PROCUREMENT
AUDIT AND
CERTIFICATION

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WIL LOU GRAY OPPORTUNITY SCHOOL
AGENCY
JUNE 27, 1985
DATE
June 27, 1985

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

Dear Tony:

Attached is the final Wil Lou Gray Opportunity School audit report and recommendations made by the Audit and Certification Section. Since no certification request above the $2,500 allowed by law remains to be considered by the Budget and Control Board, I recommend that this report be presented to them for their information.

Sincerely,

Richard W. Kelly  
Assistant Division Director

FWK:kl  
Attachment
WIL LOU GRAY OPPORTUNITY SCHOOL

Audit Report

January 30, 1985
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Mr. Richard W. Kelly
Director of Agency Certification & Engineering Management
Columbia, South Carolina 29201

We have examined the procurement policies and procedures of Wil Lou Gray Opportunity School, for the period July 30, 1981 - November 30, 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 Agency 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 Wil Lou Gray Opportunity School 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 Wil Lou Gray Opportunity School in compliance with the South Carolina Consolidated Procurement Code and ensuing regulations.

P. Voight Shealy
Director of Audit and Certification
SCOPE

Our examination encompassed a detailed analysis of the internal procurement operating procedures of Wil Lou Gray Opportunity School to the extent we deemed necessary to determine whether, in all material respects, the procurement systems 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.

Our on-site review was conducted November 1, 1984 through November 30, 1984 and was made under the authority as described in Section 11-35-1230(1) of the South Carolina Consolidated Procurement Code and Regulation 19-445.2020.

The Audit and Certification team selected all procurement transactions over $500.00 for the period July 1, 1982 - June 30, 1984 for compliance testing and performed other auditing procedures through November 30, 1984 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 ensuing regulations;

(2) procurement staff and training
(3) adequate audit trails and purchase order register;
(4) evidence of competition;
(5) small purchase provisions and purchase order confirmations;
(6) emergency and sole source procurements;
(7) source selection;
(8) file documentation of procurements;
(9) reporting of Fiscal Accountability Act;
(10) economy and efficiency of the procurement process; and
(11) minority business enterprise utilization plan approval.
SUMMARY OF AUDIT FINDINGS

Our audit of the procurement system of Wil Lou Gray Opportunity School produced findings and recommendations in the following areas:

I. Code Compliance

A. Goods and Services

Our examination in the area of goods and services determined that some procurements were not made in compliance with the Code.

B. Sole Source and Emergency Procurements

Procurements were made without the required written determinations, and several quarterly reports were not submitted to the Division of General Services.

II. General Transaction Control

A. Purchase Order Price changes Are Not Adequately Documented

Purchase orders are changed without proper documentation.

B. Voucher Review

The voucher package review is not as effective as it could be.
C. Lack of Supporting Documents
   A number of transactions were processed without adequate documentation.

D. Purchase Order Control
   Purchase orders are not being properly accounted for.

E. Control Over Equipment and Maintenance
   Payments
   Vendor invoices are being paid without proper verification.

III. Inability to Distinguish between Surplus Property and Items being held for Future Use
   A complete inventory of surplus items has never been taken. This makes it difficult to determine whether the items are being held for future use or should be sold.

IV. Fiscal Accountability Act Reporting
   Wil Lou Gray Opportunity School has failed to comply with the commodity code quarterly reporting requirements.
RESULTS OF EXAMINATION

I. Code Compliance

A. Goods and Services

Our examination included a review of a sample of transactions which were judgementally selected from fiscal years 1982/83 and 1983/84 using the respective voucher registers. We found the following procurements that were made without evidence of competition.

<table>
<thead>
<tr>
<th>Voucher</th>
<th>Amount</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>830056</td>
<td>$664.49</td>
<td>School bus repairs</td>
</tr>
<tr>
<td>830386</td>
<td>557.32</td>
<td>Training mannequins</td>
</tr>
<tr>
<td>840158</td>
<td>2,406.97</td>
<td>Dictaphone equipment</td>
</tr>
<tr>
<td>840463</td>
<td>683.07</td>
<td>Tractor repairs</td>
</tr>
<tr>
<td>830493</td>
<td>913.45</td>
<td>Woodworking tools</td>
</tr>
<tr>
<td>830517</td>
<td>1,609.12</td>
<td>Dishwasher detergent</td>
</tr>
<tr>
<td>830664</td>
<td>624.76</td>
<td>Walkie talkie maintenance</td>
</tr>
<tr>
<td>830790</td>
<td>635.36</td>
<td>Training projector</td>
</tr>
<tr>
<td>830861</td>
<td>1,068.93</td>
<td>Training projector</td>
</tr>
<tr>
<td>830247</td>
<td>529.45</td>
<td>Printing services</td>
</tr>
</tbody>
</table>

These ten (10) items or 16% of the 60 transactions reviewed showed no evidence of competition, as required by Regulations 19-445.2000 and 19-445.2100, nor were they justified as sole source or emergency procurements.

