

SOUTH CAROLINA DEPARTMENT OF EDUCATION

PROCUREMENT AUDIT REPORT

JANUARY 1, 2009 – JUNE 30, 2013

TABLE OF CONTENTS

	<u>PAGE</u>
Transmittal Letter.....	1
Introduction.....	3
Scope.....	4
Summary of Audit Findings.....	6
Results of Examination.....	7
Certification Recommendations.....	10
Follow-up Letter	11

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

**NIKKI R. HALEY, CHAIR
GOVERNOR**

**CURTIS M. LOFTIS, JR.
STATE TREASURER**

**RICHARD ECKSTROM, CPA
COMPTROLLER GENERAL**



SC BUDGET AND CONTROL BOARD

**THE DIVISION OF PROCUREMENT SERVICES
DELBERT H. SINGLETON, JR.
DIVISION DIRECTOR
(803) 734-2320**

**JOHN ST. C. WHITE
INTERIM MATERIALS MANAGEMENT OFFICER
(803) 737-0600
FAX (803) 737-0639**

**HUGH K. LEATHERMAN, SR.
CHAIR, SENATE FINANCE
COMMITTEE**

**W. BRIAN WHITE
CHAIR, HOUSE WAYS AND MEANS
COMMITTEE**

**MARCIA S. ADAMS
EXECUTIVE DIRECTOR**

February 10, 2015

Mr. John St. C. White
Interim Materials Management Officer
Division of Procurement Services
1201 Main Street, Suite 600
Columbia, South Carolina 29201

Dear John:

We have examined the procurement policies and procedures of the South Carolina Department of Education for the period January 1, 2009 through June 30, 2013. 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 used to establish a basis for reliance upon the system of internal control to assure adherence to the South Carolina 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, 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.

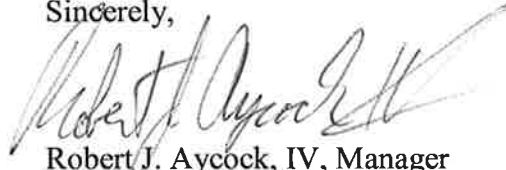
Because of inherent limitations in any system of internal control, errors or irregularities may occur and not be detected. Also, projection of any evaluation of the system to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or that the degree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

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

The examination did, however, disclose conditions enumerated in this report which we believe need correction or improvement.

Corrective action based on the recommendations described in these findings will in all material respects place the South Carolina Department of Education in compliance with the South Carolina Consolidated Procurement Code and ensuing regulations.

Sincerely,

A handwritten signature in black ink, appearing to read "Robert J. Aycock, IV". The signature is fluid and cursive, with a large, sweeping flourish at the end.

Robert J. Aycock, IV, 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 onsite review was conducted from September 3 through October 11, 2013, 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 June 30, 2010, the Budget and Control Board granted the South Carolina Department of Education the following procurement certifications:

<u>PROCUREMENT AREA</u>	<u>CERTIFICATION LIMITS</u>
Supplies and Services	*\$ 100,000 per commitment
School Bus Supplies and Maintenance	*\$ 250,000 per commitment
Information Technology	*\$ 100,000 per commitment
Consultants	*\$ 100,000 per commitment

Our audit was performed primarily to determine if recertification is warranted. The South Carolina Department of Education requested to remain at its current certification levels.

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 samples for the period January 1, 2009 through June 30, 2013 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 January 1, 2009 through June 30, 2013 with exceptions noted in Section I of the report.
- (2) Procurement transactions for the period January 1, 2009 through June 30, 2013 as follows:
 - a) One hundred payments each exceeding \$2,500 with no exceptions
 - b) Five hundred sequentially filed purchase orders reviewed against the use of order splitting and favored vendors with no exceptions
 - c) Procurement card transactions for the months of November and December 2012 with no exceptions
- (3) Minority Business Enterprise Plans and reports with no exceptions noted in the report, and the following activity reported to The Governor's Office of Small and Minority Business Assistance:

