PROCUREMENT AUDIT AND CERTIFICATION
May 16, 1990

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 South Carolina School for the Deaf and Blind audit report and recommendations made by the Office of Audit and Certification. I concur and recommend the Budget and Control Board grant the School for the Deaf and Blind a two (2) year certification as outlined in the audit report.

Sincerely,

James J. Forth, Jr.
Assistant Division Director

/jlj

Attachment
SOUTH CAROLINA SCHOOL FOR THE DEAF AND BLIND
AUDIT REPORT

JANUARY 1, 1988 - DECEMBER 31, 1989
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May 3, 1990

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 South Carolina School for the Deaf and Blind for the period January 1, 1988 through December 31, 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 School for the Deaf and Blind 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 School for the Deaf and Blind in compliance with the South Carolina Consolidated Procurement Code and ensuing regulations.

R. Voight Shealy, Manager
Audit and Certification
INTRODUCTION

The Office of Audit and Certification conducted an examination of the internal procurement operating procedures and policies and related manual of the School for the Deaf and Blind. Our on-site review was conducted January 24 - February 23, 1990 and was made under authority as described in Section 11-35-1230(1) of the South Carolina Consolidated Procurement Code and Section 19-445.2020 of the accompanying regulations.

The examination was directed principally to determine whether, in all material respects, that the procurement system's 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.

Additionally, our work was directed toward assisting the agency in promoting the underlying purposes and policies of the Code as outlined in Section 11-35-20, which includes:

(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.

On May 31, 1988, the Budget and Control Board granted the following procurement certification to the School for the Deaf and Blind:

<table>
<thead>
<tr>
<th>Category</th>
<th>Requested Limit</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Goods and Services</td>
<td>$5,000</td>
</tr>
</tbody>
</table>

Our audit was performed primarily to determine if recertification is warranted. Additionally, the School for the Deaf and Blind requested the increased certification limits listed below:

<table>
<thead>
<tr>
<th>Category</th>
<th>Requested Limit</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Goods and Services</td>
<td>$10,000</td>
</tr>
<tr>
<td>2. Consultant Services</td>
<td>10,000</td>
</tr>
<tr>
<td>3. Information Technology</td>
<td>10,000</td>
</tr>
<tr>
<td>4. Construction</td>
<td>10,000</td>
</tr>
</tbody>
</table>
SCOPE

Our examination encompassed a detailed analysis of the internal procurement operating procedures of the South Carolina School for the Deaf and Blind 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 90 procurement transactions for the period January 1, 1988 - December 31, 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) economy and efficiency of the procurement process
(11) approval of the Minority Business Enterprise Plan
SUMMARY OF AUDIT FINDINGS

Our audit of the South Carolina School for the Deaf and Blind, hereinafter referred to as the School, produced the following findings.

I. Real Property Procurement Violations

The School obtained two houses (real property) without establishing permanent improvement projects.

II. Procurements Made Without Competition

Eight procurements were made without evidence of competition or sole source or emergency procurement determinations.

III. Unauthorized Procurements

Three procurements were found to be unauthorized.

IV. Sole Source and Emergency Procurements

A. Inappropriate Sole Sources

Three procurements made as sole sources were inappropriate.
B. Emergency Procurements

One procurement made as an emergency was not supported by evidence of competition even though time was available for informal solicitations. Also, one emergency procurement was not reported to the Division of General Services.

V. Property Management

Eight equipment items were not recorded on the School's inventory. Also, the School does not capitalize its vehicle inventory which amounts to approximately $1,042,012.68.
RESULTS OF EXAMINATION

I. Real Property Procurement Violations

Two procurements of real property were not approved by the Budget and Control Board nor were they set up as permanent improvement projects prior to their acquisitions and approved by the Joint Bond Review Committee. These transactions occurred on the following two purchase orders.

<table>
<thead>
<tr>
<th>PO#</th>
<th>PO Amount</th>
<th>Description</th>
<th>Acquisition Date</th>
</tr>
</thead>
<tbody>
<tr>
<td>14265</td>
<td>$12,000.00</td>
<td>1800 square foot house</td>
<td>4/22/88</td>
</tr>
<tr>
<td>15710</td>
<td>$13,200.00</td>
<td>2 story house</td>
<td>10/24/88</td>
</tr>
</tbody>
</table>

The Manual for Planning and Execution of State Permanent Improvements (SPIRS), Chapter XIV, Section 14.2, Paragraph B. states, "All acquisitions of real property are permanent improvement projects, regardless of cost."

