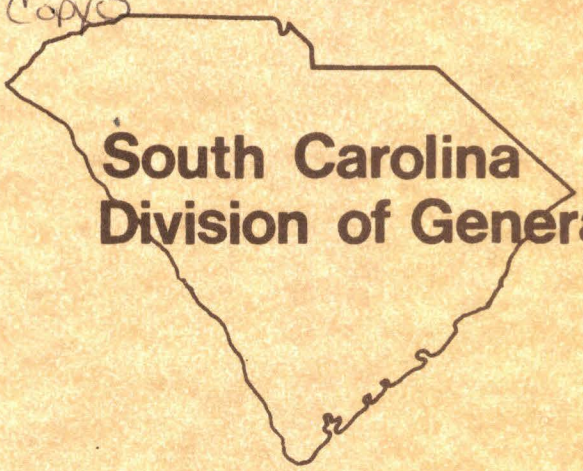
B85956
2.E28-2
1994
Copy3



South Carolina
Division of General Services

PROCUREMENT AUDIT AND CERTIFICATION

SOUTH CAROLINA
EDUCATIONAL TELEVISION COMMISSION

AGENCY

JULY 1, 1991 - DECEMBER 31, 1993

DATE

STATE OF SOUTH CAROLINA

State Budget and Control Board

OFFICE OF GENERAL SERVICES

CARROLL A. CAMPBELL, JR., CHAIRMAN
GOVERNOR

GRADY L. PATTERSON, JR.
STATE TREASURER

EARLE E. MORRIS, JR.
COMPTROLLER GENERAL

JOHN DRUMMOND
CHAIRMAN, SENATE FINANCE COMMITTEE

WILLIAM D. BOAN
CHAIRMAN, WAYS AND MEANS COMMITTEE

LUTHER F. CARTER
EXECUTIVE DIRECTOR

HELEN T. ZEIGLER
DIRECTOR

MATERIALS MANAGEMENT OFFICE
1201 MAIN STREET, SUITE 600
COLUMBIA, SOUTH CAROLINA 29201
(803) 737-0600
Fax (803) 737-0639

WILLIAM E. GUNN
ASSISTANT DIRECTOR

September 28, 1994

Mrs. Helen T. Zeigler
Director
Office of General Services
1201 Main Street, Suite 420
Columbia, South Carolina 29201

Dear Helen:

I have attached South Carolina Educational Television Commission'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 South Carolina Educational Televison Commission a three (3) year certification as noted in the audit report.

Sincerely,

Eddie

William E. Gunn
Materials Management Officer

WEG/tl
Attachment

MARION U. DORSEY, P.E.
OFFICE OF THE

VOIGHT SHEALY
STATE

RON MOORE
INFORMATION
TECHNOLOGY

LARRY G. SORRELL
AUDIT

JAMES J. PORTH, JR.

WALT TAYLOR
STATE & FEDERAL
SURPLUS

WALT TAYLOR
CENTRAL SUPPLY
& INTERAGENCY
MAIL SERVICE

SOUTH CAROLINA EDUCATIONAL TELEVISION COMMISSION

PROCUREMENT AUDIT REPORT

JULY 1, 1991 - DECEMBER 31, 1993

TABLE OF CONTENTS

	PAGE
Transmittal Letter	1
Introduction	4
Scope	5
Summary of Audit Findings	7
Results of Examination	9
Certification Recommendations	15
Follow-up Letter	16

