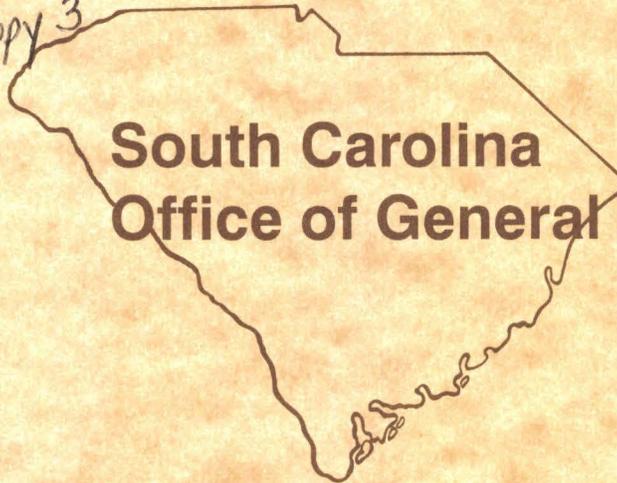


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**South Carolina
Office of General Services**

PROCUREMENT AUDIT AND CERTIFICATION

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**SOUTH CAROLINA EDUCATIONAL
TELEVISION COMMISSION**

AGENCY

APRIL 1, 1997 – MARCH 31, 1999

DATE

STATE OF SOUTH CAROLINA
State Budget and Control Board
OFFICE OF GENERAL SERVICES

JIM HODGES, CHAIRMAN
GOVERNOR

GRADY L. PATTERSON, JR.
STATE TREASURER

JAMES A. LANDER
COMPTROLLER GENERAL



ROBERT W. McCLAM
DIRECTOR

MATERIALS MANAGEMENT OFFICE
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R. VOIGHT SHEALY
ASSISTANT DIRECTOR

October 25, 1999

JOHN DRUMMOND
CHAIRMAN, SENATE FINANCE COMMITTEE

HENRY E. BROWN, JR.
CHAIRMAN, WAYS AND MEANS COMMITTEE

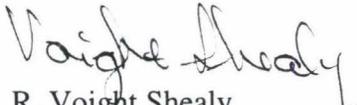
RICHARD W. KELLY
EXECUTIVE DIRECTOR

Mr. Robert W. McClam, Director
Office of General Services
1201 Main Street, Suite 420
Columbia, South Carolina 29201

Dear Robbie:

I have attached the 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 Commission a two year certification as noted in the audit report.

Sincerely,


R. Voight Shealy
Materials Management Officer

/jl

**SOUTH CAROLINA EDUCATIONAL TELEVISION COMMISSION
PROCUREMENT AUDIT REPORT**

APRIL 1, 1997 - MARCH 31, 1999

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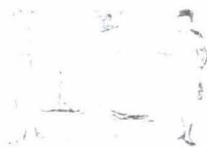
NOTE: The Commission's response to issues noted in the report have been inserted immediately following the issues they refer to.

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HENRY E. BROWN, JR.
CHAIRMAN, WAYS AND MEANS COMMITTEE

RICHARD W. KELLY
EXECUTIVE DIRECTOR

October 4, 1999

Mr. R. Voight Shealy
Materials Management Officer
Office of General Services
1201 Main Street, Suite 600
Columbia, South Carolina 29201

Dear Voight:

We have examined the procurement policies and procedures of the South Carolina Educational Television Commission for the period April 1, 1997 through March 31, 1999. 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, 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.

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 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 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 Consolidated Procurement Code and ensuing regulations.

Sincerely,



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 April 12, 1999 through May 11, 1999, 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.

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 includes:

- (1) to ensure the fair and equitable treatment of all persons who deal with the procurement system of this State
- (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

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 Office 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.

On November 4, 1997 the Budget and Control Board granted the Commission the following procurement certifications:

<u>Categories</u>	<u>Limits</u>
Goods and Services	\$25,000 per commitment
Consultant Services	\$25,000 per commitment
Information Technology	\$25,000 per commitment
Construction Services	\$25,000 per commitment

Our audit was performed primarily to determine if recertification is warranted.

