PROCUREMENT
AUDIT AND
CERTIFICATION

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WINTHROP UNIVERSITY
AGENCY
JULY 1, 1990 - JUNE 30, 1992
DATE
January 4, 1993

Mr. Richard W. Kelly  
Director  
Division of General Services  
1201 Main Street, Suite 420  
Columbia, South Carolina 29201

Dear Rick:

I have attached the final Winthrop University procurement audit report and recommendations made by the Office of Audit and Certification. I concur and recommend the Budget and Control Board grant the University a three (3) year certification as noted in the audit report.

Sincerely,

James J. Forth, Jr.  
Assistant Division Director  

JLF/jj  
Attachment
WINTHROP UNIVERSITY
PROCUREMENT AUDIT REPORT

JULY 1, 1990 - JUNE 30, 1992
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Mr. James J. Firth, Jr.
Assistant Division Director
Division of General Services
1201 Main Street, Suite 600
Columbia, South Carolina 29201

Dear Jim:

We have examined the procurement policies and procedures of Winthrop University for the period July 1, 1990 - June 30, 1992. 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 University 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 Winthrop University 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 Winthrop University in compliance with the South Carolina Consolidated Procurement Code and ensuing regulations.

R. Voight Shealy, CFE, Manager Audit and Certification
INTRODUCTION

We conducted an examination of the internal procurement operating procedures and policies and related manual of Winthrop University. Our on-site review was conducted September 8 through October 15, 1992, and was made under the authority as described in Section 11-35-1230(1) of the South Carolina Consolidated Procurement Code.

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 University's 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 University 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.

Most recently, on February 12, 1991, the Budget and Control Board granted the following procurement certifications to Winthrop University:

<table>
<thead>
<tr>
<th>Category</th>
<th>Requested Limit</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Goods and Services</td>
<td>$15,000</td>
</tr>
<tr>
<td>2. Information Technology</td>
<td>15,000</td>
</tr>
<tr>
<td>3. Construction</td>
<td>10,000</td>
</tr>
</tbody>
</table>

Our audit was performed primarily to determine if recertification is warranted. Additionally, the University requested the increased certification limits below:

<table>
<thead>
<tr>
<th>Category</th>
<th>Requested Limit</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Goods and Services</td>
<td>$25,000</td>
</tr>
<tr>
<td>2. Information Technology</td>
<td>25,000</td>
</tr>
<tr>
<td>3. Construction</td>
<td>10,000</td>
</tr>
</tbody>
</table>
SCOPE

Our examination encompassed a detailed analysis of the internal procurement operating procedures of Winthrop University 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 random samples of procurement transactions for the period July 1, 1990 - June 30, 1992, for compliance testing and performed other audit procedures that we considered necessary to formulate this opinion. Specifically, our review of the system included, but was not limited to, the following areas:

(1) All sole source and emergency procurements and trade-in sales for the audit period

(2) Purchase transactions for the audit period as follows:
   a) 120 systematically selected procurement transactions each exceeding $500.00
   b) A block sample of 508 sequentially issued purchase orders
   c) All 47 sealed bids issued and awarded during the certification period

(3) Seven permanent improvement projects out of which six A&E selections and three contracts were reviewed for compliance with the Manual for Planning and Execution of State Permanent Improvements

(4) All real property leases

(5) Minority Enterprise Plans and reports

(6) Information Technology Plans


(8) Property management and fixed asset procedures
(9) Supply Warehouse management procedures

(10) Physical Plant work orders and blanket purchase agreement files

(11) Procurement staff and training
SUMMARY OF AUDIT FINDINGS

Our audit of the procurement system of Winthrop University, hereinafter referred to as the University, produced findings and recommendations in the following areas:

I. Compliance - General
A. Insufficient Number of Quotations or Bids Solicited.
We noted three instances where Purchasing failed to solicit the required competition.
B. Maintenance and Physical Plant
Blanket purchase agreements have not been bid.

II. Compliance - Sole Source, Emergency and Trade-in Sale Procurements
A. Unauthorized Sole Source Procurements
We noted two unauthorized sole source procurements.
B. Unnecessary Reporting of Sole Sources
Two exempt purchases were unnecessarily reported.
C. Failure to Report Sole Source and Emergency Purchase Increases

One sole source and one emergency purchase had substantial increases in value that were not reported to General Services.

D. Unauthorized Trade-in

One trade-in approval of surplus equipment was not requested until after-the-fact.

