February 21, 1984

Mr. Herbert C. Granger, Chairman  
Greenville County Legislative Delegation  
Room 101, Courthouse Annex  
Greenville, South Carolina  29601

Dear Representative Granger:

Enclosed is our recently completed procurement audit of the School District of Greenville County as requested by the Greenville County Legislative Delegation on September 26, 1983. Also, copies of this audit are being provided today to the Greenville County School Board of Trustees and Administration.

Please contact me if our office can be of further assistance.

Sincerely,

Tony R. Ellis  
Division Director

TRE:bs  
Enclosure
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January 20, 1984

Mr. Tony R. Ellis, Director
Division of General Services
300 Gervais Street
Columbia, South Carolina 29201

We have examined the procurement policies and procedures of the School District of Greenville County for the period July 1, 1981 - December 31, 1983. 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 district 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 District 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 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.

Robert W. Wilkes, Jr., CPA
Director, Audit and Certification

CC: Barbara A. McMillan
Director of Agency Services
INTRODUCTION

The Office of Audit and Certification has completed an examination of the internal procurement operating procedures and policies of the School District of Greenville County. Our on-site review was conducted October 19, 1983 through January 20, 1984.

District personnel greatly assisted us in the audit process by providing timely response, complete access to files and cooperation.

The purpose of our examination was twofold and was made at the written request of the Greenville County Legislative Delegation. The examination was directed principally to determine whether, in all material respects, the procurement system's internal controls were adequate and the procurement policies and procedures as outlined in the written policies and procedures manuals were in compliance with existing laws and regulations and with accepted public procurement standards.

Additionally, we were to compare the existing procurement practices with those outlined in the South Carolina Consolidated Procurement Code and determine any material differences.

This report outlines the major weaknesses which we discovered in the procurement system along with our recommendations for improvement. Any differences in procurement procedures dictated specifically by the Procurement Code are noted in the body of the report. As you will see, however, the vast majority of comments and recommendations deal with improvements dictated by accepted public procurement standards.

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As with our audits of state agencies, our work was directed also toward assisting the school district in promoting the underlying purposes of the Consolidated Procurement Code which we believe to be applicable to all governmental bodies and which are outlined in Code Section 11-35-20, to 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 encompassed a detailed analysis of the internal procurement operating procedures of the School District of Greenville County 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.

The Audit and Certification team statistically selected random samples for the period July 1, 1981 - June 30, 1983, of procurement transactions for compliance testing and performed other auditing procedures through December 31, 1983, 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 single source procurements;
7. source selections;
8. file documentation of procurements;
9. warehousing, inventory and disposition of surplus property;
(10) economy and efficiency of the procurement process;
(11) energy management programs;
(12) duplicating equipment utilization analysis; and
(13) correlating district policy and the South Carolina Consolidated Procurement Code and regulations.
SUMMARY OF AUDIT FINDINGS

Our audit of the procurement system of the School District of Greenville County produced findings and recommendations in the following areas:

I. COMPETITIVE PROCUREMENT PRACTICES

With the exception of major construction, the district's competitive procurement practices remain questionable because of a lack of documentation.

DISTRICT RESPONSE

It is not clear as to whether or not this statement implies that some, several, many, most or all practices are questionable.

II. ACCOUNTABILITY FOR THE PROCUREMENT FUNCTION

A. Purchasing Not Requiring Evidence of Competition

It was our observation that many prices are purported solicited by requesting departments, not the Purchasing Department. In most cases, evidence of other prices obtained is not forwarded to Purchasing. Purchasing, by assuming that competition has been obtained by requesting departments, cannot ensure that district procurement policy is followed.
B. Accountability of the Procurement Function to Management

District management has no written quantifiable standards for assessing the efficiency and effectiveness of their purchasing system.

C. Internal Audit

The district currently has an internal audit staff but their mission is devoted primarily to auditing the $3.7 million expended from student activity funds each year with only occasional effort directed to auditing general operating funds which exceed $80 million per year.

DISTRICT RESPONSE

An obvious oversight was made by not acknowledging that an audit is made each year of the general operating fund by one of the big eight audit firms. They spend several weeks in the district making a detailed audit with their report being released to the Board and the public. A management letter also follows each audit.

III. WORK EXCEEDING AUTHORIZATION RESULTING IN AN OVERCHARGE TO THE DISTRICT

One contractor invoiced the district and was paid $12,873 more than his winning bid prices for fiscal year 1982/83. An additional $15,071 was paid to this ven-
dor for items which were not included in the original invitation to bid nor subsequently competed.

**DISTRICT RESPONSE**

It should be pointed out that the auditors are referring to only one transaction out of hundreds of such transactions on file.

IV. INTERNAL CONTROL AND PROCEDURAL WEAKNESSES

**A. Weak Procurement Procedures**

Our examination of the Purchasing Department's function as the contracting agent for the school district revealed procedural weaknesses that adversely affected internal controls.

**B. Review of the Procurement Procedures Manual**

We performed a detailed review of the district's Purchasing Policies, Rules and Operating Procedures manual and found certain items that need to be added, expanded or changed.

**DISTRICT RESPONSE**

It should be pointed out that the district's Purchasing Policies, Rules and Operating Procedures Manual was reviewed by the Budget and Control Boards' General Services Auditors in early 1983 and was found to be "well written and inclusive."
C. Change Orders

When purchase orders are increased or decreased, official written change orders are not used.

D. Voucher Review and Cancellation Process

The Accounts Payable Section of the Accounting Department is responsible for reviewing the invoice, purchase order and other supporting documentation before producing the voucher for payment. The district should develop a checklist to ensure that these functions are carried out.

E. Approvals for Services

Purchasing, as a matter of standard practice, approves payment on certain invoices for services. Internal control theory requires that the commitment or purchase function be separated from the payment approval function. The district should separate the purchasing and payment approval functions.

F. Maintenance Work Order Processing

During our examination of internal controls in the area of maintenance work order processing, we noted several weaknesses that need to be corrected.
V. PROFESSIONAL DEVELOPMENT

Personnel training is one of the most critical factors in the successful operation of a procurement system. We found a need exists for professional development for the purchasing agent and buyers.

VI. PROPERTY CONTROL

Only approximately sixty-five percent (65%) of the schools in the district have had a complete equipment inventory. Also, new additions are not being picked up in the inventory system.

VII. WAREHOUSE

We performed an in-depth study of the inventory management system which indicated that some commodities are over-stocked in inventory.

DISTRICT RESPONSE

It is our opinion that our commodities inventory is not excessive and that there is a satisfactory turn-over rate.

VIII. INSURANCE PROCUREMENT

A. Procurement Practices

The district has consistently acquired its tort and automobile insurance coverages since 1978 in violation of state law.
1-11-140 which requires that such insurance be purchased from the State Insurance Reserve Fund. Also procurement practices have not been adequately documented in district files.

DISTRICT RESPONSE

In recent years there has been confusion as to the actual intent of this law. It was only in 1981 that the law was actually clarified as to its intent for school districts.

B. Coverage and Rate Comparisons

We requested insurance experts at the Insurance Reserve Fund to conduct a general review of insurance coverages.

IX. ENERGY AUDIT

We requested the Division of General Services' Engineering and Energy Management Coordinator to analyze the district's energy management program.

X. PRINT SHOP UTILIZATION

As part of our examination, the State Printing Officer analyzed print shop equipment and personnel utilization.
RESULTS OF EXAMINATION

I. COMPETITIVE PROCUREMENT PRACTICES

With the exception of major construction, the district's competitive procurement practices remain questionable in our minds because of a lack of documentation. Throughout the audit we encountered instances where no competition had been sought, it was purportedly sought but never documented or the documentation was discarded. Each procurement area will be addressed individually below:

1. Non Major Construction Services

Several large service oriented contracts in this area are not either competitively bid or negotiated. They are as follows:

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
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</thead>
<tbody>
<tr>
<td>a) Architect and engineer services for roofing inspection and construction management.</td>
<td>$55,089</td>
</tr>
<tr>
<td>b) Architect and engineer services for asbestos inspection and removal.</td>
<td>$61,920</td>
</tr>
<tr>
<td>c) Repair and installation of fire and burglar alarm systems.</td>
<td>$84,369</td>
</tr>
<tr>
<td>d) Air conditioner repairs (FY83/84 only).</td>
<td>$30,232</td>
</tr>
<tr>
<td>e) Lease of tractors (2/82-2/84)</td>
<td>$55,093</td>
</tr>
</tbody>
</table>
f) Auctioneer services

The same auctioneer has been used for three years. The auctioneer is paid 20% of collections that includes advertising and guaranteed payment. According to a spokesperson at the South Carolina Auctioneer's Commission, auctioneer fees normally run from 10% to 14% depending on who handles advertising.

The last three auctions at the current rate of 20% resulted in the auctioneer being paid $15,882.

In addition to the above, a statistical sample in this procurement area revealed that competition was not sought in 20.0% of the transactions. See Exhibit A, Section I, for a detailed list.

Using these test results, we can statistically project with a 95% probability that the district may not be obtaining competition on up to 30% of all procurements in the area of non major construction.

Further, several transactions in addition to the statistical sample were reviewed because of specific questions. See Exhibit A for these additional exceptions.

DISTRICT RESPONSE

1. a) The architect for roofing services was selected from the list of architects who have asked for work in the area of minor construction. He prepares plans and specifications, supervises the work and
inspects roofs to assist us in formulating a program to meet our roofing needs. We have followed the dictate of the Board in this matter. We are obtaining his service for a very reasonable hourly rate.

b) The architect to assist with the asbestos abatement program was selected from the list of architects as noted above. He is now the most experienced person in this field in South Carolina. His services include preparing plans and specifications, field inspections and supervision of work in progress. We are obtaining his service for a very reasonable hourly rate.

c) In this area of work there is a real need to limit the number of persons who have knowledge of our system. The work has been bid on several occasions when other contractors expressed interest. The firm doing the majority of the work for the district is the factory authorized representative for the system we have selected for use.

d) The amount shown here was spent on repair of units not covered under the maintenance of controls contract which is bid. The work was performed by the low bidder on the contract. We are now getting the units brought up to standard so that a maintenance contract can be secured through the competitive process for the 1984-85 year.

e) Lease of tractors was negotiated and was approved by the Board of Trustees on a pilot basis. The program has been successful and will be renewed under competitive bids for next year. It should also be pointed out that the sale of our old equipment at auction brought us $39,350.00, thus making the cost of this pilot program $15,743.00 in new district funds.

f) At the time the district decided to hold public auctions as the means of disposing of surplus material and equipment, the decision was made to accept the 20% fee. For the additional amount, we have received up to five auctioneers each time in order to move the volume of goods in the shortest time possible. We also are guaranteed our proceeds and remain out of controversy with buyers. The auctioneer is responsible for collecting money from the sale and sales tax which he remits to the Tax Commission. The auctioneer we selected does the auction for Greenville County and the City of Greenville. At the time of selection, he was performing his service for both bodies for the 20% fee. This will be competitively bid in the future.
It should be pointed out that only 12 transactions were tested out of approximately 400 on file.

