PROCUREMENT AUDIT AND CERTIFICATION

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HORRY COUNTY SCHOOL DISTRICT
AGENCY

APRIL 1, 1989 - MARCH 31, 1992
DATE
October 5, 1992

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

Dear Rick:

I have attached the final Horry County School District procurement audit report and recommendations made by the Office of Audit and Certification. The audit was performed in accordance with Section 11-35-70 of the Consolidated Procurement Code. Since Budget and Control Board action is not required, I recommend the report be presented as information.

Sincerely,

James J. Forth, Jr.  
Assistant Division Director

JFF/jj

Attachment
HORRY COUNTY SCHOOL DISTRICT

PROCUREMENT AUDIT REPORT

APRIL 1, 1989 - MARCH 31, 1992
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NOTE: The District's responses to issues noted in this report have been inserted immediately following the issues they refer to.
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 Horry County School District for the period April 1, 1989 through March 31, 1992. 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 District 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 Horry County School District 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 Horry County School District in compliance with Section 11-35-70 of the South Carolina Consolidated Procurement Code and its code.

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

The Office of Audit and Certification conducted an examination of the internal procurement operating procedures and policies of the Horry County School District. Our on-site review was conducted April 22 - June 4, 1992 and was made under authority as described in Section 11-35-70 of the South Carolina Consolidated Procurement Code, hereinafter referred to as the State Code.

The examination was directed principally to determine whether, in all material respects, the procurement system's internal controls were adequate and the procurement procedures, as outlined in the Horry County School District Procurement Code and Regulations, were in compliance with the State Procurement Code and its ensuing regulations.

As with audits of state agencies, our work was directed toward assisting Horry County School District 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
SCOPE

Our examination was performed in accordance with Generally Accepted Auditing Standards as they apply to compliance audits. It encompassed a detailed analysis of the internal operating procedures of the Horry County School District and its Procurement Code, hereinafter referred to as the District Code. We reviewed procurement transactions for the period July 1, 1989 - March 31, 1992, for compliance testing and performed other audit procedures that we considered necessary in the circumstances to formulate this opinion. Our review of the system included, but was not limited to, the following areas:

(1) Adherence to applicable laws, regulations and District policy
(2) Procurement staff and training
(3) Adequate audit trails and purchase order registers;
(4) Random sample of 240 transactions
(5) Block sample of 500 purchase orders
(6) All emergency and sole source procurements
(7) Source selections
(8) File documentation of procurements
(9) Inventory and disposition of surplus property
(10) Minority Business Enterprise Utilization Plan
SUMMARY OF AUDIT FINDINGS

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

I. Sole Source and Emergency Procurements
   A. Inappropriate Sole Sources
      Eight procurements done as sole sources were inappropriate.
   B. Outdated Sole Source Determinations
      The District was using previously prepared sole source determinations to justify new purchases of the same commodity. These determinations should be periodically updated at least annually.
   C. Missing Sole Source Approvals
      The District could not provide us with the approvals for two sole source transactions.
   D. Emergencies Without Competition
      While we do not question the emergency conditions, we do believe time was available to solicit at least informal competition on two transactions.
II. General Procurement Activity

A. Procurements From District Employees

Our testing revealed two transactions where procurements of equipment were made from District employees for their respective schools in which these employees had some control over the procurement decisions.

B. Extension Clause Bid Procedures

The District sets up short term unlimited 90 day contracts for unanticipated additional buys on most of its procurements. However, bid requirements are established on the initial purchase by the District without regard to potential subsequent purchases.

C. Inadequate Competition

Three procurement transactions did not meet minimum competition requirements.
D. Legal Services Not Approved by the Board

The District was unable to provide us the Board approval of a legal services contract as required by its Procurement Code.

