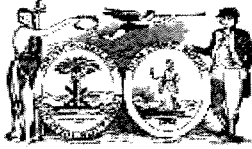


STATE OF SOUTH CAROLINA
State Budget and Control Board
PROCUREMENT SERVICES DIVISION

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R. VOIGHT SHEALY
MATERIALS MANAGEMENT OFFICER

July 27, 2004

Mr. Delbert H. Singleton Jr.
Director
Procurement Services Division
6th Floor-Wade Hampton Building
Columbia, South Carolina 29201

Dear Delbert:

I have attached Department of Education's procurement audit report and recommendations made by the Office of Audit and Certification. I concur and recommend the Budget and Control Board grant the Department of Education a three-year certification as noted in the audit report.

Sincerely,

A handwritten signature in cursive script that reads "Voight Shealy".

R. Voight Shealy
Materials Management Officer

/jl

SOUTH CAROLINA DEPARTMENT OF EDUCATION

PROCUREMENT AUDIT REPORT

APRIL 1, 2001 – MARCH 31, 2004

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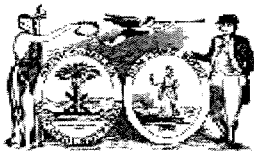
NOTE: The Department's responses to issues noted in this report have been inserted immediately following the items they refer to.

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R. VOIGHT SHEALY
MATERIALS MANAGEMENT OFFICER

July 12, 2004

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

Dear Voight:

We have examined the procurement policies and procedures of the South Carolina Department of Education for the period April 1, 2001 through March 31, 2004. As part of our examination, we studied and evaluated the system of internal control over procurement transactions to the extent we considered necessary.

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

The administration of the South Carolina Department of Education 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, assurances of the integrity of the

procurement process, that affected assets are safeguarded against loss from unauthorized use or disposition and that transactions are executed in accordance with management's authorization and are recorded properly.

Because of inherent limitations in any system of internal control, errors or irregularities may occur and not be detected. Also, projection of any evaluation of the system to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or that the degree of compliance with the procedures may deteriorate.

Our study and evaluation of the system of internal control over procurement transactions, as well as our overall examination of procurement policies and procedures, were conducted with professional care. However, because of the nature of audit testing, they would not necessarily disclose all weaknesses in the system.

The examination did, however, disclose conditions enumerated in this report that we believe need correction or improvement by the Department of Education. Corrective action based on the recommendations described in these findings will in all material respects place the South Carolina Department of Education in compliance with the Consolidated Procurement Code and ensuing regulations.

Sincerely,



Larry G. Sorrell, Manager
Audit and Certification

INTRODUCTION

We conducted an examination of the internal procurement operating policies and procedures of the South Carolina Department of Education. Our on-site review was conducted April 16, 2004 through May 26, 2004 and was made under Section 11-35-1230(1) of the South Carolina Consolidated Procurement Code and Section 19-445.2020 of the accompanying regulations.

The examination was directed principally to determine whether, in all material respects, the procurement system's internal controls were adequate and the procurement procedures, as outlined in the Internal Procurement Operating Procedures Manual, were in compliance with the South Carolina Consolidated Procurement Code and its ensuing regulations.

On August 15, 2001, the Budget and Control Board granted the South Carolina Department of Education the following procurement certifications:

<u>PROCUREMENT AREAS</u>	<u>CERTIFICATION LIMITS</u>
Goods and Services	\$25,000 per commitment
Consultant Services	\$25,000 per commitment
Information Technology	\$25,000 per commitment

Our audit was performed primarily to determine if recertification is warranted. No additional certification over the current limits was requested.

SCOPE

We conducted our examination in accordance with Generally Accepted Auditing Standards as they apply to compliance audits. Our examination encompassed a detailed analysis of the internal procurement operating procedures of the South Carolina Department of Education and its related policies and procedures manual to the extent we deemed necessary to formulate an opinion on the adequacy of the system to properly handle procurement transactions.

We selected a judgmental sample for the period July 1, 2001 through March 31, 2004 of procurement transactions for compliance testing and performed other audit procedures that we considered necessary to formulate this opinion. Specifically the scope of our audit included, but was not limited to, a review of the following:

- (1) All sole source, emergency and trade-in sale procurements for the period April 1, 2001 through March 31, 2004
- (2) Procurement transactions for the period July 1, 2001 through March 31, 2004 as follows:
 - a) Ninety payments each exceeding \$1,500
 - b) A block sample of five hundred numerical purchase orders
- (3) One major construction contract reviewed for compliance with the Manual for Planning and Execution of State Permanent Improvements
- (4) Minority Business Enterprise Plans and reports
- (5) Approval of most recent Information Technology Plan
- (6) Internal procurement procedures manual
- (7) Surplus property disposition procedures
- (8) File documentation and evidence of competition

SUMMARY OF AUDIT FINDINGS

Our audit of the procurement system of the South Carolina Department of Education, hereinafter referred to as the Department, produced the following findings and recommendations.