We insist that all future procurements be made within the requirements of the Code and regulations.

AGENCY RESPONSE

From the list of respective vouchers that were cited as being made without evidence of competition, voucher nos. 830861,
830790, 840158, 830386, and 830247 were identified and reported as sole source, however, justification was inadvertently omitted. All quarterly reports and justification thereof are being submitted in a timely manner. Voucher nos. 830056 and 840463 involved repairs made to equipment where only an estimate could be obtained. Final procurement cost exceeded $500.00 due to extensive repair needed once the extent of the repair work was determined while repairing the equipment. In the future, all substantial repair projects will require competition based on the hourly labor rate.

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B. Compliance - Sole Source and Emergency Procurements

We examined the quarterly reports of sole source and emergency procurements and those available supporting documents for the period July 31, 1981 - September 30, 1984, 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 Consolidated Procurement Code.

Review of the reported transactions revealed that only three (3) written determinations and findings have been prepared since the enactment of the Procurement Code in July, 1981. We insist that the proper determinations and findings be prepared for each sole source and emergency transaction as required by Section 11-35-1560 and 11-35-1570 of the Code. Finally, we insist that,
once prepared, these documents be retained in accordance with the records retention guidelines and schedules of the Department of Archives and History, as required by Section 11-35-2430 of the Code.

Further, we found the agency did not submit the required quarterly reports for the following fiscal years.

* = One (1) missing quarterly report

<table>
<thead>
<tr>
<th>Time Period</th>
<th>Emergency</th>
<th>Sole Source</th>
<th>Trade-In Sales</th>
</tr>
</thead>
<tbody>
<tr>
<td>FY 1981-82</td>
<td>**</td>
<td>***</td>
<td>***</td>
</tr>
<tr>
<td>FY 1982-83</td>
<td>**</td>
<td>*</td>
<td>**</td>
</tr>
<tr>
<td>FY 1983-84</td>
<td>**</td>
<td></td>
<td>**</td>
</tr>
</tbody>
</table>

There were several letters submitted to the Materials Management Office during the above period stating that no procurements had been made during the quarter, however, it could not be determined which quarter was being referenced.

As referenced above, Section 11-35-2440 of the Procurement Code states, "Any governmental body... shall submit quarterly a record listing all contracts made under Section 11-35-1560 (Sole Source Procurements) or Section 11-35-1570 (Emergency Procurements) to the Chief Procurement Officers." Further, Section 11-35-3830 of the Code states, "Governmental bodies shall submit quarterly to the Materials Management Officer a record listing all trade-in sales..."

The agency was under the impression that quarterly reports were not required when no activity occurred during that period. This is not correct.

We recommend that reports for those missing quarters be submitted to the Division of General Services as amendments and insist that future ones be submitted in a timely manner.
AGENCY RESPONSE

As indicated, the agency was under the impression that quarterly reports were not required when no activity occurred during that period. The agency has since learned that this is not the case. All quarterly reports not submitted during a quarter where no activity occurred have been submitted.

A file is maintained separately for each reporting method and will be retained in accordance with the records retention guidelines. Quarterly reports are being submitted in a timely manner.

II. General Transaction Control

A. Purchase Order Price Changes are not Adequately Documented

Purchase orders are being increased and decreased in price based on the verbal approval of the Director of Support Services. The following five (5) transactions were processed without documentation of the justification and approval of the price change.

<table>
<thead>
<tr>
<th>Voucher</th>
<th>Invoice</th>
<th>Purchase Order</th>
<th>Increase/Decrease</th>
</tr>
</thead>
<tbody>
<tr>
<td>830247</td>
<td>$529.45</td>
<td>$606.22</td>
<td>$ 76.77</td>
</tr>
<tr>
<td>830330</td>
<td>659.61</td>
<td>941.45</td>
<td>281.84</td>
</tr>
<tr>
<td>840972</td>
<td>738.97</td>
<td>719.38</td>
<td>19.59</td>
</tr>
<tr>
<td>840570</td>
<td>511.06</td>
<td>492.25</td>
<td>18.81</td>
</tr>
<tr>
<td>840148</td>
<td>504.40</td>
<td>440.44</td>
<td>63.96</td>
</tr>
</tbody>
</table>

-10-
We recommend the school develop a change order policy outlining the procedures to be used for the approval and documentation of price changes. A formal change order form should be used in cases of price increases where the vendor needs to be notified. A signature approval and written documentation could be adequate in other situations where the dollar amount doesn't exceed ten percent (10%) of the original order or $25.00 whichever is less.

