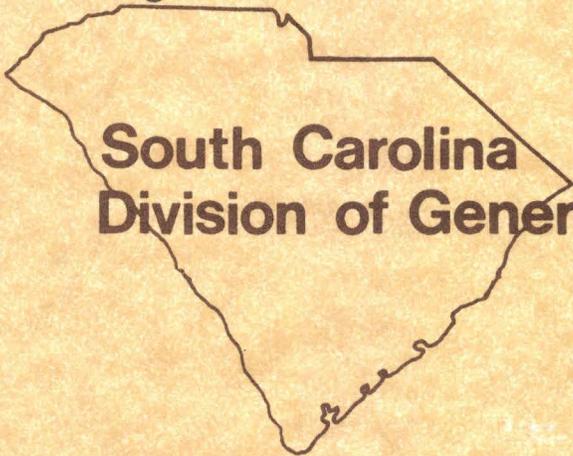


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**South Carolina
Division of General Services**

PROCUREMENT AUDIT AND CERTIFICATION

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**HORRY-GEORGETOWN TECHNICAL COLLEGE
AGENCY**

APRIL 1, 1985 - JUNE 30, 1986

DATE

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DIVISION OF GENERAL SERVICES

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EXECUTIVE DIRECTOR

RICHARD J. CAMPBELL
ASSISTANT DIVISION DIRECTOR

November 25, 1987

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

Dear Rick:

Attached is the final Horry-Georgetown Technical College audit report and recommendations made by the Office of Audit and Certification.

Due to the findings of the follow-up review by the Audit and Certification staff, I am disturbed that the College has taken no action to correct the exceptions noted in the original audit report. I therefore, am unable to recommend certification above the \$2,500 limit allowed by law.

I recommend that this report be presented to Dr. Coles for his information.

Sincerely,

A handwritten signature in cursive script that reads "D. L. McMillin".

D. L. McMillin
Acting Materials Management Officer

Attachment

MATERIALS MANAGEMENT OFFICE

State Supply & Surplus Property Management
Surplus Property
Boston Avenue
W. Cola, S.C. 29169
734-4335

Supply, Warehousing & IMS
1942 Laurel Street
Cola., S.C. 29201
734-7919

Training & Research
300 Gervais Street
Annex 3
Cola., S.C. 29201
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

Installation Purchase Program
1201 Main Street
Suite 600
Cola., S.C. 29201
737-0600

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HOUSE WAYS AND MEANS COMMITTEE

DR. JESSE A. COLES, JR.
EXECUTIVE DIRECTOR

RICHARD J. CAMPBELL
ASSISTANT DIVISION DIRECTOR

November 13, 1987

Mr. D.L. McMillin
Acting Materials Management Officer
Division of General Services
1201 Main Street
Columbia, South Carolina 29201

We have examined the procurement policies and procedures of Horry-Georgetown Technical College for the period April 1, 1985 through June 30, 1986. As 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 internal procurement policy. Additionally, the evaluation was used in determining the nature, timing and extent of other auditing procedures that were necessary for developing a recommendation for certification above the \$2,500 limit.

The administration of the College 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 that expected benefits and related costs of control procedures. The objectives of a system are to provide management with

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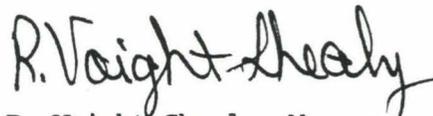
reasonable, but not absolute, assurance of the integrity of the procurement process, that affected assets are safeguarded against loss from unauthorized use or disposition, and that transactions are executed in accordance with management's authorization and are recorded properly.

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 Horry-Georgetown 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 Horry-Georgetown Technical College.

Our on-site review was conducted July 7 through July 16, 1986, and was made under the authority as described in 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 agency 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 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 Division of General Services shall review the respective governmental body's internal procurement operations, shall certify 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.

