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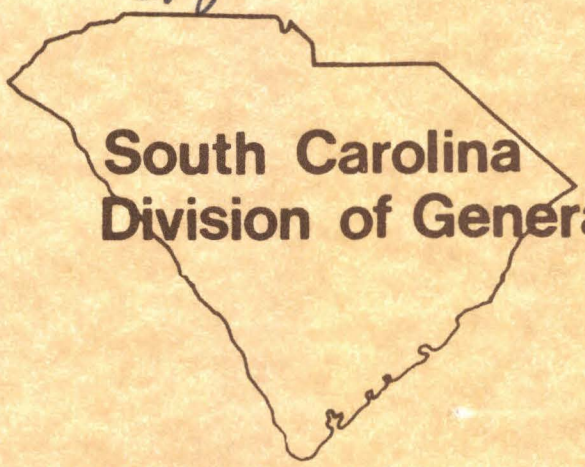

South Carolina
Division of General Services

PROCUREMENT AUDIT AND CERTIFICATION

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AGENCY

APRIL 1, 1986 - DECEMBER 31, 1988
DATE

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ROBERT N. McLELLAN
CHAIRMAN, WAYS AND MEANS COMMITTEE

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

August 8, 1989

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

Dear Rick:

Attached is the final South Carolina State College procurement 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

SOUTH CAROLINA STATE COLLEGE

AUDIT REPORT

APRIL 1, 1986 - DECEMBER 31, 1988

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EXECUTIVE DIRECTOR

August 8, 1989

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 the South Carolina State College for the period April 1, 1986 through December 31, 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 internal 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 South Carolina State 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 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 the South Carolina State College in compliance with the Consolidated Procurement Code and ensuing regulations.

Voight Shealy

R. Voight Shealy, Manager
Audit and Certification

INTRODUCTION

We conducted an examination of the internal procurement operating procedures and policies of the South Carolina State College. Our on-site review was conducted February 14, 1989 through March 17, 1989 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.

Additionally our work was directed toward assisting the College 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 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 August 25, 1987, the Budget and Control Board granted State College certification in the Goods and Services area for $10,000 per commitment.

> 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 is warranted. Additionally, South Carolina State College requested increased recertification to make procurements in the following categories and designated amounts:

Category	Requested Limit
1. Goods and Services	$25,000
2. Information Technology	10,000
3. Consultant Services	10,000

SCOPE

Our examination encompassed a detailed analysis of the internal procurement operating procedures 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.

We selected random samples for the period January 1, 1987 through December 31, 1988, of procurement transactions for compliance testing and performed other audit procedures that we considered necessary in the circumstances to formulate this opinion. Our review of the system included, but was not limited to, the following areas:

(1) adherence to applicable laws, regulations and internal policy;

(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) 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 procurement management at South Carolina State College (hereinafter referred to as State College) produced findings and recommendations in the following areas:

PAGE

I. Compliance - Procurements 9

Eight procurements were not made in accordance with the Consolidated Procurement Code, (the Code).

II. Compliance - Sole Source and Emergency Procurements and Trade-in Sales 10

We noted several exceptions in Code compliance and reporting procedures in this area as follows:

A. Unnecessary Reporting of Sole Source Activity 10

1. Emergency Transactions Reported As Sole Source Procurements

2. Unnecessary Sole Source Procurements

B. Emergency Procurements Resulted From Poor Planning 12

Nine emergency procurements may have been prevented with better planning.

C. Emergency Procurements Not Necessary 13

Three procurements of exempt items were reported as emergencies unnecessarily.

D. Trade-in Sales Not Reported 14

Three trade-ins were not reported to the Division of General Services.

E. Failure to Report Two Procurements 15

One sole source and one emergency procurement were not reported to the Division of General Services.

