PROCUREMENT AUDIT AND CERTIFICATION

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SOUTH CAROLINA SCHOOL
FOR THE DEAF AND THE BLIND

AGENCY

JANUARY 1, 1992 - DECEMBER 31, 1994
DATE
May 31, 1995

Ms. Helen T. Zeigler, Director
Office Of General Services
1201 Main Street, Suite 420
Columbia, South Carolina  29201

Dear Helen:

Attached is the final South Carolina School for the Deaf and the 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 a three (3) year certification as outlined in the audit report.

Sincerely,

R. Voight Shealy
Acting Materials Management Officer
SOUTH CAROLINA SCHOOL FOR THE DEAF AND THE BLIND

PROCUREMENT AUDIT REPORT

JANUARY 1, 1992-DECEMBER 31, 1994
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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.
April 18, 1995

Mr. R. Voight Shealy
Acting Materials Management Officer
Office of General Services
1201 Main Street, Suite 600
Columbia, South Carolina 29201

Dear Voight:

We have examined the procurement policies and procedures of South Carolina School for the Deaf and the Blind for the period January 1, 1992 through December 31, 1994. 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 School 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 South Carolina School for the Deaf and the Blind is responsible for establishing and maintaining a system of internal control over procurement transactions. In fulfilling this responsibility, estimates and judgments 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 the South Carolina School for the Deaf and the Blind in compliance with the South Carolina Consolidated Procurement Code and ensuing regulations.

Larry G. Sorrell, Manager
Audit and Certification
INTRODUCTION

We conducted an examination of the internal procurement operating policies and procedures of the South Carolina School for the Deaf and the Blind. Our on-site review was conducted January 17 through February 3, 1995, and was made under 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, 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 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 contract. The Office 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.

Section 11-35-1230(1) of the South Carolina Consolidated Procurement Code states:

In procurement audits of governmental bodies thereafter, the auditors from the Office of General Services shall review the adequacy of the system’s internal controls in order to ensure compliance with the requirements of this Code and the ensuing regulations.

On November 10, 1993, the Budget and Control Board granted the School procurement certification as follows.

<table>
<thead>
<tr>
<th>Category</th>
<th>Requested Limit</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Goods and Services</td>
<td>$25,000 per commitment</td>
</tr>
<tr>
<td>2. Information Technology in accordance with the approved Information Plan</td>
<td>$25,000 per commitment</td>
</tr>
<tr>
<td>3. Consultant Services</td>
<td>$25,000 per commitment</td>
</tr>
</tbody>
</table>

Our audit was performed primarily to determine if recertification is warranted. The School requested to be recertified at the above current limits.
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 the South Carolina School for the Deaf and the Blind and its 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 judgmental samples for the period July 1, 1992 through December 31, 1994 of procurement transactions for compliance testing and performed other audit procedures that we considered necessary to formulate this opinion. Specifically, the scope of our audit included, but was not limited to, review of the following:

(1) All sole source, emergency and trade-in sale procurements for the period January 1, 1992 through December 31, 1994.

(2) Procurement transactions for the period July 1, 1992 to December 31, 1994 as follows:
   a) One hundred and seven judgmentally selected procurement transactions
   b) An additional block sample of ten sealed bids and/or quotations
   c) A block sample of five hundred numerical purchase orders from the audit period was reviewed for order splitting and favored vendors.

(3) Two professional service contracts and three construction contracts within permanent improvement projects for compliance with the Manual for Planning and Execution of State Permanent Improvements

(4) Minority Business Enterprise reports for the audit period

(5) Information Technology Plans for Fiscal Years 92/93, 93/94 and 94/95

(6) Internal procurement procedures manual review

(7) Surplus Property disposition procedures

(8) Real Property Management Office approval of leases

(9) Blanket purchase order files

(10) File documentation and evidence of competition
SUMMARY OF AUDIT FINDINGS

Our audit of the procurement system of the School for the Deaf and the Blind, hereinafter referred to as the School, produced findings and recommendations as follows:

I. BIDDING PREFERENCES INCORRECTLY APPLIED
The School has applied the 2% in state bidders preference, the 2% SC and 5% US made/grown preference incorrectly. The School has also applied a 2% minority preference that does not exist.

II. PURCHASES MADE WITHOUT COMPETITION
We noted three procurements made without evidence of competition.

III. UNAUTHORIZED SERVICE CONTRACTS
Two service contracts exceeded the School's procurement authority when the contract's extension clauses were applied.

IV. BLANKET PURCHASE AGREEMENTS (BPA'S)
Two BPAs which should be bid on an annual basis.

V. REJECTED BIDS NOT JUSTIFIED
Bid files are not documented with reasons for rejection of low bids.

VI. EMERGENCY PROCUREMENT NOT APPROVED NOR REPORTED
We noted one emergency procurement where the determination was not approved nor was it reported to Materials Management Office.