STATE OF SOUTH CAROLINA

State Budget and Control Board

OFFICE OF GENERAL SERVICES

CARROLL A. CAMPBELL, JR., CHAIRMAN
GOVERNOR

GRADY L. PATTERSON, JR.
STATE TREASURER

EARLE E. MORRIS, JR.
COMPTROLLER GENERAL

JOHN DRUMMOND
CHAIRMAN, SENATE FINANCE COMMITTEE

WILLIAM D. BOAN
CHAIRMAN, WAYS AND MEANS COMMITTEE

LUTHER F. CARTER
EXECUTIVE DIRECTOR

HELEN T. ZEIGLER
DIRECTOR

MATERIALS MANAGEMENT OFFICE
1201 MAIN STREET, SUITE 600
COLUMBIA, SOUTH CAROLINA 29201
(803) 737-0600
Fax (803) 737-0639

WILLIAM E. GUNN
ASSISTANT DIRECTOR

August 11, 1994

Mr. Wiliam E. Gunn
Assistant Division Director
Division of General Services
1201 Main Street, Suite 600
Columbia, South Carolina 29201

Dear Eddie:

We have examined the procurement policies and procedures of the South Carolina Educational Television Commission for the period July 1, 1991 - December 31, 1993. 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 and State and Commission 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.

MARION U. DORSEY, P.E.
OFFICE OF THE
STATE ENGINEER

VOIGHT SHEALY
STATE
PROCUREMENT

RON MOORE
INFORMATION
TECHNOLOGY
MANAGEMENT

LARRY G. SORRELL
AUDIT
& CERTIFICATION

JAMES J. PORTH, JR.
QUALITY ASSURANCE

WALT TAYLOR
STATE & FEDERAL
SURPLUS
PROPERTY

WALT TAYLOR
CENTRAL SUPPLY
& INTERAGENCY
MAIL SERVICE

The administration of the South Carolina Educational Television Commission is responsible for establishing and maintaining a system of internal control over procurement transactions. In fulfilling 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 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 Educational Television Commission in compliance with the South Carolina Consolidated Procurement Code and ensuing regulations.

Larry G. Sorrell, Manager
Audit and Certification

INTRODUCTION

We conducted an examination of the internal procurement operating policies and procedures of the South Carolina Educational Television Commission. Our on-site review was conducted February 2, 1994 through February 17, 1994, and was made under 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 Commission in promoting the underlying purposes and policies of the Code as outlined in Section 11-35-20, which include:

(1) to ensure the fair and equitable treatment of all persons who deal with the procurement system will will promote increased public confidence

(2) to provide increased economy in state procurement activities and to maximize to the fullest extent practicable the purchasing values of funds of the State

(3) 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. It encompassed a detailed analysis of the internal procurement operating procedures of the South Carolina Educational Television Commission 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 statistically selected random samples for the period July 1, 1991 - December 31, 1993, 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, the following:

(1) Sixty randomly selected procurement transactions

(2) The selection and approval of two architect and engineering service contracts

(3) Three permanent improvement contracts for approvals and compliance with the Manual for Planning and Execution of State Permanent Improvements

(4) Block sample of one thousand sequentially numbered vouchers

(5) All sole source, emergency and trade-in sale procurements for the audit period

(6) Minority Business Enterprise Plan and quarterly progress reports

(7) Real property lease listings and approvals

(8) Procurement staff and training

(9) Information Technology Plan approvals

(10) Evidence of competition and informal bidding procedures

(11) Inventory and disposition of surplus property procedures

(12) Review of the procurement procedures manual

(13) Economy and efficiency of the procurement process

SUMMARY OF AUDIT FINDINGS

Our audit of procurement management at the South Carolina Educational Television Commission, hereinafter referred to as the Commission, produced findings and recommendations in the following areas:

		PAGE
I.	Compliance - General One procurement lacked the appropriate competition requirements and trade-in approval.	9
II.	Compliance - Sole Source and Emergency Procurements	
	A. Drug-Free Workplace Certifications Nine sole sources and one emergency procurement, greater than $50,000, were not supported by Drug-Free Workplace certifications.	10
	B. Reporting Errors We noted three sole source procurements and one emergency procurement reporting errors.	11
	C. Unauthorized Sole Source Procurement We noted one unauthorized sole source procurement.	12
	D. Inappropriate Emergency Procurement Poor planning by section personnel resulted in an inappropriate emergency procurement.	13

PAGE

III. Compliance - Construction 13

The Commission failed to provide to us a copy of the State Engineer form SE-390, "Notice to Proceed", on one construction contract.

