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**South Carolina
Division of General Services**

PROCUREMENT AUDIT AND CERTIFICATION

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S.C. SCHOOL FOR THE DEAF AND BLIND
AGENCY

DECEMBER 30, 1985

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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WILLIAM T. PUTMAN
EXECUTIVE DIRECTOR

RICHARD W. KELLY
ASSISTANT DIVISION DIRECTOR

December 30, 1985

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

Dear Tony:

Attached is the final School for the Deaf and Blind audit report and recommendations made by the Audit and Certification Office. I concur and recommend the Budget and Control Board grant the School for the Deaf and Blind two (2) years certification as outlined in the audit report.

Sincerely,

A handwritten signature in cursive script that reads "Richard W. Kelly".

Richard W. Kelly, Director
Agency Certification and
Engineering Management

/db

Attachments

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HOUSE WAYS AND MEANS COMMITTEE

WILLIAM T. PUTMAN
EXECUTIVE DIRECTOR

April 9, 1985

Mr. Richard W. Kelly
Director of Agency Certification
and Engineering Management
Columbia, South Carolina 29201

We have examined the procurement policies and procedures of the S. C. School for the Deaf and Blind for the period December 1, 1981 - December 31, 1984. 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 internal 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 S. C. School for the Deaf and Blind 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 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 S. C. School for the Deaf and Blind 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 School for the Deaf and Blind.

Our on-site review was conducted January 15, 1985 through February 6, 1985, 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.

BACKGROUND

Section 11-35-1210 of the South Carolina Consolidated Procurement Code states:

The (Budget and Control) Board may assign differential dollar limits below which individual governmental bodies may make direct procurements not under term contracts. The materials management office shall review the respective governmental body's internal procurement operation, shall certify in writing that it is consistent with the provisions of this code and the ensuing regulations, and recommend to the board those dollar limits for the respective governmental body's procurement not under term contract.

While on site, we received a written request from the School for the Deaf & Blind for certification to make procurements in the following categories and designated amounts:

<u>AREA</u>	<u>AMOUNT</u>
Goods and Services	\$10,000.00
Consultants	10,000.00
Information Technology	10,000.00
Construction	30,000.00

SCOPE

Our examination encompassed a detailed analysis of the internal procurement operating procedures of the School for the Deaf and Blind 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 January 1, 1983 - December 31, 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;
- (11) approval of Minority Business Enterprise Utilization Plan.

SUMMARY OF AUDIT FINDINGS

Our audit of the procurement system of the School for the Deaf and Blind produced findings and recommendations in the following areas:

	<u>PAGE</u>
I. <u>Compliance - Goods and Services</u>	9
A. Our examination of transactions in the area of goods and services determined that some procurements were not made in compliance with the Consolidated Procurement Code and regulations.	9
B. We noted two contracts, one for floor cleaner and stripper and one for boiler chemicals, that need to be re-evaluated for possible term contracts.	10
II. <u>Compliance - Sole Source, Emergency Procurements and Trade-In Sales</u>	12
Approval of a number of sole source determinations appeared to be "after the fact" as reflected by the document dates. Also, one trade-in item was not reported to the Division of General Services.	

	<u>PAGE</u>
III. <u>Compliance - Information Technology</u>	14
A. Maintenance agreements were extended for information technology without evidence of competition or sole source determinations being prepared.	14
B. The School has not submitted its Information Technology Master Plan or the detailed two year plan for fiscal years 1984/85 and 1985/86.	15
IV. <u>Change Order Policy</u>	15
The School's internal procurement policy does not require a formal change order to change a purchase order amount.	
V. <u>Property Management</u>	17
We noted three specific areas that need to be strengthened in accountability of fixed assets.	
VI. <u>Review of the Procurement Procedures Manual</u>	18
Our review of the manual indicated several areas that need to be added, changed or expanded.	

RESULTS OF EXAMINATION

I. Compliance - Goods and Services

A. Small Purchases Documentation

Our examination in the area of goods and services consisted of a sample of sixty transactions from the period January 1, 1983 through December 31, 1984. Of these sixty procurements, the following were not made in compliance with the Procurement Code.