III. Review of Construction

A large number of key documents are not maintained in the District's files relating to construction contracts. As such we are not able to offer an opinion on construction.
RESULTS OF EXAMINATION

I. Sole Source and Emergency Procurements

We examined the annual reports of sole source and emergency procurements for the period July 1, 1989 through March 31, 1992. The review was performed to determine the appropriateness of the procurement actions taken and the accuracy of the reports submitted to the Horry County School Board as required by Section VIII.D. of the District's Code. We noted the following problems:

A. Inappropriate Sole Sources

Eight procurements done as sole sources were inappropriate. They were as follows:

- PO# 13576 Employee service pins $3,551.39
- PO# 14201 Retirement plaques $1,550.12
- PO# 49955 Retirement plaques $1,476.30
- PO# 49278 Class record books $1,550.75
- PO# 10561 Class record books $3,066.00
- PO# 104212 Visual aid equipment $636.00
- PO# 48964 2 way radios $1,439.05
- PO# 10157 Index tabs $797.74

For the employee service pins and retirement plaques, the District maintains that the pins and plaques have been specially designed for the District. Accordingly, there is an up-front charge for specially designed items.

To minimize an up-front charge, we recommend the District procure a multi-term contract not to exceed five years for these specially designed items. A five year contract would promote competition and allow the District to spread the up-front design charge over a five year period thus minimizing its effect.
On the class record books the District used an evaluation committee to determine the best class record book available. Instead of determining the best available, we recommend the committee establish standards for what is acceptable and then evaluate class record books to determine which ones meet the established standards. Through this evaluation, the District should establish a qualified products list, then solicit competition for those items on the qualified products list.

For the other items listed, we believe that competition is available either on the items themselves or on alternates which meet or exceed performance requirements.

We recommend that competition be solicited on these procurements in the future.

DISTRICT RESPONSE

Employee Service Pins and Retirement Plaques - We concur with the audit determination and will ensure that these items be bid in the future.

Class Record Books - An evaluation committee composed of instructional directors and principals was established to determine the best class record book available. We established standards and solicited competition based on those standards. One drawback is that each time you bid you may change record books; therefore, schools may be using more than one type of record book.

Visual Aid Equipment - At the time we submitted the purchase order and the "justification for procurement", we were only aware of one vendor: Drs. Efron, Antley, Davis, Adams and Rivers. Information from the auditors indicated that the supplies are available from the S.C. Commission for the Blind and the distributor. We have determined that the S.C. Commission for the Blind will only sell the supplies to us to be used with their clients or legally blind students. Therefore, we are unable to purchase from them since the supplies are needed for visually handicapped students who are neither their clients nor legally blind students. We have determined that the distributor is Mattingly International in California. In the future, we shall
compare the prices available from the two vendors that we have thus far identified. Also, we will continue searching for additional vendors.

Two-Way Radios - The school contacted other vendors about 2-way radios. The school's concern was that there would be confusion among employees if the same equipment was not utilized. Also, for repair purposes, they needed compatibility. According to the school, the vendors they contacted advised them to stay with the original brand. We have discussed this with them. In the future, we will attempt to solicit competition.

Index Tabs - This sole source was signed by the Superintendent, Mr. John Dawsey. The binders, manual and tabs were purchased originally from the S.C. School Boards Association. We had no choice but to purchase from the School Boards Association in order to match existing tabs.

B. Outdated Sole Source Determinations

On each sole source procurement transaction, the District is required to prepare a sole source determination justifying the use of the source selection method. In an effort to reduce paperwork, the District attached previously prepared determinations on repetitive procurements. While we can accept blanket determinations for repetitive procurements, we believe the District should limit their duration to no more than one year. Our review revealed determinations as old as two years still being used.

We recommend these determinations be reviewed and updated at least annually. This update would require reevaluations of changing market conditions which could invalidate the sole source determinations.
DISTRICT RESPONSE

We, as procurement professionals, periodically as well as constantly, reevaluate market trends and conditions to determine new sources of supply which would invalidate sole source determinations. The sole source determinations were reused longer than a year because our professional opinion was that the sole source conditions had not changed, and the reuse was a means to save time. This time saving allows us to research market conditions.

C. Missing Sole Source Approvals

The District was unable to provide to us signature letters authorizing the following sole source procurements:

<table>
<thead>
<tr>
<th>PO#</th>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. 147599</td>
<td>Add on module</td>
<td>$2,310.00</td>
</tr>
<tr>
<td>2. 175180</td>
<td>Laser printed labels</td>
<td>1,029.85</td>
</tr>
</tbody>
</table>

Without these signature letters, we must consider the transactions unauthorized. As such, we recommend the District ratify these transactions in accordance with its procedures as outlined in Section 3.a. of the District's regulations. Efforts should be made to ensure that all pertinent documentation is attached to future procurement transactions.