The phrase, "the district may not be obtaining competition on up to 30% of all procurements," can be misinterpreted. A clearer statement would be, "the percentage of procurements on which the district may not be obtaining competition is between 10% and 30%.

2. Information Technology Procurements Including Printing

A statistical sample of 60 procurement transactions were tested initially in this area. Of the 60 transactions only three could be traced to any documentation in the Purchasing Department evidencing involvement by them in the procurement process. Twenty-four procurements of this sample of 60 could not be traced to competitive solicitations resulting in an actual sample error rate of 40%. See Exhibit A, Section II, for a list of these.

Using these test results, we can statistically project with a 95% probability that the district may not be obtaining competition on up to 50% of all the transactions in this procurement area.

**DISTRICT RESPONSE**

It should be pointed out that only 60 transactions were tested out of approximately 328 on file.

The phrase, "the district may not be obtaining competition on up to 50% of all procurements," can be misinterpreted. A clearer statement would be, "the percentage of procurements on which the district may not be obtaining competition is between 30% and 50%."
3. **Independent Contractual Services**

With the exception of accounting, auditing and special management consultants, no competition is obtained on independent contractual services. These are handled outside the auspices of Purchasing.

**DISTRICT RESPONSE**

With the exceptions noted, almost all consultants employed by the District are educational consultants who can, according to Section 19-445.2025 of the State Consolidated Procurement Code, be procured on a fee basis rather than by competitive bidding. The District already has an approved fee schedule setting maximum fees that can be paid for such consultants. We will add to our Purchasing Manual a section patterned after Section 19-445.2025 to strengthen the controls over these procurements.

4. **Regular Goods and Services**

A statistical sample of 60 procurement transactions were tested initially in this procurement area. Nineteen procurements on this sample could not be traced to competitive solicitations resulting in an actual sample error rate of 31.6%. See Exhibit A, Section III, for a list of these.

Using these test results, we can statistically project with a 95% probability that the district may not be obtaining competition on up to 40% of all procurements in the area of goods and services.

A further review of additional transactions revealed the following where no competition was sought:

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<th>P.O. #</th>
<th>Voucher#</th>
<th>Amount</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. 24514(Req. #)</td>
<td>32632</td>
<td>$1,270.00</td>
<td>Microfilm processing</td>
</tr>
<tr>
<td>2. 84439</td>
<td>30130</td>
<td>$1,304.99</td>
<td>Fencing</td>
</tr>
<tr>
<td>3. 84438</td>
<td>30131</td>
<td>$1,148.16</td>
<td>Shredder/Clipper</td>
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</tbody>
</table>
A special review of the transactions to a particular chemical vendor revealed that for the period July 1, 1981 - August 10, 1983, the vendor was paid $88,475 for floor waxes, pine oil disinfectants, carpet cleaners and liquid cleaners. No competition was obtained on any of these purchases. See Exhibit A, Section IV, for a recap of these.

**DISTRICT RESPONSE**

It should be pointed out that only 60 transactions were tested out of approximately 20,000 on file.

The phrase, "the district may not be obtaining competition on up to 40% of all procurements," can be misinterpreted. A clearer statement would be, "the percentage of procurements on which the district may not be obtaining competition is between 20% and 40%.

The chemical products listed were bought after performance testing. It should be noted that over the twenty-four month period from July 1, 1981 - June 30, 1983 when the supplier sold all chemical products to the district, the average cost per school per month was $38.40. Since July, 1983, these products have been purchased under State Contract from Perry Correctional Institute with the exception of disinfectant which has not been approved by USDA and floor finish which is not yet a product line. The district will compete all items in the future.

5. **Warehouse Procurements**

We performed a special analysis of procurements for inventory assuming that these restocking procurements would make up a separate and monetarily material area. We selected a sample of 60 items to test from a population of 1400 transactions in fiscal year 82/83. We found four instances where no competition was documented. See Exhibit A, Section V, for these.
The "Purchasing Policies, Rules and Operating Procedures" manual adopted by the School Board requires that, "...sealed competitive bidding is to be used for efficiency and public relations with competing vendors...."

It is evident that this policy has not been followed. Further, this lack of competitive solicitation basically overlooks accepted prudent procurement practices.

Finally, if mirrored against the South Carolina Consolidated Procurement Code, all of the above transactions would be exceptions there as well.

We, therefore, recommend that, except as specifically allowed by district policy, competition be sought and recorded for all procurements. District policy should be expanded to indicate this and to specifically list the transactions excluded from this such as very small dollar transactions.

**DISTRICT RESPONSE**

The district will compete all warehouse inventory items in the future except as specifically allowed by the Procurement Code. Additionally the Purchasing Manual will be updated to comply with the Procurement Code Section 19-445.2100, Subsection B Items 1, 2, and 3. Under Item 1 the Purchasing Agent will initial requisitions that price is fair and reasonable.

**II. ACCOUNTABILITY FOR THE PROCUREMENT FUNCTION**

**A. Purchasing Not Requiring Evidence of Competition**

It was our observation that many prices which are solicited are obtained by requesting departments, not Purchasing. For
instance, of the 60 transactions studied in detail in the area of information technology only three could be traced to bids in Purchasing.

This decentralization of procurement control caused us some concern but we felt this was partially offset by Purchasing making the final determination on procurements. However, upon review of specific transactions, we found that no evidence of prices obtained by requesting departments was forwarded to Purchasing. In most cases, requesting departments merely sent Purchasing a requisition asking them to prepare a purchase order to a particular vendor for a certain amount for the requested item/service.

Additionally, we could not find a single case where Purchasing attempted to change the price, vendor or anything else on a requisition. Since Purchasing has authority to solicit additional prices and change vendors if necessary, we had expected to see some instances where it was done.

To further complicate matters, we were unable to locate evidence of competition in the requesting departments. We were told that either the prices were never documented or the documentation was not retained.

The Purchasing Policies, Rules and Operating Procedures manual indicates that, "the authority to make purchases for the school system using funds accrued through tax sources is vested in the purchasing agent." Further, the manual states that competitive prices will be secured for all purchases, if possible, and that a complete central record system will be maintained by the purchasing agent.
Purchasing, by assuming that competition has been obtained by requesting departments, has not met its responsibility to ensure that district procurement policy is followed. Further, by signing purchase orders with no knowledge of whether district policy was followed or not, the purchasing agent has put himself in a precarious position.

Each time a purchasing agent or buyer signs a purchase order he is not only approving the order, he is attesting to the fact that district policy and prudent procurement methods have been followed. In other words, he indicates that, to the best of his knowledge, this is the best item for the best price that will meet the district's needs.

As the system now works, this is impossible. Since prices are not forwarded to Purchasing, the purchasing agent cannot attest to either of the above.

We recommend that competition be obtained on most items by the Purchasing Department with requesting departments merely recommending vendors. When prices are obtained by departments, policy should require that they be documented and forwarded to Purchasing. Purchasing should not process an order without ensuring that adequate competition has been obtained.

DISTRICT RESPONSE

We concur that competition should be obtained on all items not excluded by the small purchase provisions of the Procurement Code. However, the Purchasing Manual will be updated to require that evidence of competition secured by requestors is documented on the requisition which is sent to Purchasing. Further, the Purchasing Manual will require that Purchasing spot check the prices submitted to insure that competition has been obtained.
B. Accountability of the Procurement Function to Management

We determined from our examination of the purchasing function that district management has not developed written, quantifiable standards for assessing the efficiency and effectiveness of their purchasing system.

Specifically, we were unable to determine the existence of any accountability functions such as:

1. Realistic goal setting as a joint undertaking between district and purchasing officials.
2. Performance standards or indicators used by top management in evaluating purchasing activity.
3. Any written program either complete or incomplete dealing with the implementation of the accountability function for procurement.

Centralization of authority and accountability are important elements of an effective procurement system. Purchasing in the public sector has evolved from a user oriented support service into a complex operation involving such functions as planning and scheduling procurements, standardization of specifications, property control, and inspection and testing in some cases. Under this broadened concept of purchasing as a management program, formal goal setting is necessary between district and purchasing officials. Performance evaluation is an integral part of this type of program.
We recommend that this weakness in the management system be eliminated by implementing a systematic program for establishing goals and measuring Purchasing's performance in acquiring goods and services efficiently and effectively.

The goals should address objectives which could improve the overall procurement function and should include the following:

a) Identifying common use items through standardization procedures and consolidating requirements into scheduled buys or term contracts.

b) Pursuing cooperative purchasing agreements between local and state governmental agencies.

c) Application of value analysis techniques in buying commodities including life cycle costing, lease versus purchase, etc.

d) Completing cost/price analysis of all negotiated procurements.

e) Accurately stating and describing requirements in bid notices to reduce unfair competitive advantage.

f) Reducing the amount of paperwork processing thus increasing productivity.

Purchasing's performance can be measured through the application of standards or indices to assess efficiency and effectiveness. Both of these factors can be measured quantitatively and qualitatively. The department can establish their "cost of doing business" and its efficiency by determining:

a) The cost of each purchase order - calculated by dividing the operating budget by the number of orders written.
b) The cost per $1.00 of procurement - calculated by dividing the dollar volume of purchases by operating costs.

These figures can be compared to industry standards, other similar operations, and to themselves from year to year to provide quantitative assessment.

Quantitative standards used to measure procurements effectiveness would include:

a) Reduction in the frequency of executing rush orders (emergency purchases).

b) Success in the inventory control process measured by calculating the relationship between turnover and requisition volume.

c) Reduction in the turnaround processing time from the requisition to the purchase order.

