PROCUREMENT
AUDIT AND
CERTIFICATION

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JOHN DE LA HOWE SCHOOL
AGENCY
JULY 1, 1986 - APRIL 30, 1989
DATE
December 6, 1989

Mr. Richard W. Kelly
Director
Division of General Services
1201 Main Street, Suite 400
Columbia, South Carolina 29201

Dear Rick:

Attached is the final John De La Howe School procurement audit report and recommendations made by the Office of Audit and Certification. Since no certification above the $2,500.00 allowed by law was requested, and no action is necessary by the Budget and Control Board, I recommend that this report be presented to them for their information.

Sincerely,

James J. Forth, Jr.
Assistant Division Director

/llj

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

We have examined the procurement policies and procedures of the John De La Howe School for the period July 1, 1986 - April 30, 1989. As a part of our examination, we made a study and evaluation of the system of internal control over procurement transactions to the extent we considered necessary.

The purpose of such evaluation was to establish a basis for reliance upon the system of internal control to assure adherence to the Consolidated Procurement Code and State and internal procurement policy. Additionally, the evaluation was used in determining the nature, timing and extent of other auditing procedures that were necessary for developing an opinion on the adequacy, efficiency and effectiveness of the procurement system.

The administration of the John De La Howe 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, however, 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 John De La Howe School in compliance with the South Carolina Consolidated Procurement Code and ensuing regulations.

R. Woight Shealy, Manager
Audit and Certification
SCOPE

Our examination encompassed a detailed analysis of the internal procurement operating procedures of John De La Howe 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 reviewed all procurement transactions for the period July 1, 1986 - April 30, 1989, 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 internal policy;
(2) procurement staff and training;
(3) adequate audit trails and purchase order registers;
(4) evidences of competition;
(5) small purchase provisions and purchase order confirmations;
(6) emergency and sole source procurements;
(7) source selections;
(8) file documentation of procurements;
(9) disposition of surplus property;
(10) approval of the Minority Business Enterprise Plan.
The Office of Audit and Certification performed an examination of the internal operating procedures and policies of John De La Howe School for the period July 1, 1986 through April 30, 1989. Our on-site review was conducted from April 20, through May 4, 1989, and was made under the authority described in Section 11-35-1230(1) of the South Carolina Consolidated Procurement Code.

The construction contracts, architect and engineer selections, state contract utilization and items sent to state procurement, that we tested were all handled properly. However, we did note conditions which require immediate attention. That is in the area of procurements less than $2,500.00 each which John De La Howe School handled itself.

Our test sample included 32 procurements which were each between $500.00 and $2,500.00. These procurements required a minimum of two telephone quotations for those between $500.00 and $1,500.00, and three written quotations for those between $1,500.00 and $2,500.00 We were unable to locate quotations on 31 of the 32 procurements. In other words, all of these transactions were violations of the South Carolina Consolidated Procurement Code and regulations.

John De La Howe School must adhere to the competition requirements of the Consolidated Procurement Code.
CONCLUSION

We must state our concern over John De La Howe School's total lack of compliance with the South Carolina Consolidated Procurement Code in the area of small purchases. This indicates a lack of understanding of the Code's requirements and a lack of control over this activity by the School.

Immediate action is necessary. This should include centralization of procurement authority, a crackdown on unauthorized procurements and training of the staff of the School. The Office of Audit and Certification stands ready to assist in this process.

Corrective action should be completed by September 30, 1989. Prior to this time, we will perform a follow-up review to determine that this has been accomplished.

If at that time, corrective action has been accomplished, we will recommend that John De La Howe School be allowed to continue procuring all goods and services, consultant services, construction services and information technology up to the basic level authorized by the Consolidated Procurement Code.

Marshall B. Williams, Jr., Supervisor
Audit and Certification

R. Vought Shealy, Manager
Audit and Certification
October 26, 1989

Mr. Voight Shealy
Audit and Certification
1201 Main Street, Suite 600
Columbia, SC  29201

Dear Mr. Shealy:

The recent conference with you and Marshall Williams was very productive. We appreciate the manner in which you are working with us to correct areas of concern in our procurement procedures.

To address the small purchases' problem and the overall purchasing function of the agency, we are taking the following steps. We have reclassified the present position performing part-time purchasing duties to that of a full-time procurement officer. This individual has and will continue to receive training in the area of procurement to ensure proper maintenance and documentation of agency purchases. The procurement officer, with the aid and support of the agency division directors and agency head, will develop a purchasing manual outlining policies to be used by all agency employees involved in the purchasing process.

We look forward to our continued working relationship with you and your office to ensure John de la Howe School's ongoing compliance with the SC Consolidated Procurement Code.

Sincerely,

John C. Shiflet, Jr.
Superintendent

Copy to:  George H. Young, Jr., Director
          Dorothy B. Winn, Procurement Officer
November 28, 1989

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 the John De La Howe School to determine the progress made toward implementing the recommendations in our audit report covering the period of July 1, 1986 - April 30, 1989. During this visit, we followed up on each recommendation made in the audit report through inquiry, observation and limited testing.

We observed that the School has made substantial progress toward correcting the problem areas found and improving the internal controls over the procurement system. With the changes made, the system's internal controls should be adequate to ensure that procurements are handled in compliance with the Consolidated Procurement Code and ensuing regulations.

Additional certification was not requested. Therefore we recommend that the 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,

[Signature]

R. Voight Shealy, Manager
Audit and Certification

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