The School contends that the houses were gifts. These houses have direct cost involved with their acquisitions as shown above. Therefore, they can not be gifts as defined by SPIRS section 15.2, paragraph A.

We recommend that the School follow these guidelines for future procurements of real property. The School should refer to the SPIRS manual for procedural requirements. Chapter XIV addresses acquisitions of real property and Chapter XV addresses gifts of real property.
SCHOOL'S RESPONSE

(PO#'S 14265 AND 15710)

These purchase orders were issued for the actual moving of two (2) houses that were given to the school free of charge. Your report states that the school purchased these houses which, in our opinion, is an incorrect statement. Also your report states that neither of the houses were established as permanent improvement projects. This too is incorrect. The Continuum of Care house (PO# 14265) was established as a PIP and assigned project #9506 on June 23, 1988. However, the other house has not been established as a PIP at this time. Both houses are included on our insurance policy.

Finally, a letter of explanation has been sent to Real Property Management, Division of General Services.

II. Procurements Made Without Competition

We randomly selected 90 procurements for compliance testing. During this review, we noted nine procurements which were not supported by evidence of competition or sole source or emergency procurement determinations. These procurements are as follows:

<table>
<thead>
<tr>
<th>PO#</th>
<th>PO Amount</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>1) 14774</td>
<td>$2,255.40</td>
<td>Furniture</td>
</tr>
<tr>
<td>2) 17175</td>
<td>580.34</td>
<td>Air filters</td>
</tr>
<tr>
<td>3) 17479</td>
<td>1,762.85</td>
<td>Carpet cleaning</td>
</tr>
<tr>
<td>4) 17483</td>
<td>1,524.16</td>
<td>Maintenance agreement</td>
</tr>
<tr>
<td>5) 17600</td>
<td>1,337.89</td>
<td>Pharmaceuticals</td>
</tr>
<tr>
<td>6) 17821</td>
<td>2,816.00</td>
<td>Service agreement</td>
</tr>
<tr>
<td>7) 17903</td>
<td>1,253.70</td>
<td>Voice processor</td>
</tr>
<tr>
<td>8) 2378 (Voucher #)</td>
<td>1,627.50</td>
<td>Photographer</td>
</tr>
</tbody>
</table>

The Consolidated Procurement Code requires that all procurements of goods and services greater than $500 each be supported by evidence of competition or sole source or emergency procurement determinations unless they are specifically exempt.
The School intended to procure item 3 as an emergency. However, the written determination required by Section 11-35-1570 of the Consolidated Procurement Code was never prepared.

The School intended to procure items 6 and 7 as sole sources. However, the written determinations required by Section 11-35-1560 of the Code were never prepared.

We recommend that all procurements not made from state term contracts or exempt from the Procurement Code either be supported by solicitations of competition or, if appropriate, sole source or emergency procurement determinations.

SCHOOL'S RESPONSE

(PO#'S 14774, 17175, 17479, 17483, 17600, 17821, 17903; Voucher #'S 2378)

A. PO# 14774 - This was an unauthorized procurement made by personnel without requisite authority to do so. President Finnegan has ratified this procurement as of 2/27/90.

B. PO# 17175 - This purchase was made without competition. Corrective action has been taken to eliminate future occurrences.

C. PO#'s 17479, 17821, 17903 - These procurements were made either as an Emergency of Sole Source, however written determinations were never prepared. These have now been reported as required.

D. PO# 17483 - This procurement was a contract extension from the previous year, however the original contract could not be located. This procurement has been terminated.

E. PO# 17600 - This procurement was made with the belief that pharmaceuticals (medicine) was exempt from competition.

F. Voucher #2378 - This bill was paid by the accounts payable office without a purchase order. The State was reimbursed from sale of pictures to students and staff. This yearly transaction will be handled by the Purchasing Department in the future.
III. Unauthorized Procurements

Our testing revealed three procurements which were unauthorized. They were as follows:

<table>
<thead>
<tr>
<th>PO#</th>
<th>PO Amount</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>1) 17667</td>
<td>$9,104.55</td>
<td>Printing processor for plates and film</td>
</tr>
<tr>
<td>2) 14774</td>
<td>$2,255.40</td>
<td>Furniture</td>
</tr>
<tr>
<td>3) 2378 (Voucher #)</td>
<td>1,627.50</td>
<td>Photographer</td>
</tr>
</tbody>
</table>

For item 1, the School solicited three informal quotations and intended to make the procurement under Regulation 19-445.2110, Emergency Procurements. However, the determination was never prepared. Without the required determination, this procurement exceeded the School's information technology procurement authority of $2,500.00 which made it unauthorized.