AGENCY RESPONSE

The agency has incorporated a change order policy in its Procurement Manual as follows: All purchase orders should be completed in detail, including pricing and quantity, to eliminate the necessity of re-issuing another purchase order. However, in instances where changes are required to complete the procurement need, the Procurement Director will justify the reason for price increase and initial the purchase order. A formal change order form has been incorporated into our procurement policy.

B. Voucher Review

Our review of sixty transactions selected from fiscal years 1982-83 and 1983-84 revealed the following items were improperly processed by Accounts Payable resulting in total "over" payments of $66.17.
<table>
<thead>
<tr>
<th>Voucher</th>
<th>Invoice Amount Paid</th>
<th>Description of Error</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. 83033</td>
<td>$659.61</td>
<td>Lost discount of $2.21</td>
</tr>
<tr>
<td>2. 840148</td>
<td>504.40</td>
<td>Purchase order and packing slip were for $440.44. The invoice for $504.40 was paid without explanation.</td>
</tr>
</tbody>
</table>

The processing of invoices is fragmented between Purchasing and Accounts Payable. Invoices are received in Purchasing and, after being matched with the purchase orders and receiving reports, the documents are forwarded to Accounts Payable. During our audit period we noted that Accounts Payable does not use an audit or cancellation stamp in its review process.

Good internal control requires all supporting documents be accumulated and verified prior to payment to ensure that procurements are properly authorized and payments are made correctly.

We recommend that the school implement the following:

1. Develop a voucher stamp which will document the review process and assign responsibility for it.

2. Develop a cancellation process which will ensure all supporting documents in the voucher package are properly cancelled. Good internal control procedures dictate effective cancellation.

3. Separate the purchasing function from the disbursement function with Accounts Payable performing the voucher package review from the point of matching invoices, requisitions, purchase orders and receiving reports to authorizing payments.
AGENCY RESPONSE

The agency has implemented a cancellation process that includes a voucher stamp which ensures a complete voucher package before payment will be made. Sample below.

INVOICE VERIFICATION
EXTENSION
DISCOUNT
RECEIVING COPY
PARTIAL ORDER
P.O. MATCH INVOICE

Initial & Date

The purchasing function and the disbursement function have been separated in accordance with the Audit and Certification Section's recommendations. An internal procedure policy has been developed to identify the separate functions.

C. Lack of Initiating Documents

The following transactions reviewed in our sample test showed a lack of initiating and supporting documents from requestors.

<table>
<thead>
<tr>
<th>Voucher</th>
<th>Amount</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>830517</td>
<td>$1,609.12</td>
<td>Dishwasher detergent</td>
</tr>
<tr>
<td>830664</td>
<td>624.76</td>
<td>Maintenance for walkie talkie</td>
</tr>
<tr>
<td>840875</td>
<td>1,228.51</td>
<td>Temporary personnel</td>
</tr>
<tr>
<td>840978</td>
<td>604.19</td>
<td>Temporary personnel</td>
</tr>
<tr>
<td>840701</td>
<td>724.50</td>
<td>Temporary personnel</td>
</tr>
<tr>
<td>840607</td>
<td>795.38</td>
<td>Temporary personnel</td>
</tr>
</tbody>
</table>

A properly approved requisition serves as the authorization document to begin the procurement process. The issuance of a
purchase order creating the liability completes the procurement function. We recommend a properly approved requisition be received prior to procurements being made and a purchase order being issued unless there are mitigating circumstances.

AGENCY RESPONSE

The agency now creates a properly approved requisition for all categories of purchases prior to procurement except for mitigating circumstances.

D. Purchase Order Control

The agency uses a formal purchase order system in their procurements, however we recommend the following be implemented to strengthen certain weaknesses in the system.

1. The current hard copy purchase order does not provide a separate receiving form for ordering departments. Using a receiving form will provide better documentation and internal control. Additionally, a departmental and numerical copy of the purchase order should be added.

2. Purchase orders being issued to the maintenance department for confirmation purposes must be issued in sequential order and logged out to maintain internal control.

3. Procurements of less than $500.00 are not being annotated as to prices being "fair and reasonable" which
is a requirement of Section 19-445.2100. We recommend the procedures manual be updated to indicate that the purchasing agent's signature signifies this.

AGENCY RESPONSE

1. The agency has implemented procedures for handling purchase orders in its Procurement Manual.

2. The maintenance department no longer issues purchase orders. All purchase orders are issued through the Procurement Office in sequential order.

3. The agency's Procurement Manual states (p. 10) that the Procurement Director's signature on all purchase orders indicates that the price is fair and reasonable for purchases under $500.00.

E. Control of Equipment Rental and Maintenance Payments

Our review revealed the following vouchers were paid without a purchase order, requisition, or lease agreement as supporting documents.