Our audit was performed primarily to determine if certification is warranted for this requested increased limit:

<u>Category</u>	<u>Requested Limit</u>
Goods and Services (Local Funds Only)	\$15,000

SCOPE

Our examination encompassed a detailed analysis of the internal procurement operating procedures of Horry-Georgetown 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 up to the requested certification limit.

The Audit and Certification team of the Division of General Services selected random samples for the period July 1, 1985 through June 30, 1986, of procurement transactions for compliance testing and performed other auditing 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 accompanying regulations;
- (2) procurement staff and training;
- (3) adequate audit trails and purchase order register;
- (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) disposition of surplus property;
- (10) economy and efficiency of the procurement process;
and
- (11) approval of Minority Business Enterprise Plan.

SUMMARY OF AUDIT FINDINGS

Our audit of the procurement system of Horry-Georgetown Technical College produced findings and recommendations in the following areas:

	<u>PAGE</u>
I. <u>Compliance - Procurements</u>	
A. Unauthorized Procurements	10
Our sample indicated that seven procurements were unauthorized.	
B. Procurements Lacked Required Amount of Competition	11
Four procurements did not meet the minimum competition requirements.	
C. Procurements Exceeded the College's Purchasing Authority	12
Two procurements exceeded the College's authority.	
II. <u>Internal Control</u>	
Vendor invoices were not matched with purchase orders and/or receiving reports.	12
III. <u>Compliance - Sole Source and Emergency Procurements</u>	
Several sole source and emergency procurements did not meet the requirements of the Code.	14

IV. <u>Review of the Procurement Procedures Manual</u>	15
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Our review of the current manual indicated a need for a more comprehensive manual.

RESULTS OF EXAMINATION

I. Compliance - Procurements

We reviewed fifty-five procurement transactions from the period July 1, 1985 through June 30, 1986. We found the following to be areas of concern.

A. Unauthorized Procurements

Our sample indicated that seven procurements were unauthorized.

<u>Date</u>	<u>P.O.Number</u>	<u>Service</u>	<u>Amount</u>
09/24/85	5940	printing	\$ 517.42
10/09/85	6134	printing	5,008.54
11/05/85	6423	leased cash registers	1,350.00
01/23/86	7045	printing	805.25
05/06/86	8096	electrical repair	526.00
05/06/86	8104	printing	845.04
06/16/86	8507	printing	703.50

Section 19-445.2015, Subsection A, of the regulations defines unauthorized procurements as "an act obligating the State in a contract by any person without the requisite authority to do so." Horry-Georgetown's Manual of Policy, number 9, states in part: "The Business Office is the only unit of the College authorized to procure goods and services for the College."

Since these procurements were not made by the Business Office, they must be ratified in accordance with Section 19-445.2015, Subsection B of the regulations. Each procurement less than \$2,500.00, the College's procurement authority, must be ratified by the President. The procurement greater than \$2,500.00 must be ratified by the Materials Management Officer.

Either way, the President of the College must prepare a written determination as to the facts and circumstances surrounding the act, what corrective action is being taken to prevent reoccurrence, action taken against the individual committing the act and documentation that the price paid is fair and reasonable. If the price paid is unreasonable, the individual may be held pecuniarily liable for the difference.

We recommend that the College take a firm stand against unauthorized procurements. A policy clarification should be sent to user departments. Consideration should be given to holding someone pecuniarily liable for excess payments and/or withholding payment altogether.

B. Procurements Lacked Required Amount of Competition

Purchases up to \$2,500.00 may be made by the College in accordance with regulation 19-445.2100, which states the following thresholds for competition. Purchases from \$500.01 to \$1,499.99 require solicitations of verbal quotes from a minimum of two qualified sources. Purchases from \$1,500.00 to \$2,499.99 require solicitations of written quotations from at least three qualified sources.

The four procurements listed below did not meet the minimum competition requirements.

<u>Date</u>	<u>P.O.Number</u>	<u>Service</u>	<u>Amount</u>
07/11/85	5269	landscape design	\$ 600.00
09/24/85	5926	landscaping	554.60
09/27/85	5979	transcribers	1,199.02
11/12/85	5799	blackboards	1,774.40

The College should make a concerted effort to comply with the requirements of the Code.