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 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 selected judgmental samples for the period April 1, 1997 through March 31, 1999, 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 April 1, 1997 through March 31, 1999
- (2) Procurement transactions for the period June 1, 1997 through March 31, 1999 as follows:
 - a) Sixty-three payments exceeding \$1,500
 - b) A block sample of five-hundred sequential vouchers
 - c) Additional sample of thirteen written solicitations
- (3) Three professional services contracts and two construction contracts for compliance with the Manual for Planning and Execution of State Permanent Improvements
- (4) Minority Business Enterprise Plans and reports for the audit period
- (5) Information technology plans for the audit period
- (6) Internal procurement procedures manual review
- (7) Procurement file documentation and evidence of competition
- (8) Surplus property procedures

SUMMARY OF AUDIT FINDINGS

Our audit of the procurement system of the South Carolina Educational Television Commission, hereinafter referred to as the Commission, produced the following findings and recommendations.

	<u>PAGE</u>
I. <u>Quotation Preparation</u>	7
The Commission did not use a formalized document for soliciting written quotations from vendors for procurements greater than \$10,000. Additionally, vendors were not being informed of the applicable preferences.	
II. <u>Solicitation Files Not Properly Supported</u>	7
All of the solicitation files for quotes were incomplete.	
III. <u>General Procurement Exceptions</u>	
A. <u>Invalid State Term Contract Reference</u>	8
B. <u>Procurement Not Properly Advertised and Insurance Not Obtained</u>	8
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IV. <u>Accounts Payable</u>	10
We noted internal control violations made by Accounts Payable.	
V. <u>Sole Source and Emergency Procurements</u>	
A. <u>Quarterly Report Preparation</u>	11
While the quarterly reports were better than the last audit, we still found errors and incorrect practices.	
B. <u>Exempt Procurements Reported</u>	13
The Commission reported two exempt procurements of software license renewals as sole sources.	

RESULTS OF EXAMINATION

I. Quotation Preparation

The Commission does not use a formalized document for soliciting written quotations from vendors for procurements from \$10,000 to \$25,000. Section 11-35-1550(2)(d) of the Consolidated Procurement Code (Code) requires written solicitation of written quotes, bids, or proposals be made and the procurement advertised at least once in the South Carolina Business Opportunities (SCBO) for procurements in this dollar range. Agencies accomplish a written solicitation by using a formalized document called a request for quotation (RFQ). The RFQ provides a standardized list that includes bid terms, conditions, opening date, delivery and vendor preference information. The Commission, in its written solicitations, does not normally provide all of this information to bidders, particularly the bidder preference information. The Commission now only allows preferences if bidders know to request the preferences and meet all of the requirements. However, because all bidders are not being told of preference availability, we find the Commission's practice to be patently unfair.

We recommend the Commission implement a standardized RFQ document for its procurement solicitations between \$10,000 and \$25,000. Vendor preferences must be made available to all potential bidders. The Materials Management Office has a standard RFQ document that the Commission can use in developing its own.

COMMISSION RESPONSE

The Commission has adopted a standardized RFQ document for solicitation between \$10,000 and 25,000. It includes the required vendor preference clauses.

II. Solicitation Files Not Properly Supported

The Commission processed thirteen written solicitations since our last audit and all of the files were incomplete. Documents often not included in the files were purchase requisitions, purchase orders or other award documents, quotes from the low vendors, sign-in sheets for mandatory pre-bid conferences, contract change orders, and advertisements. Most of these documents are maintained in other files but no cross-references are made causing the audit trail to be lost. Section 11-35-210 and 11-35-1710 of the Code and Regulation 19-445.2020 address maintaining sufficient detail to satisfy the requirements of external audit of governmental bodies covered by the Code.

We recommend the Commission maintain complete contract files that support the solicitation and the basis of contract awards.

COMMISSION RESPONSE

Copies of all appropriate documents will be maintained in solicitation files. Additionally, cross-references will be maintained so that audit trails will not be lost.

