PROCUREMENT AUDIT AND CERTIFICATION

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CHARLESTON COUNTY SCHOOL DISTRICT
AGENCY

JULY 1, 1991 - JUNE 30, 1994
DATE
Mrs. Helen T. Zeigler, Director
Office of General Services
1201 Main Street, Suite 420
Columbia, South Carolina 29201

Dear Helen:

I have attached the procurement audit report of the Charleston County School District and the recommendation 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 the Budget and Control Board action is not required, I recommend the report be presented as information.

Sincerely,

Raymond L. Grant
Materials Management Officer

RLG/tl
PROCUREMENT
AUDIT AND
CERTIFICATION

CHARLESTON COUNTY SCHOOL DISTRICT
JULY 1, 1991 - JUNE 30, 1994
INTRODUCTION

From December 5, 1994 - February 28, 1995 we conducted an examination of the internal procurement operating procedures and policies of the Charleston County School District. We made the examination to determine whether in all material respects, the system's internal controls were adequate and the procurement procedures, as outlined in the Charleston County School District Procurement Code and regulations were in compliance with existing laws and regulations and with accepted public procurement standards.

In addition, our audit was directed at assisting the school district in promoting the focus and goals of the South Carolina Consolidated Procurement Code and the Charleston County School District Procurement Code which include but are not limited to:

(1) ensuring the fair and equitable treatment of all persons who deal with the procurement system of this state and school district

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

(3) providing 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

(4) promote public confidence in the procedures followed in public procurement.
SCOPE

We conducted our examination of the Charleston County School District in accordance with Generally Accepted Auditing Standards as applicable to compliance audits. Our examination encompassed a detailed analysis of the internal procurement operating procedures of Charleston County School District and its related policies and procedures manual to the extent deemed necessary to formulate an opinion on the adequacy of the system to properly process procurement transactions.

We statistically selected random samples of procurement transactions for period of July 1, 1991 - June 30, 1994 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 the following:

(1) Three hundred seventy-five maintenance procurement transactions.

(2) Three hundred general goods and services procurement transactions.

(3) One hundred and ten food service procurement transactions.

(4) A block sample of twelve hundred and ninety-nine sequentially numbered purchase orders.

(5) Additional selection of forty sealed bids

(6) Eleven construction contracts for approvals and compliance with the South Carolina School Facilities Planning and Construction Guide.

(7) Eleven architect and engineering services contracts for selection and approval compliance.

(8) All sole source procurements for the audit period.

(9) All emergency procurements for the audit period.

(10) Minority Business quarterly reports to the School Board.

(11) Adherence to applicable procurement laws, regulations and internal policy.

(12) Procurement-staff and training

(13) Adequate audit trails
(14) Evidence of competition and sealed bidding procedures

(15) Surplus property disposition procedures.

(15) Economy and efficiency of the procurement process

(16) Internal audit procedures in the area of procurement.
SUMMARY OF AUDIT FINDINGS

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

I. INTERNAL CONTROL

After reviewing the external and internal audit reports of the District, we noted no internal audit procedure in place to adequately monitor compliance with the procurement code.

II. COMPLIANCE - MINORITY BUSINESS ENTERPRISES UTILIZATION PLAN

Quarterly reports to the school board were not issued as required by the procurement code.

III. COMPLIANCE - FOOD SERVICE SEALED BIDS

There were instances of bid awards in excess of $50,000 where the 16 day intent to award notice was not prepared and mailed to all of the responding bidders.

IV. COMPLIANCE - EMERGENCY/ SOLE SOURCE PROCUREMENTS

A review of emergency/sole source procurement transactions revealed the following exceptions:

A. Blanket sole source approval was used in numerous purchases vice individual approval on a case by case basis.

B. Several emergency/sole source approvals occurred after the issuance of the purchase order or had missing dates and/or signatures.

C. There were three cases where the sole source was not reported to the board.

V. COMPLIANCE - GENERAL GOODS AND SERVICES AND MAINTENANCE

A. Maintenance records were not available to verify evidence of competition for Fiscal Year 1992.

B. Signature authority was difficult to determine on purchase order requests.
VI. COMPLIANCE - CONSULTING SERVICES

A review of consulting services procurement revealed the retention of external legal services without approval of the school board as required by the procurement code.

