

**STATE OF SOUTH CAROLINA
STATE FISCAL ACCOUNTABILITY AUTHORITY
DIVISION OF PROCUREMENT SERVICES (DPS)
OFFICE OF AUDIT & CERTIFICATION**

SCHOOL DISTRICT PROCUREMENT AUDIT PROCEDURES

School District Name

Audit Period

Notice to Auditors

conducting Procurement Audits of School Districts
covered by SC Code Ann. §11-35-70:

Auditors are required to follow these procedures in conducting a procurement audit of a School District. Because each School District may have different Procurement Codes, a thorough study of a School District's approved Procurement Code, Regulations, and internal Procurement Procedures Manual must be made in order to adequately understand the District's Compliance Requirements related to Procurement. This document addresses risk areas identified by the DPS Office of Audit & Certification. For a School District to continue to operate under an alternate Code (approved by the Office of Audit & Certification) as allowed in §11-35-70, you must prepare a written report communicating:

- instances of non-compliance identified during the audit, and your recommendation(s) to bring the District's procurement system into compliance; and
- include the District's response(s) to your recommendation(s), that describe the District's corrective action plan(s).

**DIVISION OF PROCUREMENT SERVICES
OFFICE OF AUDIT & CERTIFICATION
SCHOOL DISTRICTS PROCUREMENT AUDIT PROCEDURES**

Contents

A. General Control Procedures.....	1
B. Code Compliance – General.....	1
C. Sole Source, Emergency, and Trade-In Procurements	4
D. Compliance – Supplies and Services, IT and Consultants.....	4
E. Surplus Property	5
F. Compliance – Construction, Architect-Engineer and other related Professional Services.....	5
EXHIBIT A - Audit Matrix for Section D.....	7
EXHIBIT B - Construction Audit Matrix for F. 2.a.	9
EXHIBIT C - Indefinite Delivery Contracts (IDC) for Construction for F.3.....	10
EXHIBIT D - A-E and Other Related Professional Services Audit Matrix	11
EXHIBIT E - Procurement Card Audit Matrix For B-3	12
EXHIBIT F – Blanket Purchase Agreements For B-4.....	13

SC Code Ann. §11-35-70 Irrespective of the source of funds, any school district whose budget of total expenditures, including debt service, exceeds seventy-five million dollars annually is subject to the provisions of Chapter 35, Title 11, and shall notify the Director of [Audit & Certification of the Division of Procurement Services] of its expenditures within ninety days after the close of its fiscal year. However, if a district has its own procurement code which is, in the written opinion of the Office of [Audit & Certification], substantially similar to the provisions of the South Carolina Consolidated Procurement Code, the district is exempt from the provisions of the South Carolina Consolidated Procurement Code except for a procurement audit which must be performed every three years by an audit firm approved by the Office of [Audit & Certification]. Cost associated with the internal review and audits are the responsibility of the school district and will be paid to the entity performing the audit.

Notes to Auditors:

1. Audits conducted less than annually must cover the period since the end of the last audit period.
2. If the District has its approved Procurement Code, it must have been approved in writing by the DPS Office of Audit & Certification.

**DIVISION OF PROCUREMENT SERVICES
OFFICE OF AUDIT AND CERTIFICATION
SCHOOL DISTRICTS PROCUREMENT AUDIT PROCEDURES**

Audit Step	Done by and Date	W/P Reference
A. <u>General Control Procedures</u>		
1. Obtain a copy of the letter from Office of Audit & Certification approving your firm to perform the procurement audit for the School District.		
2. Review all audit reports from internal and external audit organizations since the previous engagement to identify procurement related issues that should be communicated to the Office of Audit & Certification.		
3. Obtain a listing of all District expenditures and debt service payments for the audit period.		
4. Inquire if there are any transactions between foundations or charitable organizations affiliated with the District. Inquire about Gifts between these entities. Determine if those transactions are subject to the District's Procurement Code. See Code §11-35-40, and §40(4)		
5. Update organization charts , showing the purchasing office's location in the District's overall structure and the internal organization of the purchasing office itself. Establish that procurement authority and responsibility is vested in the procurement department, or, if not, it is clearly defined and logically delegated.		
6. Have the District prepare and sign the standard A&C Management Representation Letter on District letterhead and provide a copy to the Office of Audit & Certification.		
7. Prepare an audit report describing findings noted during the audit and recommendations for improvement in the District's procurement system.		
8. Obtain the District's written response(s) to each recommendation, describing corrective action plan(s) and implementation timeline(s), on District letterhead, and include in the Audit Report . Include the Office of Audit & Certification in the distribution of the audit report and the Districts response.		
B. <u>Code Compliance – General</u>		
1. Obtain a copy of the District's Procurement Code and Regulations as approved by the Division of Procurement Services. (SC Code Ann. §11-35-70 See page 2) a. Obtain a copy of the District's procurement procedures manual and review for consistency with the District's approved Procurement Code and Regulations. b. Determine that the District has established a clear means by which vendors can identify the District's procurement officers and the limits of their authority.		