	<u>PAGE</u>
I. <u>General Procurement Exceptions</u>	
A. <u>Procurement Process for State Contracts Items</u>	6
Sixty-seven percent of purchase orders issued are for state contract items less than \$1,500.	
B. <u>Unauthorized Procurements</u>	6
Two unauthorized procurements were noted.	
C. <u>Bid Rejection Procedures</u>	7
Two procurements had improperly rejected low bids.	
D. <u>Printing Specification Sheets Not Used</u>	8
None of the solicitations for printing services referenced the South Carolina Government Printing Services Manual or used the printing specification sheets.	
E. <u>Change Order Policy</u>	8
The Department's change order policy needs to be revised.	
F. <u>Use Tax Payments</u>	9
Two vouchers appeared to have paid out of state sales tax for items procured out of state, but delivered and consumed in state.	
II. <u>Sole Source and Emergency Procurements</u>	
A. <u>Reporting Errors</u>	10
We noted certain types of reporting errors in sole source and emergency procurements.	

RESULTS OF EXAMINATION

I. General Procurement Exceptions

A. Procurement Process for State Contract Items

During a test of five-hundred sequentially issued purchase orders, we scheduled the frequency of procurements in different dollar amounts and categorized the procurement methods utilized. The schedule shows that sixty-seven percent of purchase orders were issued for state contract items less than \$1,500. We discussed several options to relieve the Procurement Department of processing requisitions for state contract procurements. One option is to implement a procurement card system whereby procurement authority is delegated to the end user generally up \$1,500 per purchase. Another option is to use blanket purchase agreements. Both systems have internal controls to protect the Department and allow the end users to make small procurements directly.

We recommend the Department review its procurement process for state contracts with emphasis on eliminating the issuing of purchase orders for amounts less than \$1,500.

DEPARTMENT RESPONSE

We have begun the review of our procurement process for state contracts with an emphasis on eliminating the issuing of purchase orders for amounts less than \$1,500. This review will investigate whether going to a procurement card and/or blanket purchase agreement is viable at this time.

B. Unauthorized Procurements

We noted two unauthorized procurements.

<u>PO</u>	<u>Description</u>	<u>Amount</u>
P02460	Catering services	\$27,043
P10486	External review	2,750

A written justification for in-state conference site selection exemption supported the catering services. However, the exemption procedures apply to conference sites only, not catering. Since the procurement exceeded the Department's procurement authority of \$25,000 for goods and services, the procurement is unauthorized as defined in Regulation 19-445.2015.

Someone without procurement authority directed the external review service be performed. The procurement was unauthorized as defined in Regulation 19-445.2015 due to the procurement being made by someone without procurement authority.

We recommend the Department comply with the applicable procurement authority for these types of items and comply with the competitive requirements of the Code. A ratification request

must be submitted to the Materials Management Officer in accordance with Regulation 19-445.2015 for purchase order P02460. A ratification request must be submitted to the Superintendent or her designee in accordance with Regulation 19-445.2015 for purchase order P10486.

DEPARTMENT RESPONSE

PO2460

We procured, through an exemption, both the use of a conference site facility and that facility's catering service. That was because one could not be procured without the other. Since only the procurement of the facility use is exempt, we have begun the process of ratifying this procurement. Exempting such a catering procurement may be something to consider when revising the Code since it would reduce administrative costs.

P10486

Because someone without procurement authority directed the external review service to be performed, we have begun the process of ratifying this procurement. We are intensifying our efforts to be aware of such actions and to make certain that every staff member in the Office of School Quality is familiar with the Department's purchasing procedures.

C. Bid Rejection Procedures

We reviewed two procurements that had improperly rejected low bids.

<u>PO</u>	<u>Description</u>	<u>Amount</u>
P01721	Design and print brochure	\$ 8,369
P32030	Remove and install fuel tank	74,847

A note added to the file for purchase order P01721 states, "Winning bid was based on vendor complying with bid request stipulation of bidder supplying time-line for turn around. Winning bid was only one committing to a time line in their bid." The bid request stipulation referenced states, "Please include your turn-around time from delivery of text to completion." The quote specifications do not state a required delivery time. Therefore an award can not be based on delivery time.

For purchase order P32030 the low quote for the emergency procurement was rejected because the vendor failed to sign the quote and the quote was received late. The specifications did not require signed quotes nor does the procurement file show when the low quote was received. Therefore, the file does not contain sufficient information for us to conclude if the low quote should have been rejected.