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 January 1, 1987 through December 31, 1988. The majority of these procurements were handled in compliance with the Code, however, we did note the following exceptions:

Item	Voucher/Check	Amount	Description
1	4483	$ 2,567.00	Public employee blanket bond
2	2555	1,074.26	ID card pouches
3	ck-27219	4,200.00	Chartered bus services
4	36712	4,868.00	Chartered bus services
5	44582	5,000.00	Chartered bus services
6	0292	8,568.00	Chartered bus services
7	37658	12,985.00	Chartered bus services

The above procurements were neither competitively bid nor supported by sole source or emergency determinations.

The purchasing department considered all of the above procurements exempt with the exception of item 1 which was handled by the finance officer. However, this is not the case and all should have been competitively bid.

Item seven (7) is above the State College's certification limit. Thus, it is an unauthorized procurement which must be ratified by the State Materials Management Officer in accordance with Regulation 19-445.2015.

State College must pay particular attention to the exemptions granted to the Code and ensure that only those specific commodities or services are procured as exempt items.

Furthermore, we noted two contracts for State College's loan collection services which have not been bid. Such services are not exempt from the Code. Procurements of these contracts must either be sealed bid/proposed by State College, if within its certification limits, or forwarded to the Materials Management Office for handling.

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

We examined the quarterly reports of sole source and emergency procurements, the supporting documents and the quarterly reports of State College for the period April 1, 1986 through December 31, 1988. We attempted to determine the appropriateness of the procurement actions taken, and the accuracy of the reports submitted to the Division of General Services as required by Section 11-35-2440 of the Code. We found the majority of the transactions to be in compliance with the Code. However, we did encounter the following problems as listed below.

A. Unnecessary Reporting of Sole Source Activity

The following transactions were reported unnecessarily to the Division of General Services resulting in an overstatement of sole source totals for State College and the State. These are categorized as follows:

(1) Emergency Transactions Reported as Sole Source Procurements

The following transactions were reported as sole source procurements on State College's quarterly reports. However, the

written determinations reflected criteria which indicated an emergency procurement methodology would have been more appropriate.

P.O.	Amount	Quarter Ending	Description
113657	$ 298.75	6/86	Microphones
113072	1,145.55	6/86	Sound sheets
113325	3,071.25	6/86	College pins
113322	2,298.00	6/86	Printed brochures
114375	4,046.70	9/86	Printed brochures
118779	5,450.00	9/87	Repair telephone cable

The number of transactions indicate a problem that may be attributable to the following factor. State College uses a universal determination form for reporting sole source and emergency procurements. Purchasing is dependent on user departments and the Vice President for Business and Finance to indicate on the form which methodology is being used for the procurement. Often, this is not done, resulting in inaccurate quarterly reports being prepared.

We recommend that proposed emergency and sole source procurements be reviewed by the Director of Purchasing before they are submitted to the Vice President for Business and Finance for approval. This would eliminate the reporting confusion. Also, the Director of Purchasing might be able to recommend alternative procurement methods.

(2) Unnecessary Sole Source Procurements

The following transactions were reported as sole source procurements, however, the supporting documents indicated that the appropriate number of solicitations were made from qualified vendors. Sole source determinations should not have been prepared.

P.O.	Amount	Description	# of Solicitations
114746	$ 730.00	Art work	5
114864	1,000.00	Band choreography	4
115236	2,043.00	Choir gowns	3
115237	1,715.00	Tuxedos	3
118220	1,464.75	T-shirts	3
901555	774.86	Equipment rack	3
902067	1,071.00	Maintenance	2

When a department solicits prices under college purchasing policy and procedures, this action should be documented in writing even when only one vendor responds.

The College should make every effort to report its sole source procurements accurately and reduce sole source procurement wherever possible by using small purchase procedures.