III. Procurement Procedures

We noted five areas where procurement procedures could be improved.
RESULTS OF EXAMINATION

I. Compliance - General

A. Insufficient Number of Quotations or Bids Solicited

The University failed to solicit the required competition on the following three procurements:

<table>
<thead>
<tr>
<th>Item</th>
<th>PO#</th>
<th>Amount</th>
<th>Required Solicitations</th>
<th>Actual Solicitations</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>20294</td>
<td>$1,572.96</td>
<td>3 written quotes</td>
<td>2 verbal quotes</td>
</tr>
<tr>
<td>2</td>
<td>300948</td>
<td>$9,582.00</td>
<td>5 sealed bids</td>
<td>3 sealed bids</td>
</tr>
<tr>
<td>3</td>
<td>27699</td>
<td>$3,524.17</td>
<td>3 sealed bids</td>
<td>3 written quotes</td>
</tr>
</tbody>
</table>

Item 3 was for the purchase of a dictation system. The total cost with installation was $3,524.17. The University received a trade-in of a transcriber for $1,029.17, leaving a net cost of $2,495.00. Purchasing solicited three informal written quotations to comply with the Code and regulations. However, an opinion written by the Materials Management Officer on December 4, 1984 states in part "The original purchase price without consideration to trade-in value of used equipment shall be the dollar limit which determines proper solicitation practices." This purchase should have been sealed bid.

For items 1 and 2, the University simply failed to solicit the required competition. If the minimum number of qualified bidders required cannot be solicited, the purchasing agent shall certify in writing that all known sources were solicited. The Purchasing Office should ensure that the minimum competition requirements of the Code are met.
B. Maintenance and Physical Plant Blanket Purchase Agreement (BPA) Purchases

During our review, we noted the following repetitive BPA procurements in our sample from the Maintenance and Physical Plant area.

1. Seven purchases of plywood:

<table>
<thead>
<tr>
<th>Voucher Date</th>
<th>Voucher #</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>09/05/91</td>
<td>59636</td>
<td>$435.00</td>
</tr>
<tr>
<td>09/05/91</td>
<td>59637</td>
<td>434.00</td>
</tr>
<tr>
<td>09/05/91</td>
<td>59638</td>
<td>467.60</td>
</tr>
<tr>
<td>09/05/91</td>
<td>59639</td>
<td>434.20</td>
</tr>
<tr>
<td>08/08/91</td>
<td>57597</td>
<td>425.00</td>
</tr>
<tr>
<td>08/08/91</td>
<td>57598</td>
<td>453.42</td>
</tr>
<tr>
<td>08/08/91</td>
<td>57599</td>
<td>494.64</td>
</tr>
</tbody>
</table>

The original blanket order value was $2,000 but it was increased to $7,000 during the fiscal year.

2. Three procurements for tile replacement:

<table>
<thead>
<tr>
<th>Voucher Date</th>
<th>Voucher #</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>12/05/90</td>
<td>34516</td>
<td>281.00</td>
</tr>
<tr>
<td>12/05/90</td>
<td>34517</td>
<td>348.00</td>
</tr>
<tr>
<td>12/05/90</td>
<td>34518</td>
<td>381.00</td>
</tr>
</tbody>
</table>

The original blanket order value was $2,000.00 but it was increased to $4,500 during the fiscal year.

3. Three procurements for repair of electric motors and pumps:

<table>
<thead>
<tr>
<th>Voucher Date</th>
<th>Voucher #</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>06/29/92</td>
<td>88169</td>
<td>616.00</td>
</tr>
<tr>
<td>06/29/92</td>
<td>88170</td>
<td>583.00</td>
</tr>
<tr>
<td>06/29/92</td>
<td>88171</td>
<td>446.50</td>
</tr>
</tbody>
</table>

The original blanket order value was $2,500 but it was increased to $8,100 during the fiscal year.
4. Two procurements for servicing fire alarm equipment:

<table>
<thead>
<tr>
<th>Voucher Date</th>
<th>Voucher #</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>06/17/91</td>
<td>51888</td>
<td>480.00</td>
</tr>
<tr>
<td>06/17/91</td>
<td>51889</td>
<td>348.00</td>
</tr>
</tbody>
</table>

The order date on these two vouchers was the same day at the same building.

5. Three procurements for coliseum cleanup:

<table>
<thead>
<tr>
<th>Voucher Date</th>
<th>Voucher #</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>01/16/91</td>
<td>37244</td>
<td>500.00</td>
</tr>
<tr>
<td>01/16/91</td>
<td>37245</td>
<td>500.00</td>
</tr>
<tr>
<td>01/16/91</td>
<td>37246</td>
<td>500.00</td>
</tr>
</tbody>
</table>

The blanket order stated that "no purchase to exceed $495.00".

Regulation 19-445.2100(D) states in part..."Calls against blanket purchase agreements shall be placed after prices are obtained". Also, "The governmental body shall review blanket purchase agreement files at least semi-annually to assure that authorized procedures are being followed."

Term contracts should be established for frequently used items and services. This would streamline the procurement process and possibly result in better prices. Services should be bid out and awarded on an hourly rate basis. This would meet the competition requirements of the Code for blanket purchase agreements. We recommend this be done. Also, the Physical Plant should require the vendors to itemize their invoices.
II. Compliance - Sole Source, Emergency Procurements and Trade-in Sales

A. Unauthorized Sole Source Procurements

We noted one sole source procurement for Real Estate I and II instructors for $1,120.00. The dates of the services were October 15 through November 15, 1990. The sole source determination was not approved by the requisite authority until November 6, 1990. Since this contract was not approved in advance, it must be considered unauthorized. Ratification of this procurement must be requested from the University President in compliance with Regulation 19-445.2015(1).

