents.

Install new chillers at Socastee High School The District acknowledges that copies of the above mentioned items were erroneously omitted from the bid packet.

II. Sole Source and Emergency Procurements

We examined the semi-annual reports of sole source and emergency procurements for the period July 1, 1995 through June 30, 1998. This review was performed to determine the appropriateness of the procurement actions taken and the accuracy of the reports submitted to the Assistant Superintendent for Support Services semi-annually and to the Board annually as required by Section VIII.D of the District's Code.

A. Inappropriate Sole Sources

Most of the sole source transactions we reviewed were appropriately classified. However, six procurements made as sole sources, we believe, were inappropriate and should have been competed.

<u>Item</u>	<u>PO</u>	<u>Description</u>	<u>Amount</u>
1	19973	Food service consultant	\$3,728
2	48557	Food service consultant	4,503
3	1071	Food service consultant	4,423
4	1225	Ropes course	11,413
5	58256	Equipment repair contract	5,569
6	22627	Equipment repair contract	8,397

On items 1, 2, and 3, the District used the same consultant and based the sole source justification on past experience. The consultant might have been the best source but not the only source available. On item 4, other sources were available that could construct and maintain a ropes course. On items 5 and 6, other sources were available also.

We recommend that these procurements be competed in the future.

DISTRICT RESPONSE

PO 19973, 48557, 1071 - The District agrees that this was an inappropriate sole source and should have been completed.

PO 1225 - The District is aware that this does not qualify as a sole source procurement. Since this purchase the District has purchased ropes courses for other locations and has solicited quotes for these.

PO 58256, 22627 - The District acknowledges that this procurement should have been competed. These maintenance repairs were for the equipment in the Print Shop. We no longer have this equipment or a print shop.

B. Sole Source and Emergency Reporting Errors

The following two sole source procurements were not reported.

<u>PO</u>	<u>Description</u>	<u>Amount</u>
22788	Wireless headset	\$4,124
22789	Software	3,202

The following two emergency procurements were not reported.

<u>PO</u>	<u>Description</u>	<u>Amount</u>
447	Art Supplies	\$ 9,432
78877	Upgrade fire alarm system	24,005

In addition, 13 emergency purchase orders for athletic supplies and equipment for the 8th attendance area middle and high schools were not reported. The purchase orders were the result of one emergency procurement totaling \$131,773. The purchase orders were issued to various vendors and the numbers were 22769, 22770, 22771, 22772, 22773, 22774, 22775, 22777, 22790, 22795, 22804, 22796, and 22805.

We recommend all sole source and emergency procurements be reported as required by the District's Code. Amended reports should be sent to the Board adding these transactions.

DISTRICT RESPONSE

The District regrets the error in the omission of the sole source and emergency procurements that were not listed on the annual report to the Horry County Board of Education. The Office of Procurement Services will take precautions to ensure that there are no omissions in the future.

III. Minority Business Enterprise Plans and Progress Reports

Based on our prior audit, we issued a letter dated March 6, 1996, noting the District did not follow the minority business enterprise provisions outlined in Section XV of its Code and Section 29 of the Regulations. On the current audit the District has made progress in this area by submitting annual progress reports to the Board. However, the District was still not in compliance with all provisions of the Code and regulations. The District failed to submit quarterly progress reports to the Assistant Superintendent for Support Services. These reports were required not later than 15 days after each quarter. The regulations also require an annual plan be submitted to the Board for approval. We saw no evidence to support that plans were submitted.

We recommend the District fully implement the minority business enterprise provisions in the Code and regulations.

DISTRICT RESPONSE

The District regrets that we have not complied with the prior audit suggestions that we follow the minority business enterprise provisions outlined in Section XV of the Procurement and Section 29 of the Regulations. The District will begin providing quarterly progress reports to the Assistant Superintendent for Fiscal Services.