Qualitative assessment of efficiency can be measured by such things as:

a) The practices followed in training buyers to enhance their professional expertise.

b) The organizational structure that will encourage both individual action and effective teamwork.

c) Practices followed in providing financial and non-financial rewards for performance.

d) Practices followed in delegating purchasing authority to other departments.

Qualitative assessment of procurements effectiveness can be measured by review of areas such as:
a) A purchasing manual that clearly defines authority and responsibility and the reliance of ordering departments on the manual and purchasing officials.

b) Consultation with Purchasing by sections prior to making requirement decisions.

**DISTRICT RESPONSE**

The district will begin immediately developing a program for the evaluation of this function. Upon completion, the program will be implemented.

C. Internal Audit

The district currently has an internal audit staff that reports to the Director of Financial Accounting and ultimately to the Associate Superintendent for Fiscal Affairs. While the primary function of this staff is to oversee the school's student activity funds which are not centrally controlled, its scope has been expanded in recent years to include such areas as food service, transportation and warehouse inventory and occasional special audits. However, we recommend the internal audit function be further expanded to include comprehensive financial, operational and compliance audits of each department or division of the district. A strong internal audit department would be very valuable to management and the school board by alerting them on a timely basis to deviations from established policies and procedures.
The internal audit staff could contain a wide range of academic backgrounds to provide various programmatic specialities. However, all auditors should be adequately trained in auditing and accounting theory and practices. We believe the long range objective should be to establish a director of internal auditing position to be filled by someone at the professional level of certified public accountant or certified internal auditor.

To strengthen the authority and independence of the internal audit staff, we strongly recommend that an audit committee of the Board of Trustees be established with membership restricted to members of the school board and the superintendent. The Internal Audit Department would report directly to this committee.

Some of the types and areas of auditing in which the Internal Audit Department should become involved are as follows:

2. Cash receipts - Review and test accounting controls at various collection points.
3. Petty cash - Periodically count funds on a surprise basis.
6. Purchasing and receiving - The system of requisitioning, placing of purchase orders, receiving, etc., should be tested to determine that sound
procedures and district policies are being followed.

7. Warehouse inventory records - Review accounting controls and test by physical observation.

8. Furniture, fixtures and equipment - Review accounting controls and periodically test inventory by physical observation.

9. Payroll - Review accounting controls including authorization, distributions, timekeeping records, etc., and periodically perform surprise payroll payoffs.

10. Operational auditing - Evaluations should be made of the efficiency, economy, legality, and effectiveness with which the department is carrying out its financial management accountability and program responsibilities.

The above listing is set forth in very general terms and intended only as a guide.

DISTRICT RESPONSE

An obvious oversight was made by not acknowledging that an audit is made each year of the general operating fund by one of the big eight audit firms. They spend several weeks in the district making a detailed audit with their report being released to the board and the public. A management letter also follows each audit.

The administration concurs in the recommendations concerning expansion of internal audit functions, but additional funds will be required to implement them. Internal auditors are members of the staff and therefore should report to a staff person. Policies and regulations would need to be changed if staff members are to begin reporting directly to the board.
III. WORK EXCEEDING AUTHORIZATION RESULTING IN AN OVERCHARGE TO THE DISTRICT

An asphalt paving contractor has apparently overcharged for work performed. In fiscal year 1982/83, a total of $49,530 was paid against purchase orders #69523 and #69524 for paving. Of that amount, $12,873 or 26% of the total was an overcharge to the district. An additional $15,071 was paid to this vendor for items such as potholes and curbing which were not bid or included in the scope of work indicated on the purchase orders. Similar overcharges occurred in 1981/82.

The Director of Operations, without recognizing the potential damage to the competitive process, requested the current asphalt paving contractor during the 1982/83 budget process to help figure a budget price for work which might be approved. These prices, the Director of Operations has stated, were to be calculated at the same rate as the contractor planned to bid the work. Fearing that these estimates would leak out, the contractor gave the Director of Operations higher estimates than he subsequently bid. Competitive bidding for the paving contract followed with the current contractor being the low bidder. With his lower bid, the value of each project per the budgetary approval schedule should have been lowered proportionately, but this was not done. The contractor was paid the higher budget prices which had no relationship to his bid. If the higher prices had been bid, another bidder would have been successful.
We recommend as one alternative that contractors be separately hired to survey all possible paving to be done each year. This survey should include units only (i.e., 400 yards asphalt) and not extended prices. Descriptions of concrete work such as curbing should also be included in the survey. The Director of Operations can estimate for budget purposes from this type survey. This survey along with on-site visitation should be given to all bidders at a pre-bid conference.

If additional grading or other work in preparation for paving is required, prices should be obtained on a per hour basis for men and equipment operation.

DISTRICT RESPONSE

In an effort to make this area more manageable from the standpoint of budget prices compared to invoice prices, the system described was instituted. We do not agree that the district has been overcharged for work performed, since the bid did not take much of the preparation work into account. In the future the initial requests from the schools will be prepared for bids. Bidders will be invited to look at all proposed work and to submit individual prices for each job. If the scope of the work changes due to funding, the low bidder for that job will be asked to submit an adjusted cost based on his original per yard bid. If the adjusted cost is approved, a change order will be executed in instances where purchase orders have been issued.

IV. INTERNAL CONTROL AND PROCEDURAL WEAKNESSES

A. Weak Procurement Procedures

Our examination of the Purchasing Department's function as the contracting agent for the school district revealed procedural
weaknesses that weaken the effectiveness of internal controls. Some of these are as follows:

1. The majority of the purchase orders reviewed showed "ASAP" (as soon as possible) entered as the delivery date and "regular" entered as the terms. Contractually speaking, the failure to specify delivery dates and terms results in the district having less recourse against poor vendor performance.

2. Our review of the formal bid solicitations revealed the following weaknesses:

a. In some cases invitations to bid for large dollar amounts were sent to only three or four bidders. The South Carolina Consolidated Procurement Code requires that anything over $10,000 be sent to a minimum of ten qualified bidders. District policy does not specify a minimum number of bidders to be solicited.

   We recommend continuous effort be made to locate new sources of supply and maximize competition.

b. Sealed bids received by the district prior to bid opening are time and date stamped on the envelope but it is discarded at bid opening making it impossible to ascertain that bids were received prior to the deadline. We recommend that either the envelopes be attached to the bids and retained or the bids be stamped at opening.
c. Sealed bids are kept in a file cabinet until opened. Prevention of bid tampering is always a major concern, thus we recommend bids be kept in a locked safe or file cabinet.

d. For audit and control purposes, bid files are generally disorganized. Bid responses are mixed in with blank bids, specification sheets, work copies and tabulation sheets. This is confusing to anyone reviewing them.

e. Some invitations to bid are two or more pages. On many of these the vendor name is on a different page than the bid amount and signature. In many files these were separated from each other making it difficult for us to match bid amounts with vendor names.

We recommend vendor names and bid amounts always be shown on the same page of the bid, preferably the front. Also, more care should be taken to keep multi-page bids together.

f. Where attendance at a pre-bid conference is required, sign-in sheets should be used to document attendance. Also, we recommend all bid openings be attended by two district employees to witness that the tabulation is accurately performed. They should sign the tabulation sheet attesting to this. Also, bidder sign-in sheets should be used at bid openings if any vendors attend.
g. Our review of the evaluation steps followed by buyers in determining to whom the award should be made was severely hampered by the lack of documentation in the bid packages; particularly, the process of indicating which bidders were rejected, the reasons for their rejection, and who the successful low bidders were. Adequate written procedures for documenting bid rejections and statements of awards sent to those who request them would alleviate most of these problems as well as reduce unnecessary communication with vendors requesting award information.

The use of the system of circling low bidders on the tabulation sheet is a good one but should also include a (1), (2), (3) to indicate the three low bidders in each lot. This procedure needs to be applied consistently by all buyers evaluating bids. Buyers should also sign off on the tabulation sheet indicating who processed the bid.

h. Although some of the bids we reviewed stipulated clearly the conditions and responsibilities of the bidder, they were incomplete as to how the awards were going to be made. For instance, when a bid contains separate lots, will the award be made by lots or on the total of all lots. This should be specified.
i. Procedures for the cancellation of all bids, withdrawal of bids by vendors, postponement of bid openings, single bid response, etc., are not definitive enough.

3. As mentioned earlier, there is inadequate documentation on numerous transactions as to the competitive process being followed. Also, reference numbers on purchase orders such as state term contract number, bid numbers, etc., are not applied consistently.

4. Purchasing clerks are signing the purchase agent's name to purchase orders. This signature authority has apparently been verbally delegated to these people by the purchasing agent due to the high volume of orders. School Board policy dictates that this contractual authority be vested in the purchasing agent as its sole representative. We recommend that the buyers and the purchasing agent sign their own purchase orders, with written signatory authority being given to one clerk, who will sign the orders only in their absence.

5. We recommend a daily requisition log be established to provide information to inquirers concerning the status of orders.

6. Current district receiving policy is that copies of invoices are sent to the requestor who approves them for payment and returns them to accounting.
Typically, this approval is that of a section head or a section's budget manager and does not indicate who actually received the goods for the district and accepted responsibility for them.

We recommend the district develop a system of using formal hard copy receiving reports which are completed upon receipt of goods and forwarded through the section's manager to the Accounting Department. This process would eliminate the need for sending invoices to the sections for payment approval.

7. Specifications for bids in most cases listed brand names with no "brand name or equal clause." This tends to be restrictive allowing no substitution of other brands of equal or better quality. Brand names should only be used to describe the level of quality, not the specific brand. Two examples of this came to light in our review of bid packages. One for the procurement of library furniture, $26,000, and the other for the purchase of laboratory furniture, $48,000. In both of these cases, some of the items requested were exclusive to the vendor who assisted the school district in developing the bid specifications.

As a result of this and the failure to insert a "brand name or equal" clause, the vendors who helped write the specifications were the only qual-
ified bidders for the specific brands requested that were solicited for prices. Subsequently, the award was made to them.

A procurement system must be operated precisely, with clear procedural guidelines, and usage commitment to them by the employees. This is essential to eliminate any misunderstanding on the part of vendors conducting business with the district as well as the maintenance of a uniform system of doing business.