Secondly, we noted one contract for a 16 day "Train the Trainers" workshop for $20,000.00. On April 13, 1992 the University realized this was an unauthorized procurement because the sole source contract had not been approved. This procurement was sent to the University President for ratification. However, Winthrop's certification and ratification authority limit is $15,000.00. Therefore, this unauthorized procurement of $20,000 must be submitted to the State Materials Management Officer for ratification in accordance with Regulation 19-445.2015. We recommend this be done.

B. Unnecessary Reporting of Sole Source

The University unnecessarily reported the following two exempt payments for license agreements for computer software.

<table>
<thead>
<tr>
<th>PO#</th>
<th>Date</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>22592</td>
<td>07/16/91</td>
<td>$1,920.00</td>
</tr>
<tr>
<td>22200</td>
<td>07/02/91</td>
<td>22,200.00</td>
</tr>
</tbody>
</table>

License agreements for computer software are exempt after such software has been procured in compliance with the Code.
These exempted payments should not be reported to the Materials Management Office as sole sources in the future.

C. Failure to Report Sole Source and Emergency Purchase Order Increases

Purchasing failed to report to the Materials Management Office the following sole source and emergency procurement amendments:

<table>
<thead>
<tr>
<th>PO#</th>
<th>Date</th>
<th>Amount of PO Increase</th>
<th>Type Procurement</th>
</tr>
</thead>
<tbody>
<tr>
<td>25598</td>
<td>03/16/92</td>
<td>$ 4,087.36</td>
<td>Sole Source</td>
</tr>
<tr>
<td>26623</td>
<td>03/03/92</td>
<td>19,167.33</td>
<td>Emergency</td>
</tr>
</tbody>
</table>

Any increase to a sole source or emergency contract should be reported to the Materials Management Office by way of an amended report after such an increase occurs.

D. Unauthorized Trade-in

Purchase order 27699 dated April 27, 1992 for $2,495.00 for a dictation system included a $1,029.17 trade-in for a used transcriber.

Regulation 19-445.2150(G) states in part..."when the trade-in value exceeds $500.00 the governmental body shall refer the matter to the Materials Management Officer or the designee for disposition. This approval was not obtained until June 8, 1992 from the State Surplus Property Officer.

All future trade-ins over $500 must be submitted for approval prior to the purchase being made.
III. Procurement Procedures

The following recommendations are made to tighten procurement procedures at the University:

A. When bids are received, the envelopes are time and date stamped. When the bids are opened, the envelopes are discarded. The Purchasing Office should either keep the original stamped envelopes in the file or stamp the bids at opening as evidence the bids were received prior to bid opening. The latter is recommended.

B. Any discount given in a successful bid should be shown on the resulting purchase order.

C. Late bids received should be time and date stamped to show their non-responsiveness. The bids should not be opened.

D. All purchase orders resulting from state contracts should reference the applicable contract number.

E. Bid tabulation sheets should be signed by the purchasing agent and initialed by a witness.

F. According to the Procurement Procedures Manual, to materially change a purchase order the purchasing agent should initiate the "Purchasing Action Request" form. This has not been done in all cases when changes occurred.
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 Winthrop University in compliance with the South Carolina Consolidated Procurement Code and ensuing regulations.

The University should complete corrective action in the exception areas by December 31, 1992. We will perform a follow-up review at that time to determine if this has occurred.

Under the authority described in Section 11-35-1210 of the Procurement Code, subject to this corrective action, we recommend the Budget and Control Board certify Winthrop University to make direct agency procurements for 3 years up to the limits as follows:

<table>
<thead>
<tr>
<th>Procurement Areas</th>
<th>Recommended Certification Limits</th>
</tr>
</thead>
<tbody>
<tr>
<td>I. Goods and Services</td>
<td>*$25,000 per purchase commitment</td>
</tr>
<tr>
<td>II. Information Technology in</td>
<td>*$25,000 per purchase commitment according to approved Information Technology Plan</td>
</tr>
<tr>
<td>III. Construction Services</td>
<td>*$10,000 per purchase commitment</td>
</tr>
</tbody>
</table>

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

James M. Stiles, CPPB
Audit Manager

R. Voight Shealy, CFE, Manager
Audit and Certification
December 18, 1992

Mr. Voight Shealy
Manager
Audit and Certification
Materials Management Office
1201 Main Street, Suite 600
Columbia, South Carolina 29201

Dear Voight:

I have received your draft of the procurement audit report covering the period of July 1, 1990 through June 30, 1992. The University concurs with all audit findings and your staff’s recommendations.

Corrective measures are now in place to comply with the exceptions noted in sections I and II. Your recommendations to tighten procurement procedures in section III are well received and very helpful to our Purchasing Office.

Please advise if any further information is necessary.

Sincerely,

J. P. McKee
Vice President