IV. Procurement Procedures Manual 14

The Commission's procurement procedures manual must be updated to reflect the new Code changes and the Commission's higher certification limits.

RESULTS OF EXAMINATION

The audit was instituted because the Commission requested increased certification limits as follows:

Goods and Services	$25,000 per commitment
Consultants	25,000 per commitment
Information Technology	25,000 per commitment
Construction	25,000 per commitment

Since our previous audit in 1991, the Commission has maintained what we consider to be a professional, efficient procurement system. We did note, however, the below listed items which should be addressed by management.

I. Compliance - General

Procurement Lacked the Appropriate Competition Requirements and Trade-in Approval

Purchase order number 930120 was for $2,910 less a trade-in credit of $1,890 for a used assembly. Voucher 30275 dated 7/28/92 for $1,020 was for payment on a rebuilt capstan assembly. Two problems were noted on this transaction.

The Commission solicited two phones, using the $1,020 difference as a basis for receiving informal quotes. However, an opinion written by the Materials Management Officer on December 4, 1984 stated in part...

> The total value of an acquisition is not influenced by a trade-in credit or cost reduction when determining the proper procurement methodology or source selection.

This procurement should have been sealed bid since the original cost was greater than $2,500. We remind the Commission that the competition levels must be based on the original acquisition amount before trade-in credits are applied.

The Commission failed to get approval as required by Regulation 19-445.2150(E) when a trade-in exceeds $500.

It is customary for the Commission to exchange used equipment and TV tubes on purchase of rebuilt like items. We recommend the Commission obtain a blanket trade-in approval annually from the State Surplus Property Officer to facilitate these type trade-in purchases.

COMMISSION RESPONSE

Concur. This procurement is in actuality a repair of a Capstan Assembly. The vendor provides us with a rebuilt assembly, so that we do not have down time, then charges us for the repair of the inoperative item which they keep on the shelf. We never considered this to be a trade-in, and therefore never reported a trade-in. In the future we will insure that this type of procurement is reported correctly.

II. Compliance - Sole Source and Emergency Procurements

A. Drug-Free Workplace Certifications

We noted nine sole source procurements and one emergency procurement for $50,000 or more where the Commission did not obtain the required certifications from vendors that they were in compliance with the South Carolina Drug-Free Workplace Act. Items 1-9 were sole source and item 10 was an emergency procurement. These contracts were as follows:

Item#	PO#	PO Date	Amount	Description
1	920041	08/20/91	$ 76,272	Hardware maintenance
2	920320	09/05/91	59,622	Audio tape recorders & players
3	930018	08/24/92	63,696	Hardware maintenance
4	930831	09/22/92	660,672	Satellite antenna system
5	933130	05/27/93	82,950	Satellite up-converters
6	933131	06/23/93	185,706	KU-Band satellite amplifiers
7	Contract	06/03/93	175,325	Studio production services

8	Contract	07/16/93	568,232	Production services
9	Contract	11/10/93	54,875	Utilization services
10	930022	07/29/92	58,164	Klystron tube

Section 44-107-40 of the South Carolina Code of Laws, 1976, as amended in 1991, requires that:

> No state agency may enter into a domestic contract or make a domestic grant with any individual for a stated or estimated value of fifty thousand dollars or more unless the contract or grant includes a certification by the individual that the individual will not engage in the unlawful manufacture, distribution, dispensation, possession or use of a controlled substance in the performance of the contract.

The Commission has not complied with the law in these cases.

We recommend that the Commission exercise more caution to ensure that sole source and emergency contracts greater than $50,000 are not awarded unless the vendors complete Drug-Free Workplace certifications.