As a result of the failure to establish valid procedural guidelines, the district places itself in an extremely vulnerable position with regard to vendor protests, grievances and possible suits.

Since it is our opinion that weak and/or the lack of these written procurement procedures can lead to aggravating situations, it is our recommendation that:

1. A complete overhaul be done of all current policies governing the procurement system, paying particular attention to bidding procedures.

2. The school district purchasing personnel should avail themselves of training in procurement procedures as noted elsewhere in this report.

3. Purchasing staff should visit other public procurement units to expand their knowledge of different systems and procedures used, of which they should study closely those which might be applicable to increasing school district procurement efficiency.
DISTRICT RESPONSE

1. This has not been a problem for the district. In March of each year we type on the purchase order, "Must be delivered, invoiced and paid for by June 30th or cancel the order."

2.a. The district will continue to improve our efforts in this area.
   b. The district has implemented this recommendation by stapling the stamped envelope to the bid.
   c. The district has implemented this recommendation.
   d. This has not been a problem for district personnel; however, a separate folder containing bid responses will be maintained within the bid folder.
   e. The district has required company name, signature and date to follow the grand total dollar amount on the bid form; however, in the future the district will require a signature on each page.
   f. The district will implement immediately.
   g. The Purchasing Manual will be adjusted accordingly.
   h. The Purchasing Manual will be updated to include this information.
   i. The Purchasing Manual will be updated to include this information.

3. This lack of consistency will be eliminated.

4. It will be implemented immediately. The Purchasing Manual will be updated.

5. The district does not agree with the recommendation. The procedure now in place is sufficient to provide any necessary information.

6. Invoices are sent to the schools and departments for approval not only to verify that the articles were received but also to inform the schools and departments of the actual charges, including taxes and shipping costs. This information is essential for them to keep their account records accurate. The receiving reports, which indicate who actually receive the goods, are retained by the schools or departments for their records. The administration feels that this practice best serves the needs of the district and will continue to use it.
7. Historically this statement has been included in most bids; however, the district will include this on all bids where applicable.

B. Review of the Procurement Procedures Manual

We performed a detailed review of the school district's Purchasing Policies, Rules and Operating Procedures manual in light of actual procedures observed and found. The following items need to be added, expanded or changed:

1. Forward - This should address all procurement. Currently, it states "Centralized Purchasing is authorized...to buy supplies, equipment, fuels, vehicles, and other equipment and supplies...." Smaller purchases can be excluded up to a defined limit.

2. Page 10 - Bids and Quotations - This section should be revamped to include the major recommendations in this report. Procedures should also be included for small purchases.

3. Page 12 - Requisitions - This states "The superintendent shall arrange appropriate administrative reviewing channels whereby all requisitions will be examined and approved or disapproved for purchasing."

We recommend that each requisition be approved by either the principal or the department head.
4. Page 19 - Methods of Disposal - does not mention public auctions. This is obviously an oversight and should be added to the manual.

5. Page 25 - Procurement - Standard Items - The last sentence says "In most cases, sealed bids are received for purchases. However, under certain circumstances other procedures may be used."

This should give the alternative procedures and the circumstances for their use.

6. Page 29 - Soliciting Prices - This should be more specific and set dollar limits.

7. Page 51 - Purchasing Guidelines - says, "9) All purchases must be covered by a purchase order issued by the Purchasing Department."

We have found that this is not correct. Either this policy should be improved or changed in the manual.

8. Page 51 - Purchasing Guidelines - says, "10) All vendor contracts and price solicitation should be done by the Purchasing Department."

This is incorrect when compared to practice. Either this should be imposed or it should be changed in the manual.

We also feel the following general topics should be addressed within the manual:

1. Retention of Records

2. Expenditure of Federal Funds
3. Vendor Grievances
4. A Policy dealing with Minority Business Enterprises
5. Professional Development
6. Property Control and/or Fixed Asset System Procedures
7. Formal Change to Purchase Order or Contract Procedures
8. Sole Source Procurements
9. Consultant Services Policy Needs to be Expanded
10. Procedures for Print Shop Usage
11. Bidder List with Appropriate Procedures for Adding and Deleting Vendors
12. Maintenance Purchasing Procedures
13. Sealed Proposals (if applicable)
14. Policy addressing Cooperative Purchasing between Local and State Governments
15. Sample Selection
16. Confirmation Purchases

DISTRICT RESPONSE

We will review the Purchasing Manual in light of the above recommendation and make those changes that will be most beneficial to the district.

C. Change Orders

Purchase orders are being increased or decreased without using official "change orders". In most cases, the buyer approves the change by annotating the original purchase order.
We found the following instances where the amount paid exceeded the authorized amount per the purchase order.

<table>
<thead>
<tr>
<th>P.O. #</th>
<th>Voucher #</th>
<th>Authorized</th>
<th>Amount Paid</th>
<th>Excess</th>
</tr>
</thead>
<tbody>
<tr>
<td>060507</td>
<td>21375</td>
<td>$1,700.00</td>
<td>$1,750.00</td>
<td>$50.00</td>
</tr>
<tr>
<td>074954</td>
<td>30215</td>
<td>-0-</td>
<td>850.00</td>
<td>850.00</td>
</tr>
<tr>
<td>68763</td>
<td>18453</td>
<td>250.00</td>
<td>316.58</td>
<td>66.58</td>
</tr>
</tbody>
</table>

*An extra invoice was processed against this completed purchase order.

Good internal control dictates that a written purchase order change should be issued if the content of an order materially changes after its issuance but prior to completion.

The N.A.E.B. (National Association of Educational Buyers) states in its guide to small order handling that:

A material change is defined as an alteration in the scope of the contract which affects delivery dates or destinations of items to be delivered, affects the quantity of items ordered and/or their unit price, or changes any other terms which are pertinent to the original purchase order.

There are some changes which can only be determined after the fact such as "installation charges" and "overruns". However, the majority of price order changes are known prior to delivery, i.e., freight charges, etc. A formal standardized change order system accomplishes several objectives:

1. Control of price deviations by the purchasing agent thereby centralizing the authorization function.
2. Preventing vendors from making unauthorized price changes in purchase orders which are issued and approved at a specific price.

3. Monitoring using department requests to authorize quantity changes to vendors.

It is the tendency of procurement departments to make changes without a "change order" to reduce paper flow. This is especially applicable when making small or minor changes and a certain minimum dollar level could be set. However, a formal change order officially advises all parties concerned of a change. Without the document, a dilution of internal control occurs.

We recommend the following steps be implemented to strengthen internal control over purchase order changes within the procurement process:

1. Insert a formal written change order procedure in the procedures manual.

2. Mandate that final approval authority remain with the purchasing director, thus maintaining control over all purchase order changes.

3. Ensure that purchasing agents are confirming prices before issuing purchase orders, so as to reduce the number of changes occurring.

4. Educate the departments to the extent that request for changes in price and quantities will not be processed if there is no prior approval by the purchasing director.
DISTRICT RESPONSE

The first instance cited was an oversight which has been corrected by the return of $100 from the contractor since it involved moving two units. The second instance was properly approved but does show as an exception since the district did not have a formal change order procedure in place. The third instance was approved and the purchase order was changed by Purchasing prior to the invoice being sent to the district. We will update the Purchasing Manual as soon as possible to reflect a formal change order procedure for all changes exceeding the original price by more than 10% or $500 whichever is less.

D. Voucher Review and Cancellation Process

The Accounts Payable Section of the Accounting Department is responsible for reviewing the invoice, purchase order and other supporting documentation before producing the voucher for payment. There is no formal system in place, however, to assure that this review process is being performed.

The review of disbursement documentation is a vital control procedure to ensure that only proper and authorized amounts are disbursed, and supporting documents are effectively cancelled to prevent duplicate or improper payments.

One beneficial method of controlling the invoice review process involves the use of a checklist stamp on the invoices. This would provide evidence of performance by requiring the initials of the employee performing the procedure. The checklist would contain the functions to be performed in order to satisfy the needs of the district as well as the requirements of good internal control.

For example, the checklist might be similar to the following:
Original invoice received
Signed receiving report received
Quantity & price agreed to P.O. or contract
Extensions and totals verified
Coding checked
Proper discount taken
Vendor number check
Sale of Use Tax checked
Payment approved by Section

Items not required to be performed should be clearly indicated as in the above example by insertion of an X.

Payment should not be processed until all applicable requirements are met.

**DISTRICT RESPONSE**

A checklist is a good tool for training new employees. It can also be valuable for supervisors who want to spot check their employees' work. However, for employees who perform routine duties hundreds of times a day, a checklist is unnecessary and needlessly time consuming. We will, however, begin having the accounts payable clerks initial every invoice they prepare to fix responsibility, and we will have the Manager of Operational Accounting perform regular spot checks of invoices to insure that the review process is being properly done.

E. Approvals For Services

The Director of Operations or his designee is responsible for approving payment for services performed by contractors in his area of responsibility. There are a few exceptions to this policy, however, where the Purchasing Department has approved for payment invoices of this nature, which is a breakdown in internal control. Purchasing in effect, not Operations, has stated that the work was physically checked and found complete before the
invoices were submitted for payment. Listed below are several examples.

<table>
<thead>
<tr>
<th>P.O. #</th>
<th>Voucher #</th>
<th>Invoice Amount</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>1)</td>
<td>80135</td>
<td>$3,000.00</td>
<td>Nursery services</td>
</tr>
<tr>
<td>2)</td>
<td>50838</td>
<td>1,500.00</td>
<td>Nursery services</td>
</tr>
<tr>
<td>3)</td>
<td>49421</td>
<td>1,800.00</td>
<td>Nursery services</td>
</tr>
<tr>
<td>4)</td>
<td>79197</td>
<td>675.00</td>
<td>Fencing</td>
</tr>
<tr>
<td>5)</td>
<td>75256</td>
<td>7,600.00</td>
<td>Painting</td>
</tr>
<tr>
<td>6)</td>
<td>74954</td>
<td>1,363.00</td>
<td>Painting</td>
</tr>
</tbody>
</table>

Purchasing should refrain in the future from approving invoices for payment except for any items or services that they actually procure for themselves.

DISTRIBUTION RESPONSE

The district has already begun implementing. The Purchasing Manual will be updated to reflect the separation of purchase and payment approval functions.

