PROCUREMENT AUDIT AND CERTIFICATION

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WIL LOU GRAY OPPORTUNITY SCHOOL AGENCY

JULY 1, 1989 - SEPTEMBER 30, 1991 DATE
January 10, 1992

Mr. Richard W. Kelly
Director
Division of General Services
1201 Main Street, Suite 420
Columbia, South Carolina 29201

Dear Rick:

Attached is the final Wil Lou Gray Opportunity School procurement audit report and recommendations made by the Office of Audit and Certification. I concur and recommend the Budget and Control Board grant the School a two (2) year certification as noted in the audit report.

Sincerely,

James J. Forth, Jr.
Assistant Division Director

JFF/jjm

Attachment
WIL LOU GRAY OPPORTUNITY SCHOOL
PROCUREMENT AUDIT REPORT

JULY 1, 1989 - JUNE 30, 1991

FOLLOW-UP AUDIT
JULY 1, 1991 - SEPTEMBER 30, 1991
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**NOTE:** The School's responses to issues noted in this report have been inserted immediately following the issues they refer to.
January 9, 1992

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

Dear Jim:

We have examined the procurement policies and procedures of Wil Lou Gray Opportunity School for the period July 1, 1989 through September 30, 1991. 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 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 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 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 Wil Lou Gray Opportunity School in compliance with the South Carolina Consolidated Procurement Code and ensuing regulations.

R. Voight Shealy, CFE, Manager
Audit and Certification
INTRODUCTION

We conducted an examination of the internal procurement operating procedures and policies of the Wil Lou Gray Opportunity School. Our on-site review was conducted July 12, 1991 through July 22, 1991 and was made under 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 their Internal Procurement Operating Procedures Manual, were in compliance with the South Carolina Consolidated Procurement Code and its ensuing regulations.

Additionally our work was directed toward assisting the School in promoting the underlying purposes and policies of the Code 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
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 Division of General Services shall review the respective governmental body's internal procurement operation, shall verify 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 request from Wil Lou Gray Opportunity School for certification to make procurements in the following category and designated amount:

<table>
<thead>
<tr>
<th>Category</th>
<th>Requested Limit</th>
</tr>
</thead>
<tbody>
<tr>
<td>Goods and Services</td>
<td>$10,000</td>
</tr>
</tbody>
</table>
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 Wil Lou Gray Opportunity School 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.

We selected judgemental samples for the period July 1, 1989 - June 30, 1991, of procurement transactions for compliance testing and performed other audit procedures that we considered necessary 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. All sole source and emergency procurements and trade-in sales for the period July 1, 1988 - June 30, 1991

2. Property management and fixed asset procedures; traced five equipment purchases to inventory records

3. Procurement transactions for the period July 1, 1989 - June 30, 1991 as follows:
   a) Ninety-one payments for procurement transactions, each exceeding $500
   b) A block sample of one hundred and fifty sequential purchase orders

4. Minority Business Enterprise Plan and reports

5. Procurement staff and training

6. Internal procurement procedures manual

7. Information Technology Plan

8. Five permanent improvement project procurements for compliance with the Manual for Planning and Execution of State Permanent Improvements
FOLLOW-UP SCOPE

We performed a follow-up audit October 16, 1991, during which we verified Wil Lou Gray Opportunity School’s corrective action for each recommendation that we made in this report. Also, we tested the following additional transactions for the period July 1, 1991 through September 30, 1991:

1) All sole source and emergency procurements and trade-in sales
2) The last one hundred vouchers issued by the School
3) A block sample of one hundred fifty purchase orders in numerical sequence

Please see page 13 of this report for the follow-up results.
SUMMARY OF AUDIT FINDINGS

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

I. Compliance - Sole Source and Emergency Procurements and Trade-in Sales
   We noted two unauthorized sole sources, one of which was also a late payment.