**DIVISION OF PROCUREMENT SERVICES
OFFICE OF AUDIT AND CERTIFICATION
SCHOOL DISTRICTS PROCUREMENT AUDIT PROCEDURES**

Audit Step	Done by and Date	W/P Reference
<p>2. Minority Business Enterprise (MBE) Utilization</p> <ul style="list-style-type: none"> a. Ensure annual plans were submitted timely and approved by the District. b. Determine that periodic progress reports were filed timely. c. Compare goals versus results 		
<p>3. Procurement Card Review</p> <ul style="list-style-type: none"> a. Review the <u>District's Procurement Card Manual</u> to confirm the establishment of internal controls, including specific roles and responsibilities for cardholders, supervisor/approvers, liaisons, and the P-Card Administrator. Ensure that adequate separation of duties exist between cardholder purchases and the review/approval of these purchases prior to payment. 		
<ul style="list-style-type: none"> b. Determine if the District's Internal Audit Department, or some other independent audit group, is required to conduct compliance audits of P-Card usage. Determine when the last P-Card audit was conducted. Obtain a copy of the report and determine that corrective action plans have been implemented. 		
<ul style="list-style-type: none"> c. Program Administration Risk Assessment Obtain a listing from BOA WORKS, of all <u>P-Cards that were active</u> during the audit period showing the Cardholder, Reviewer/Approver, Liaison, Date of Issue, Single Transaction and Credit Limits, and date of last transaction. <ul style="list-style-type: none"> i. Ensure that the number of cardholders per Liaison provides for adequate monthly review of transactions for compliance with the P-Card Policy for allowable transactions, and blocked MCC codes. ii. Ensure that P-Cards are only issued to qualified full-time employees and that the District has a training program for new cardholders and liaisons. iii. Determine that the District has no unassigned cards ,i.e., that all cards are issued in an employee's name. iv. Identify employees who have been issued more than one card. (Per State P-Card Policy - no more than one card should be issued to an individual.) v. Confirm that no cards have been inactive for more than six months. vi. Sort the listing to verify that no single transaction limit (STL) is greater than the District's Procurement Code competition threshold. For cards with STL's greater than the competition threshold, obtain documentation of the District approval. 		
<ul style="list-style-type: none"> d. Judgmentally select at least two monthly billing statements within the audit period for transaction testing. 		