F. Maintenance Work Order Processing

During our examination of the internal controls in the area of maintenance work order processing, we noted several weaknesses which need to be corrected. These areas are categorized as follows:

1. The maintenance clerk draws the purchase orders from a stack of pre-signed purchase orders by signing them out through a log book system. Regardless of the dollar amount of the purchase made, the
clerk types that amount on the confirmation order from the delivery ticket.

2. We could not locate any current written procedures stipulating competitive limits to be followed by personnel in the Maintenance Division in making parts purchases.

3. Our review of the maintenance vendor files revealed the following:
   a. Numerous repetitive purchase orders to the same company for very small amounts.
   b. The non-existence of any form of small purchase order control such as blanket purchase orders, limited purchase orders, or contractually sound charge accounts at local vendors.

Adequate usage and control of small orders reduces the cost of procurement management, effectively increasing economy and efficiency.

Due to the size of the school district and the number of small repairs to be completed, the procedure was developed of allowing the Maintenance Department to procure items directly with Purchasing preparing a confirmation order later. According to the maintenance clerk and the purchasing agent, confirmation orders issued for maintenance in the past fiscal year are estimated to total $20,000.

It is our opinion that the following corrective measures need to be initiated to strengthen internal controls over maintenance purchase orders:
1. Pre-signed purchase orders should be totally eliminated. A small order control system should be implemented, whereby on a monthly and/or annual basis blanket orders are issued to vendors for anticipated needs. Purchasing should handle solicitations for these based on hourly rates for services or percentage discounts on parts, etc.

Authorized maintenance personnel would make calls against these contracts. At the end of the month, maintenance sales/delivery slips would be matched against invoices which are mailed directly to Accounting. Once these are reconciled and all charges are properly verified, the bill would be paid.

2. Certain, true emergency transactions, could of course continue to be handled as confirmation orders once guidelines are established for this.

DISTRICT RESPONSE

This will be implemented as soon as contracts with local supply houses can be secured through competition. The Purchasing Manual will be updated to reflect this change.

V. PROFESSIONAL DEVELOPMENT

Personnel training is one of the most critical factors in the successful operation of a procurement system. In our audit of the School District of Greenville County, we found that profes-
sional development for the purchasing agent and buyers is needed. This is evidenced by the following:

1. We found no professional development goals established for the purchasing staff in the Operating Procedures Manual or anywhere else.

2. Little or no funds are budgeted for staff procurement training.

3. None of the purchasing staff is a member of a professional purchasing organization. We did note that one has applied for membership.

4. There has been little recent participation in seminars, workshops, or short courses. These are offered at nominal cost by the National Institute of Governmental Purchasing (NIGP) and other organizations.

We are aware that budgetary funds are limited and that many times professional development is one of the first things eliminated. We feel, however, that monies spent are both necessary and worthwhile and that professional development should be pursued at all levels.

We recommend the department implement a program promoting professional development of procurement personnel through the following.

1. Budgeting funds for procurement training such as the basic, intermediate and advanced purchasing seminars given by the National Institute of Governmental Purchasing.
2. Promoting the attainment of professional certification of the purchasing staff such as Professional Public Buyer (PPB) or Certified Public Purchasing Officer (CPPO). These certifications are a part of the Universal Certification Requirements for Public Procurement Personnel developed by the National Institute of Governmental Purchasing (NIGP) and the National Association of State Purchasing Officials (NASPO).

3. Promoting participation in professional purchasing organizations such as the National Association of State Purchasing Officials (NASPO) and/or the South Carolina Association of Governmental Purchasing Officers (SCAGPO).

**DISTRICT RESPONSE**

It should be noted that purchasing personnel are already involved in the district's very broad, comprehensive ongoing staff development programs. Purchasing personnel will be encouraged to become active, participating members of their professional organizations.

Purchasing personnel will be encouraged to attend out-of-district seminars, workshops, short courses, certification training, etc., as funds become available.

VI. PROPERTY CONTROL

Our examination in the area of property control revealed that only approximately 65% of the schools in the district have had a complete equipment inventory. According to the June 30, 1983,
audited financial statements, that leaves approximately $7.5 million of equipment items uninventoried.

To complicate matters, new equipment purchases other than food service equipment are not being recorded on inventory because there is only one fixed asset accountant. For the past two years, he has been performing the inventory of existing equipment. Since there is only one person assigned to this task, there is no one to identify, tag, and account for new equipment purchases while the inventory is being taken.

There are no formal written procedures for the addition, deletion or transfer of inventoriable equipment. There is a form for reporting changes to inventory but mandatory usage is not required.

When new equipment is procured, therefore, it is not recorded on inventory until and unless the "Report of Changes to Inventory" form is submitted to the fixed asset accountant.

Prudent business management dictates that a complete property inventory be maintained so that assets are safeguarded. This is critical to the district not only to control pilferage and ensure accountability but also to ensure adequate insurance coverage in case of a disaster.

We recommend the following:

1. Formal written procedures for the accountability of fixed assets should be added to the Administrative Policy and Procedure manual. This should cover all phases of equipment activity including acquisition, transfer and disposal. This should also include
procedures for performing annual inventories of these items.

2. A more concerted effort should be made to identify all inventoriable equipment in a timely manner after it is received.

3. Food service equipment should be left on inventory until it is sold as surplus. It can be shown as fully depreciated but should be included on the list for physical control.

4. This activity should be reevaluated to determine if additional staff is needed either on a permanent or part-time basis.

DISTRICT RESPONSE

It is becoming increasingly apparent that, with our current staff consisting of a single fixed assets accountant, the District will be unable to complete a fixed asset inventory system that will be auditable. The administration again recommends to the Board, as it has previously, that a recognized appraisal firm be secured through competitive bidding to complete the inventory and establish a maintenance system, complete with software, that can be used to keep the inventory current.

VII. WAREHOUSE

Our examination of the Greenville County Distribution Center warehouse included an in-depth study of the inventory management system. We looked at the overall efficiency and effectiveness of the central warehouse with an emphasis on inventory turnover, obsolescent and overstocked items, and stockouts.
For testing purposes, we combined the two areas of the warehouse into a single test group. Our sample consisted of sixty (60) warehouse line items judgementally selected from twenty-three (23) different commodity groups.

The aggregate turnover rate for 1982/83, based on dollar volume, was 1.47 times. This indicates that inventory movement is sluggish but acceptable. However, our tests indicate that thirty-two (32%) of the items tested were overstocked to the point that it will take in excess of one year to use current stock. Examples of these are as follows:

<table>
<thead>
<tr>
<th>Item</th>
<th>Quantity on Hand 11/3/83</th>
<th>Average Monthly Usage</th>
<th>Months to Use Current Stock</th>
</tr>
</thead>
<tbody>
<tr>
<td>1) Lamp BMG</td>
<td>179</td>
<td>4.75</td>
<td>37.68</td>
</tr>
<tr>
<td>2) Lamp 1000 Watt</td>
<td>306</td>
<td>2.50</td>
<td>122.40</td>
</tr>
<tr>
<td>3) Cord for Telex</td>
<td>45</td>
<td>1.83</td>
<td>24.59</td>
</tr>
<tr>
<td>4) Table, Round</td>
<td>42</td>
<td>0.50</td>
<td>84.00</td>
</tr>
<tr>
<td>5) Fire Extinguisher</td>
<td>63</td>
<td>2.58</td>
<td>24.42</td>
</tr>
<tr>
<td>6) Shears</td>
<td>16</td>
<td>0.34</td>
<td>47.06</td>
</tr>
<tr>
<td>7) Plate (Switch Receptacle)</td>
<td>113</td>
<td>1.84</td>
<td>61.40</td>
</tr>
<tr>
<td>8) File Round</td>
<td>13</td>
<td>0*</td>
<td>+12</td>
</tr>
</tbody>
</table>

*No annual usage for above period.

This indicates that stock reorder points need to be continuously reevaluated to ensure that district funds are not tied up in inventory unnecessarily.

We recommend that the following actions be taken:

1. The reorder points should be reviewed on a scheduled basis to reflect more realistic stock balances. This should become easier as the computerized inventory system accumulates more and more historical data.
Based on industry standards, a three month supply may be appropriate in the area of office and janitorial supplies. A longer time, possibly one year, may be appropriate for maintenance items that are critical or hard to get.

2. On-hand balances should be reviewed to determine if any items are overstocked to a point surplus to the district's needs. If so, the excess should be disposed of. Otherwise, excess inventory should be reduced through attrition.

3. Currently, warehouse restocking orders are made by Purchasing with no involvement by the warehouse manager. At least until excess stock is reduced, the warehouse manager should review restocking orders before they are made by Purchasing. In our opinion, his daily work in the warehouse could provide insight into the decision to make these orders.

DISTRICT RESPONSE

The district is reviewing re-order points for inventory items as historical use data is generated from the computer inventory system. The system has been in place for less than one year and seasonal variations have yet to be fully documented. Once it is determined that items are obsolete or greatly overstocked, efforts will be made to return them to vendors in return for needed stock. This has been done effectively in the past with audio-visual lamps. The warehouse supervisor has been working with Purchasing to establish realistic reorder points. Slow inventory turnover may be expected for maintenance items due to the size of the district and the variety and type of equipment used in the different facilities. The district cannot afford the "lag time" between ordering and delivery on many of its repair needs.
VIII. INSURANCE PROCUREMENT

A. Procurement Practices

As a part of our examination, we have reviewed the insurance procurement practices of the district for compliance with applicable laws and regulations and sound procurement principles.

We found that insurance, other than that acquired through the State Insurance Reserve Fund, has been handled for several years through one insurance consultant in North Carolina. Although his files were incomplete, we were provided some evidence that the consultant obtained bids from several companies in most cases when each insurance contract was renewed. Major contracts have been renewed basically every three years as is standard industry practice.

The school district's Insurance Services Section has not maintained formal solicitation files for each contract nor is there adequate documentation of any standard competitive proposal procedures applicable to all contracts.

In addition, the district has consistently acquired its tort liability insurance coverage, including automobile liability, from private vendors in direct conflict with state law 1-11-140. This law since 1976 has stated:

Any political subdivision of the State, including, without limitation, municipalities, counties and school districts, may procure such insurance [tort liability] under the
manner herein provided for the procurement of such insurance for State employees.