II. Compliance - Procurements
    A. Procurements Lacking Competition
       Six procurements lacked evidence of competition.
    B. Tied Quotes
       Two procurements had tied verbal quotes with no documentation of how the vendor awarded was chosen.
    C. Split Order
       One procurement was split in order to avoid competition.
RESULTS OF EXAMINATION

We examined ninety-one payments for July 1, 1989 through June 30, 1991 and all sole source and emergency procurements and trade-in sales for July 1, 1988 through June 30, 1991. Most of these procurements were in compliance with the Consolidated Procurement Code (the Code). However, we noted the following exceptions.

I. Compliance - Sole Source and Emergency Procurements and Trade-in Sales

We noted two unauthorized sole source procurements:

<table>
<thead>
<tr>
<th>PO Number</th>
<th>PO Date</th>
<th>Determination Date</th>
<th>Amount</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>4025</td>
<td>08/08/89</td>
<td>10/05/89</td>
<td>$550.20</td>
<td>Tests Information system</td>
</tr>
<tr>
<td>5069</td>
<td>09/20/89</td>
<td>10/05/89</td>
<td>$795.00</td>
<td>Information system</td>
</tr>
</tbody>
</table>

Section 11-35-1560 of the Code defines who is authorized to sign a sole source determination. Since these determinations were not approved prior to the purchase orders, these purchases were unauthorized.

We recommend that the School prepare determinations prior to commitments being made. Further, we recommend that the School request ratifications in accordance with Regulation 19-445.2015 from its Superintendent for the purchases listed above.

Also, on purchase order 5069 the payment was not made until May 16, 1990. The invoice was dated September 14, 1989. Section 11-35-45 of the Code requires that invoices be paid within 30 work days of satisfactory receipt. We recommend that the School comply with this requirement in the future.

AGENCY RESPONSE

Examination of the sole source documents revealed two unauthorized sole source procurements. Determination for these two procurements were made prior to commitment. Unfortunately completion of the sole source determination document did not occur until after the purchase order was issued.
Sole source determination documents are now completed and approved prior to the execution of a purchase order.

II. Compliance - Procurements

A. Procurements Lacking Competition

We noted that the following procurements were not supported by evidence of competition or sole source or emergency determinations.

<table>
<thead>
<tr>
<th>Voucher Date</th>
<th>Voucher Number</th>
<th>PO Number</th>
<th>Voucher Amount</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>05/21/90</td>
<td>DV1316</td>
<td>-</td>
<td>$983.55</td>
<td>Food/groceries</td>
</tr>
<tr>
<td>02/13/90</td>
<td>DV1006</td>
<td>-</td>
<td>1,429.77</td>
<td>Food/groceries</td>
</tr>
<tr>
<td>12/10/90</td>
<td>DV946</td>
<td>-</td>
<td>2,008.52</td>
<td>Food/groceries</td>
</tr>
<tr>
<td>09/14/89</td>
<td>DV190</td>
<td>4031</td>
<td>2,023.98</td>
<td>Water heater</td>
</tr>
<tr>
<td>08/17/90</td>
<td>DV166</td>
<td>7487</td>
<td>640.80</td>
<td>Aluminum letters</td>
</tr>
<tr>
<td>12/19/90</td>
<td>DV1167</td>
<td>-</td>
<td>1,298.30</td>
<td>Consultant</td>
</tr>
</tbody>
</table>

Items 1 through 3 were for food items. A State Procurement Office purchase order for $737.90 was the only evidence of competition. The School personnel thought that all "perishables" were exempt. Therefore, no other competition was sought on any of these purchases. However, we found that these procurements included $2,394.99 of items which were not exempt and should have been competed. Therefore, we recommend that the School separate their food purchases into exempt and non-exempt items and compete the non-exempt items accordingly.

Items 4 and 5 were for a water heater and accessories and aluminum letters respectively. The primary record at the School was the voucher. The Procurement Office forwards all purchase orders with backup documentation to the Fiscal Affairs Office. According to Procurement, the documentation was sent to Fiscal Affairs, but evidently was not attached to the voucher. Therefore, the School could not document that competition was sought. Since the voucher file is the School's primary record, it is very important that the
Fiscal Affairs Office attach all information to demonstrate compliance with the Code.