B. Emergency Procurements Resulting From Poor Planning

As a result of poor advanced planning of procurement needs, the College was forced to use the emergency procurement method to meet their requirements for the following items:

P.O.	Amount	Description
116273	$ 1,295.88	Parking tickets
903306	574.14	Promissory notes
118219	945.00	Linens, towels
120030	1,911.00	Spring semester brochures
900418	21,262.00	Brochures
117456	4,867.00	Inaugural brochures
117527	3,386.00	Tuxedos
903329	11,340.00	Software
903332	15,908.00	Trainer kits

Failure to anticipate a need does not constitute a justification for an emergency procurement. Section 11-35-1530 of the Code states in part:

> "...the chief procurement officer, the head of a purchasing agency, or a designee of either officer may make or authorize others to make emergency procurements when there exists an immediate threat to public health, welfare, critical economy and efficiency, or safety under emergency conditions.

Additionally, State College's internal procurement procedures manual on page six (6) addresses the requirement of user departments to anticipate their needs sufficiently in advance to allow time for the competitive procurement process.

The procurement of brochures in PO 117456 above was supported by competitive quotes dated January 13, 1987. However, the requisition was not prepared until February 18, 1987, the written determination was prepared February 23, 1987 and the purchase order was prepared March 30, 1987, approximately seventy-five days after the need was identified. This delay in the process created the emergency requirement since there was insufficient time for competitive sealed bids to be solicited by the procurement office.

We recommend that the procurement department be notified of all procurements through the requisitioning process immediately when the need is identified. Then, they could determine the proper competitive process necessary to comply with the Code and have sufficient lead time to complete this function. In many cases, State College could eliminate the need for emergency procurements if sufficient lead time is planned.

C. Emergency Procurement Not Necessary

The following purchase orders were supported by written determinations for emergency procurements.

P.O.	Amount	Description
120757	$ 8,500.00	Livestock
120896	6,500.00	Livestock
120758	6,525.00	Livestock

Section 11-35-710 of the Code exempts procurements of livestock from its competitive requirements.

We recommend that State College file an amended report to the 1986/87 fiscal year deleting the above procurements and those in Part A.I. above.

D. Trade-in Sales Not Reported

The following procurements reflected a trade-in sale. However, State College failed to report the trade-in to the Materials Management Office, Division of General Services.

P.O.	Amount	Trade-in value	Description
117947	$ 1,024.80	$ 400.00	Typewriter
118134	1,410.00	400.00	Typewriter
800435	720.30	150.00	Typewriter
901471	1,756.13	300.00	Typewriter

Section 11-35-3830, Item 3, of the Code states in part:

> "... governmental bodies shall submit quarterly to the Materials Management Officer a record listing all trade-in sales..."

We recommend the College comply with this reporting requirement on future trade-in sales.

E. Failure to Report Two Procurements

We also noted that State College failed to report two procurements on their quarterly reports; a sole source for one thousand one hundred and fifty dollars ($1,150.00), and an emergency for two thousand eight hundred and ninety dollars ($2,890.00). Both were supported by written determinations but were not reported to the Division of General Services. We recommend that State College ensure that future procurements of this type be accurately reported.

CERTIFICATION RECOMMENDATIONS

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 South Carolina State College in compliance with the Consolidated Procurement Code and ensuing regulations.

Prior to July 30, 1989, 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 State College. Based on the follow-up review, and subject to this corrective action, we will recommend that South Carolina State College be certified to make direct agency procurements for a period of three (3) years as follows:

	Procurement Area	Recommended Certification Limit
I.	Goods and Services	* $25,000 per purchase commitment
II.	Information Technology in accordance with the approved Information Technology Plan	* 10,000 per purchase commitment
III.	Consultants	* 10,000 per purchase commitment

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

James M. Stiles

James M. Stiles, PPB
Audit Manager

Voight Shealy

R. Voight Shealy, Manager
Audit and Certification

STATE OF SOUTH CAROLINA

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JAMES J. FORTH, JR.
ASSISTANT DIVISION DIRECTOR

August 7, 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 South Carolina State College to determine the progress made toward implementing the recommendations in our audit report covering the period of April 1, 1986 - December 31, 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 for South Carolina State College outlined in the audit report be granted for a period of three (3) years.

Sincerely,

Voight Shealy

R. Voight Shealy, Manager
Audit and Certification

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