A 1978 Attorney General's opinion (No. 78-147) has concluded that this section means that school districts must purchase tort liability insurance from the Division of General Services exclusively if they buy this insurance at all.

In 1981, the Code section itself was amended and the sentence,

The procurement of tort liability insurance in the manner herein provided shall be the exclusive means for the procurement of such insurance.

was added to clear up any confusion. A 1983 Attorney General's opinion affirms that automobile liability insurance falls under 1-11-140, also.

This violation of state law has been primarily an open matter within school district administration as evidenced by memos to the Board of Trustees and the superintendent dated in February, 1983, and other correspondence which we observed.

Although we realize that this law is a matter of contention with certain school district officials and is currently being studied by the Insurance Oversight Committee of the General Assembly, we do not see that compliance with the law is an optional matter. It appears that the district has had ample time to convert any policy contracts to the Insurance Reserve Fund since 1978.

We, therefore, recommend that the district effect immediate compliance with state law in this matter.
We further recommend that insurance coverage which the district will continue to purchase on the open market be acquired under the standard policies and procedures enumerated elsewhere in this report. Regardless of whether an insurance consultant or agent is retained, documentation of competition should be kept in district files sufficient for external audit.

DISTRICT RESPONSE

If so directed by the Board of Trustees, we will cancel our current liability policies and purchase this coverage from the State Insurance Reserve Fund; however, such legislative restriction seems to be contrary to the best principles of competitive bidding, and will cost the taxpayers of Greenville County several thousand additional dollars for less coverage.

We would strongly urge the General Assembly to amend the current law to make it possible for the school districts of the state to engage in competitive bidding for their insurance coverage. Only in this way can the taxpayers in each district be assured that the best possible prices are being obtained.

Documentation of competitive bidding sufficient for external audit will be kept in district files on all future policies.

B. Coverage and Rate Comparisons

We requested insurance experts at the Insurance Reserve Fund of the Division of General Services to conduct a general review of insurance coverages, comparing where applicable to policies offered by the Fund. This review was conducted using materials gathered and supplied by the audit team and, as can be seen from the following report, all necessary information could not be gathered to make a comprehensive review. If the school district
would desire such a review, officials of the Reserve Fund have offered their services in this matter.

The Insurance Reserve Fund report is as follows:

1. Medical Malpractice Although litigation in this area is severe, and higher limits of liability are often needed, Greenville School District is apparently unaware of Section 44-7-50 of the South Carolina Code which establishes a statutory limit on liability of $100,000. Section 1-11-140 requires governmental entities to purchase liability insurance from General Services. It appears that if Greenville School District complies with 1-11-140, they could obtain the insurance they need for an annual premium of $960, saving $1,083 per year over their current policy.

2. Fire and extended coverage are currently written through the Insurance Reserve Fund.

3. The area of Tort Liability Insurance is a difficult area in which to make comparisons. We have not seen the policies which make up Greenville School District's program, and must rely on other people's observations.

Apparently the program is made up of three policies. First, there is a general liability policy with a $500,000 limit for bodily injury and a $100,000 limit on property damage. Second, there is an errors and omissions policy with $1,000,000 limits. Third, there is a $2,000,000 umbrella policy which may be excess over either the general liability policy, the errors and omissions policy, the medical malpractice policy, the automobile liability policy, or any combination of these policies.

-56-
The State Tort Liability Policy appears to duplicate coverage provided by Greenville's package with the following exceptions:

Based upon information provided to the South Carolina Insurance Reserve Fund by the audit team, and until determined by a complete comparison of the actual policies, preliminary observations indicate some possible coverages provided under the South Carolina Insurance Reserve Fund that may not be covered by Greenville's package to be as follows:

- False arrest, imprisonment, malicious prosecution, or humiliation.
- Wrongful entry or eviction or other invasion of the right of private occupancy.
- Discrimination on the basis of race, sex, age, religion, or handicap.
- Denial of due process as guaranteed by the Fifth and Fourteenth Amendments.
- Violation of the First, Fourth, or Eighth Amendments.

Coverage possibly provided by the Greenville Package and not provided by the Tort Policy are as follows:

- Contractual Liability.
- Injury to an employee while practicing for or participating in an athletic contest. (Injuries to employees in such circumstances would seem to be properly covered by workers compensation; liability incurred by an employee in such circumstances would fall under the course of the employees' employment and be covered by the Tort Policy.)
- Students working in Career Education programs. (Currently 1-11-140 allows the Fund to insure only the entities, their employees, and their volunteer employees.

There are likely to be other variances, but without a detailed, line by line comparison of all the policies involved, it is not possible to precisely compare the two programs. Certainly there are differences between the two programs in coverage and in cost. Again, Section 1-11-140 imposes a legal obligation for governmental entities to purchase liability insurance from the Insurance Reserve Fund and from no other source. Assuming 5,000 employees (and this number may include students who should not be included), the premium for the various limits of liability offered by the Fund are as follows:

<table>
<thead>
<tr>
<th>Limits of Liability</th>
<th>Premium</th>
</tr>
</thead>
<tbody>
<tr>
<td>$500,000</td>
<td>$48,750</td>
</tr>
<tr>
<td>1,000,000</td>
<td>60,000</td>
</tr>
<tr>
<td>1,500,000</td>
<td>63,750</td>
</tr>
</tbody>
</table>

4. Inland Marine: apparently Greenville School District has a policy covering $60,674 worth of property which will pay only $10,000 per occurrence and which costs $632 a year.

The Fund uses different rates for different types of property (from .75/100 on fine arts and ranging downward). We have been unable to determine what sort of property is covered by Greenville's Inland Marine Policy, but assuming that it's all fine arts, and thus subject to our highest rate, the premium would be $455. It should be noted that this premium provides coverage for
up to $60,674 per occurrence rather than the $10,000 limit in the current policy. Greenville School District would obtain more coverage at less premium by complying with Section 10-7-40 of the South Carolina Code.

5. **Automobile:** Assuming that Greenville has a Comprehensive Auto Policy, coverage is likely to be similar or identical to coverage provided by the Insurance Reserve Fund. Section 15-77-230 limits the automobile liability of Greenville County Schools to $15,000/30,000/5,000, but this statutory cap does not apply to employees. The appropriate limits of liability are open to discussion and depend largely on the district's desire to afford protection for its employees. With one exception, the Fund does not offer single limits. Assuming 166 vehicles, the premiums for the Fund's policy are as follows:

<table>
<thead>
<tr>
<th>Coverage</th>
<th>Premium</th>
</tr>
</thead>
<tbody>
<tr>
<td>15/30/5</td>
<td>$23,738</td>
</tr>
<tr>
<td>50/100/25</td>
<td>30,876</td>
</tr>
<tr>
<td>100/300/50</td>
<td>33,698</td>
</tr>
<tr>
<td>250/500/100</td>
<td>36,188</td>
</tr>
<tr>
<td>500/1,000/100</td>
<td>37,848</td>
</tr>
<tr>
<td>$1,000,000 Single Limit</td>
<td>42,330</td>
</tr>
</tbody>
</table>

The Attorney General has recently ruled that Section 1-11-140 (which makes the Insurance Reserve Fund the sole source of liability insurance for governmental entities) applies to automobile liability insurance.

Automobile Physical Damage coverage is provided by Greenville's current policy and is available through the Fund. Calculation of the premium requires a listing of the vehicles to be
insured, including year, cost new, and type. Such information is not available and, therefore, no calculation of premium using the Fund's rates is possible.

There is no statutory obligation for anyone to purchase automobile physical damage insurance from the Fund. However, the fund's rates in this area are exceptionally low.

**Conclusion:** Greenville Schools, as a governmental entity operates in a unique environment which is constrained by numerous statutes. Any insurance program should consider this statutory environment and take advantage of it where possible.

Greenville Schools has developed an insurance program which is certainly quite broad in scope and for which the premiums are reasonable. In certain areas, the coverage appears to have been obtained in violation of 1-11-140 and appears to have been structured without consideration of several statutes limiting liability.

To determine whether one insurance program is a better buy than another program, it is necessary to compare the policies closely. From our experience, it will generally be found that each policy contains coverages not found in the other policy. That appears to be the case here, but we have not had the opportunity to review Greenville School's policies and must rely on general and sometimes conflicting reports of coverage.

It would appear that Greenville Schools should review its entire program in light of the statutes mentioned above to determine what steps would be advantageous to bring them into compliance with 1-11-140 and to design a program which adequately protects them at the lowest possible cost.
DISTRICT RESPONSE

The District already has in place "a program which adequately protects them at the lowest possible cost."

It is regrettable that the Insurance Reserve Fund did not review the district's policies before making their comparisons. If they had, they would have seen that the District is adequately covered for all the risks which they list as omissions in Section 3. A letter from our Insurance Consultants follows.

[See EXHIBIT B.]

IX. ENERGY AUDIT

As part of our audit, we requested the Division of General Services' Engineering and Energy Management Coordinator to analyze the district's energy management program for the purpose of identifying potential for improving energy efficiency and recommending alternatives and/or corrective action. This analysis was performed not to criticize the district but for the purpose of providing assistance in the area of cost avoidance.

During the last ten years, energy has become a major expenditure for all of us. Energy costs have taken up funds that once were available to meet other program objectives.

The results of this study are as follows:

FINDINGS:

The personnel contacted have a very keen interest in energy/utility utilization. This is evidenced by the records...
that are readily available. Also an analysis of these records indicates that this increased awareness has yielded significant savings (cost avoidance) in the costs associated with use of electricity during the past year.

They should be commended for their efforts and encouraged to continue these efforts in other areas associated with the use of energy.

Also, the school personnel have effectively tapped the resources of Duke Power. They are using the free survey information supplied by Duke to make management decisions that have benefitted the district.

The water and sewer service has been evaluated and, where appropriate, a separate meter has been installed for irrigation, thus eliminating the possibility of a sewer charge.

RECOMMENDATIONS:

The administration should consider arranging the energy related statistics in a way that will reference energy terms and not dollars (i.e. BTU/SQ. FT., THERMS/STUDENT, KW/SQ. FT.; etc.). If energy units are used, the comparison between years, buildings, etc. is relatively easy because the dollars associated with rate structures and increases do not affect the units compared.