III. General Procurement Exceptions

Our test of procurement transactions resulted in the following general procurement exceptions.

A. Invalid State Term Contract Reference

The Commission procured blank videotapes from a vendor that was not the State contract vendor and incorrectly referenced the State term contract on purchase order 982753 dated April 4, 1998 for \$1,983. In our last audit report we also cited the Commission for procuring blank videotapes from vendors not on State contract and improperly supporting the procurement files with State contract references.

We recommend the Commission procure blank videotapes from appropriate State contract vendors.

COMMISSION RESPONSE

The videotape purchased was for the brand covered in the State contract but was made from a distributor who was not on the approved list. In the future we will purchase videotapes from appropriate State contract vendors.

B. Procurement Not Properly Advertised and Insurance Not Obtained

The Commission advertised and awarded asbestos removal services on solicitation 98-03 for \$10,850 under Article 5 of the Code as maintenance/repair in SCBO. This service is considered construction services, which makes it subject to Article 9 of the Code rather than Article 5. Article 9 covers procurements of construction, architect-engineer, construction management and land surveying services. Additionally, Article 9 requires agencies to obtain a contractor's certificate of insurance which the Commission did not request. The solicitation should have been advertised as minor construction rather than maintenance/repair in SCBO and the contractor's certificate of insurance obtained.

We recommend all future procurements of asbestos removal be procured following Article 9 of the Code.

COMMISSION RESPONSE

The Commission mistakenly procured asbestos removal as a maintenance/repair. In the future, asbestos removal will be procured as construction.

C. Change Order Not Processed

On voucher 904128 the Commission processed a payment which exceeded the purchase order amount by \$595. Under Commission procedures, a written change order should have been prepared authorizing the additional expenditure before it was paid. Section S. of the Commission's Procurement Procedures Manual defines a change order as the process of which the Procurement Office alters or changes the condition or terms of a purchase order either through written correspondence or the computer generated reissue system.

We recommend the Commission adhere to its internal procedures. Accounts Payable should not process vouchers for amounts greater than purchase orders unless change orders have been authorized.

COMMISSION RESPONSE

Although the purchase order was changed electronically, the result was not printed. Instead the purchase order was annotated manually. In the future, the Commission will print change orders to purchase orders and post to the voucher file.

D. Award Errors

Solicitation 99-01 for electronic components was issued on August 5, 1998 and resulted in multiple vendor awards. Three of the line items were not awarded to the low bidder.

<u>Item</u>	<u>Award</u>	<u>Correct Award</u>	<u>Difference</u>
AIM-RG-61	\$1,716	\$1,560	\$156
AIM-F	29	26	3
AIM RCA -F	32	29	3

Also, one vendor included a stamped, self-addressed envelope with the bid, which we found in the bid file. It is customary for vendors who want a copy of the bid tabulation to include such an envelope. Since we found the envelope in the bid file, we must assume that the bid tabulation was never sent to the vendor.

We recommend the Commission more carefully evaluate bids. Bid tabulations should be sent to vendors who request them.

The Commission solicited three verbal quotes for a scanner in August of 1998. Based on the

quote, purchase order 990434 was issued for \$2,250 with shipping terms of FOB destination. The vendor invoiced the Commission for the scanner plus \$20 for shipping that was paid on voucher 901042 for \$2,270. The Commission should not have paid the shipping cost of \$20 since it was not included in the verbal solicitation. A verbal quote from another vendor was \$2,259 making this vendor the lowest quote when comparing the total amount of \$2,270 that was paid.

COMMISSION RESPONSE

An error was made in computing in-state preferences on three items covered by solicitation ETV 99-01. The Commission will more carefully evaluate quotations received to insure award to the correct vendors. Bid tabulations will be mailed to vendors who request them even though the information is furnished verbally. The Commission’s purchase order clerk has been advised to insure that shipping charges, when appropriate, are added to the purchase order. When freight is not to be added, a statement must be noted on the requisition.

E. Purchase Order Preparation

The Commission did not provide sufficient detail on the following purchase orders for us to verify the rates on the vendors’ invoices.