Items 2 and 3 were made by personnel without requisite authority to do so. Procurement personnel caught item 2 before payment was made. However, ratification was never requested from the School's President. Item 3 completely bypassed the procurement department and was processed by the accounts payable department.

We recommend that ratification be made in accordance with Regulation 19-445.2015 for each of these procurements. For item 1, ratification must be requested from the State Materials Management Officer because it exceeded the School's level of authority. For items 2 and 3 ratification may be requested from the School's president. Also, we recommend that the accounts payable department stop processing payments on procurements without purchase orders.
SCHOOL'S RESPONSE

(PO#'S 17667, 14774; Voucher #2378)

A. PO# 17667 - This procurement was an emergency procurement but the fact that the determination was never prepared constitutes an unauthorized procurement which requires ratification by the State Materials Management Officer. This was requested and granted.

B. PO# 14774 - See item II-A.

C. Voucher #2378 - See item II-F.

IV. Sole Source and Emergency Procurements

We examined the quarterly reports of sole source and emergency procurements for the period January 1, 1988 through December 31, 1989. This review was performed to determine the accuracy of the quarterly reports and the appropriateness of the procurement actions. We noted the following problems:

A. Inappropriate Sole Sources

Three procurements were inappropriate as sole sources. They were as follows:

<table>
<thead>
<tr>
<th>PO#</th>
<th>PO Amount</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>1) 15074</td>
<td>$2,513.70</td>
<td>Audiovisual equipment</td>
</tr>
<tr>
<td>2) 15223</td>
<td>11,520.00</td>
<td>Special contract employee</td>
</tr>
<tr>
<td>3) 15816</td>
<td>2,000.00</td>
<td>Consultant for grant application</td>
</tr>
</tbody>
</table>

Items 1 and 3 are not unique so they should have been competed. Item 2 was a special contract employee that the School should have hired through the personnel office.

We recommend that the School adhere to the requirements of Section 11-35-1560, Sole Source Procurements of the Consolidated Procurement Code. Also, special contract employees must be hired
in accordance with State Personnel Regulations. This requires the approval of the Division of Human Resource Management of the Budget and Control Board.

SCHOOL'S RESPONSE

(PO#'S 15074, 15223, 15816)

A. PO# 15074 - We contend that this was in fact an appropriate sole source procurement due to the fact that no other known vendor had this piece of reconditioned equipment with a full, new equipment, warranty.

B. PO# 15223 - Both the procurement officer and the personnel director discussed the conditions/requirements of this position and agreed that, in their opinion, should be a contractual arrangement to be handled by the purchasing department.

C. PO# 15816 - Due to the data and experience gathered from a previous Energy Conservation Study of this agency it is our determination that this company has sole possession of information needed to complete the requested grant applications.

B. Emergency Procurements

Although all emergency procurements made by the School for our audit period were appropriately justified, we offer the following recommendations for improvement.

One procurement made as an emergency was not supported by solicitations of competition. It was as follows:

<table>
<thead>
<tr>
<th>PO#</th>
<th>PO Amount</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>15699</td>
<td>7,065.45</td>
<td>Mail machine</td>
</tr>
</tbody>
</table>

Regulation 19-445.2110, Emergency Procurements, Paragraph E, states, "....such competition as is practical shall be obtained." In our opinion, time was available to solicit informal quotations.
We recommend the School adhere to this section of the Regulations.

Additionally, the School did not report an emergency procurement to the Division of General Services as required by Section 11-35-2440 of the Code. This transaction is on purchase order 16856 for an asbestos study which cost $2,000.00.

We recommend that the School adhere to this section of the Code in the future. Also, we recommend that an amended report be filed with the Division of General Services adding this transaction.

SCHOOL'S RESPONSE

PO# 15699 - The postage machine we were using broke down and was beyond repair. Due to the volume of mailing we have we did not feel we could wait to obtain competitive prices. Our mailing was at a standstill.

