

**JOHN DE LA HOWE SCHOOL**  
**PROCUREMENT AUDIT REPORT**  
**JULY 1, 2008 – JUNE 30, 2010**

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

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November 10, 2010

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

Dear Voight:

We have examined the procurement policies and procedures of the John de la Howe School for the period July 1, 2008 through June 30, 2010. As part of our examination, we studied and evaluated the system of internal controls over procurement transactions to the extent we considered necessary.

The evaluation was used to establish a basis for reliance upon the system of internal controls to assure adherence to the Consolidated Procurement Code, State regulations, and the School'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 John de la Howe School is responsible for establishing and maintaining a system of internal controls over procurement transactions. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and

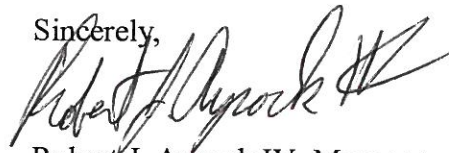
related costs of control procedures. The objectives of a system are to provide management with reasonable, but not absolute, assurance of the integrity of the procurement process, that affected assets are safeguarded against loss from unauthorized use or disposition and that transactions are executed in accordance with management's authorization and recorded properly.

Because of inherent limitations in any system of internal controls, 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 controls 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 John de la Howe School. Included in these disclosed conditions is the lack of supporting documentation for procurement actions. Just prior to the audit, procurement documents were destroyed. Due to the lack of supporting documentation, we can not express an opinion regarding the John de la Howe School's compliance with the Consolidated Procurement Code and ensuing regulations.

Sincerely,

A handwritten signature in black ink, appearing to read "Robert J. Aycok IV", with a stylized flourish at the end.

Robert J. Aycok IV, Manager  
Audit and Certification

## INTRODUCTION

We conducted an examination of the internal procurement operating policies and procedures of the John de la Howe School. Our on-site review, conducted August 23 – August 25, 2010, was made under Section 11-35-1230(1) of the South Carolina Consolidated Procurement Code and Section 19-445.2020 of the accompanying regulations.

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

Additionally our work was directed toward assisting the John de la Howe School in promoting the underlying purposes and policies of the Code as outlined in Section 11-35-20, which include in part:

- (1) to provide increased economy in state procurement activities and to maximize to the fullest extent practicable the purchasing values of funds while ensuring that procurements are the most advantageous to the State and in compliance with the provisions of the Ethics Government Accountability and Campaign Reform Act;
- (2) to foster effective broad-based competition for public procurement within the free enterprise system;
- (3) to ensure the fair and equitable treatment of all persons who deal with the procurement system which will promote increased public confidence in the procedures followed in public procurement;
- (4) 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

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 John de la Howe School 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, 2008 through June 30, 2010, 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 July 1, 2008 through June 30, 2010, with an exception noted in Section III of the report
- (2) Procurement transactions for the period July 1, 2008 through June 30, 2010 as follows:
  - a) Sixteen payments exceeding \$2,500 each with exceptions noted in Section I of the report
  - b) One construction contract and one professional services contract for compliance with the Manual for Planning and Execution of State Permanent Improvements, Part II with exceptions noted in Section I of the report
  - c) A block sample of one hundred numerical purchase orders from FY 2009 reviewed against the use of order splitting and favored vendors with no exceptions
- (3) Blanket purchase agreements with exceptions noted in Section II of the report
- (4) Minority Business Enterprise plans and reports for the audit period with no exceptions
- (5) Ratification files of unauthorized procurements with an exception noted in Section IV of the report
- (6) Approval of most recent Information Technology Plan with no exceptions
- (7) Internal procurement procedures manuals with no exceptions
- (8) Surplus property disposal procedures with no exceptions

