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**South Carolina
Division of General Services**

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PROCUREMENT AUDIT AND CERTIFICATION

MIDLANDS TECHNICAL COLLEGE

AGENCY

APRIL 1, 1986 - SEPTEMBER 30, 1988

DATE

STATE OF SOUTH CAROLINA
BUDGET AND CONTROL BOARD
DIVISION OF GENERAL SERVICES
1201 MAIN STREET, SUITE 600
COLUMBIA, SOUTH CAROLINA 29201
(803) 737-0600



CARROLL A. CAMPBELL, JR.
GOVERNOR

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CHAIRMAN,
HOUSE WAYS AND MEANS COMMITTEE

JESSE A. COLES, JR., Ph.D.
EXECUTIVE DIRECTOR

JAMES J. FORTH, JR.
ASSISTANT DIVISION DIRECTOR

March 29, 1989

Mr. Richard W. Kelly
Division Director
Division of General Services
1201 Main Street, Suite 400
Columbia, South Carolina 29201

Dear Rick:

Attached is the final Midlands Technical College audit report and recommendations made by the Office of Audit and Certification. I concur and recommend the Budget and Control Board grant the College a three (3) year certification as outlined in the audit report.

Sincerely,

James J. Forth, Jr.
Assistant Division Director

Attachment

MATERIALS MANAGEMENT OFFICE

State Supply & Surplus Property Management
Surplus Property
Boston Avenue
W. Cola., S.C. 29169
739-5490

Supply, Warehousing & IMS
1942 Laurel Street
Cola., S.C. 29201
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Training & Research
300 Gervais Street
Annex 3
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737-2060

State Procurements &
Information Technology Management Office
1201 Main Street
Suite 600
Cola., S.C. 29201
737-0600

Office of Audit & Certification
1201 Main Street
Suite 600
Cola., S.C. 29201
737-0600

Installment Purchase Program
1201 Main Street
Suite 600
Cola., S.C. 29201
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JESSE A. COLES, JR., Ph.D.
EXECUTIVE DIRECTOR

JAMES J. FORTH, JR.
ASSISTANT DIVISION DIRECTOR

November 10, 1988

Mr. James J. Forth, Jr.
Assistant Division Director
Division of General Services
1201 Main Street, Suite 600
Columbia, South Carolina 29201

We have examined the procurement policies and procedures of Midlands Technical College for the period April 1, 1986 through September 30, 1988. 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 the Consolidated Procurement Code and State and College 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 Midlands Technical College is responsible for establishing and maintaining a system of internal control over procurement transactions. In fulfilling

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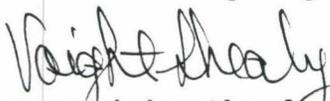
this responsibility, estimates and judgements by management are required to assess the expected benefits and related costs of control procedures. The objectives of a system are to provide management with reasonable, but not absolute, assurance of the integrity of the procurement process, that affected 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.

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


R. Voight Shealy, Manager
Audit and Certification

INTRODUCTION

The Office of Audit and Certification conducted an examination of the internal procurement operating procedures and policies and related manual of Midlands Technical College.

Our on-site review was conducted October 4-18, 1988, and was made under authority as described in Section 11-35-1230(1) of the South Carolina Consolidated Procurement Code and Regulation 19-445.2020.

The examination was directed principally to determine whether, in all material respects, that 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.

BACKGROUND

Section 11-35-1210 of the South Carolina Consolidated Procurement Code states:

The (Budget and Control) Board may assign differential dollar limits below which individual governmental bodies may make direct procurements not under term contracts. The Division of General Services shall review the respective governmental body's internal procurement operation, shall verify in writing that it is consistent with the provisions of this code and the ensuing regulations, and recommend to the Board those dollar limits for the respective governmental body's procurement not under term contract.