DISTRICT RESPONSE

The Purchasing Department reviewed very carefully all sole source transactions, and we did not detect that any signature letters were missing. In the shuffle of paperwork, the pages must have been misplaced. In accordance with your recommendation, the District has ratified these two transactions. Efforts are made every day to ensure that all pertinent documentation is attached to all procurement transactions.
D. Emergencies Without Competition

During our review of emergency procurements, we found that the District manages its emergency transactions well and minimizes the use of emergency procurement procedures. As a result, we took exception with only two emergency transactions.

While we do not challenge the use of the emergency procurement procedure on these transactions, we felt enough time was available to solicit informal competition. These transactions were as follows:

<table>
<thead>
<tr>
<th>PO#</th>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.</td>
<td>Refrigerant reclaimer system</td>
<td>$2,033.96</td>
</tr>
<tr>
<td>2.</td>
<td>Install intercom system</td>
<td>3,000.00</td>
</tr>
</tbody>
</table>

Section V.B.7. of the District's Code states in part "...that such emergency procurements shall be made with as much competition as is practicable under the circumstances."

We recommend the District attempt to solicit at least informal competition whenever possible under emergency conditions.

DISTRICT RESPONSE

It is the school district's policy to get competition on emergency procurement whenever possible, and recently, the Administration has strengthened this policy in writing.

II. General Procurement Activity

A. Procurements From District Employees

During our audit we noted two separate procurements of used computer equipment from two different District employees. These transactions were as follows:
<table>
<thead>
<tr>
<th>PO#</th>
<th>Description</th>
<th>Procurement Method</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. 49186</td>
<td>Personal computer</td>
<td>2 verbal quotations</td>
<td>$1,571.55</td>
</tr>
<tr>
<td>2. 13428</td>
<td>Personal computer</td>
<td>Sole source</td>
<td>600.00</td>
</tr>
</tbody>
</table>

On the first transaction the District's Regulation 18.b.(3) requires solicitation of a minimum of 3 written quotations. We were provided with 2 verbal quotes and an appraisal which we do not consider to be a quotation. Furthermore, the second verbal quote was for new equipment and not used equipment which was bought. Additionally, the new equipment was only $276.00 more than the used equipment the District bought.

On the second transaction which was sole sourced, we disagree that a used personal computer is a sole source.

These machines were bought from a principal and an assistant principal for their respective schools. A recent South Carolina Ethics Commission Advisory Opinion on a similar matter states, "a teacher may not be involved in the purchase of equipment or materials from himself as a vendor if he performs any official function regarding such purchases." Since a principal or an assistant principal would perform an official function for purchases at their schools, we find these transactions to be contrary to the Ethics Commission's opinion.

We recommend that the practice of purchasing equipment from District employees in which an employee would have any official function be stopped. If the District makes procurements from employees in the future, the employees should be removed totally from the procurement process.
DISTRICT RESPONSE

The Administration has issued a directive prohibiting the purchase of personal property or equipment from any school district employee.

B. Extension Clause Bid Procedures

The District uses a 90 day extension clause on most of its bid solicitations which allows it to buy additional quantities at bid prices. We support this effort to promote efficiency and economy. However, bid solicitation requirements are determined by the District on the original purchase only. Subsequent purchases on these contracts are not considered when determining the number of bids to solicit. Therefore, the dollar amount awarded on a contract during the 90 days could exceed the dollar threshold which increases the number of bid solicitations required.

We recommend the District estimate the total potential value during a 90 day period when determining the number of bids to solicit. If this total potential value cannot be reasonably estimated, we recommend the District solicit the maximum requirement of ten bids on these contracts.