These procurement transactions were not supported by documented competition, sole source or emergency determinations:

<u>P.O. #</u>	<u>Amount</u>	<u>Item(s) Description</u>
2675	\$1,031.05	Repairs to a control panel and purchase of a backup fire control for boiler. The purchase order was issued as a result of a work order from the maintenance department.
2521	990.50	Services to check and repair the fire alarm system. This also resulted from a maintenance work order.
3169	982.55	Automotive paints and supplies.
3094	675.24	Print shop paper, chemicals and supplies (invoice dated 01/31/83, requisition dated 02/01/83, and purchase order dated 02/11/83).
3359	693.16	"Mac" brand tools for the motor pool.
3893	848.50	Only a note justified these as a superior tool and considered best buy.
3869	618.00	Porta printer and case.
3921	769.00	Scaffolding.
4127	1,218.00	Installation of carpet (requisition could not be located.)
3906	1,089.50	Plywood and shelving (requisition could not be located.)

Regulation 19-445.2100, Subsection B, Item 2, requires solicitation of verbal or written quotes from a minimum of two qualified sources of supply. Thus, the transactions are not in compliance with the Code.

B. Need for Establishing Term Contracts

We reviewed two procurements where the School continues to buy commodities from the same vendors without established contracts or competitive solicitations. In both cases, products tests were performed, acceptable brands were determined and pricing structures were established. However, the School continues to purchase these products based on updated price sheets.

Purchase orders 3117 and 5556 for \$2,168.50 and \$1,613.04 respectively were for floor finish and cleaner/strippers. Purchasing has not tested the market for comparable items or competitive prices since April, 1982, when the products test was performed. The School's annual usage is approximately \$2,500.

A similar situation exists in the procurement of boiler chemicals. After experiencing boiler problems, tests were conducted to determine a suitable chemical. The same one has been procured since that time. Annual dollar usage is approximately \$3,000.

We recommend that new products tests be performed seeking as many brands as possible. Based on the tests, qualified brands may be specified for future procurements. The School is reminded that, hopefully, these tests will result in several brands being acceptable.

Once qualified brands are determined, the School should seek competition from vendors that carry those brands and establish contracts for specific time frames. Multi-term contracts could be considered if the criteria in Section 11-35-2030 of the Procurement Code and Section 19-445.2135 of the regulations are met.

Summary of Goods and Services

We must stress to the procurement officer the necessity of obtaining quotations and documenting the files. A lack of such documentation clouds the determination of compliance. As a result, twenty percent (20%) of the tested transactions in this procurement area are not in compliance with the Code. This indicates a material weakness in small purchase procedures that must be addressed by the School.

RESPONSE

All recommendations made by the procurement Audit and Certification Board have been (or are in the process of being) complied with. Documented competition, where applicable, is being secured in the small purchase area. Sole Source or Emergency determinations are being made, approved and signed prior to actual purchase.

The establishing of term contracts and/or the testing of the products referenced will be performed during the summer of 1986 when the School is closed and the students are not present in the buildings. However, if time permits we will try to do this during spring break.

II. Compliance - Sole Source, Emergency Procurements and Trade-In Sales

We examined the quarterly reports of sole source and emergency procurements and trade-in sales and all available supporting documents for the period December 1, 1981 through December 31, 1984. This review was performed to determine 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 Code. We found the majority of these transactions to be proper and accurately reported but did encounter the following problems:

Sole Source Procurements

The following transactions had sufficient sole source justification documentation but appeared to have been approved "after the fact" as shown by the following dates:

<u>P.O. #</u>	<u>P.O. Date</u>	<u>Justification Date</u>
2523	10/15/82	10/18/82
2786	12/07/82	12/13/82
2924	01/13/83	01/24/83
3039	02/03/83	02/08/83
5552	04/01/84	04/02/84
5728	04/16/84	04/23/84
6021	06/11/84	06/30/84
6075	06/26/84	06/30/84
6068	06/19/84	06/30/84
6065	06/20/84	06/30/84
6268	08/10/84	08/21/84

The following sole source justifications were not dated at all. We do not know when approval was obtained.

<u>P.O. #</u>	<u>P.O. Date</u>
4538	10/11/83
4209	09/01/83
4152	08/19/83
4068	08/02/83

Section 11-35-1560 of the Procurement Code, which provides for sole source procurement, indicates a contract may be awarded without competition by the chief procurement officer, the head of a purchasing agency, or a designee of either office above the level of the procurement officer. Thus, the procurement officer must receive approval for sole source procurements prior to commitments being made.

Trade-In Sales

Although approval was obtained from the Materials Management Officer for the trade-in of a \$2,300 piece of equipment, this trade-in was never reported to the Division of General Services, as required by Section 11-35-3830(3) of the Code. The quarterly report for October 1 - December 31, 1984 should be amended and forwarded to General Services.