C. Procurements Exceeded the College's Purchasing Authority

The College has authority to procure goods and services to a limit of \$2,500.00. Procurements in excess of \$2,500.00 must be sent to the Materials Management Officer of the Division of General Services.

The College exceeded its authority on the following two procurements:

<u>Date</u>	<u>P.O.Number</u>	<u>Service</u>	<u>Amount</u>
09/04/85	5784	refinish cafeteria floor	\$4,801.68
11/26/85	6616	vehicle insurance	5,075.50

As these procurements exceeded the Colleges' authority, they must be ratified by the Materials Management Officer in accordance with regulation 19-445.2015. This procedure was addressed in I.A. above.

II. Internal Control

Vendor invoices are not matched with purchase orders and/or receiving reports.

We found four instances in our sample where the paperwork did not match, (i.e., invoice, purchase order and receiving report in agreement).

<u>Date</u>	<u>P.O.Number</u>	<u>Invoice #</u>	<u>Amount</u>
1) 07/02/85	5224	381396	\$ 530.41
2) 02/13/86	7252	87860	1,099.56
3) 02/18/86	7263	45918	265.70
4) 04/28/86	8025	4122	1,488.80

Item number one had an invoiced price considerably less than the purchase order price.

Item number two had an invoiced price greater than the quoted or purchase order price.

Item number three included goods ordered at 25 each that were shipped and paid for at 250. The receiving report did not indicate the overshipment.

Item number four was invoiced for 11,000 forms, the purchase order stated 10,000 forms, and the receiving report indicated 10,400 forms.

Good internal control requires that the invoice, purchase order, and receiving report be in agreement before payment is made. Purchasing should resolve any discrepancies in writing after notification from Accounts Payable.

A management letter from the College's independent auditors dated September 18, 1985 and covering the year ended June 30, 1985 stated the following as finding number two:

"The cash disbursements test has revealed that no invoices were marked as approved for payment. This weakness could result in improper payment of goods and/or services which should not have been paid. We recommend that a stamp be used and initialled by the authorized person indicating approval for payment."

Nine months have elapsed since their letter and in a sample of fifty-five items we found discrepancies. This indicates a lack of action on the College's part. Immediate action should be taken to eliminate this obvious problem area.

III. Compliance - Sole Source and Emergency Procurements

We reviewed sole source and emergency procurements for the period July 1, 1985 through June 30, 1986. We found the majority of these transactions to be proper and accurately reported, but we did encounter the following problems:

One sole source (purchase order number 5636) was issued for boiler repair and justified as "Unable to obtain any other qualified source to give us a quote on the job." As the amount of \$2,706.31 exceeded the Colleges' certification, it should have been sent to the Materials Management Office for procurement. We also noted that the work was performed four months after the quotation was given to the College so obviously time was not critical.

The College contracted for roof repair (purchase order number 5389) in one area and later re-roofed another section in an adjacent area. This \$8,964.66 procurement was handled as an emergency without competition. Section C of regulation 19-445.2110 states that "Emergency procurement shall be limited to those supplies, services, or construction items necessary to meet the emergency." We feel that the College did much more than meet the emergency. The roof should have been patched and a requisition for roof replacement sent to the Materials Management Office.

The College entered into a contract (purchase order number 5517) to convert an existing room into six faculty offices at a price of \$5,286.00. The emergency justification stated "Completion needed by September 1, 1985, to insure students' safety."

The justification is unacceptable for it does not explain the basis for the emergency, why the situation could not be corrected through normal procurement methods and how working in faculty offices effected student safety.

IV. Review of the Procurement Procedures Manual

The procurement procedures manual at the College is inadequate for certification above the basic limit as set forth in the Code.

The College must prepare and have approved by the Division of General Services a more comprehensive manual before higher certification limits can be granted.

CONCLUSION

As enumerated in our transmittal letter, corrective action based on the recommendations in the body of this report, we believe, will in all material respects place Horry-Georgetown Technical College in compliance with the State Consolidated Procurement Code and ensuing regulations.