VII. COMPLIANCE - CONSTRUCTION AND ARCHITECTURAL/ENGINEERING SERVICES

During a review of the construction and architectural/engineering services procurements, there was non compliance with the retainage requirements per the procurement code.

VIII. COMPLIANCE - SURPLUS SALES

There was one instance of a surplus sale in Food Service without a letter of determination of surplus by the Deputy Superintendent of Operations.
RESULTS OF EXAMINATION

I. INTERNAL CONTROL

In order to assess the internal audit procedures in place in the area of procurement in the District, we reviewed the following:

1. The audit reports and management letters from the external auditors of Chellis, Mitchum, Daniell for the period under audit.

2. The audit workpapers and report of the previous auditors from the South Carolina Division of General Services. This also included the original audit and findings as well as the follow up audit and certification to continue as a governmental purchasing entity.

3. The internal audit program with Althea Salters of the internal audit department to assess their involvement in the audit process in the procurement area.

4. The internal audit report of the sales of surplus property conducted on April 18, 1994.

The previous external audit reports and management letters do not point to any particular discrepancy in the purchasing procedures due to the fact that compliance in this area is not tested by the external auditors. The audit of the internal audit department consists of testing of disbursements in conjunction with the external auditor and does not include any testing of compliance with the South Carolina or CCSD procurement codes. The only audit procedure that was applicable was dealing with an audit of the moneys that were handled during a surplus sale.

After conversing with the internal audit department and reviewing the documents, we found that there is no ongoing internal audit program for procurement code compliance. The internal auditors do disbursement testing with the external auditors yearly but no compliance testing referencing the Procurement Code. The external auditors do not test for compliance with the
Procurement Code and nothing would indicate noncompliance after referencing the audit reports and management letters. The only audit procedure that was performed was by the state at the last period with no subsequent procedures on record.

We recommend that the district implement an internal audit of procurement procedures mirroring that of the recurring procurement audit stressing procedural compliance with the procurement code and regulations.

**DISTRICT RESPONSE**

We concur. The internal audit department will set up a testing program on a semiannual basis. The tests will be done in May 1995 for the months of July through December 1994 and in July 1995 for the months of January through June, 1995. The success of the program will be reviewed after the first year and adjust to a quarterly basis as necessary. The audit program will encompass the same matrix as the regular external audit. Beginning in 1995, the Procurement Audit will be bid at the same time as the Financial Audit and will be completed on an annual basis as opposed to the three year cycle.

**II. MINORITY BUSINESS ENTERPRISES UTILIZATION PLAN (MBE)**

To assess compliance with the procurement code with regard to the MBE we reviewed the following:

1. Procurement Code and Regulations of the District.
3. Annual Progress Reports for FY92-94.
4. Quarterly Reports for FY92-94.
We noted the following exceptions:

**Fiscal Year 1992:**
Only one quarter (1/1/92-3/31/92) was reported which was not in compliance with either the procurement code or the reporting procedures as outlined in the MBE Utilization Plan as adopted.

**Fiscal Year 1993:**
Only two quarterly reports (FYQuarter 1 & 2) were issued which is not in compliance with the MBE Utilization Plan as adopted.

**Fiscal Year 1994:**
The first and second FY94 quarters were lumped into the same report which is not in compliance with the Plan. Also the fourth FY94 quarter was not reported.

Although the Charleston County School District is in general compliance for FY93 & FY94 except for the aforementioned findings, FY 92 was a year of general Non Compliance. There was a definite effort on the part of the administrator of the plan to see that the reporting requirements were met. The letters sent to the affected departments clearly outlined the reporting procedures and time requirements for reporting. We recommend that the quarterly reports be compiled and transmitted to the Deputy Superintendent for Operations in a timely manner.

**DISTRICT RESPONSE**

We concur. We will be submitting quarterly and annual MBE Utilization Reports as stated in the Procurement Code.
III. COMPLIANCE - SEALED BIDS (FOOD SERVICE)

We reviewed sealed bids in the area of food service for the period in question for compliance with the procurement code. We noted the following exception:

Letters of intent to award (16 day letters of intent) were issued to successful bidders of contracts in excess of $50,000 versus all responding bidders.

We recommend that the Director of Food Services insure that all respondents to bids in excess of $50,000 receive a notice of the intent to award the bid in compliance with the procurement code.