**DIVISION OF PROCUREMENT SERVICES
OFFICE OF AUDIT AND CERTIFICATION
SCHOOL DISTRICTS PROCUREMENT AUDIT PROCEDURES**

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<p>e. Obtain a listing from WORKS of all P-Card transactions containing the following information:</p> <ol style="list-style-type: none"> 1. Card Last 4 Digits 2. CH Full Name 3. Transaction Number 4. Vendor Name 5. Mgr. Signoff Date 6. Mgr. Signoff Full Name 7. Payment Amount 8. Purchase Date 9. Post Date 10. Item Description 11. Item GL Combination 12. MCC 13. MCC Description 		
<p>f. Obtain a listing of the District's blocked MCC codes.</p> <p>Note: A school district is considered a Group C entity in the State Procurement Card Manual. MCC blocks do not apply unless imposed by the entity's own P-Card Policy or applicable law.</p> <p>For the two month population of transactions:</p> <ol style="list-style-type: none"> i. Determine that purchases are <u>not made from blocked MCCs</u> by analyzing the population. For transactions using blocked MCC codes, obtain documentation of approval for MCC codes to be temporarily unblocked. 		
<p>g. Determine that no transactions exceed the cardholders' STL(s) without written approval of a temporary increase in STL and subsequent reduction to the original level.</p>		
<p>h. Select a sample of 25 transactions total (see Note below), judgementally to get a cross-section of all departments and liaisons, from the two selected billing statements and request copies of receipts for testing in accordance with the P-Card Matrix (Exhibit E) that purchases are being made in compliance with the State and District's P-Card Policies and Procedures.</p>		
<p>4. Obtain a listing of blanket purchase agreements (BPA). Review BPA procedures and test five BPAs (Exhibit F)</p>		
<p>5. Select a block sample of 200 sequential purchases and sort by vendor and date to check for:</p> <ol style="list-style-type: none"> a. splitting of orders b. favored vendors 		
<p>6. Determine that procurements of revenue generating contracts such as vending/concessions management, etc. were done in accordance with the District's Code.</p>		
<p>7. Obtain a list of unauthorized procurements identified during the audit period. Determine that ratifications, if approved, were properly addressed and authorized by an appropriate official in accordance with the District's regulation.</p>		

**DIVISION OF PROCUREMENT SERVICES
OFFICE OF AUDIT AND CERTIFICATION
SCHOOL DISTRICTS PROCUREMENT AUDIT PROCEDURES**

Audit Step	Done by and Date	W/P Reference
C. <u>Sole Source, Emergency, and Trade-In Procurements</u>		
To determine the validity of sole source, emergency, and trade-in procurements.		
Obtain copies of all (100%) written sole source, emergency, and trade-in procurement determinations for the audit period.		
1. Determine who is authorized to approve sole source and emergency procurements for the District by inquiry and in the District’s procurement manual.		
2. Review sole source and emergency determinations . Determine that each procurement is: a. adequately explained and appropriate (<u>Exhibit A</u>). The determination must contain sufficient factual grounds and reasoning to provide an informed, objective explanation for the decision b. properly approved		
3. Review a sample of five trade-in files for: Proper approvals (19-445.2150 requires Surplus Property Office approval if the original cost is greater than \$5,000; determine the District’s requirements)		
D. <u>Compliance – Supplies and Services, IT and Consultants</u>		
1. From a population of expenditures obtained in step A. 4., separate the population into transactions with POs, and those without. Stratify the population to better understand the volume and total dollar amount by five to seven PO size ranges; and the volume and total dollar amount of each PO type, and display in two tables for presentation in the report. <ul style="list-style-type: none"> • \$0 to \$2500 • >\$2500 to \$10,000 • >\$10,000 to \$50,000 • >\$50,000 to \$250,000 • >\$250,000 to \$500,000 • >\$500,000 		
2. Select a sample: <i>Exclude transactions less than the small purchase limit, and avoid selecting state-term contract purchases as the procurement would have been done by DPS</i> <ul style="list-style-type: none"> • All large dollar POs (POs greater than \$500,000), unless that’s more than 10. If that’s the case, select a representative sample, and • A representative sample of the remaining transactions Note: For testing, 45 to 71 items is sufficient , with more selected if the assessed risk of error in the population is higher.		

**DIVISION OF PROCUREMENT SERVICES
OFFICE OF AUDIT AND CERTIFICATION
SCHOOL DISTRICTS PROCUREMENT AUDIT PROCEDURES**

Audit Step	Done by and Date	W/P Reference
<p>3. Test selected transactions for compliance using the Audit Matrix. (Exhibit A)</p> <p>After testing, evaluate selected procurement files to ensure that the sample was representative of the population. If any type(s) of procurement files (IFB, RFP, BVB, FPB), are not adequately represented in step 2, request additional procurement files, of the type(s) not represented, for testing.</p>		
<p>4. Select a sample of Direct Expenditure Vouchers (DEVs), direct pays, to test for compliance with District direct pay policies on when a PO is or is not required.</p> <p>Stratify your population for sample selection to include large dollar payments for testing.</p> <p>Note: For testing, 15 to 25 items is sufficient, with more selected if the assessed risk of error in the population is higher.</p>		
<p>E. <u>Surplus Property</u></p>		
<p>1. Request a list of asset disposals for the audit period.</p>		
<p>2. Select five disposal transactions and test to determine that the District has handled disposals of surplus property according to the District's Procurement Code and Regulations.</p>		
<p>F. <u>Compliance – Construction, Architect-Engineer and other related Professional Services</u></p>		
<p>1. Request a listing of facilities related expenditures for compliance using appropriate matrix.</p>		