DISTRICT RESPONSE

The 90-day extension clause has been utilized as a means to expedite purchases and promote more efficient service to our schools and departments. It has been utilized recently due to the volume of work which is handled by the Purchasing Department. However, we do agree that competition should be maximized. Also, in the last couple of years, it has been one of our goals to solicit as many vendors as possible and practical.
C. Inadequate Competition

We noted three procurement transactions which were not supported by the required number of bid solicitations, sole source or emergency determinations. They were:

<table>
<thead>
<tr>
<th>Transaction #</th>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bid# 8990-118</td>
<td>8 fireproof file cabinets</td>
<td>$13,148.94</td>
</tr>
<tr>
<td>PO# 11195</td>
<td>Employee blanket bonds</td>
<td>$3,462.25</td>
</tr>
<tr>
<td>Check# 48553</td>
<td>Consultant</td>
<td>$1,500.00</td>
</tr>
</tbody>
</table>

On the file cabinets the District solicited four bids and attached a certification that all known sources were solicited. The bid requirements limited the file cabinets to only one make and model due to height requirements for aesthetic purposes. We do not believe this is a valid reason for limiting competition. Other brands of fireproof file cabinets should have been considered and bids solicited from ten vendors.

For the employee blanket bonds three written quotations were solicited. The District’s Code requires a minimum of three sealed bid solicitations for procurements over $2,499.99.

Competition was not solicited for the consultant.

We recommend the District adhere to the bid requirements established by its Code or prepare a sole source or emergency determination if appropriate.

DISTRICT RESPONSE

Fire-Proof File Cabinets (Bid #8990-118) - The reason the Herring-Hall-Marvin files were selected to be the brand solicited for is the fact that this brand was already in place in the Pupil Services Department before we became governed by the S.C. Procurement Code. One reason, other than aesthetic purposes, this division wanted to stay with the Herring-Hall-Marvin brand was because they could all be keyed alike, or in groups alike. They have approximately 25-30 files in this department and to
have them all keyed differently would have created a problem with keeping up with all keys for each file. These files are confidential student psychological files and are required to be locked.

Blanket Bond (P.O. #11195) - The purchase as anticipated to be under $2,500.00, and we sought three written quotes and received two quotes and a "no response". Upon bid opening, there was not time to turn around and do a formal sealed bid. Also, prices were public at this point, and it would not be fair to the vendors.

Consultant Use (P.O. #48553) - Since the implementation of the Education Finance Act in 1977, School Finance Consulting Service, owned by Mr. William C. Mann, has provided consulting services for school districts in South Carolina on the financial aspects of the Education Finance Act. This consulting service includes the auditing of attendance information and the classification of students by the various categories which determine the eligible funding for the district under the Education Finance Act. Additionally, revenue projections are provided to assist the district in the preparation of the budget for the upcoming year.

Since Mr. Mann had previously worked with the State Department of Education and had many years of vested service in the S.C. Retirement System and was now self-employed, he requested approval from the retirement system to be placed on the payroll of a school district at an established salary with him reimbursing the district for all unearned income. The retirement system approved this request. Mr. John W. Dawsey, school superintendent at the time, approved our district providing this service to Mr. Mann. Therefore, the district treated Mr. Mann as an employee for many years until June 30, 1991. Mr. Mann chose at that time to retire and continue to work on a limited basis for certain school districts so that his income would not exceed that allowable by the retirement system.

Based upon the manner in which Mr. Mann had been paid for his services, it was clearly an oversight that proper procedures were not followed when Mr. Mann was taken off the payroll of the school district, and his services were paid through the accounts payable office. It is my opinion that the services received from School Finance Consulting is a sole source in that there is no other company in the state which provides this type service for school districts. The analysis and auditing of Education Finance Act financial aspects is the only service which this company provides.
D. Legal Services Not Approved by the Board

The District was unable to provide us with evidence of School Board approval for the following payments for legal services. While it was clear the Board was aware of these services, their approval could not be documented by the District.

<table>
<thead>
<tr>
<th>Check Number</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>27565</td>
<td>$7,500.00</td>
</tr>
<tr>
<td>52232</td>
<td>7,517.90</td>
</tr>
<tr>
<td>8861</td>
<td>525.00</td>
</tr>
</tbody>
</table>

Section IV.A.6.f. of the District's Procurement Code states, "No contract for the services of attorneys shall be awarded without the approval of the Board of Education or its designee."

We recommend the District ensure that all legal services are approved by the School Board.

DISTRICT RESPONSE

These services were approved by the Horry County Board of Education. The minutes of the meeting when the Board approved Mr. Bruce Davis have not been located. The services of Low Country Stenographic Service was hired by the Board for the H.H. Singleton hearing.