VII. INCREASED INVOICE AMOUNTS PAID WITHOUT THE PURCHASING OFFICE'S APPROVAL
Accounts Payable has paid increased invoiced amounts without the Purchasing Office approval.

VIII. TIME AND DATE STAMPING OF BIDS AND QUOTATIONS
Bids or Quotations are not time or date stamped at bid opening.
RESULTS OF EXAMINATION

I. BIDDING PREFERENCES INCORRECTLY APPLIED

The School has applied the 2% in-state bidder's preference requested by one in-state bidder against another in-state bidder incorrectly. The following examples were noted in our sample:

<table>
<thead>
<tr>
<th>IFB Number</th>
<th>Date</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>1786</td>
<td>07-20-93</td>
<td>Kitchen Supplies</td>
</tr>
<tr>
<td>7219</td>
<td>07-25-94</td>
<td>Paper Products</td>
</tr>
<tr>
<td>9359</td>
<td>10-11-94</td>
<td>Food</td>
</tr>
</tbody>
</table>

Section 11-35-1520 (9) of the South Carolina Consolidated Procurement Code states in part, "Preferences under this subsection do not apply against a resident vendor whether or not he made written claim for the preference at the time of bid."

The School also misapplied the South Carolina made/grown preference in the bids above. The School applied a 2% preference rather than the correct 5% preference. The United States made/grown preference is 2%.

The School applied a 2% minority preference against some non-minority bidders. The State does not have a minority preference. The Office of Small and Minority Business only requires agencies, as part of their MBE plan, to submit a goal that includes a reasonable percentage of each governmental body’s total controllable dollars directed toward minority vendors. This is addressed in Section 11-35-5240 of the Code.

Our samples did not show any significant errors in awarding of bids based on the incorrectly applied preference, however, the potential is there. We recommend the School exercise more care when applying the above stated preferences. The School should discontinue the practice of applying a preference for minority bidders.

SCHOOL RESPONSE

When the S.C. Consolidated Procurement Code was enacted in 1976, it only gave a 2% preference for resident vendors. Several years later, additional preferences were added (i.e., disadvantage county, S.C. Grown/Manufactured, U.S. Grown/Manufactured) with the S.C. Grown/Manufactured receiving 5% preference. Having grown accustomed to applying a 2% preference in the past, a 2% preference was inadvertently applied to the S.C. Grown/Manufactured declaration. Corrective action has been taken for all future transactions.
II. PURCHASES WITHOUT COMPETITION

The following procurements were not supported by evidence of competition or a sole source or emergency determination:

<table>
<thead>
<tr>
<th>ITEM</th>
<th>PURCHASE ORDER</th>
<th>DATE</th>
<th>DESCRIPTION</th>
<th>AMOUNT</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>5330</td>
<td>07-08-93</td>
<td>Pharmaceuticals</td>
<td>$9,945</td>
</tr>
<tr>
<td>2</td>
<td>7401</td>
<td>07-12-94</td>
<td>Consultant</td>
<td>2,000</td>
</tr>
<tr>
<td>3</td>
<td>5937</td>
<td>09-23-93</td>
<td>Printers</td>
<td>1,713</td>
</tr>
</tbody>
</table>

Item one was for a purchase of 120 vials of Hepatitis B vaccine. The purchase order referenced a previous IFB 321 dated 5-5-93 for 20 vials totaling $1,659. The original bid did not have the option for additional vaccine to be purchased. When the two purchases are added together it totals $11,613 which exceeded the School’s procurement authority. The additional 120 vials should have been rebid and awarded separately.

Item two was a consulting fee for sign communication proficiency interview training in August 1994 for $2,000. The service was not competed nor supported by a sole source or emergency determination.

Item three was for computer printers and cables in the amount of $1,713. Only one quotation was documented. Section 11-35-1550 (2) (b) requires verbal or written solicitations from a minimum of three qualified source.

We recommend the School solicit the competition required by the Code or declare a sole source or emergency, when applicable, on future procurements.

SCHOOL RESPONSE

1. Pharmaceutical: The purchase of 20 vials of hepatitis B vaccine on May 5, 1993, was for the estimated amount of vaccine needed for the few remaining weeks of the school year. We learned late in the 92/93 school year of the “Blood Borne Pathogen” mandate and were not budgeted for the annual cost of providing employees the hepatitis vaccine so late in that current fiscal year. Consequently, the larger purchase was delayed until the new fiscal year at which time competitive pricing was sought and the previous vendor again offered the best price. There was no intent to exceed our authorization level or to ignore the code requirement. Similar situations in the future should not occur.