**DIVISION OF PROCUREMENT SERVICES
OFFICE OF AUDIT AND CERTIFICATION
SCHOOL DISTRICTS PROCUREMENT AUDIT PROCEDURES**

Audit Step	Done by and Date	W/P Reference
<p>2. Select samples for testing of contracts awarded under ARTICLE 9 of the District's Code:</p> <ul style="list-style-type: none"> a. Five construction procurements using the Construction Matrix (Exhibit B) b. Three Architect-Engineer and Related Professional Services using the A-E Matrix. (Exhibit D) <p><i>If projects began before the audit period and the contract has been tested previously, test change orders that occurred during the audit period.</i></p> <p>If the District used any alternative construction delivery methods (other than design bid build), test project for applicable Code Section compliance.</p> <ul style="list-style-type: none"> a. construction management at risk; b. operations and maintenance; c. design build; d. design build operate maintain; and e. design build finance operate maintain. <p>In addition to those methods identified, the regulations may:</p> <ul style="list-style-type: none"> a. approve as an alternate project delivery method any combination of design, construction, finance, and services for operations and maintenance of an infrastructure facility; and b. allow or require the District to follow any of the additional procedures established by §11-35-3024. 		
<p>3. Inquire if District uses <u>Indefinite Delivery Contracts (IDCs)</u>. Select a sample of three and test for compliance. (Exhibit C)</p>		

**DIVISION OF PROCUREMENT SERVICES
OFFICE OF AUDIT AND CERTIFICATION
SCHOOL DISTRICTS PROCUREMENT AUDIT PROCEDURES**

EXHIBIT A - Audit Matrix for Section D

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- (A) The properly approved requisition agrees with the purchase order (PO) and the vendor invoice for items procured and amount. Invoice and PO amounts agree. The voucher is supported by the proper receiving reports which are signed and dated by receiving personnel. Dates of documents indicate that the procurement was properly authorized.
- (B) Discounts were taken and payment was made in a timely manner. Only S.C. sales taxes were paid.
- (C) All changes to the purchase order (i.e., price and quantity changes) were properly documented and approved and within the general scope of the original contract.
- (D) Optional Materials Management Office state term contracts were utilized.
- (E) The procurement was made in accordance with the District's Approved Code and Regulations and any internal procurement procedures.

(Auditor must determine dollar thresholds based on Code Sections indicated. Not all Districts are the same. Board Approval contract values must also be established.)

- Competitive Sealed Bids §1520 (required for \geq \$50,000.00)
 - Written invitation for bids documented
 - Written responses documented and tabulated
 - Award to lowest responsive & responsible bidder or written determination if not
 - Advertisement bid documented as required §1520(3). In excess of \$50,000 must be advertised in SCBO.
 - Notice of award or intent to award documented, posted, & distributed to each respondent
- Competitive Fixed Price §1525,
 - Same requirements as §1520 except as allowed in applicable Code Section
 - Adequate Written Determinations prepared to authorize bidding method other than §1520
- Competitive Best Value §1528
 - Same requirements as §1520 except as allowed in applicable Code Section
 - Evaluation factors in solicitation with cost must be at a minimum of 60% of the award decision
 - Adequate Written Determinations prepared to authorize bidding method other than §1520
- Competitive On Line Bidding §1529
 - Same requirements as §1520 except as allowed in applicable Code Section
 - Adequate Written Determinations prepared to authorize bidding method other than §1520
- Competitive Sealed Proposals (§1530)
 - Same requirements as §1520 except as allowed in applicable Code Section and
 - Adequate Written Determinations prepared to authorize bidding method other than §1520
 - Determinations to award RFP prepared
 - Evaluation factors in solicitation and applied to responses
 - Evaluation committee's score sheets, confidential statements
 - Award to highest ranked offeror
 - Cost or pricing data obtained for RFPs over \$500,000 if applicable.
- Small Purchases (Code Section §1550) (< \$50,000 or amount as specified in District Code)
 - \leq \$2,500 or amount as specified in District Code - Small purchases not exceeding \$2,500 may be accomplished without securing competitive quotations if the prices are considered reasonable
 - >\$2,500 to \$10,000. Solicitation of written quotes from a minimum of three qualified sources of supply
 - >\$10,000 up to \$50,000. Written solicitation of written quotes, bids, or proposals must be made. The procurement shall be advertised at least once in South Carolina Business Opportunities (SCBO) or a newspaper of general circulation in the District.