We suggest that the above recommendations be considered as soon as practical.
DISTRICT RESPONSE

Implementation will be determined by availability of funds to purchase a mini-computer and necessary software and personnel to handle the workload.

X. PRINT SHOP UTILIZATION

Also as part of our regular examination, the State Printing Officer analyzed print shop equipment and personnel utilization. The following is his report:

Total Annual Volume for FY 1981-82 and FY 82-83.

A. AB Dick 360 CD - 3,857,524 impressions

Average Annual Volume - 1,928,762 impressions

Note: The State's efficiency standards are based on productivity determined over 219 working days. We allow 4 hours per day for production and 3½ hours per day for job setup, cleanup, finishing, routine maintenance, and miscellaneous down time. A percentage of equipment utilization is determined in the following manner:

1,928,762 annual impressions divided by 219 working days = 8,807
8,807 impressions per day divided by 4000* impressions = 2.20
2.20 hours divided by four hours** = .55
Equipment Utilization Percentage = 55%

*4000 impressions per hour is the standard established for
an AB Dick 360 CD.
**Four hours is the production hours available in a working
day.

B. Xerox 9400 – 3,097,938 impressions
Average Annual Volume – 1,548,969 impressions.
1,548,969 annual impressions divided by 219 working days =
7,073
7,073 impressions per day divided by 3600 impressions = 1.96
1.96 hours divided by four hours = .49
Equipment Utilization Percentage = 49%

C. Overall Equipment Utilization Percentage: 52%
55% plus 49% = 104%
divided by two = 52%

Man Hour utilization is determined in much the same manner.
However, an allowance is made when more equipment exists than one
person could operate efficiently in the four hours per day
allowed for production.
3,477,731 (total impressions produced on the average per year)
divided by 219 working days = 15,880.
15,880 impressions per day divided by the number of employees available for production (1) = 15,880 impressions.

15,880 impressions per day divided by 3800*** = 4.18.

4.18 hours divided by four hours = 1.04 Man Hour Utilization = 104%

***3800 impressions per hour represent the production standards of both pieces of equipment combined and averaged.

The overall efficiency of an in house facility is determined by adding the equipment utilization percentage and the man hour utilization percentage and dividing by two.

<table>
<thead>
<tr>
<th>Equipment Utilization</th>
<th>52%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Man-Hour Utilization</td>
<td>104%</td>
</tr>
<tr>
<td>Total</td>
<td>156%</td>
</tr>
<tr>
<td>Efficiency (156%) divided by two = 78%</td>
<td></td>
</tr>
<tr>
<td>Overall Efficiency = 78%</td>
<td></td>
</tr>
</tbody>
</table>

The minimum acceptable level of productivity has been established at 70%. At your 78% efficiency level we would deem your printing facility to be operating in a satisfactory manner.

We recommend that the district take this report into consideration and continually strive to upgrade the operation efficiency of the Print Shop.
The district will continue to upgrade print shop equipment as funds become available.
CONCLUSION

The conditions pointed out in this report, we believe, indicate numerous deficiencies in the procurement system of the School District of Greenville County when compared to current procurement standards for governmental bodies. Unlike several years ago, the public and its elected representatives are demanding more accountability, more fairness and more efficient, effective and economical operating systems of its governmental units.

In fact within the Consolidated Procurement Code itself, the General Assembly mandated that all political subdivisions "...adopt ordinances or procedures embodying sound principles of appropriately competitive procurement no later than July 1, 1983."

The points listed in the body of this report indicate the urgent need for the implementation of a structured, accountable system of procurement. Whether this system is the Consolidated Procurement Code or some other specifically adopted set of policies and procedures, we recommend that the implemented system embody the purchasing provisions of the Procurement Code at a minimum which we have basically outlined here.

District procurement personnel, we believe, have always desired to be as accountable and effective as possible and have greatly assisted us in documenting the aforementioned problems. As with many state agencies upon the passage of the Procurement Code, many of the policies and procedures under question have
been in place for several years and were developed in a different operating environment.

R. Voight Shealy
Audit Supervisor

DISTRICT RESPONSE

The current purchasing system is the product of the combined efforts of many people, including local business leaders. It is based upon sound purchase policies and procedures. At the same time, it is responsive to the needs of the educational process which it exists to serve.

The district tries to be responsive to the needs of the staff members. Rather than purchase items which are used in the classroom, offices, and other areas of the school district based on only the low-bid price, we have worked through user-committees and have relied heavily on the decisions made by those in a position to best know the results of a particular product. Oftentimes, the product which would be purchased at the low-bid price is not the best product nor is it the one which would actually save money over the long run.

Omissions or deficiencies cited in the audit report are exceptions to the rule, rather than characteristic of the system. The main deficiency cited in the report was the failure to obtain or retain documentation of the process of competitive pricing, rather than the failure to follow the process. This will be corrected in future transactions.

We look upon this audit as another step in improving our system. We pledge to immediately adopt those measures that will make the system more efficient and we will examine procedures which need to be changed.
EXHIBIT A

EXAMPLES OF NO COMPETITION

I. CONSTRUCTION RELATED SERVICES

<table>
<thead>
<tr>
<th>P.O. #</th>
<th>VOUCHER #</th>
<th>AMOUNT</th>
<th>DESCRIPTION</th>
</tr>
</thead>
<tbody>
<tr>
<td>1)</td>
<td>49420</td>
<td>875</td>
<td>$ 1,500.00</td>
</tr>
<tr>
<td>2)</td>
<td>50837</td>
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<td>1,000.00</td>
</tr>
<tr>
<td>3)</td>
<td>77563</td>
<td>27039</td>
<td>10,616.00</td>
</tr>
<tr>
<td>4)</td>
<td>67945</td>
<td>18658</td>
<td>508.20</td>
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<td>5)</td>
<td>74103</td>
<td>28858</td>
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<td>6)</td>
<td>752</td>
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<td>7)</td>
<td>63852</td>
<td>14866</td>
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<td>8)</td>
<td>49534</td>
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<tr>
<td>9)</td>
<td>53472</td>
<td>03528</td>
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<tr>
<td>10)</td>
<td>80461</td>
<td>31363</td>
<td>1,525.00</td>
</tr>
<tr>
<td>11)</td>
<td>64588</td>
<td>15689</td>
<td>1,320.00</td>
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<tr>
<td>12)</td>
<td>51230</td>
<td>1797</td>
<td>2,886.50</td>
</tr>
</tbody>
</table>

Additional exceptions noted.

<table>
<thead>
<tr>
<th>P.O. #</th>
<th>P.O.DATE</th>
<th>INVOICE DATE</th>
<th>ITEM OR SERVICE</th>
<th>AMOUNT</th>
</tr>
</thead>
<tbody>
<tr>
<td>49656</td>
<td>8/6/81</td>
<td>8/4/81</td>
<td>Cut drain ditch</td>
<td>$ 100.00</td>
</tr>
<tr>
<td>49655</td>
<td>8/6/81</td>
<td>8/4/81</td>
<td>Regrass areas, fertilize, cut drain ditch</td>
<td>1,000.00</td>
</tr>
<tr>
<td>50838</td>
<td>8/21/81</td>
<td>8/18/81</td>
<td>Cut drainage, fertilize, grass seed, lime</td>
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</tr>
<tr>
<td>64231</td>
<td>4/8/82</td>
<td>3/22/82</td>
<td>Thatch lawn, seed, lime, fertilize, spray</td>
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</tr>
<tr>
<td>69891</td>
<td>8/18/82</td>
<td>8/5/82</td>
<td>Spray, seed, fertilize, replace dogwoods, pruning</td>
<td>1,500.00</td>
</tr>
<tr>
<td>70657</td>
<td>8/18/82</td>
<td>8/12/82</td>
<td>Plants, spraying, mulching, regrade, reseed, fertilize</td>
<td>1,500.00</td>
</tr>
<tr>
<td>70368</td>
<td>8/25/82</td>
<td>8/20/82</td>
<td>Regrade, regrass, reseed</td>
<td>1,200.00</td>
</tr>
</tbody>
</table>

II. INFORMATION TECHNOLOGY INCLUDING PRINTING

<table>
<thead>
<tr>
<th>P.O. #</th>
<th>VOUCHER#</th>
<th>AMOUNT</th>
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</thead>
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<tr>
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<td>68874</td>
<td>$9,730.00</td>
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<td>2)</td>
<td>-</td>
<td>27750</td>
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</tr>
<tr>
<td>3)</td>
<td>-</td>
<td>30680</td>
<td>702.45</td>
</tr>
<tr>
<td>4)</td>
<td>64578</td>
<td>14851</td>
<td>1,594.58</td>
</tr>
<tr>
<td>5)</td>
<td>51814</td>
<td>5833</td>
<td>2,097.48</td>
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</tbody>
</table>

EXHIBIT A - Page 1
III. REGULAR GOODS AND SERVICES

<table>
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<tr>
<th>P.O.#</th>
<th>VOUCHER#</th>
<th>AMOUNT</th>
<th>DESCRIPTION</th>
</tr>
</thead>
<tbody>
<tr>
<td>1)</td>
<td>-</td>
<td>$1,440.00</td>
<td>Testing services</td>
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<tr>
<td>2)</td>
<td>-</td>
<td>1,800.00</td>
<td>Catering services for</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>retirement tea</td>
</tr>
<tr>
<td>3)</td>
<td>066029</td>
<td>16691</td>
<td>1,981.20</td>
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<tr>
<td>4)</td>
<td>053250</td>
<td>04532</td>
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<tr>
<td>5)</td>
<td>052208</td>
<td>04442</td>
<td>683.38</td>
</tr>
<tr>
<td>6)</td>
<td>063295</td>
<td>17118</td>
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<tr>
<td>7)</td>
<td>52322</td>
<td>05286</td>
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<td>8)</td>
<td>02904</td>
<td>01523</td>
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<tr>
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<td>069575</td>
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<td>1,251.54</td>
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<tr>
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<td>071873</td>
<td>25424</td>
<td>1,125.27</td>
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<tr>
<td>11)</td>
<td>070369</td>
<td>22324</td>
<td>987.07</td>
</tr>
<tr>
<td>12)</td>
<td>065688</td>
<td>19905</td>
<td>579.16</td>
</tr>
<tr>
<td>13)</td>
<td>083471</td>
<td>70767</td>
<td>1,190.80</td>
</tr>
<tr>
<td>14)</td>
<td>080129</td>
<td>32091</td>
<td>930.80</td>
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<tr>
<td>15)</td>
<td>081646</td>
<td>32601</td>
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</tr>
<tr>
<td>16)</td>
<td>068352</td>
<td>19240</td>
<td>937.51</td>
</tr>
<tr>
<td>17)</td>
<td>45245</td>
<td>02035</td>
<td>1,029.60</td>
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<tr>
<td>18)</td>
<td>51054</td>
<td>64811</td>
<td>778.44</td>
</tr>
<tr>
<td>19)</td>
<td>51352</td>
<td>64131</td>
<td>929.84</td>
</tr>
</tbody>
</table>

*As evidenced by the lack of purchase order numbers, these may be unauthorized procurements.*
IV. CHEMICALS - All the same vendor.