IV. Construction and Construction Related Procurements

Our sampling of District transactions included procurements of major construction services and procurements of goods and services of construction materials and supplies. Testing criteria was obtained from the District's Code, Regulations, manual and the South Carolina School Facilities Planning and Construction Guide. We noted the following exceptions.

Three notice of intent to award statements for major construction service procurements did not list the dollar amount of the award.

<u>Project Description</u>	<u>Amount</u>
Lakewood School conversion	\$2,494,264
Aynor Elementary School	4,506,160

<u>Project Description</u>	<u>Amount</u>
HVAC split system heat pump equipment contract	1,049,700

The purpose of the statement is to inform all bidders of the lowest responsive and responsible bidder as determined by the District. Any bidder not in agreement with the District's determination may protest the decision.

We recommend the District always record the intended award amount on the notice of intent to award statement.

DISTRICT RESPONSE

The notice of intent to award did not list dollar amount on the projects.

V. Recommended Changes to District's Code, Regulations and Manual

Due to recent changes in the State's Procurement Code and some internal changes at the District, the following changes are needed.

Page 3 of the operating procedures manual delegates procurement authority to \$1,500 to individual schools and departments. As a result of recently acquired electronic requisitioning capabilities, the District's internal policy changed to no longer delegate procurement authority to \$1,500. All procurements must come through the Purchasing Department. The District should revise the manual to reflect current policy on this matter.

Item 5 on page 7 of the manual lists the minimum number of solicitations to at least 10 sources for purchases exceeding \$25,000 whereas Section V.B.(2).(b) of the Code on competitive sealed bidding lists 3 as the minimum number of solicitations. The State Procurement Code requires public advertising at that dollar level. The District may be more restrictive than the State Code but the District provisions should be made consistent.

Page 18 of the manual under vendor grievances states a protest must be submitted in writing within fifteen days after the aggrieved person knew or should have known of the facts, but in no circumstances, no later than thirty days after the award. Section XIII of the Code states the protest should be filed within fifteen days of the date of notification of award is posted. Page 18 should be revised to be consistent with Section XIII.

Section V.B(2)(j) of the Code should include the requirement for posting of award notices. The bidder's right to protest statement should be on the award notices. The award notices include the notice of intent to award as provided in Section V.B. The District was informed of the posting requirement in the March 6, 1996, letter. The last audit report addressed the requirement for the vendor's right to protest statement. Through an internal memorandum, the District adopted these policies. However, the policies were never added to the Code and Regulations.

Page 17 of the manual for competitive sealed proposals, add a statement that the procedures and requirements noted under competitive sealed bidding applies to this section except as provided herein.

Page 6 of the Manual and Regulation 18.b should be revised to reflect the following competition thresholds that were clarified in the State Code.

<u>State Code</u>	<u>District Manual</u>
\$1,500	\$1,500.99
\$1,500.01 to \$5,000	\$1,501 to \$5,000.99
\$5,000.01 to \$10,000	\$5001 to \$10,000.99
\$10,000.01 to \$25,000	\$10,001 to \$24,999.99

Regulation 30.c(6)a, (6)b, and (7)a. could be revised by increasing the small A&E procurement limit from \$18,000 to \$25,000 with the total amount paid over two years increased from \$54,000 to \$75,000.

DISTRICT RESPONSE

The District fully agrees with the Office of General Services in their recommended changes to the District's Code, Regulations and Manual. These changes will be addressed as noted.

CONCLUSION

As enumerated in our transmittal letter, corrective action based on the recommendations described in this report, we believe, will in all material respects place Horry County School District in compliance with the District's Procurement Code and ensuing regulations.