III. Review of Construction

We reviewed six architect-engineer selections and twelve major construction procurements for compliance with the District's Code, policies and procedures and the South Carolina Department of Education's manual entitled "South Carolina School Facilities Planning and Construction Guide." Because a significant number of key documents have not been available to us, we are unable to
render an opinion on compliance with these authorities (See the Attachment). We strongly urge the District to obtain the documents listed as an attachment and change its practices to ensure that these documents are maintained in District files.

DISTRICT RESPONSE

The procurement of construction contracts has been administrated by the Director of Construction. Although the necessary documents had not been maintained by this office, there is now an understanding of the documents needed and will be maintained by that office.
CONCLUSION

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

Subject to this corrective action, we recommend that Horry County School district be allowed to continue procuring all goods and services, construction, information technology and consulting services as outlined in Section 11-35-70 of the South Carolina Consolidated Procurement Code.

Robert J. Aycock, IV
Audit Supervisor

R. Voight Shealy, CFE, Manager
Audit and Certification
Horry County School District
Missing Documentation

Professional Services

1. Project name - Alterations to Waccamaw Elementary School, Socastee Elementary and Myrtle Beach Middle School
   1. Advertisement
   2. Notice of interview
   3. Selection committee ranking report
   4. Board approval of selection
   5. Notice to all A/E's of selection
   6. Signed contract

2. Project name - Whittemore Park Middle, Socastee Middle, Socastee High Gym A/C, and District Annex
   1. Advertisement
   2. Notice of interview
   3. Selection committee ranking report
   4. Notice to all A/E's of selection

3. Project name - Aynor High School
   1. Advertisement
   2. Notice of interview
   3. Selection committee ranking report
   4. Board approval of selection
   5. Notice to all A/E's of selection

Major Construction Contracts

1. Project name - Pee Dee & Kingston Elementary & NMBM Parking Lots
   1. Notice of intent to award sent to all bidders
   2. Performance and materials & labor payment bonds with power of attorney attached
   3. Contractor's certificate of insurance
   4. Bid form of low bidder
   5. Bid bond with power of attorney (5%)

2. Project name - Midland & Horry Elementary Kitchens MB Mid Gym
   1. Notice of intent to award sent to all bidders
   2. Performance and materials & labor payment bonds with power of attorney attached
   3. Contractor's certificate of insurance
   4. Bid bond with power of attorney (5%)
Horry County School District
Missing Documentation

3. Project name - Green Sea Floyds High Add
   - Board minutes of approval

4. Project name - West Conway Middle School
   1. Board minutes of bid approval
   2. Notice of intent to award sent to all bidders

5. Project name - Demolition - West Conway Middle
   1. Board minutes of bid approval
   2. Notice of intent to award sent to all bidders
   3. Performance and labor & materials payment bonds
      with power of attorney
   4. 5% bid bond with power of attorney

6. Project name - Covered Walkway Additions
   - Notice of intent to award sent to all bidders

7. Project name - Renovation to Old Loris High
   - Notice of intent to award to all bidders

8. Project name - Additions & Alteration to Waccamaw Elementary
   School
   * - Evidence that letter of intent sent to all bidders

9. Project name - Additions & Alterations to Daisy Elementary
   School
   1. Board approval
   * 2. Evidence that letter of intent sent to all bidders
   3. Bid form of low bidder
   4. Bid bond with power of attorney (5%)
   5. List of subcontractors

*Only evidence that notice of intent was sent to the low bidder.
10. Project name - Special Ed Classroom, Kitchen, Seating Areas for South Conway Elementary School

   - Evidence that letter of intent sent to all bidders

11. Project name - Parking Lot Additions to Lakewood Elementary School

   1. Affidavit of advertisement
   2. Board approval
October 1, 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 reviewed the Horry County School District's response to our audit report covering the period April 1, 1989 - March 31, 1992. Combined with our discussions and correspondence with District officials, we are satisfied that the District has corrected the problem areas we found.

We, therefore, recommend that the District be allowed to continue operating under its own procurement code as authorized by Section 11-35-70 of the Consolidated Procurement Code.

Sincerely,

R. Voight Shealy
Manager
Audit and Certification

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