## SUMMARY OF AUDIT FINDINGS

### PAGE

- |      |   |   |
|------|---|---|
| I.   | <u>No Supporting Documentation</u>  | 6 |
|      | Just prior to our planned audit, the School destroyed procurement records in violation of State document retention requirements. No supporting documentation was available for our entire sample. |   |
| II.  | <u>Blanket Purchase Agreements</u>  | 7 |
|      | Four blanket purchase agreements were entered into without the necessary terms and conditions stated on the purchase orders.  |   |
| III. | <u>Sole Source, Emergency, and Trade-In Sale Procurement Quarterly Reports Not Submitted</u>  | 8 |
|      | The School failed to report sole source, emergency, and trade-in sale procurements to the chief procurement officers as required by law for the entire audit period.                              |   |
| IV.  | <u>Unauthorized Procurements</u>  | 8 |
|      | The School failed to report unauthorized procurements to the chief procurement officers as required by Regulation.  |   |
| V.   | <u>Training</u>   | 9 |
|      | Procurement training is needed at the School.   |   |

## RESULTS OF EXAMINATION

### I. No Supporting Documentation

The John de la Howe School, hereinafter referred to as the School, did not provide supporting documentation for the following procurements which represent our entire sample.

<u>Date</u>	<u>PO</u>	<u>Description</u>	<u>Amount</u>
03/20/09	4600005804	Gasoline	\$ 2,766
04/24/09	4600007991	Copier Rental	\$ 2,568
09/18/09	4600010498	Heat Pumps for Cafeteria	\$ 6,500
09/22/09	4600010546	Food, Perishable	\$ 3,633
10/19/09	4600011159	Gasoline	\$ 3,621
11/19/09	4600012882	Food, Perishable	\$ 8,725
01/27/10	4600021162	Propane	\$ 3,946
02/24/10	4600026042	Food, Perishable	\$ 6,166
03/09/10	4600027924	Gasoline	\$ 3,856
04/19/10	4600033641	Food, Perishable	\$ 7,881
05/20/10	4600038930	Inspect, Repair Cottages	\$ 6,451
05/21/10	4600039075	Server	\$ 7,347
05/25/10	4600039589	Software	\$ 5,000
06/23/10	4600042287	Mobile Workstation	\$ 2,721
03/20/09	4600005801	Cottage Renovation	\$ 85,351
03/20/09	4600005802	Alarm Design Development	\$ 8,848

According to the School, requisitions, bids, quotes and receiving reports were attached by the Procurement officer, but Accounts Payable did not scan them into SCEIS. The school believed the records had been scanned when they were ordered destroyed. The records were shredded about a week before the audit during an office clean out and could not be provided. For each procurement, the School provided us an invoice that had been scanned into the South Carolina Enterprise Information System (SCEIS) and a purchase order. Other procurement information such as solicitation documents and vendor quotes were not available. Without documentation of how these procurements were made, we can not determine that any of these procurements were made in compliance with the Procurement Code.



Section 11-35-2430 of the Procurement Code requires all procurement records of governmental bodies to be retained and disposed of in accordance with records retention guidelines and schedules approved by the Department of Archives and History. Further, Regulation 19-445.2005(B) requires each governmental body to maintain procurement files sufficient to satisfy the requirements of an external audit.

We recommend the School comply with the Procurement Code and the document retention guidelines and schedules approved by the Department of Archives and History.

SCHOOL RESPONSE

In an effort to show that John de al Howe was and continues to adhere to the State Procurement Code we are able to show documents prior to the March 20, 2009 period whereby documentation such as requisitions, bids, quotes and receiving reports are attached. At this time, we are scanning into SCEIS, as well as retaining all paper documentation as they relate to procurement documentation retention requirements.

II. Blanket Purchase Agreements

The School did not include the necessary terms and conditions required for the following blanket purchase agreements:

<u>Effective Dates</u>		<u>PO</u>	<u>Description</u>	<u>Amount</u>
03/23/09	06/30/09	4600005824	Maintenance Supplies	\$ 3,000
04/02/09	06/30/09	4600006186	Blank	\$ 3,000
04/22/09	06/30/09	4600006592	Blank	\$ 2,500
04/14/10	06/30/10	4600032918	Food, Perishable	\$ 6,781

Regulation 19-445.2100(3) contains certain terms and conditions that must be included with any blanket purchase agreement an agency enters into with a vendor. These include a description of the agreement, period of time the agreement applies, general description of the items are to be procured, the extent of the State’s obligation, notice of individuals authorized to place calls and dollar limitations of those calls.

We recommend the School comply with the Regulation for blanket purchase agreements by including all terms and conditions.

## SCHOOL RESPONSE

John de la Howe will adhere to Procurement Regulation 19-445.2100(3) for all future blanket purchase agreements.