DISTRICT RESPONSE

We concur. The procedure of issuing 16 letters of intent to award to each bidder that responds to a solicitation has been immediately effected in the food service area.

IV. COMPLIANCE - EMERGENCY/SOLE SOURCE PROCUREMENTS

To assess compliance with the Procurement Code in the area of Emergency/Sole Source procurements, we reviewed the following:

1. Procurement Code and Regulations of the District
2. Annual reports to the Board of Trustees for FY92-94.
3. 100% of the Emergency & Sole Source Purchase Orders in the Annual Report.
4. Selected purchase orders deemed sole source found during general testing.
5. FYs tested with transactions and amounts:

<table>
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<th>Number</th>
<th>Amount</th>
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<tr>
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<td>93</td>
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<td>$983,506.79</td>
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<td>94</td>
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</tr>
</tbody>
</table>
We noted the following exceptions:

A. Blanket sole source approval was used in numerous purchases vice individual approval on a case by case basis. Preprinted approval forms for commonly used items were prepared and signed in advance and used as needed to secure the items required. The approval for the sole source or emergency determination was as much as 4 years in the past with no current review process to determine the continuance of the items as a sole source.

B. Several emergency/sole source approvals occurred after the issuance of the purchase order or had missing dates or signatures. There were instances of failure to properly complete the approval forms and actual purchase order issuance prior to approval.

C. There were 3 cases where the sole source was not reported to the board. Though an oversight, these particular items were omitted from the report to the board although the dollar amounts in question were not material.

We recommend that the district institute a program to insure that there is adequate review and approval of all emergency/sole source purchases. This program should insure that all determinations of this nature are reviewed so as to preclude blanket sole source determinations. Approvals for determinations of emergency or sole source should be completed and approved prior to the issuance of any purchase order. Accuracy is imperative for accurate decision making and all reports should be reviewed carefully for omissions before submission to the board for approval.

**DISTRICT RESPONSE**

We concur.

A. A policy is in place at the present time that will insure the accurate determination of emergency/sole source status and limit the determination as sole source for a period of 1 year. Prior to submitting the request for determination, the appropriate area of responsibility will verify that the items are in fact eligible for sole source or emergency status. Once the initial approval is granted, Mike Herring, Chief
Procurement Officer for the district will be authorized to verify the purchase and will not need to be approved for sole source status for the period of 1 year.

B. Purchasing will monitor to insure that purchase order dates do not precede approval dates and that all required signatures are complete prior to issuing the purchase order.

C. Close review of the reports submitted to the board will be accomplished to avoid omissions.

V. COMPLIANCE - GENERAL GOODS AND SERVICES AND MAINTENANCE

We examined a random sample of procurements from the areas of goods and services and maintenance with the following exceptions noted.

A. Maintenance records were not available to verify evidence of competition for Fiscal Year 1992. The maintenance department was not aware of the records retention policy of the state or the district.

B. Signature authority was difficult to determine on purchase order requests. On the request form, there was no area for the approving authority to define his/her title or position in order to adequately determine the authority level of the signer.

DISTRICT RESPONSE

A. We concur. Maintenance will now retain records in accordance with records retention policy of current plus 5 year.

B. We concur. A new purchase request form has been developed that will define the approval authority level.
VI. CONSULTING SERVICES

We selected a sample of transactions from the vendor files as provided by Accounts Payable in the area of legal services and tested all accounting services that were procured during the period tested. The auditing services were procured through the request for proposal and bid procedures as outlined in the CCSD Procurement Code and Procurement Regulations as amended.

A review of the sample in the area of legal services revealed the following exceptions:

There were numerous findings that the Procurement Code and Regulations were not being followed. In the hiring of professional services, accounting and legal services are exempt from the normal process of procurement as outlined in the Code. In recognition of this, the Regulations are specific in requiring the approval of the School Board for legal services and accounting services. In the sample, the accounting services were indeed approved by the Board. The legal services were not approved by the Board as a routine practice. We could not find any case where there was Board approval of legal services. The only mention of any Board approval of legal services was at the initial naming of Rosen & Rosen as General Counsel. There are numerous examples of the General Counsel actually hiring third party law firms for services and the CCSD funding these firms directly. In essence, the General Counsel was acting as agent for the Board of Trustees when there was no approval to do so. The Board minutes are silent as to the powers of the General Counsel and the only approval for any attorney services came in the form of approval for payment from the Superintendent.