We recommend the Department review its bid rejection processes. Sufficient documentation should be included in the procurement files supporting the actions taken.

DEPARTMENT RESPONSE

PO1721

Because the required delivery time was not specified on the quote specifications, it is stated that an award cannot be based on delivery time. While we did ask for the “turn-around time from delivery of text to completion”, we did not specify a time. The verbiage in the solicitation was not understood by all the bidders. Thus, we are reviewing our bid rejection processes. Special attention will be given to the language we use to ensure that future vendors absolutely understand that delivery date information is considered in the determination of a qualified bid. We will make certain that everyone understands that quote specifications state a required delivery time.

P32030

We are reviewing our bid rejection processes for all procurements, including emergencies such as this. This procurement required emergency action that would impact the environment. Action is being taken to make certain that sufficient documentation is included in the procurement files supporting actions taken.

D. Printing Specification Sheets Not Used

None of the solicitations for printing services in our sample referenced the South Carolina Government Printing Services Manual or used the printing specification sheets. The manual states:

When procuring printing services, compliance with the following is required for all State Agencies:

1. All printing services must be procured in accordance with the South Carolina Consolidated Procurement Code, the State Procurement Regulations, and the South Carolina Government Printing Services Manual.
2. Regardless of whether the procurement is to be done by the agency or the Materials Management Office, all solicitations for printing services must include either a Printing Specification Sheet or Form Specification Sheet (included in this manual), whichever is applicable. Additional detailed specifications may be attached to better explain the requirements.

We recommend the Department incorporate the requirements of the South Carolina Government Printing Services Manual by reference and use the printing specification sheets.

DEPARTMENT RESPONSE

We have begun incorporating the requirements of the South Carolina Government Printing Services Manual by reference and using the printing specification sheets. A specific Buyer has been charged with the responsibility of implementing this. All offices of the Department have also been notified about these requirements.

E. Change Order Policy

The Department’s change order policy needs to be revised. The current policy states,

Purchase orders for items on state or agency contracts do not have to be amended to reflect price increases unless the price increase is substantial, as determined by the Office of Finance.

An internal memo states purchase orders do not have to be amended in amounts less than 10% greater than price on the purchase order.

Any change in price to state contract items must be authorized by the Materials Management Office (MMO). The same should apply for contracts solicited by the Department.

The Department may wish to consider a limited payment tolerance policy where Accounts Payable may pay invoices with up to a 10% variance not to exceed \$100. The tolerance policy should not be allowed on contract items nor should it apply to additions to purchase orders. Additions may include increased quantity of items ordered, other items added that were not ordered, additional freight charges not authorized, insurance, shipping and handling charges not authorized or any other such items not specifically included on the purchase order.

We recommend the Department revise its change order policy.

DEPARTMENT RESPONSE

The Offices of Procurement and Finance are looking at revising the change order policy to include contracts solicited by the Department. We will definitely make certain that any change in price to state contract items are authorized by MMO.

F. Use Tax Payments

We noted two vouchers where the Department paid out of state sales tax for items procured out of state, but delivered and consumed in state.

<u>Voucher</u>	<u>Sales Tax Paid</u>	<u>Tax Rate Paid</u>	<u>SC Tax Dollars Due</u>	<u>SC Tax Rate Due</u>
V06541	\$533.82	7%	\$381.30	5%
V46344	\$989.85	6%	\$824.88	5%

Liability for sales tax starts with the purchase. This means the Department has the sales tax liability for its purchases. When the Department pays sales tax to vendors authorized to collect South Carolina sales tax by the South Carolina Department of Revenue (SCDOR), the Department is relieved of the sales tax liability. If the vendor is out of state, the same standard applies. Therefore, the Department should confirm that out of state vendors are authorized by the SCDOR to collect South Carolina sales tax before the tax is paid. If the out of state vendors are not authorized by SCDOR, then the Department should pay South Carolina use tax to the SCDOR. This assumes the goods being purchased from out of state vendors are being delivered and consumed in South Carolina. The Department may have a potential liability to the SCDOR if

it does not properly understand when it should pay South Carolina sales tax to out of state vendors.

We recommend the Department review its procedures for sales and use tax.

DEPARTMENT RESPONSE

The Office of Finance will review its procedures for sale and use tax.

II. Sole Source and Emergency Procurements

A. Reporting Errors

We noted several reporting errors for sole source and emergency procurements. The purchase order amounts for consultants do not include travel costs. Change orders made to purchase orders after the end of a quarter are not reflected on reports. The Department reported exempt items. These are repeat findings from the prior audit. As a result of these errors, the Department is not accurately reporting the actual dollars expended under sole source and emergency procurements. A schedule of these transactions can be found on the Appendix at the end of the report.