Due to the variety of exceptions listed herein, this office is not prepared to recommend procurement certification at this time. Corrective action recommended in this report should be taken by the College. Once such corrective action has been taken and a sufficient amount of time has elapsed to document improvement in Procurement Code compliance we will reconsider a recommendation for certification.

Toward this end, prior to March 31, 1987, the Office of Audit and Certification will perform a follow-up review in accordance with Section 11-35-1230(1) of the Procurement Code to determine if the proposed corrective action has been taken by the College. Based on the follow-up review, and subject to this corrective action, we will consider a recommendation that Horry-Georgetown Technical College be certified to make direct agency procurements up to the requested limit.

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CHAIRMAN,
HOUSE WAYS AND MEANS COMMITTEE

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

August 26, 1987

Mr. Richard J. Campbell
Assistant Director
Division of General Services
1201 Main Street, Suite 600
Columbia, South Carolina 29201

Dear Richard:

We returned to Horry-Georgetown Technical College for a follow-up review on August 20 and 21. During this review, we attempted to verify corrective action in each problem area identified in the audit report through observation and testing.

We were disappointed with the lack of corrective action taken by the college. The college has not requested ratification for the unauthorized procurements identified in the report. Further, they continue to have a problem with small dollar unauthorized procurements. The procurement procedures manual has not been revised as we recommended. Weaknesses exist in the accounts payable review function. Finally, the college hired a new purchasing agent in February, 1987 but needed training has not been sought for her. See the attached letter to Dr. Kent Sharples, President of Horry-Georgetown Technical College.

Due to the findings of our follow-up review, we do not believe adequate corrective action has been taken to eliminate the weaknesses noted during our audit. Thus, we do not recommend that procurement certification be granted.

Sincerely,

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

R. Voight Shealy, Manager
Audit and Certification

Attachment

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BUDGET AND CONTROL BOARD
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JESSE A. COLES, JR., Ph.D.
EXECUTIVE DIRECTOR

WILLIAM J. CLEMENT, AIA
ASSISTANT DIVISION DIRECTOR

August 27, 1987

Dr. D. Kent Sharples
Horry-Georgetown Technical College
P.O. Box 1966
Conway South Carolina 29526

Dear Dr. Sharples:

We returned to Horry-Georgetown Technical College on August 20th and 21st to perform a follow-up review of our audit dated September 11, 1986. Our review was to verify corrective action recommended in the audit and to perform additional tests in the problem areas noted therein.

We found that the college has not prepared the necessary paperwork for ratification of items I.A. and I.C. of the report. This must be done immediately. Further, we encountered several procurements which were unauthorized according to the college's inter-office memorandums on procurement violations. These memorandums should include a section for the college president to ratify such actions. No one else at the college has ratification authority. Until each violation is ratified, no purchase order should be written nor payment made.

Section II of the report addressed the need for a payment approval stamp which the college has implemented. However, the stamp lacks the features necessary for proper internal control. Each invoice should be stamped with the following steps to be completed in the voucher review process by accounts payable.

- (1) Evidence of receipt
- (2) Prices verified
- (3) Extensions and additions verified
- (4) Checked for discount
- (5) Disbursement authorized

We recommend that the college obtain a new stamp which will better serve its needs.

Since our previous visit, the college has hired a new purchasing agent. Her work appears satisfactory, however, we were informed that she has attended no purchasing training seminars. We recommend that the purchasing agent be encouraged to start and complete the purchasing seminars as soon as possible.

The audit report recommended a more comprehensive procurement procedures manual be completed before higher certification limits could be granted. This manual has not been completed. Irregardless of higher certification, the manual should be expanded.

On November 17, 1986, I requested a formal response to the audit report by December 19, 1986. To this date, the response has not been received.

Due to the findings in our audit and follow-up review, we cannot recommend procurement certification for Horry-Georgetown Technical College.

Sincerely,



R. Voight Shealy, Manager
Audit and Certification

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