However, in future situations like these we will extend every possible effort to secure competitive quotations.

V. Property Management

We found eight equipment items which should have been recorded on the equipment inventory but were not. This equipment was as follows:

<table>
<thead>
<tr>
<th>PO#</th>
<th>PO Amount</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>1) 13396</td>
<td>$2,073.75</td>
<td>Handicapped lift</td>
</tr>
<tr>
<td>2) 17561</td>
<td>1,260.00</td>
<td>Handicapped lift</td>
</tr>
<tr>
<td>3) 13989</td>
<td>4,280.00</td>
<td>Pole vault landing pad</td>
</tr>
<tr>
<td>4) 13989</td>
<td>500.50</td>
<td>Weather cover for pad</td>
</tr>
<tr>
<td>5) 13989</td>
<td>422.10</td>
<td>Pole vault standards</td>
</tr>
<tr>
<td>6) 58017</td>
<td>4,740.75</td>
<td>(3 each) food heaters</td>
</tr>
</tbody>
</table>

Items 1 and 2 are improvements made to buses. These two items should have been capitalized as part of the historical cost
of these vehicles. When we researched this issue we found that the School has not capitalized its vehicle inventory. This inventory is approximately $1,042,012.68.

We recommend that the vehicle inventory be capitalized and the cost of each vehicle supported. Additionally, the School should ensure that all equipment subject to their capitalization policy is captured and recorded on inventory.

SCHOOL'S RESPONSE

(PO#'s 13396, 17561, 12989, 58017)

A. PO#'s 13396, 17561 - These procurements were for equipment to be permanently attached to school buses and was not considered as equipment additions to be capitalized.

B. PO# 12989 - These three (3) items should have been capitalized but were not. Steps have been taken to safeguard against this in the future.

C. PO# 58017 - This procurement was scheduled to be returned for credit but after a delay of several weeks it was determined that a different department (not the requesting department) could use the items and somewhere in the transferring of the items communications broke down and as a result they were not capitalized. They have, however, now been inventoried.

  Internal procedural control has been implemented to prevent future occurrences.

D. Vehicle Inventory

  In as much as the Division of Motor Vehicle Management Division of General Services, maintains an inventory of all State vehicles we feel it is a duplication of records keeping to establish and maintain the same inventory. However, based on your recommendations, our Physical Inventory Officer has started the process of capitalizing our vehicles including all equipment procurements for vehicles that increases the value of said vehicles.
CONCLUSION

As enumerated in our transmittal letter, corrective action based on the recommendations in the body of this report, we believe, will in all material respects place the South Carolina School for the Deaf and Blind in compliance with the State Consolidated Procurement Code and ensuing regulations.

The Office of Audit and Certification will perform a follow-up review in accordance with Section 11-35-1230(1) of the Procurement Code to determine if the proposed corrective action has been taken by the School. Based on the follow-up review, and subject to this corrective action, we will recommend that the South Carolina School for the Deaf and Blind be recertified to make direct agency procurements for a period of two (2) years as follows:

<table>
<thead>
<tr>
<th>Procurement Area</th>
<th>Recommended Certification Limits</th>
</tr>
</thead>
<tbody>
<tr>
<td>I. Goods and Services</td>
<td>*$10,000 per purchase commitment</td>
</tr>
<tr>
<td>II. Information Technology</td>
<td>*$10,000 per purchase commitment</td>
</tr>
<tr>
<td></td>
<td>in accordance with the approved Information Technology Plan</td>
</tr>
<tr>
<td>III. Consultant Services</td>
<td>*$10,000 per purchase commitment.</td>
</tr>
</tbody>
</table>

Construction certification is not being recommended at this time.

*Total potential purchase commitment whether single year or multi-term contracts are used.

Robert J. Aycock, IV
Procurement Auditor

R. Voight Shealy, Manager
Audit and Certification
May 15, 1990

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 South Carolina School for the Deaf and Blind to determine the progress made toward implementing the recommendations in our audit report covering the period of January 1, 1988 - December 31, 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.

We, therefore, recommend that the certification limits for the School for the Deaf and Blind outlined in the audit report be granted for a period of two (2) years.

Sincerely,

R. Voight Shealy
Manager
Audit and Certification

/jlj