Section 11-35-1230(1) of the South Carolina Consolidated Procurement Code states:

In procurement audits of governmental bodies thereafter, the auditors from the Division of General Services shall review the adequacy of the system's internal controls in order to ensure compliance with the requirements of this code and the ensuing regulations.

Our audit was performed primarily to determine if recertification for expenditures of local funds is warranted.

While on site, we received a written request from Midlands Technical College for recertification to make local fund procurements in the following categories and designated amount:

<u>Category</u>	<u>Requested Limit</u>
1. Goods and Services	\$10,000
2. Consultant Services	10,000
3. Information Technology	10,000

SCOPE

Our examination encompassed a detailed analysis of the internal procurement operating procedures of Midlands Technical College 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. Our examination was limited to procurements from local funds, which includes some federal funds, local contributions and student collections which is the procurement activity managed completely by the College. As in all South Carolina technical colleges, state funded procurements are managed by the State Board of Technical and Comprehensive Education.

We selected random samples of procurement transactions for the period July 1, 1986 - September 30, 1988, of local fund procurement transactions for compliance testing and performed other audit procedures that we considered necessary in the circumstances to formulate this opinion. As specified in the Consolidated Procurement Code and related regulations, our review of the system included, but was not limited to, the following areas:

- (1) adherence to provisions of the South Carolina Consolidated Procurement Code and regulations;
- (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 sole source procurements;
- (7) source selections;
- (8) file documentation of procurements;
- (9) inventory and disposition of surplus property;
- (10) economy and efficiency of the procurement process;
and,
- (11) Minority Business Enterprise Utilization Plan.

SUMMARY OF AUDIT FINDINGS

Our audit of procurement management at Midlands Technical College, hereinafter referred to as the College, produced findings and recommendations in the following areas:

	<u>PAGE</u>
I. <u>Compliance - Procurements</u>	8
Four procurements were not made in accordance with the Consolidated Procurement Code, (the Code).	
II. <u>Sole Source and Emergency Procurements and Trade-in Sales</u>	10
We noted several exceptions in Code compliance and reporting procedure in this area.	
III. <u>Procurement Procedures</u>	13
Our observation of procurement procedures at the College resulted in several recommendations for improvement.	

RESULTS OF EXAMINATION

I. Compliance - Procurements

Our examination included a review of one hundred twenty (120) transactions selected at random from the procurement areas of goods and services, information technology, consultant services and construction for the period July 1, 1986 through September 30, 1988. The majority of these procurements were handled in compliance with the Code, however, we did note the following four exceptions:

<u>Item</u>	<u>P.O. #</u>	<u>Amount</u>	<u>Description</u>
1	17745	\$ 1,000.00	To provide equipment and instructor to teach a software course.
2	13411	1,170.00	Screen and test transformers.
3	18834	1,236.75	A&E Services - concrete Fascia study
4	16926	3,300.00	A&E Services - Beltline irrigation system

Item number one above, a procurement to provide equipment and an instructor to teach a computer system, was made as a sole source. The sole source determination was not dated and the procurement was never reported to the Division of General Service. The services were rendered October 2 - December 15, 1987, but the contract was not signed until February 1, 1988 and the purchase order was not issued until March 16, 1988.

Consequently, this is an unauthorized procurement meaning that ratification must be requested from the College President in accordance with Regulation 19-445.2015. Also, an amended report

should be filed with the Division of General Services in accordance with Section 11-35-2440 of the Code.

Item number two above, purchase order 13411 totalling \$1,170.00 for screening and testing of transformers, was not supported by evidence of competition or a sole source or emergency procurement determination.

Also, the procurement package had a very unclear audit trail. The original requisition was dated January 21, 1987, the invoice was dated June 18, 1987 and the purchase order was not issued until August 11, 1987. If purchasing is having a difficult time procuring services over an extended time, we recommend a "memo for record" be kept and updated in the purchasing file to provide a clear history of each transaction.