2. Consultant - This purchase was a sole source but there was failure to prepare the sole source documentation. Corrective action has been taken.

3. It is our standard routine practice to obtain competition and to attach documentation of competitive pricing. We believe competition was obtained but documentation was either lost, misplace, or filed incorrectly.
III. UNAUTHORIZED SERVICE CONTRACTS

The School exceeded its procurement certification limit of $10,000 on the following two multi-term service contracts.

<table>
<thead>
<tr>
<th>IFB</th>
<th>DATE</th>
<th>DESCRIPTION</th>
<th>POSSIBLE EXTENSIONS</th>
<th>ANNUAL CONTRACT</th>
<th>TOTAL POTENTIAL VALUE</th>
</tr>
</thead>
<tbody>
<tr>
<td>3426</td>
<td>07-15-92</td>
<td>Pest Control</td>
<td>3</td>
<td>$4,980</td>
<td>$19,920</td>
</tr>
<tr>
<td>7278</td>
<td>03-06-92</td>
<td>Janitorial Service</td>
<td>4</td>
<td>3,360</td>
<td>16,800</td>
</tr>
</tbody>
</table>

The certification limit of the School applies to the total potential award of a contract whether awarded by individual lots or awarded to one bidder. Furthermore, the certification limit applies to the total commitment of a contract, whether single year or multi-term contract.

Regulation 19-445.2015 defines an unauthorized procurement as “an act obligating the State in a contract by any person without the requisite authority to do so by appointment or delegation”. Since the School exceeded the authority delegated through certification, each contract is unauthorized.

We recommend the School consider the total potential value on multi years contracts in determining compliance with the Code and Regulations. Furthermore, the School must request ratification for each procurement from the Materials Management Officer in accordance with the above stated Regulation.

SCHOOL RESPONSE
We did not have a clear understanding of the code regarding “total potential value” over a multi-year period but rather focused on the annual amount. There was no intent to exceed our authorization level. Corrective action will be applied.

IV. BLANKET PURCHASE AGREEMENTS (BPAs)

We noted two BPAs with a total potential of $6,000 each that should be supported by the bid process.

<table>
<thead>
<tr>
<th>PURCHASE ORDER</th>
<th>DATE</th>
<th>DESCRIPTION</th>
<th>AMOUNT</th>
</tr>
</thead>
<tbody>
<tr>
<td>7379</td>
<td>06-07-94</td>
<td>Janitorial products</td>
<td>$6,000</td>
</tr>
<tr>
<td>7381</td>
<td>06-07-94</td>
<td>Snack foods</td>
<td>6,000</td>
</tr>
</tbody>
</table>

A blanket purchase agreement is a simplified method of filling anticipated repetitive needs for small quantities of supplies by establishing “charge accounts” with qualified sources of supply.
Since the items ordered off these blankets are fairly standard, it would be more advantageous for the School to establish a per item cost through bidding and then issue a blanket purchase order. The blanket purchase order would then be used as an ordering and payment vehicle. The blanket orders should be set up on an annual basis.

**SCHOOL RESPONSE**

Janitorial products are used by food service and routinely ordered as needed. We were of the belief a BPA for all kitchen cleaning supplies would be the more efficient method for food service staff as well as for purchasing and payables staff. We accepted the auditor’s recommendation and have established a per item bidding process.

Snack foods - We were of the belief that snack food was included in the “exempted” category for food. We accept the auditor’s recommendation to apply competitive bidding for snack food.

V. **REJECTED BIDS NOT JUSTIFIED**

The School was rejecting low bids without sufficient documentation explaining the reasons for rejection. The following are examples from our sample.

<table>
<thead>
<tr>
<th>IFB</th>
<th>DATE</th>
<th>DESCRIPTION</th>
</tr>
</thead>
<tbody>
<tr>
<td>1786</td>
<td>07-20-93</td>
<td>Kitchen supplies</td>
</tr>
<tr>
<td>739</td>
<td>03-04-93</td>
<td>Food items</td>
</tr>
<tr>
<td>8425</td>
<td>09-28-92</td>
<td>Paper products</td>
</tr>
</tbody>
</table>

The above awards all had lower bids that were rejected. The tabulation sheets noted items that had been rejected without explanation, i.e., could not meet delivery requirement, or could not furnish required quantity or packaging.

Section 11-35-210 of the Code states, “written determinations and findings required by the Code shall be retained in the official contract file of the governmental body administering the contract. Such determinations shall be documented in sufficient detail to satisfy the requirements of audit as provided for in Section 11-35-1230”.

We recommend the School provide a more detailed explanation as to why low bids are rejected that will satisfy external audits.