Summary

The procurement section should review the above exceptions and make a more concerted effort towards compliance. Prior authorized approvals must be obtained before purchase commitments are made in the future. Finally, the purchasing office must ensure that all trade-in sales are reported.

RESPONSE

Quarterly reporting of trade-in-sales are being reported as required by the Code. Also the October 1 - December 31, 1984 report was amended.

III. Compliance - Information Technology

A. Procurements of Maintenance Agreements Without
Competition

In our test of transactions in the area of information technology, we found the following exceptions:

<u>Voucher Number</u>	<u>Vendor</u>
19	Burroughs
6609	Xerox Corporation

These maintenance agreements were extended without evidence of competition or sole source determinations being prepared.

Section 17 of the Appropriations Act for Fiscal Year 1983-84 requires the following:

Any contract entered into prior to July 30, 1981, by a governmental body as defined in Item (18) of Section 11-35-310 of the 1976 Code and which is proposed to be renewed must be renewed in accordance with the provisions of the South Carolina Consolidated Procurement Code (Chapter 35 of Title 11 of the 1976 Code).

If renewal is required for an existing contract that was procured prior to the Procurement Code, the renewal must be handled in accordance with the Code, i.e., the renewal is a new procurement.

These contracts and all other similar agreements should be reviewed against the above criteria. New contracts must be solicited before the renewal dates of the old contracts. Either competition must be solicited or a sole source determination and finding must be prepared for each agreement.

B. Information Technology Plans Have Not Been Submitted

The School for the Deaf and Blind has not submitted the required information technology plans to the Division of Information Resources Management (DIRM). The Division requested that agency information technology plans be developed in accordance with Section 19-445.2115 of the Procurement Code regulations.

The first plan was to be submitted by September 30, 1982 and was to include, at a minimum, three fiscal years. Subsequently, all agencies were requested to develop a detailed plan for fiscal years 1984/85 and 1985/86. This two year plan was to be presented to DIRM by August 15, 1984.

At the completion of the audit neither plan had been submitted to DIRM for review.

The School should prepare the two year plan and submit it to DIRM as soon as possible. When the criteria for information technology certification are finalized approval of these plans will be required before certification can be considered.

RESPONSE

Compliance with Information Technology has been met. Our IT plan was submitted on July 30, 1985.

IV. Change Order Policy

Purchase orders are being increased and decreased in price without using an official "change order." The present understanding is that an invoice less than the purchase order

amount will be paid without consulting purchasing. If the invoice is greater than the purchase order, the purchasing office will "sign off" on accounting's copy of the purchase order.

We reviewed one purchase order that was increased by \$265.00, but we did not find the purchasing officer's initials approving the voucher package.

The change order procedure in the School's Procurement Procedures Manual is very vague and states that "changes to purchase orders can only be made by personnel of the procurement office." It does not give any specific limits on this. Since purchasing is responsible for approving all changes to purchase commitments. Any delegation of authority to accounting should be in writing.

We recommend a written change order procedure be inserted in the Internal Policy and Procedures Manual and its adherence be mandated.

One example of how this procedure could read is that all overages could be paid by accounting, with the approval of purchasing, to a maximum of 10% of the purchase order not to exceed \$100.00. Any overage exceeding these guidelines would require a formal change order document issued by purchasing.

RESPONSE

Change order policy has been revised. We now have an official "Change Order" form that we recently started using for any change that is to be made to a purchase order, with the exception of a price decrease, in which case the accounting office has the authority to change.

V. Property Management

At the present time, the fixed assets inventory at the School is not computerized. Each fixed asset item's history is maintained on an individual record sheet. If this record sheet is lost or the decal comes off a piece of equipment, it is not easy to re-establish the data history on the item.

We observed one video monitor which had two decals. The second decal had come off another piece of equipment and been placed on the monitor. When questioned, the property section was unsure which was the correct decal on the monitor.

To strengthen accountability of fixed assets we recommend the warehouse supervisor, who handles receiving for the School, initiate the following steps: First, he should keep a log listing the purchase order number, amount of fixed asset item, corresponding decal number and section location where the item is delivered. Second, these decal numbers should also be listed on the receiving copy of the purchase order.

Last, there should be coordination between the property manager and the finance office in the disposal of surplus property. When items are sent for surplus sales the finance office has no knowledge of assets being removed from inventory until they receive the transfer of sale proceeds from General Services. Property management does not follow up to insure that all sale proceeds due the School are received. We recommend a joint effort between property management and finance be made to insure all surplus property is properly accounted for and all proceeds are received.