Items three and four above, were procurements of architect-engineer services. The College failed to obtain the approval of the State Engineer's Office for these procurements. The two sections of the Code that cover procurements of architect-engineer services, 11-35-3220 and 11-35-3230, require the approval of the State Engineer.

Since this was not done in these two cases, ratification must be requested in accordance with Regulation 19-445.2015. This requires that ratification be requested from the College President for item (3) and from the Materials Management Officer for item (4).

COLLEGE RESPONSE

We concur with the findings of the procurement auditor on item number one. We have amended the sole source report and requested ratification.

We concur with the findings of the procurement auditor on item number two. Two telephone quotes should have been solicited. In the future, we will follow procedures and provide a "memo for record" to document a clear history of each transaction.

We concur with the findings of the procurement auditor on items three and four. In the future, we will request the approval of the State Engineer's Office. Item three has been ratified and item four has been sent to the Materials Management Officer for ratification.

II. Sole Source and Emergency Procurements and Trade-in Sales

We reviewed all sole source and emergency procurements and trade-in sales with all available supporting documentation for the period April 1, 1986 - September 30, 1988. We found these procurements to be in compliance with the Code and regulations with the following exceptions.

A. Sole Source Procurements

We noted fifteen instances where the sole source designee failed to record the date of his approval signature on sole source and emergency procurement justifications. These exceptions were as follows:

<u>P.O.#</u>	<u>Amount</u>	<u>P.O.#</u>	<u>Amount</u>
14846	\$20,340.00	18786	\$ 640.00
15604	18,320.00	18927	1,690.00
15770	12,352.00	19178	13,200.00
15810	1,359.70	19263	892.00
16306	13,200.00	19696	4,971.49
16365	1,102.00	20077	3,000.00
16937	825.00	18622	21,675.36
		Req. 49258	2,357.78

As a result, we are unable to determine if these procurements were properly authorized or not. We recommend that all justifications be dated by the authorized sole source designee when he signs them.

Additionally, we reviewed three procurements made as sole sources which we do not accept as such. These procurements were as follows:

	<u>P.O.#</u>	<u>Amount</u>	<u>Description</u>
1)	19980	\$11,681.90	Subscription service
2)	19992	6,800.00	Subscription service
3)	17023	1,000.00	Furnish and install an in-line blower

COLLEGE RESPONSE

We concur with the findings of the procurement auditor on the fifteen undated justifications and we will ensure that justifications are dated prior to completion of the procurement.

Regulation 19-445.2105 which addresses sole source procurement states in part, "In cases of reasonable doubt, competition should be solicited." This should have been done in the three cases above.

Finally, we found one procurement on purchase order number S8199 for \$1,470 made as a sole source procurement which was not signed by the authorized sole source designee. Someone else signed his name and initialed the signature. We found that this person is not authorized to sign a sole source, therefore; this procurement is unauthorized.

We recommend that ratification be requested from the College President in accordance with Regulation 19-445.2015. Further, we recommend that sole source procurements only be authorized by official designees.

B. Emergency Procurements

Purchase order 19664 totalling \$6,565.00 for an air conditioning system was inappropriate as an emergency procurement. It should have been handled within normal procurement methods.

We recommend that emergency procurement procedures only be used when an immediate need cannot be met using normal procurement methods.

COLLEGE RESPONSE

We concur with the findings of the procurement auditor and will adhere to emergency guidelines in the future.

C. Trade-in Sales

A trade-in of \$1,387.40 on purchase order number 58064 was not submitted to the Materials Management Office for approval. Regulation 19-445.2150, Subsection E, states in part: "When the trade-in value exceeds five hundred dollars (\$500.00), the governmental body shall refer the matter to the Materials Management Officer for disposition by the office or for submission to the Board for consideration."

We recommend that the College adhere to this requirement on all future trade-ins.

COLLEGE RESPONSE

We will adhere to Regulation 19-445.2150 for trade-ins over five hundred dollars (\$500.00).