**DIVISION OF PROCUREMENT SERVICES
OFFICE OF AUDIT AND CERTIFICATION
SCHOOL DISTRICTS PROCUREMENT AUDIT PROCEDURES**

- Sole Source (§1560)
 - Written determination prepared in advance and approved by authorized official
 - Single source was appropriate
 - Transaction reported (§2440)
 - Cost or pricing data obtained for sole sources greater than \$500,000.
- Emergency (§1570)
 - Written determination prepared and approved by authorized official
 - Emergency was justified
 - Competition, as practicable was sought
 - Transaction reported (§2440)
- Participation in Auction or Bankruptcy Sale; (§1575)
 - Adequate documentation of compliance with the conditions required to participate in an Auction or Bankruptcy Sale

**DIVISION OF PROCUREMENT SERVICES
OFFICE OF AUDIT AND CERTIFICATION
SCHOOL DISTRICTS PROCUREMENT AUDIT PROCEDURES**

EXHIBIT B - Construction Audit Matrix for F. 2.a.

- A. Dept. of Education Office of School Facilities approval of plans for new buildings and major renovations
See OSF manual for requirements on DOE website.
- B. 1 Advertised in SCBO (All construction over \$50,000 must be advertised in SCBO)
2 Bid form of low bidder with listing of subcontractors
3 Bid security of low bidder with power of attorney (5% of bid)
4 Certified Bid Tabulation sent to all bidders within ten (10) days
5 Notice of Intent to Award sent to all bidders
6 Fully Executed Construction Contract
7 Performance Bond and Labor and Materials Payment Bond with Power of Attorney (100% of contract)
8 Contractor's Certificate of Insurance provided and insurance maintained throughout contract
9 Contractor Notice To Proceed issued after contract executed
10 District used proper contract forms as provided in Reg. 2145(E)
- C. Change Orders
1 All change orders to construction contract properly approved
2 Compare change order approval dates with applications for payment
3 Cost or pricing data obtained for change orders over \$500,000.
4. Change orders are within the general scope of the original contract.
- D. Payment of Contractor
1 Payment for construction contract made within 21 days (SC Code §29-6-30 requires payment to a contractor of the undisputed amount of any pay request within 21 days of receipt of the pay request.
2 Retention not to exceed 3.5%
- E. Sole Source (§1560)
- Written determination prepared in advance and approved by authorized official
- Single source was appropriate
- Cost or pricing data obtained for sole sources greater than \$500,000.
- Labor and Material Payment Bonds received if over \$100,000
- Contractor's Certificate of Insurance provided and insurance maintained throughout contract
- F. Emergency (§1570)
- Written determination prepared and approved by authorized official
- Emergency was justified
- Competition, as practicable was sought
- Labor and Material Payment Bonds received if over \$100,000
- Contractor's Certificate of Insurance provided and insurance maintained throughout contract

**DIVISION OF PROCUREMENT SERVICES
OFFICE OF AUDIT AND CERTIFICATION
SCHOOL DISTRICTS PROCUREMENT AUDIT PROCEDURES**

EXHIBIT C - Indefinite Delivery Contracts (IDC) for Construction for F.3.

SC Code Ann. §11-35-3310 - General Applicability. **IDCs** may be awarded on an as needed basis for construction services pursuant to the procedures in §3015(2)(b) and for architectural engineering and land surveying services pursuant to §3220.

(1) IDCs

(a) **Construction Services.** When construction services contracts are awarded, each contract shall be limited to a total expenditure of \$750,000 for a two year period
Individual project expenditures must not exceed \$150,000.

(b) **Architectural Engineering and Land Surveying Services.** When architectural engineering and land surveying services contracts are awarded, each contract shall be limited to a total expenditure of \$300,000 for a two year period
Individual project expenditures must not exceed \$100,000.

(2) Small IDCs.