<u>Fiscal Year</u>	<u>Goal</u>	<u>Actual</u>
2009-2010	\$503,219	\$161,755
2010-2011	\$388,125	\$186,022
2011-2012	\$518,955	\$278,631
2012-2013	\$508,562	\$ 63,868

- (4) Approval of the most recent Information Technology Plan with no exceptions
- (5) Internal procurement procedures manual with no exceptions
- (6) Surplus property disposition procedures with no exceptions
- (7) Ratification of Unauthorized Procurements with no exceptions
- (8) Other tests performed as deemed necessary with an exception note in Section II of the report

SUMMARY OF AUDIT FINDINGS

PAGE

I. Sole Source and Emergency Procurements

A. Cost or Pricing Data Not Provided

7

Sole source procurements with values greater than five hundred thousand dollars did not have contractor certified cost or pricing data.

B. Non-Compliance with Drug-Free Workplace Act

8

Sole source procurements with values greater than fifty thousand dollars were entered into without drug-free workplace certifications by the contractors.

II. Recapped Tires

9

The Department should establish regional contracts of secondary suppliers for recapped tires when its demand cannot be met by its primary supplier, the Department of Corrections.

RESULTS OF EXAMINATION

I. Sole Source and Emergency Procurements

We reviewed sole source and emergency procurements reported by the Department to determine compliance with the South Carolina Procurement Code and Regulations and the accuracy of the reports.

A. Cost or Pricing Data Not Provided

The Department did not obtain contractor certifications of cost or pricing data on sole source procurements with values greater than five hundred thousand. Section 11-35-1830 of the Consolidated Procurement Code requires a contractor to submit cost or pricing data and certify that, to the best of his knowledge and belief, the cost or pricing data submitted is accurate, complete, and current as of a mutually determined specified date prior to the date of the pricing of any contract pursuant to sole source procurement authority as provided in Section 11-35-1560. Regulation 19-445.2120, which became effective in May 2007, set the price floor for sole source contracts at five hundred thousand dollars. The cost or pricing data is used to evaluate pricing on non-competitive procurements such as sole sources.

<u>PO Number</u>	<u>PO Date</u>	<u>Description</u>	<u>Amount</u>
4600193346	08/13/12	Software Maintenance	\$3,177,000
4600198296	08/29/12	Accounting services	\$1,738,572
4600223923	12/21/12	Examination testing	\$3,064,050

We recommend the Department obtain contractors' cost or pricing data certifications when entering into sole source contracts that exceed five hundred thousand dollars as required by the Code.

Department Response

The SCDE acknowledges that it did not obtain contractor certification of cost or pricing data on sole source contracts in excess of five hundred thousand dollars as indicated in the audit. The SCDE has put measures in place to ensure current and future compliance with this provision.

B. Non-Compliance with Drug-Free Workplace Act

The Department did not obtain or did not have current certifications from its contractors stating they maintained a Drug-Free Workplace prior to award of contracts for sole source and emergency procurements greater than \$50,000.

No Drug-Free Workplace Certifications

<u>PO Number</u>	<u>PO Date</u>	<u>Description</u>	<u>Amount</u>
38516	04/02/09	Wheelchair Securement Retractors	\$ 55,200
40364	06/29/09	Summer Youth Pilot Program	\$315,350
4600065363	10/20/10	Educational Research Services	\$ 86,508
4600243192	03/27/13	Consulting Services	\$373,000
4600243478	03/28/13	Consulting Services	\$272,000

Drug-Free Workplace Certifications Not Current

4600209135	10/12/12	Emergency - Diesel Engines	\$100,000
4600209134	10/12/12	Emergency - Diesel Engines	\$200,000
4600215361	11/09/12	Emergency - Restoration of Loss Site	\$114,624
4600221693	12/12/12	Software Maintenance/Support	\$263,330
4600232677	02/07/13	Emergency - School Bus Maintenance Services	\$168,000
4600243289	03/27/13	Software Maintenance/Support	\$ 55,900
4600257582	05/30/13	Student framework, SIFworks	\$154,757

Section 44-107-30 of the Drug-Free Workplace Act requires a written certification from contractors on any contract of \$50,000 or more stating that the contractor will provide a drug-free workplace. Sole source and emergency procurements are subject to this law.