<u>Voucher</u>	<u>PO</u>	<u>Description</u>	<u>Amount</u>
804067	971171	Installation of satellite dishes	\$120,000
805455	980295	Transponder time	18,900
900681	990456	Meals for Talent	37,280

Since we were unable to verify the invoice rates, we could not determine how Accounts Payable could properly audit the invoices when processing payments.

We recommend sufficient detail be included with purchase orders to allow for adequate audit by Accounts Payable.

COMMISSION RESPONSE

Instead of ordering in simple “lots” all purchase orders will now have the quantity ordered and the price per unit of measure.

IV. Accounts Payable

We noted the following internal control violations by Accounts Payable. On voucher 806858 issued in the amount of \$13,774 for mounting brackets, Accounts Payable overpaid the invoice by \$2,400. Purchase order 982665 had one item priced at \$16.90 each for a quantity of 600 items with the extended price being \$10,140. The vendor invoiced at a unit price of \$20.90 each with an extended price of \$12,540, a difference of \$2,400. Section S. of the Commission’s Procurement Procedures

Manual requires a change order when the condition or terms of a purchase order are changed. Had a change order been requested, Accounts Payable would have learned that the Commission did not owe the additional \$2,400. The Commission was unable to obtain a refund.

On voucher 803690 in the amount of \$2,259 for repair parts, the voucher was overpaid by \$115. On one line item the vendor quoted \$1,433 but invoiced \$1,548. The Commission's purchase order was correctly prepared, yet the invoice was overpaid by \$115 without a change order. Had a change order been requested, Accounts Payable would have learned that the Commission had been incorrectly invoiced. Also, the quotes failed to address freight and the purchase order was prepared FOB destination. The vendor invoiced \$19 freight and Accounts Payable paid it without authorization.

Finally, on voucher 800568 the Commission paid for digital audiovisual mixers, yet the voucher did not have matching receiving information. Purchase order 973285 showed 7 ordered, with 1 back ordered, the receiving report showed 2 received and 5 back ordered, and the invoice showed 5 ordered, 4 shipped and 1 back ordered. The receiving information must agree before vouchers are processed.

We recommend that Accounts Payable comply with the policies and procedures as defined in the Commission's manual. Payments should only be made for the amounts and terms listed on the purchase orders and items documented as received.

COMMISSION RESPONSE

The Commission has briefed all appropriate personnel on the importance of accurately computing cost per item as ordered and as invoiced to insure correct payment. Price changes will be scrutinized to insure that overpayments are not made. In the future payments will only be made for amounts and terms as listed on the purchase orders and on items documented as received.

V. Sole Source and Emergency Procurements

We examined the quarterly reports of sole source and emergency procurements for the period April 1, 1997 through March 31, 1999. This review was performed to determine the appropriateness of the procurement actions taken and the accuracy of the reports submitted to the Office of General Services as required by Section 11-35-2440 of the Code. We noted the following problems with the reports.

A. Quarterly Report Preparation

In our last audit report we cited the Commission for its inaccuracies in the sole source and emergency reports. While the reports have improved, we still found where the Commission has been

reporting expenditures of sole source procurements instead of reporting the contract values. On purchase order 981363 dated November 6, 1997 for repair of PA modules, the Commission reported the expenditure in the 7/1/98 – 9/30/98 quarter, almost a year after the procurement was made. On purchase order 990515 for a high definition TV camera rental issued in the amount of \$24,000, only a partial payment in the amount \$16,457 was reported. Because the Commission reported the expenditure and not the procurement, an under reporting of \$7,320 occurred. An amended sole source report should be filed.

We also noted where the Commission was using old sole source justifications to authorize sole source procurements. For purchase order 990113 dated July 8, 1998 for a mail machine lease in the amount of \$40,608, the written determination authorizing the sole source was dated November 11, 1996. Likewise, on purchase order 991818 dated December 17, 1998 the written determination authorizing the sole source was dated May 14, 1998. A new determination should be authorized for each proposed sole source unless the written determination identifies itself as a blanket determination. Even then the blanket determination should be limited to one year.