D. Reporting

Section 11-35-2440 of the Code requires that each governmental body report all sole source and emergency procurements to the chief procurement officers on a quarterly basis. We noted the following instances of reporting errors.

The following three procurements were made against an established contract so they should not have been reported as sole sources:

<u>P.O.#</u>	<u>Amount</u>
16436	\$ 7,375.00
18087	13,183.20
18088	10,636.56

Further, purchase order 58064 for \$2,885.40 was properly justified and authorized as an emergency procurement. However, it was not reported to the Division of General Services.

Finally, purchase order 17229 for \$9,195.00 was determined to be an emergency and was reported as such. However, the order was cancelled and the procurement was not made. It should be eliminated from the quarterly report.

Amended reports should be filed to correct these reporting errors.

COLLEGE RESPONSE

We concur with the findings of the procurement auditor on the reporting errors and amended reports have been sent to the Materials Management Office.

III. Procurement Procedures

The following recommendations are made to tighten procurement procedures of the college.

- (1) Some purchase orders resulting from state or agency contracts failed to reference the contract numbers. Every purchase made from an existing contract should reference the contract number.
- (2) If a purchase order is for a multi-year contract the purchase order should note which year of the contract the P.O. covers, ie. (year 3 of 5 year contract).

- (3) When bids are received, the envelopes are stamped. When bids are opened, the envelopes are discarded. The purchasing office should either time stamp the bids at opening or keep the original stamped envelopes in the file as evidence that bids were responsive.
- (4) The bid tabulation sheet and the daily bid register should always be signed by the College personnel performing the sealed bid opening.
- (5) When sealed bids are received by the College they are currently placed in unsecured bid folders until the bid opening. This is in violation of Section 11-35-1520(5) which states..."All bids received prior to the time of opening shall be kept secure and unopened in a locked box or safe..." (Emphasis added)

COLLEGE RESPONSE

Recommendations were made to tighten procurement procedures of the College. These recommendations have been taken into consideration and are currently being followed by the purchasing department.

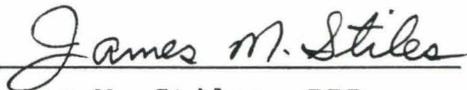
CERTIFICATION RECOMMENDATIONS

As enumerated in our transmittal letter, corrective action based on the recommendations described in the findings contained in the body of this report, we believe, will in all material respects place Midlands Technical College in compliance with the South Carolina 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 recommend Midlands Technical College be certified to make direct agency procurements for three (3) years up to the following limits:

<u>Procurement Areas</u>	<u>Recommended Certification Limits</u>
Goods and Services (Local Funds Only)	* \$10,000 per purchase commitment
Consultants (Local Funds Only)	* \$10,000 per purchase commitment
Information Technology in accordance with the approved Information Technology Plan (Local Funds Only)	* \$10,000 per purchase commitment

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


James M. Stiles, PPB
Audit Supervisor


R. Voight Shealy, Manager
Audit and Certification

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JAMES J. FORTH, JR.
ASSISTANT DIVISION DIRECTOR

March 29, 1989

Mr. James J. Forth, Jr.
Assistant Division Director
Division of General Services
1201 Main Street, Suite 600
Columbia, South Carolina 29201

Dear Jim:

We have returned to Midlands Technical College to determine the progress made toward implementing the recommendations in our audit report covering the period April 1, 1986 - September 30, 1988. During this visit, we followed up on each recommendation made in the audit report through inquiry, observation and limited testing.

We observed that the College has made substantial progress toward correcting the problem areas found and improving the internal controls over the procurement system. With the changes made, the system's internal controls should be adequate to ensure that procurements are handled in compliance with the Consolidated Procurement Code and ensuing regulations.

We therefore, recommend that the certification limits as outlined in the audit report be granted for a period of three (3) years.

Sincerely,

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

R. Voight Shealy, Manager
Audit and Certification

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