The CCSD appears to be in direct violation of the Procurement Code and Regulations as amended by not having board approval for outside legal counsel. Therefore, the CCSD is NOT in compliance with the Code. We recommend that the district comply with the procurement code as stated and devise a method to insure approval of attorneys at the appropriate level.
DISTRICT RESPONSE

We concur. The School Board has approved a change to the policies for the retention of outside legal services. When there is a need for legal services other than that which is provided by our General Counsel, the General Counsel will recommend to the Board of Trustees, the hiring of such counsel. With the approval of the Board, said counsel shall be retained. In cases of emergency, the General Counsel is authorized to retain appropriate legal services, and to present that information for ratification at the next board meeting.

VII. COMPLIANCE - CONSTRUCTION AND ARCHITECTURAL/ENGINEERING SERVICES

During an examination of the construction and architectural/engineering services procurements, there was non compliance with the retainage requirements per the procurement code. We examined the CCSD Procurement Code and the State Department of Education Guidelines for Construction and applied those criteria to the selected sample. The sample was a random sample of construction contracts over the period tested and was selected to also include at least one contract in excess of $1 million. We found the following exception:

The entire sample had language in the contracts that required a 10% retainage figure for the entire contract term and there was no indication that the reduction was ever granted to any contract in the sample. In conversation with Mr. Anderson, he indicated that the policy had been changed and actually produced a contract where the wording had been changed but the fact remains that the sample was consistent with regards to the 10% retainage amount. Mr. Anderson also remarked that in order for the contractor to receive the reduction, a request must be filed for reduction. The Code is silent as to this requirement.

We recommend that the district comply with the retainage requirements of the procurement code which require a reduction of the retainage amount from 10% to 5% at the time when the construction is determined to be 50% complete and institute a policy to review all contracts so that there is compliance with the code before being placed into effect.
DISTRICT RESPONSE

We concur. The Officer of Facilities Planning & Construction will be more vigilant in complying with this portion of the procurement code.

VIII. COMPLIANCE - SURPLUS SALES

We examined a list of all surplus sales that was provided by the client that included Food Service and general sales. Included in these files were the authority to dispose of the materials deemed surplus and any procedures that were employed to control the process. There was one instance of a surplus sale by Food Service on March 20, 1994 without a letter of determination of surplus by the Deputy Superintendent of Operations.

We recommend that the district obtain letters of determination of surplus prior to any sale.

DISTRICT RESPONSE

We concur. Letters of determination of surplus will be obtained before any further surplus sales.
CONCLUSION

As outlined in this report, the corrective action implemented by the Charleston County School District will, in all material respects place the District in compliance with Section 11-35-70 of the South Carolina Consolidated Procurement Code and the procurement code of the Charleston County School District.

We recommend that the Charleston County School District be allowed to continue procuring all goods and services in accordance with Section 11-35-70 of the South Carolina Procurement Code.

John F. Hyland, CPA
Partner
Hyland, Ruddy & Garbett
Certified Public Accountants
Mr. Raymond L. Grant  
Materials Management Officer  
1201 Main Street, Suite 600  
Columbia, South Carolina 29201

Dear Ray:

Section 11-35-70 of the South Carolina Consolidated Procurement Code requires a procurement audit to be performed every three years of a school district with a budget in excess of seventy-five million dollars. The cost associated with an audit is the responsibility of the school district. Any firm performing the audit requires the approval of the Office of General Services.

The Charleston County School District solicited and awarded a contract to Hyland, Rubby, and Garbett, Certified Public Accountants, to audit the procurement activity for the period July 1, 1991 to June 30, 1995. The contract was approved by our office.

The audit report from Hyland, Rubby, and Garbett was submitted on June 19, 1995, to the Property/Operations Committee of the Board of Trustees. The report was also submitted on June 26, 1995 to the Board of Trustees. The audit report was presented as an information item was was accepted without comment at each meeting.

I recommend the district be allowed to continue operating under its own procurement code as authorized in Section 11-3-70 of the South Carolina Consolidated Procurement Code.

Sincerely,

Larry G. Sorrell, Manager  
Audit and Certification