COMMISSION RESPONSE

Concur. We neglected to realize that Drug Free Workplace Certifications where required on other than Competitive Bid Contracts. In the Future all contracts of $50,000 or more, regardless of procurement methodology, will contain the compliance certification.

B. Reporting Errors

During the review of sole source and emergency procurements, we noted the following reporting errors made to the Materials Management Office:

Item#	PO#	PO Date	Amount	Description
1	20709	08/15/91	$ 2,090.00	TV rating service
2	940896	08/30/93	7,176.00	Printing paper
3	941056	09/13/93	3,773.50	Printing paper
4	913074	10/21/91	1,785.00	Rental of office modular buildings

Items 1-3 were sole source procurements that were not reported to the Materials Management Office as required by Code

Section 11-35-2440.

Item 4 was an emergency procurement for the monthly rental of an office trailer to house broadcast equipment and personnel. However, this emergency was reported as a sole source procurement.

An amendment should be filed with the Materials Management Office reporting items 1-3 and changing item 4. Further, we recommend that the Commission be more careful in the reporting requirements dealing with sole source and emergency procurements.

COMMISSION RESPONSE

Concur. The sole Source Justification for this procurement was inadvertently dated 7/12/93 instead of 6/12/93. Ratification action for this procurement has been completed.

C. Unauthorized Sole Source Procurement

We noted one sole source procurement where the original determination was not dated until after the services had begun.

Voucher#	Original Determination Date	Service Start Date	Amount	Description
38828	07/12/93	06/03/93	$2,407.50	Studio production services

Section 11-35-1560 (Sole Source Procurements) of the South Carolina Consolidated Procurement Code specifies who may declare sole source procurements. Since this procurement was not approved by the designated person prior to the start of the service, it is unauthorized.

We recommend that the Commission exercise caution to ensure prior approval of all future sole source procurements. Further, we recommend that the Commission ratify this procurement in accordance with Regulation 19-445.2015A(1).

D. Inappropriate Emergency Procurement

The following procurement should have been competitively sealed bid and not handled as an emergency. Sufficient time was available for this process.

PO#	Date	Amount	Item/Service Description
933673	05/17/93	$3,254.00	Printing of highway safety belt posters

Informal quotations were received the week of February 5-10, 1993 from three bidders. The purchase order was issued over 3 months later as an emergency procurement. Poor planning by agency personnel in the procurement process does not justify an emergency procurement as defined in Regulation 19-445.2110.

We recommend that the Commission bid goods and services, when time allows, in accordance with the standard sealed bidding procedures to ensure emergency procurements are not inappropriately made.

COMMISSION RESPONSE

Concur. Miscommunication between SC ETV and another State Agency left both believing that the other was processing this procurement. SC ETV was completing the Art work for an ad campaign. When it was discovered that the other Agency had not completed the purchase, we were forced to use an Emergency purchase to meet the ad kick-off date. In the future we will insure that all parties are aware of time requirements 90 that appropriate procurement methodology can be utilized.

III. Compliance - Construction

On project 9501 known as ITFS: Channel Groups E&F, to build receiver towers, the Commission could not furnish us a copy of the "Notice to Proceed" SEO form SE-390.

Section 6.23 of the Manual for Planning and Execution of State Permanent Improvements state in part:

The agency should sign and deliver one copy of the agreement between owner and contractor to the contractor with the SE-390, "Notice to Proceed". The agency shall send a copy of the SE-390 to the OSE on the same day it is mailed to the contractor. The Date of Commencement shall be established in the SE-390 and shall be used for determining the date of substantial completion and liquidated damages.

We were unable to verify that this form was submitted to the successful bidder.

We recommend the Commission ensure that an SE-390, Notice to Proceed, is furnished to all successful bidders upon final approval of such contracts by the State Engineer's Office.