We recommend the Department report all costs associated with sole source and emergency procurements including travel and change orders and exercise caution to ensure that items are properly classified.

DEPARTMENT RESPONSE

The procurement staff has been instructed to be sure to ask for all expenses associated with consultant purchases, to include travel costs, for reporting purposes. They have also been instructed to be more attentive to report trade-in sales. The staff also will now be stamping in large red print the words "SOLE SOURCE AMENDMENT" on such documents to make certain that change orders made to purchase orders after the end of a quarter are reflected on reports. Also, an email has been sent to everyone instructing them that software maintenance and license renewals are considered to be the same. Everyone has been instructed that these are exempt if the items were procured originally either as a competitive bid or sole source. This will make certain that such exempt items are not reported on sole source or emergency procurement reports. We have corrected such errors so that we are accurately reporting the actual dollars expended under sole source and emergency procurements. We have filed this corrected report with MMO. It should be noted that these reporting errors did not result in the loss of any money.

CERTIFICATION RECOMMENDATIONS

As enumerated in our transmittal letter, corrective action based on the recommendations described in this report, we believe, will in all material respects place the South Carolina Department of Education in compliance with the Consolidated Procurement Code and ensuing regulations.

Under the authority described in Section 11-35-1210 of the Procurement Code, subject to this corrective action, we will recommend the South Carolina Department of Education be recertified to make direct agency procurements for three years up to the limits as follows:

<u>PROCUREMENT AREAS</u>	<u>RECOMMENDED CERTIFICATION LIMITS</u>
Goods and Services	*\$25,000 per commitment
Consultants Services	*\$25,000 per commitment
Information Technology	*\$25,000 per commitment

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



Robert J. Aycock, IV
Senior Auditor



Larry G. Sorrell, Manager
Audit and Certification

Appendix - Reporting Errors

<u>Item</u>	<u>PO</u>	<u>Item Description</u>	<u>Amount Reported</u>
A	P95067	Software license renewal	\$ 6,895
A	P02047	Software license renewal	2,157
A	P02117	Software license renewal	7,675
A	P04092	Software license renewal	3,450
A	P17874	Software license renewal	4,995
A	P24168	Software license renewal	3,450
A	P46862	Software license renewal	3,450
B	P07913	Software maintenance renewal	5,597
B	P08662	Software maintenance renewal	1,800
B	P10785	Software maintenance renewal	6,896
B	P10792	Software maintenance renewal	3,446
B	P14282	Software maintenance renewal	4,250
B	P20877	Software maintenance renewal	5,597
B	P21931	Software maintenance renewal	68,379
B	P28144	Software maintenance renewal	1,800
B	P30578	Software maintenance renewal	1,826
B	P34114	Software maintenance renewal	1,887
B	P38262	Software maintenance renewal	124,160
B	P43338	Software maintenance renewal	62,935
B	P46742	Software maintenance renewal	242,880
B	P48564	Software maintenance renewal	4,250
B	P48693	Software maintenance renewal	1,890
B	P52730	Software maintenance renewal	12,200
B	P53215	Software maintenance renewal	326,592
B	P53802	Software maintenance renewal	1,097,120
B	P53803	Software maintenance renewal	355,095
C	P09718	Fiscal services for Governor's School for Arts and Humanities	100,000
D	P38320	Training services	1,350
D	P38396	Training services	1,350
D	P41078	Training services	1,000
D	P50263	Training services	1,000
E	P26310	Training services	8,705
F	P16063	Image link retrieval trade in	0

Item A Software license renewals are exempt and do not need to be procured as sole sources.

Item B Software maintenance renewals are the same as software license renewals and do not need to be procured as sole sources.

Item C Total expenditures were \$400,000 per vouchers V24449, V35843, V41944, and V42971.

Item D The procurements do not include travel expenses.

Item E Purchase order was \$12,530 and amount reported was \$8,705.

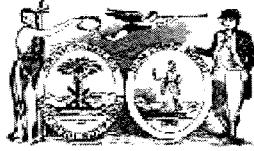
Item F Trade-in sale of \$3,200 was not reported.

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R. VOIGHT SHEALY
MATERIALS MANAGEMENT OFFICER

July 27, 2004

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

Dear Voight:

We have reviewed the response from Department of Education to our audit report for the period of April 1, 2001 – March 31, 2004. Also we have followed the Department's corrective action during and subsequent to our fieldwork. We are satisfied that the Department of Education has corrected the problem areas and the internal controls over the procurement system are adequate.

Therefore, we recommend the Budget and Control Board grant the Department of Education the certification limits noted in our report for a period of three years.

Sincerely,

Handwritten signature of Larry G. Sorrell in cursive.

Larry G. Sorrell, Manager
Audit and Certification

LGS/jl

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