On item 6 the School procured the services of a consultant under a grant. The consultant was not competed nor was an emergency or sole source determination completed. School personnel thought grant funds were not subject to the Code. All procurements are subject to the Code regardless of funding source unless specifically exempted. Therefore, we recommend that the School comply with the Code for all future grant funded procurements.

**AGENCY RESPONSE**

Of the vouchers reviewed, six were cited for not having evidence of competition, sole source or emergency determinations. Three of the six involved invoices for food items. All requests for food items that are not exempted must show evidence of competition before approval will be granted. Two of the remaining three lacked any supporting documentation or evidence of competition. As a part of the payment process each voucher is reviewed by Accounts Payable to ensure that all documentation is attached. No voucher will be paid without supporting documentation.

The final procurement was competed under the premise that grant funded goods or services were not subject to the provisions of the Code. All future grant funded procurements will comply with the provisions of the Code.

Sole source determination documents are now completed and approved prior to the execution of a purchase order.

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**B. Tied Quotes**

The School purchased repairs on two occasions, DV458 (PO 5061) and DV379 (PO 7773) amounting to $1,362.72 and $1,320.00 respectively. Due to the nature of the repairs, competition was sought based on hourly labor rates. In both cases, the hourly rates offered by vendors were identical. No further documentation was shown on how the final award was made.

Section 11-35-1520(9) specifies how tie bids should be handled. This law should also be applied to procurements less than $2,500.00.
We recommend that the School institute procedures to ensure that this section of the Code is complied with in the future.

**AGENCY RESPONSE**

All future purchases that involve tie bids will be awarded in accordance with Section 11-35-1520.

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**C. Split Order**

The School paid for identical food pans on DV50 for $768.60. The food pans were bought one week apart (7/21/89 and 7/28/89). The invoiced amounts were $373.80 and $394.80. No competition was sought on either purchase.

Section 11-35-1550 of the Code prohibits artificially dividing procurements to circumvent the Code.

We recommend that the School combine like procurements and compete them accordingly.

**AGENCY RESPONSE**

All like procurements will be combined and competed in accordance with the provisions of the Code.
CERTIFICATION RECOMMENDATION

As enumerated in our transmittal letter, corrective action based on the recommendations described in 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.

Under the authority described in Section 11-35-1210 of the Procurement Code, subject to this corrective action, we recommend that Wil Lou Gray Opportunity School be certified to make direct agency procurements for a period of two (2) years.

<table>
<thead>
<tr>
<th>Procurement Area</th>
<th>Recommended Certification Limit</th>
</tr>
</thead>
<tbody>
<tr>
<td>Goods and Services</td>
<td>$10,000 per purchase commitment</td>
</tr>
</tbody>
</table>

Melissa Rae Thurston
Compliance and Certification Analyst

R. Voight Shealy, CFE, Manager
Audit and Certification
January 9, 1992

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

Dear Jim:

We have returned to Wil Lou Gray Opportunity School to perform a one day follow-up audit of procurement activity since the end of our original audit period July 1, 1989 through June 30, 1991. The follow-up was conducted October 16, 1991 and covered the period July 1, 1991 through September 30, 1991.

The scope of our review included, but was not limited to, the following:

1) All sole source and emergency procurements and trade-in sales for July 1991 through September 30, 1991

2) A block of one hundred fifty purchase orders in numerical sequence

3) The last one hundred vouchers issued

We noted no exceptions during this review. Therefore, the School has made substantial progress towards correcting exceptions noted during our audit.

Since the School requested certification late in the audit process, its procurement manual had to be revised and bidding documents had to be developed. We have verified completion. Therefore, we recommend that the certification limits as outlined in the audit report be granted for a period of two (2) years.

Sincerely,

R. Voight Shealy, Manager
Audit and Certification