COMMISSION RESPONSE

Concur. Apparently the State Engineers Office never issued a SE-390 for this contract, which has been completed for two years. Preparation of an SE-390 at this time is inappropriate,. The contractor did proceed, and completed the contract with no problems. In the future we will insure that all appropriate State Engineer forms are completed and dispatched as required on construction contracts.

IV. Procurement Procedures Manual

The State Government Accountability and Reform Act of 1993 instituted many changes in the Consolidated Procurement Code effective July 1, 1993. Since the Commission's manual has not been updated to reflect these changes and with increased certification, we recommend that the Manual be updated to be consistent with the updated Code and higher certification limits. A copy of the updated manual should be forwarded to our office for review and approval.

COMMISSION RESPONSE

Concur. A revised Procurement Policies and Procedures Manual has been completed. It will take effect on the date of the B&C Board's approval of higher limits. Additionally a briefing of all appropriate personnel will be given prior to implementation.

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 Educational Television Commission in compliance with the South Carolina Consolidated Procurement Code and ensuing regulations. Corrective action should be accomplished by May 31, 1994.

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

Procurement Areas	Recommended Certification Limits
I. Goods and Services	*$25,000 per commitment
II. Consultant Services	*$25,000 per commitment
III. Information Technology in accordance with the approved Information Technology Plan	*$25,000 per commitment
IV. Construction Services	*$25,000 per commitment

*Total potential commitment to the State whether single year or multi-term contracts are used.

James M. Stiles

James M. Stiles, CPPB
Audit Manager

Larry G. Sorrell

Larry G. Sorrell, Manager
Audit and Certification

STATE OF SOUTH CAROLINA

State Budget and Control Board

OFFICE OF GENERAL SERVICES

CARROLL A. CAMPBELL, JR., CHAIRMAN
GOVERNOR

GRADY L. PATTERSON, JR.
STATE TREASURER

EARLE E. MORRIS, JR.
COMPTROLLER GENERAL

JOHN DRUMMOND
CHAIRMAN, SENATE FINANCE COMMITTEE

WILLIAM D. BOAN
CHAIRMAN, WAYS AND MEANS COMMITTEE

LUTHER F. CARTER
EXECUTIVE DIRECTOR

HELEN T. ZEIGLER
DIRECTOR

MATERIALS MANAGEMENT OFFICE
1201 MAIN STREET, SUITE 600
COLUMBIA, SOUTH CAROLINA 29201
(803) 737-0600
Fax (803) 737-0639

WILLIAM E. GUNN
ASSISTANT DIRECTOR

September 28, 1994

Mr. William E. Gunn
Materials Management Office
Office of General Services
1201 Main Street, Suite 600
Columbia, South Carolina 29201

Dear Eddie:

We have reviewed South Carolina Educational Television Commission's response to our audit report for July 1, 1991 - December 31, 1993. Also, we have followed the Commission's corrective action during and subsequent to our field work. We are satisfied that the Commission has corrected the problem areas and that internal controls over the procurement system are adequate.

Therefore, we recommend that the Budget and Control Board grant the South Carolina Educational Television Commission the certification limits noted in our audit report for a period of three (3) years.

Sincerely,

Larry G. Sorrell

Larry G. Sorrell, Manager
Audit and Certification

LGS/tl

Total Copies Printed - 33
Unit Cost - .52
Total Cost - 17.16

MARION U. DORSEY, P.E.
OFFICE OF THE
STATE ENGINEER

VOIGHT SHEALY
STATE
PROCUREMENT

RON MOORE
INFORMATION
TECHNOLOGY
MANAGEMENT

LARRY G. SORRELL
AUDIT
& CERTIFICATION

JAMES J. FORTH, JR.
QUALITY ASSURANCE

WALT TAYLOR
STATE & FEDERAL
SURPLUS
PROPERTY

WALT TAYLOR
CENTRAL SUPPLY
& INTERAGENCY
MAIL SERVICE
(803) 734-7919

SOUTH CAROLINA STATE LIBRARY
0 01 01 0185975 8