Another reporting inaccuracy, which was also cited in the last audit report, is the Commission continues to use purchase order numbers with voucher dates on the quarterly reports to the Materials Management Office. The voucher dates are not identified as such which gives the appearance that they are purchase order dates. In our last audit we requested that consistent document information be recorded on the reports. The quarterly reports should have purchase order numbers, purchase order dates and purchase order amounts recorded. The voucher information should not be used on these documents.

Section 11-35-2440 of the Code states:

- (1) Contents of Records. Any governmental body as defined in Section 11-35-310(18) shall submit quarterly a record listing all contracts made under Section 11-35-1560 (Sole Source Procurement) or Section 11-35-1570 (Emergency Procurements) to the chief procurement officers. The record shall contain.
 - (a) each contractor's name;
 - (b) the amount and type of each contract;
 - (c) a listing of supplies, services or construction procured under each contract.

The chief procurement officers shall maintain these records for five years.

(2) Publication of Records. A copy of the record shall be submitted to the board on an annual basis and shall be available for public inspection.

These requirements have existed since the Code was enacted in 1981.

We recommend the Commission adhere to Section 11-35-2440 of the Code.

COMMISSION RESPONSE

The Commission was controlling the reporting of sole source and emergency procurements by voucher when the payment was made. We have changed our reporting procedure so that now we control the reporting by purchase order. Additionally, sole source authorizations for multi-year purchases/leases will show that the purchase is through the final year of the purchase/lease. Where required, amended sole source reports will be submitted.

B. Exempt Procurements Reported

The Commission reported two exempt procurements of software license renewals as sole sources.

<u>PO</u>	<u>Description</u>	<u>Amount</u>
980089	VAX software support	\$20,342
990039	VAX software support	20,342

On April 22, 1986 the Budget and Control Board exempted license agreements for computer software after such software has been competitively bid as required by the Procurement Code. Amended sole source reports should be filed removing these procurements.

COMMISSION RESPONSE

Computer software support will no longer be reported as sole source and an amended sole source report will be filed.

CERTIFICATION RECOMMENDATIONS

As enumerated in our transmittal letter, corrective action based on the recommendations described in this report, will in all material respects place the South Carolina Educational Television Commission in compliance with the Consolidated Procurement Code and ensuing Regulations. We fully expect the Commission to take corrective action on the recommendations listed in this report.

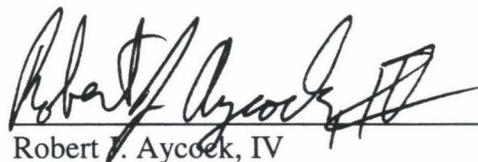
Under the authority described in Section 11-35-1210 of the Procurement Code, subject to this corrective action, we will recommend the South Carolina Educational Television Commission be recertified to make direct agency procurements for two years up to the limits as follows:

PROCUREMENT AREAS

RECOMMENDED CERTIFICATION LIMITS

Goods and Services	*\$25,000 per commitment
Consultant Services	*\$25,000 per commitment
Information Technology	*\$25,000 per commitment
Construction Contract Award	\$25,000 per commitment
Construction Contract Change Order	\$25,000 per change order
Architect/Engineering Contract Amendment	\$ 5,000 per change order

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



Robert F. Aycock, IV
Audit Manager



Larry G. Sorrell, Manager
Audit and Certification

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RICHARD W. KELLY
EXECUTIVE DIRECTOR

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 the South Carolina Educational Television Commission to our audit report for the period of April 1, 1997 - March 31, 1999. Also we have followed the Commission's corrective action during and subsequent to our fieldwork. We are satisfied that the Commission has corrected the problem areas and the internal controls over the procurement system are adequate.

Therefore, we recommend the Budget and Control Board grant the South Carolina Educational Television Commission the certification limits noted in our report for a period of two years.

Sincerely,

A handwritten signature in cursive script that reads "Larry G. Sorrell".

Larry G. Sorrell, Manager
Audit and Certification

LGS/jl

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