<table>
<thead>
<tr>
<th>Voucher</th>
<th>Amount</th>
<th>Voucher</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>830080</td>
<td>$965.36</td>
<td>830693</td>
<td>$1,392.14</td>
</tr>
<tr>
<td>830111</td>
<td>2,686.95</td>
<td>830854</td>
<td>1,299.98</td>
</tr>
<tr>
<td>830183</td>
<td>570.62</td>
<td>840680</td>
<td>1,092.80</td>
</tr>
<tr>
<td>830312</td>
<td>1,475.06</td>
<td>830526</td>
<td>1,008.15</td>
</tr>
</tbody>
</table>
If a maintenance/lease agreement is not used to support each payment then an adequate cross reference to pertinent support documents should be noted in the voucher package.

We recommend that payments against lease/maintenance contracts be supported by a requisition and a purchase order or contractual agreement.

AGENCY RESPONSE

All maintenance/lease agreement vouchers are now supported by a copy of the contractual agreement before payment is made.

III. Inability to Distinguish between Surplus Property and Items Being Held for Future Use

The Opportunity School is unable to adequately distinguish whether items stored in their warehouse are surplus that should be sold or items held for future use. Surplus property has been accumulating throughout the campus over the past years without any visible effort toward disposition. It is difficult to determine the following:

1. What surplus items belong to the school and which are being stored for another agency that is authorized to use some of these storage facilities.
2. What should be classified as junk or surplus and sold.
3. What is being held for future use.
4. What is being held for spare parts.
To further complicate matters, the Maintenance and Custodial Section store their supplies in one of these warehouses. Surplus items belonging to the school, another agency, janitorial and maintenance supplies, and equipment being held for future use are scattered throughout the central warehouse in no accountable fashion.

Section 11-35-3820 of the Code states; "Each governmental body shall inventory and report to the Division (of General Services) all surplus personal property not in actual public use held by the agency for sale."

We recommend that an inventory be taken of all surplus property held by the school. Each item should be classified as surplus for sale, junk for sale or surplus for future use. After this classification is established, the school should:

1. Tag all items for future use, insuring that these items are on the equipment inventory.
2. Report all surplus and junk to the Division of General Services' Central State Warehousing and Disposal Section for disposal.
3. Segregate the school's surplus items from the other agency's.
4. Prepare a list of all items for future use and disseminate it throughout the school to make everyone aware of what is available.

The school should establish written procedures governing the control of their surplus property storage and disposal and document them in the procurement operating procedures manual. These
procedures should reflect methods of transferring authority and responsibility for items such as these to Property Control, the length of time that items will be held for future use and the process of requisitioning items from the warehouse by departments. The Materials Management Office offers its assistance in this effort.

AGENCY RESPONSE

The agency is in the process of separating items in storage to determine its classification. After the items are classified as surplus, junk or being held for future use, the agency will:
tag all items for future use, arrange for disposal of all surplus or junk property through the Division of General Services' Central State Warehousing and Disposal Section, and will prepare a list of property available for use.

Surplus property stored in our warehouse for another agency is in the process of being removed. Removal should be completed by July 1.

IV. Fiscal Accountability Act Reporting

The Opportunity School has failed to report to the Division of General Services all expenditures for commodities which were
not purchased through the Division, as required by the Fiscal Accountability Act.

Act 561 of 1976, Section 5, states in part:

All agencies, departments and institutions of state government shall...furnish to the Division of General Services of the Budget and Control Board...a statement of all expenditures...for commodities which were not purchased through the Division. Such statements shall be prepared in the commodity code structure and report format established by the Division for reporting commodities purchased through the Division's central purchasing system....

...Expenditures for units under two hundred dollars shall be reported in the aggregate and units in excess of two hundred dollars shall be itemized.

We recommend the school take immediate action to implement the necessary procedures to comply with this Act.
CONCLUSION

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 the Wil Lou Gray Opportunity School in compliance with the South Carolina Consolidated Procurement Code and ensuing Regulations.

In accordance with Code Section 11-35-1230(1) the Department should take this corrective action within ninety (90) days of their receipt of this report.

Subject to this corrective action and because additional certification was not requested at this time, we recommend that the Wil Lou Gray Opportunity School be allowed to continue procuring all goods and services, construction, information technology and consulting services up to the basic level as outlined in the Consolidated Procurement Code.

Jeff Widdowson, P.P.E.
Auditor in Charge

F. Voight Shealy
Director, Audit and Certification
Mr. Richard W. Kelly  
Director of Agency Certification  
and Engineering Management  
300 Gervais Street  
Columbia, South Carolina 29201  

Dear Rick:  

We have returned to the Opportunity School to determine the progress made toward implementing the recommendations in our audit report covering the period July 30, 1981 through November 30, 1984. During this visit, we followed up on each recommendation made in the audit report through inquiry, observation and limited testing.

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

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

Sincerely,

R. Voight Shealy, Director  
Audit and Certification