We recommend that the Department obtain signed drug-free workplace certifications from contractors on all future sole source procurements of \$50,000 or more as required by the Act.

Department Response

The SCDE acknowledges that in some cases, as indicated in the audit, drug free workplace certifications were not received for procurements that exceeded \$50,000. The SCDE has put measures in place to ensure current and future compliance with this requirement.

II. Recapped Tires

The Department of Education procures recapped tires for its bus shops from the South Carolina Department of Corrections and from the private sector. Statute 24-3-330 requires all governmental bodies subject to the South Carolina Procurement Code to procure “from the Department of Corrections, articles or products made or produced by inmate labor in this State or another state....” The Department of Education has complied with this statute to the extent possible but found that its demand exceeds the Department of Corrections production capacity. The Department of Corrections confirmed this information to us. To supplement its recapped tire needs, the Department of Education has relied on the private sector procuring about \$240,000 in a year from this market. The private sector procurements have been made under the small purchase procedures of the Procurement Code designed to accommodate procurements up to \$10,000 with awards being made to different vendors in different parts of the State.

We recommend the Department establish a contract of a secondary supplier when the recapped tire demand cannot be met by the Department of Corrections. Establishing formal contracts should create efficiencies and keep the Department of Education from repeatedly soliciting informal quotes for small repetitive orders.

Department Response

The SCDE accepts and appreciates the recommendation that it establish a contract for a secondary supplier of recapped tires, since the demand for recapped tires exceeds the supply that can be provided by the Department of Corrections. To fully address the needs of the agency; however, we believe the contract amount will exceed the SCDE’s procurement authority. Therefore, the contract will have to be bid by the Materials Management Office (MMO).

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 South Carolina Consolidated 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:

PROCUREMENT AREAS

CERTIFICATION LIMITS

Supplies and Services

*\$ 100,000 per commitment

School Bus Supplies and Maintenance

*\$ 250,000 per commitment

Consultant Services

*\$ 100,000 per commitment

Information Technology

*\$ 100,000 per commitment

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



**Robert J. Aycock, IV, Manager
Audit and Certification**

NIKKI R. HALEY, CHAIR
GOVERNOR

CURTIS M. LOFTIS, JR.
STATE TREASURER

RICHARD ECKSTROM, CPA
COMPTROLLER GENERAL



THE DIVISION OF PROCUREMENT SERVICES
DELBERT H. SINGLETON, JR.
DIVISION DIRECTOR
(803) 734-8018

JOHN ST. C. WHITE
MATERIALS MANAGEMENT OFFICE
(803) 737-0600
FAX: (803) 737-0639

HUGH K. LEATHERMAN, SR.
CHAIRMAN, SENATE FINANCE COMMITTEE

W. BRIAN WHITE
CHAIRMAN, HOUSE WAYS AND MEANS

July 27, 2015


Mr. John St. C. White
Interim Materials Management Officer
Division of Procurement Services
1201 Main Street, Suite 600
Columbia, South Carolina 29201

Dear John:

We have reviewed the response from the South Carolina Department of Education to our audit report for the period of January 1, 2009 through June 30, 2013. We have followed-up on the South Carolina Department of Education's corrective action during and subsequent to our fieldwork.

Therefore, we recommend the State Fiscal Accountability Authority grant the South Carolina Department of Education the certification limits noted in our report for a period of three years.

Sincerely,



Robert J. Aycock, IV, Manager
Audit and Certification

Total Copies Printed	11
Unit Cost	<u>\$.49</u>
Total Cost	<u>\$5.39</u>