We discussed the above points with School personnel who were receptive to these recommendations. We further recommend a continued effort be made to computerize the fixed assets inventory to insure the most reliable data.

RESPONSE

Property Management: The fixed assets inventory of this Agency is now computerized. Also, the warehouse supervisor is now keeping a log listing inventoryable equipment as it is received. In addition, steps have been implemented so that the finance office will be given notice of surplus property disposals.

VI. Review of the Procurement Procedures Manual

As a part of our examination, we reviewed the Purchasing Policies and Procedures Manual. We found the manual to be generally complete; however, we did note several areas that need to be added, expanded and/or changed. These are as follows:

<u>PAGE</u>	<u>NEEDED CHANGE</u>
I.	Under the heading <u>Statement of Compliance</u> delete the word "Emergency."
I.	Under the heading <u>Assistance to Minority Business</u> insert the word "certified" before the words "minority businesses" in line three.
III.	Paragraph three, line two - change the word "responsibilities" to read "authority."
VII.	The section under <u>Sole Source Procurements</u> should be changed to read "All sole source procurements will be made in accordance with the South Carolina Consolidated Procurement Code, Section 11-35-1560 and the regulations, Section 19-445.2000, Subsection (D), Item 4."

NOTE: Also, the person(s) authorized to sign sole source determinations should be listed here.

- VII. Under the section Change Order Procedures; this section should be expanded to meet the recommendations in Section IV of this report.
- VII. Under the section Disposition of Property and Supplies; on line three delete "effective on July 30, 1981" and refer to these specific sections of the Procurement Code: 11-35-3820, 11-35-3830 and 11-35-4020.
- VIII. Under section (A), Policy and procedures under \$2,500, state how many quotes are required under each dollar range. (Items I and II)
- IX. Under section (E), Unauthorized Purchase and Ratification of Same, change to state that only the Agency President can ratify such acts. (Regulation 19.445-2015 Subsection A)
- X. Move the Retention of Records section to page XIV.

Other procurement procedures which need to be addressed are:

1. Confirmation Orders
2. A&E, Construction, and Land Surveying
3. Information Technology Procurement
4. Accounting, Audit and Legal Services
5. Leasing Real Property/Equipment
6. Printing Equipment
7. Sample Submission and Products Testing

An exhibit section in the procurement manual containing those pertinent documents would be beneficial.

Finally, sections within the document should be renumbered in order after the above changes have been made. The current manual appears to have numerical gaps.

CERTIFICATION RECOMMENDATIONS

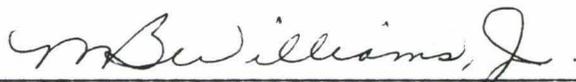
As enumerated in our transmittal letter corrective action based on the recommendations described in the findings contained in the body of this report, we believe, will in all material respects place S. C. School for the Deaf and Blind in compliance with the South Carolina Consolidated Procurement Code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

Under the authority described in Section 11-35-1210 of the Procurement Code, subject to this corrective action, we recommend the S. C. School for the Deaf and Blind be certified to make direct agency procurements up to the limits as follows:

<u>PROCUREMENT AREAS</u>	<u>RECOMMENDED CERTIFICATION LIMITS</u>
I. Goods and Services exclusive of printing equipment which must be approved by the Division of Information Resources Management.	\$5,000 per purchase commitment
II. Consultant Services	*\$5,000 per purchase commitment

*This limit means the total potential purchase commitment to the State whether single year or multi-term contracts are utilized.

Additionally, certification recommendations in the areas of information technology and construction are being deferred until completion of statewide procedures in these procurement areas.



Marshall B. Williams, Jr.
Audit Manager



R. Voight Shealy
Director, Audit & Certification

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ASSISTANT DIVISION DIRECTOR

December 30, 1985

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

Dear Rick:

We have returned to the South Carolina School for the Deaf and Blind to determine the progress made toward implementing the recommendations in our audit report covering the period December 1, 1981, through December 31, 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 School for the Deaf and Blind has made substantial progress toward correcting the problems areas found and improving the internal controls over the procurement system. We feel that with the changes made, the system's internal controls should be adequate to ensure that procurements are handled in compliance with the Consolidated Procurement Code and ensuing regulations.

We therefore recommend, that the certification limits as outlined in the audit report be granted for a period of two (2) years.

Sincerely,

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

R. Voight Shealy, Manager
Audit and Certification

/db

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