### III. Sole Source, Emergency, and Trade-In Sale Procurement Quarterly Reports Not Submitted

The School failed to submit quarterly reports of sole source, emergency, and trade-in sale procurements for the entire audit period July 1, 2008 through June 30, 2010.

Section 11-35-2440(1)(a) of the Procurement Code requires a governmental body to submit quarterly records of all contracts made pursuant to 11-35-1560 (sole source procurements) and 11-35-1570 (emergency procurements) to the chief procurement officers, and 11-35-3830(3) requires a governmental body to submit quarterly records of trade-in sale procurements to the chief procurement officers. This information must be reported to the Budget and Control Board annually and made available for public inspection.

We recommend the School comply with these sections of the Code pertaining to the submission of these quarterly reports. Reports must still be filed for this period.

## SCHOOL RESPONSE

The Sole Source, Emergency, and Trade-In Sale Procurement quarterly reports are now being submitted on a timely manner.

### IV. Unauthorized Procurements

The School failed to maintain a record of unauthorized procurements. Effective as of the first Monday in September, 2007, a quarterly record of unauthorized contracts, including facts and circumstances surrounding the acts, corrective actions taken to prevent recurrence, and actions taken against individuals performing the acts, along with the decisions to ratify or terminate these contracts was required to be submitted to the Chief Procurement Officers each quarter by Regulation 19-445.2015.

We recommend the School submit quarterly records of unauthorized procurements to the Chief Procurement Officers on a quarterly basis in accordance to the Regulation.

## SCHOOL RESPONSE

Upon learning that John de la Howe had entered into an unauthorized procurement, we contacted Materials' Management to inform them of our findings and to request assistance in taking corrective actions. We have since filed a letter with our quarterly Sole Source, Emergency, Trade-In and Illegal Procurements detailing our findings and the course of action taken to prevent this from happening again.

### V. Training

We recommend the School seek procurement training opportunities for its employees whose job duties relate to procurement. The Materials Management Office as well as other organizations offer a number of procurement related courses.

## SCHOOL RESPONSE

Our procurement officer has taken a series of classes as they relate to the procurement process.

## CONCLUSION

We must state our concern over the findings in this audit report. The John de la Howe School has failed to maintain procurement documents and comply with basic requirements of the South Carolina Consolidated Procurement Code such as statutory reporting requirements. Corrective action must be taken immediately.

In the Introduction to this report we state that the audit was directed principally to determine whether, in all material respects, the procurement system's internal controls were adequate and in compliance with the South Carolina Consolidated Procurement Code and its ensuing regulations. Because the John de la Howe School could not provide documentation for any selected procurements tested, we cannot express an opinion on the School's compliance with the South Carolina Consolidated Procurement Code and ensuing regulations.


Until corrective action is taken and confirmed, under the authority described in Regulation 19-445.2022 of the Procurement Code, we recommend the Chief Procurement Officers convene to reduce the John de la Howe School's procurement authority from \$50,000 to \$25,000 in all areas until such time that follow-up audit results demonstrate compliance. Our office will perform a follow-up audit in one year.

### PROCUREMENT AREAS

### RECOMMENDED CERTIFICATION LIMITS

Supplies and Services	*\$25,000 per commitment
Consultant Services	*\$25,000 per commitment
Information Technology	*\$25,000 per commitment
Construction Services	\$25,000 per contract

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

  
\_\_\_\_\_  
Robert J. Aycock IV, Manager  
Audit and Certification

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ELEANOR KITZMAN  
EXECUTIVE DIRECTOR

January 21, 2011

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 John de la Howe School to our audit report for the period of July 1, 2008 to June 30, 2010. Also we have followed the School's corrective action during and subsequent to our fieldwork. We are satisfied that John de la Howe School has corrected the problem areas and strengthened the internal controls over the procurement system.

We have already recommended the School's procurement authority be reduced to \$25,000 from the basic level of \$50,000 in all procurement categories. We will perform an audit in a year's time to establish whether the School has successfully implemented the changes to its operating procedures in order to have its authority restored to the basic level authorized in law.

Sincerely,

Robert J. Aycock, IV, Manager  
Audit and Certification

RJA/gs

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