Small IDCs for architectural-engineering and land surveying services may be procured as provided in §3230. A contract established under this section shall be subject to and included in the limitations for individual and total contract amounts provided in §3230, and any regulations.

**DIVISION OF PROCUREMENT SERVICES
OFFICE OF AUDIT AND CERTIFICATION
SCHOOL DISTRICTS PROCUREMENT AUDIT PROCEDURES**

EXHIBIT D - A-E and Other Related Professional Services Audit Matrix

- A. Advertised with response date at least 15 days .
- B. Bidders must use proper form in response
A-E Service Questionnaires, Federal Standard Form SF330 or applicable forms as provided in District Regulation.
- C. Interviews
 1. Selection committee's determination must be in writing as to ranking.
 2. Written notification of the highest ranked person or firm must be sent immediately to all firms interviewed. (§11-35-3220 (6))
- D. A-E Selection Approval Request
 1. Approval obtained as required.
 2. Copy of executed agreement for A-E services.
 3. District used proper contract forms as provided in Reg 2145(E)
- E. A-E Approval Request - Small Contracts
 1. Procurement must be under \$25,000 (Steps A-D do not apply).
 2. Copy of executed agreement for A-E services.
- F. Sole Source (§1560)
 - Written determination prepared in advance and approved by authorized official
 - Single source was appropriate
 - Transaction reported (§2440)
 - Cost or pricing data obtained for sole sources greater than \$500,000.
- G. Emergency (§1570)
 - Written determination prepared and approved by authorized official
 - Emergency was justified
 - Competition, as practicable was sought
 - Transaction reported (§2440)

**DIVISION OF PROCUREMENT SERVICES
OFFICE OF AUDIT AND CERTIFICATION
SCHOOL DISTRICTS PROCUREMENT AUDIT PROCEDURES**

EXHIBIT E - Procurement Card Audit Matrix For B-3

- A. Appropriate documentation on file to support transaction: Sales slips, register receipts, P-Card slips, (*documentation to be maintained by Liaison*)
- B. District Procurement Code was followed
- C. Purchased from Contract Vendor (contract on file) when available
- D. Purchase meets criteria for "Allowable" in District policies and procedures:
 - Less than STL
 - Airline tickets
 - Advertising
 - Subscriptions
 - Registration for training and conferences
 - Books
 - Freight, express and delivery services
 - Office supplies
 - Utilities
 - Statewide contracts
 - Equipment costing less than \$2500
- E. Transaction not split to circumvent STL
- F. Purchase made by named cardholder
- G. Purchase not shipped to employee home address
- H. Transaction properly executed through Works and authorized by Works Approver
- I. Activity Reconciler reviewed all transactions and maintains evidence of reconciliation
 - Cardholder Activity Statement agrees to Receipts/Invoices
- J. Monthly Statement properly approved for payment

**DIVISION OF PROCUREMENT SERVICES
OFFICE OF AUDIT AND CERTIFICATION
SCHOOL DISTRICTS PROCUREMENT AUDIT PROCEDURES**

EXHIBIT F – Blanket Purchase Agreements For B-4

Differentiating between Blanket Agreements and Blanket POs:

- Blanket POs
 - contract goods and services
 - so no limit on amounts
 - Subject to PO Policy (even though non-SCEIS agencies are not subject to the PO Policy, they may create problems for themselves by using Agreement language from the compendium that conflicts with the contract in place with the vendor)

- Blanket Agreements
 - for non-contract goods and services, used similar to a P-Card
 - Fall under 19-445.2100 Small Purchases and Other Simplified Purchasing Procedures
 - (B) (1 – 3) Terms and Conditions (a – d) – The language is in the compendium
 - (C – E)
 - (F) Review Procedures – The governmental body shall review blanket purchase agreement files at least semi-annually to assure that authorized procedures are being followed. Agreements shall be issued for a period of no longer than 12 months.

Terms and Conditions under a Blanket Agreement, should provide a list of specific individuals to the vendor authorized to make calls; a per call dollar limit, invoicing requirements to comply with 19-445.2100 (B – F), including a review every six months to monitor volume and compliance with the terms of the agreement. For example, if the dollar amounts exceed small purchase limits, they probably should put the supplies or services out for bid. If other than authorized individuals are making calls to purchase under the agreement, etc., the controls are not working.