<table>
<thead>
<tr>
<th>P.O.#</th>
<th>AMOUNT</th>
<th>DESCRIPTION</th>
</tr>
</thead>
<tbody>
<tr>
<td>1) 48654</td>
<td>$6,438.90</td>
<td>Acrylic wax, disinfectant, cleaners</td>
</tr>
<tr>
<td>2) 50293</td>
<td>1,643.95</td>
<td>Acrylic wax</td>
</tr>
<tr>
<td>3) 50707</td>
<td>1,122.55</td>
<td>Disinfectant, cleaners</td>
</tr>
<tr>
<td>4) 52643</td>
<td>3,569.25</td>
<td>Acrylic wax</td>
</tr>
<tr>
<td>5) 53408</td>
<td>1,544.95</td>
<td>Disinfectant, cleaners</td>
</tr>
<tr>
<td>6) 54803</td>
<td>1,301.30</td>
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</tr>
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<td>7) 56691</td>
<td>3,790.75</td>
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<td>8) 58559</td>
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</tr>
<tr>
<td>9) 59451</td>
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<tr>
<td>10) 61027</td>
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</tr>
<tr>
<td>11) 61585</td>
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</tr>
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<td>12) 62690</td>
<td>1,508.00</td>
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</tr>
<tr>
<td>13) 64296</td>
<td>2,068.00</td>
<td>Acrylic wax, cleaners</td>
</tr>
<tr>
<td>14) 63840</td>
<td>4,655.20</td>
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</tr>
<tr>
<td>15) 64734</td>
<td>3,099.00</td>
<td>Acrylic wax, cleaners</td>
</tr>
<tr>
<td>16) 65988</td>
<td>2,877.90</td>
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</tr>
<tr>
<td>17) 68904</td>
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<tr>
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<td>19) 75252</td>
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<tr>
<td>21) 74408</td>
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</tr>
<tr>
<td>22) 77429</td>
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</tr>
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<td>23) 78773</td>
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<td>24) 78774</td>
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<tr>
<td>25) 79882</td>
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<tr>
<td>26) 81305</td>
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</tr>
<tr>
<td>27) 1794</td>
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</tr>
<tr>
<td>28) 2904</td>
<td>13,580.00</td>
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</tr>
<tr>
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</tr>
<tr>
<td></td>
<td>plus tax (4%) 3,402.89</td>
<td>$88,475.19</td>
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V. WAREHOUSE PROCUREMENTS

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<thead>
<tr>
<th>P.O.#</th>
<th>VOUCHER#</th>
<th>AMOUNT</th>
<th>DESCRIPTION</th>
</tr>
</thead>
<tbody>
<tr>
<td>1) 69400</td>
<td>22145</td>
<td>$ 925.52</td>
<td>Solder, tubing, pump bearing</td>
</tr>
<tr>
<td>2) 74134</td>
<td>26221</td>
<td>3,619.20</td>
<td>Floor machine maintenance</td>
</tr>
<tr>
<td>3) 81354</td>
<td>33343</td>
<td>1,310.40</td>
<td>Ten file cabinets</td>
</tr>
<tr>
<td>4) 74644</td>
<td>28100</td>
<td>2,046.72</td>
<td>Shade cloth</td>
</tr>
</tbody>
</table>

EXHIBIT A - Page 3
Mr. Joel Parsons  
The School District of Greenville County  
Post Office Box 2848  
Greenville, South Carolina 29602

Re: Casualty Insurance

Dear Joel:

Here are some comments relative to your current insurance program compared to what is required by statute: It is our opinion that your program is a sound one. It meets or exceeds the requirements of South Carolina statutes and it certainly is economical when comparing the overall cost of the program by the insurance industry to the state offered program.

Please let me comment about some of the items which we discussed in connection with your insurance audit:

Professional Liability

The professional liability policy written by the St. Paul Insurance Companies covers claims arising out of specified professions which provide services by specifically named individuals and/or substitutes for those individuals. Because there is a serious doubt as to whether the services provided by the school district truly fall into the areas described by South Carolina statute Chapter 7, Article 1, Section 44-7-50, it is recommended that you continue this insurance at least at the limits that are provided under the policy. It is recommended that the distinction between the definition of "medical facility" and "medical service" be ascertained. It would appear the physical existence of a hospital and its services is being equated to a clinic or some such presence, as opposed to the district's provision of a variety of services such as therapists, health consultants, and audiologists as required by federal legislation. Granted, it is a fine line, but adequate protection in such a questionable situation is of primary importance. Until the ambiguity in the law is clarified, this is your best protection.
Tort Liability

The School District has insurance for:

- False Arrest - Imprisonment - Malicious Prosecution
- Wrongful Entry or Eviction or Other Invasion of Right of Private Occupancy

This coverage is provided under the Personal Injury Liability Insurance Coverage Part, Form No. L-3525-0, in the Hartford Accident and Indemnity Company's Policy No. 22CGB4894.

Other Liability

The School Leaders Errors and Omissions Policy written by National Union Fire Insurance Company of Pittsburgh, Pennsylvania, provides the insured with coverage for wrongful acts. The insured is defined as the school district, the board of education, trustees, directors and members of the board, and any employee of the school district. The policy provides a broad form of coverage (excluding what would normally be insured in a general liability contract). Included in the policy is coverage for claims made against the insured for:

- Discrimination on the basis of race, sex, age, religion or handicap.
- Denial of due process as guaranteed by the Fifth and Fourteenth Amendments to the Constitution.
- Violation of the First, Fourth or Eighth Amendments to the Constitution.

There is one minor limitation to the coverage for discrimination, and that falls into exclusion (j). This excludes coverage for claims made on the basis of race or national origin with regard to student enrollment or participation, but defense coverage is provided for such claims.

In all, it appears this insurance policy provides everything that is needed to be equated with the State's Tort Policy, but at higher limits. Your umbrella policy will increase the limit by another $2,000,000 beyond the $1,000,000 limit in this policy.

Automobile Liability

Please note the audit states the premium comparisons for the Fund policy are for various limits of liability and pertain only to liability insurance. If physical damage insurance is required, the state's Fund will charge extra.
Since the State Fund has a single limit of liability available only at the $1,000,000 level, I have converted your current auto premium to approximately what it would be at the $1,000,000 level, also for 166 vehicles.

<table>
<thead>
<tr>
<th>Your Current Auto Liability Premium</th>
<th>State Fund Auto Liability Premium</th>
</tr>
</thead>
<tbody>
<tr>
<td>$17,424.</td>
<td>$42,330.</td>
</tr>
</tbody>
</table>

So by comparison, the policy rate per vehicle for liability only would be $105. and the rate for the Fund is $255. which is almost 243% higher. Comparison of physical damage charges cannot be made, since the report does not offer premium information, but even with physical damage insurance on your policy, the vehicle rate is $141. (or 55.3% of the state rate for liability only).

The policy limit is now $500,000 for each accident. In addition, you have an excess liability coverage policy with a $2,000,000 limit per occurrence which gives the district a total of $2,500,000 for accident/occurrence coverage and with no aggregate limit on auto liability. The policy does not show a breakdown of premium for each of the kinds of hazards covered, but assuming 60% of the $4,500. premium applies to the auto policy, the per vehicle cost for liability is about $16. This results in total composite auto liability rate of $113. for a single limit of liability of $2,500,000.

Obviously, the open market offers a very good opportunity to save money on auto insurance.

Conclusion

To reiterate my opening comments, you have a very sound insurance program at a very economical price, with limits of liability which will protect you for catastrophe situations. Today's insurance market offers excellent pricing opportunities for the buyer, and as a result the tax payers benefit from the savings offered by a competitive market. You are encouraged to stay with the private insurance sector until the state program can offer as competitive a program.

Very truly yours,

FACTORY INSURANCE CONSULTANTS, INC.

R. L. Cossart
Casualty Consultant

RLC:mel

Exhibit B Page 3 of 3
CLARIFICATION OF FACTUAL ERRORS IN DISTRICT RESPONSE

We noted the following factual errors that were made by the district in their response to our report that we feel need to be clarified for the sake of the reader:

REPORT POINT I.1.d), NON MAJOR CONSTRUCTION SERVICES,
PAGE 15

The second sentence of the response to this point implies that competition was obtained on the air conditioner repairs contract. It should be made clear that the contract referenced in that sentence was the maintenance of controls contract. We found that there was no separate solicitation covering the repairs in question.

REPORT POINT I.1., NON MAJOR CONSTRUCTION SERVICES,
PAGE 16

In addition to the above, the district in its general comments following their item f) incorrectly describes our sample. Sixty transactions were tested in this area as part of a randomly selected statistical sample, not "only 12". The twelve transactions referred to and listed in Exhibit A, Section I, are the exceptions noted during our review of the sixty item sample.
REPORT POINT I.4., REGULAR GOODS AND SERVICES, PAGE 18

This sample of sixty transactions was selected randomly from approximately 3,000 on file, not "20,000" as indicated in the district's response.

REPORT POINT II.C., INTERNAL AUDIT, PAGES 8 AND 27

The district in their response indicates that "an obvious oversight" was made. No oversight on our part was made here. We not only acknowledged these external audits but we also studied copies of these for the most recent three fiscal years. However, we disagree with the implication that this eliminates the need for continuous internal review of all district operations. Relying strictly on annual external audits leaves a gap in administrative control over the district procurement function because this area goes without review except at the time of the external audit. Although these are effective, they cannot provide the type of on-going control necessary in an area where such large sums of money are expended.