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



Robert J. Aycock, IV
Audit Manager



Larry G. Sorrell, Manager
Audit and Certification



Horry County Schools

August 20, 1999

Mr. Larry G. Sorrell
Audit & Certification
State Budget and Control Board
1201 Main Street Suite 600
Columbia, SC 29201

Re: Horry County Schools' Response to Draft Procurement Audit Report

Dear Larry:

Thank you for your letter dated August 3, 1999 regarding Horry County Schools' Response to the Audit Report for the period of June 1, 1995 – June 30, 1998. I apologize that we did not respond to your recommendations and the corrective action that Horry County Schools will implement as regards the procurements outlined in your memo. Please accept the following as our response to your recommendation and the corrective action that will ensue:

<u>Document</u>	<u>Amount</u>	<u>Description</u>
Check 205780	\$19,052	Dump Truck Services
Check 212397	3,360	School floor waxing services
Check 212077	16,970	Install underground utility services
Check 231347	6,124	Plumbing work for gas hot water heater

The District agrees with your recommendation that these and all contracts should be competed in accordance with the Horry County Schools' Procurement Code. We agree that competition should be solicited for emergency procurements at the extent that is practical and that the District should require vendors to itemize invoices based on bid schedules. The District will ensure to the best of our ability that these guidelines and recommendations are followed in the future on all construction services.

<u>Document</u>	<u>Amount</u>	<u>Description</u>
Check 209492	\$23,673	School Kitchen Equipment
Check 206120	13,273	Furniture Moving Services

The District agrees with your recommendation that we adhere to all competitive requirements of the Horry County Schools' Procurement Code including the advertisement requirements. The District agrees that invoices should be itemized as noted in the solicitation. The District will implement procedures to ensure that these recommendations are adhered to. The District is now using a checklist for all bid files.

The District regrets that the sample audit conducted by your department on the construction files managed by the contracted company did not meet the criteria set forth in the Horry County Schools' Procurement Code. The Horry County Schools' Board of Education has decided that Phase II of the building program will be managed by Horry County Schools and all Procurements will be the responsibility of Horry County Schools' personnel as delegated in Horry County Schools Procurement Code Regulations DJE-R(2) 1.b.(3). Strict attention will be given to the Code and Regulations as set forth in the district's Code.

In the future, should Horry County Schools' Board of Education determine that it is in the best interest of the district to delegate duties of a procurement nature to a management firm, the following guidelines will be followed:

- 1) Prior to the award of a contract to a management firm, the district will require that the firm and all personnel involved in the procurement process receive training specific to the Horry County Schools Procurement Code and the Office of District Facilities Management guidelines.
- 2) The contract between the District and the management firm will require the firm to adhere to Horry County Schools Procurement Code. The contract will include clauses to protect the District if the District determines anytime during the contract period that the management firm is not in compliance with the District's Code, and that the District may terminate for default and seek liquidated damages.
- 3) The District will be involved in the final award of contracts by the management firm to determine that all Procurement guidelines have been followed and proper documentation has been obtained.
- 4) The District will conduct quarterly audits of the management firm as outlined in their contract with the District.
- 5) The District will conduct a comprehensive audit of the management firm at fiscal year end.

I hope the corrective action as stated will assure you that Horry County Schools is committed to following the Procurement Code and Regulations as adopted by the Horry County Board of Education.

Thank you again for the time, effort, and support that you and your staff have given to Horry County Schools.

Sincerely,



Harrell W. Hardwick
Assistant Superintendent of Fiscal Services

C: Miriam E. Miles

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

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R. VOIGHT SHEALY
ASSISTANT DIRECTOR

March 27, 2000

Mr. R. Voight Shealy
Materials Management Officer
Materials Management Office
1201 Main Street, Suite 600
Columbia, South Carolina 29201

Dear Voight:

We reviewed the response from Horry County School District to our procurement audit for the period July 1, 1995 to June 30, 1998. Also, we have followed the District's corrective action during and subsequent to our fieldwork. We are satisfied that the District has made substantial progress toward implementing the recommendations in our audit report and strengthening the internal controls in the procurement systems.

We recommend that the audit report be presented as information to the State Budget and Control Board.

Sincerely,

A handwritten signature in cursive script, appearing to read "Larry G. Sorrell".

Larry G. Sorrell, Manager
Audit and Certification

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