**SCHOOL RESPONSE**

In all cases cited, we feel that sufficient documentation is available. In each case, the Invitation For Bid specified case count, serving size, delivery date, etc. so that when the bids were evaluated and the bidder took exception and offered a substitute that was not acceptable to our “end user,” the items(s) was rejected as not meeting specifications. We will, however, be more specific in the future.
VI. EMERGENCY PROCUREMENT NOT APPROVED NOR REPORTED

The School issued purchase order 5011 dated 5-24-93 in the amount of $4,428.90 for refrigerant. The purchase was supported by three verbal quotations. At the time of this transaction, sealed bids were required for procurements greater than $2,500. The School indicated it was an emergency procurement on the face of the purchase order however, the purchase was not supported by an approved emergency determination as required by Section 11-35-1570 of the Code.

We recommend the School prepare a written determination on each emergency procurement. Each emergency procurement should be reported quarterly to the Material Management Office as required by Section 11-35-2440.

SCHOOL RESPONSE

It is our practice to observe the emergency procurement process. This particular example was an oversight. Corrective action will be applied.

VII. INCREASED INVOICE AMOUNTS PAID WITHOUT PURCHASING OFFICE APPROVAL

Accounts Payable is paying increases on invoices without approval of the Purchasing Office. These include payments on purchase orders that were originally bid with a firm price or freight FOB destination. The School has an internal change order policy that allows Accounts Payable to make payments that fall within a 10% tolerance of the purchase order. However, the policy does not take into account prices obtained competitively with freight charges of FOB destination.

A payment was made against purchase order 7976 dated 09-07-94 totaling $2,087.40 for 100 folding chairs. This invoice increased the quoted unit cost from $18.29 to $19.88 per chair, thus resulting in an overpayment of $159.00 not including taxes.

Additional freight was charged and paid on purchase order number 4186 dated 3-5-93 on IFB 349, and purchase order 2867 dated 09-02-92 on IFB 2867. The overpayments were $47.40 and $39.50 respectively on each of the solicitations. The shipping terms were FOB destination.

We recommend the School review and update its change order policy regarding discrepancies between the invoice and the purchase order. Increases should be approved by Purchasing prior to payment if the discrepancies involve a bid item, a State contract item, a State purchase order or an additional freight charge.
SCHOOL RESPONSE

According to accounts payable personnel, there was some misinterpretation of the school’s policy regarding payment of invoices that did not match pricing of the purchase order. Also, there was misinterpretation of school’s policies regarding the payment of freight charges on FOB orders. The school’s policy regarding discrepancies between the invoice and the purchase order has been revised. Also, in the future, the purchase order will contain statements regarding firm pricing and/or freight charges as well as state contract items.

VIII. TIME AND DATE STAMPING OF BIDS AND QUOTATIONS

While reviewing the sealed bid and quotation files, we noted that bids were not time or date stamped. The purchasing office date stamps the envelopes as they are received. The bids are then opened on the designated date and the envelopes are discarded. In the absence of the postmarked envelope, we could not verify the timeliness of receipt of the bids.

We recommend that either all the bid envelopes be retained in the bid files or the actual bids be time and date stamped at the bid opening. The latter is the preferred.

SCHOOL RESPONSE

Request has been made and approved for the purchase of a “tamper proof” time and date stamp. Implementation of this new stamp will eliminate future occurrences.

CONCLUSION STATEMENT

We, the South Carolina School for the Deaf and the Blind (SCSDB), are of the opinion this audit reflects improvement of our procurement activities over the prior procurement audit. While we do not discount the need for improvement and implementing corrective action, we believe the audit provides reasonable assurance of the integrity of the procurement process at SCSDB. All citations and recommendations are being addressed and/or corrective action is being implemented.
CERTIFICATION RECOMMENDATIONS

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 South Carolina School for the Deaf and the Blind in compliance with the South Carolina Consolidated Procurement Code and ensuing regulations.

We will perform a follow up review by June 15, 1995, to ensure that the School has completed this corrective action.

Under the authority in Section II-35-1210 of the Procurement Code, subject to this corrective action, we recommend the School for the Deaf and the Blind be recertified to make direct agency procurements for three (3) years up to the following limits.

<table>
<thead>
<tr>
<th>Procurement Area</th>
<th>Recommended Certification Level</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Goods and Services</td>
<td>*$25,000 per commitment</td>
</tr>
<tr>
<td>2. Information Technology in accordance with the approved Information Technology Plan</td>
<td>*$25,000 per commitment</td>
</tr>
<tr>
<td>3. Consultant Services</td>
<td>*$25,000 per commitment</td>
</tr>
</tbody>
</table>

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

James M. Stiles, CPPB
Audit Manager

Larry G. Sorrell, Manager
Audit and Certification