PROCUREMENT AUDIT AND CERTIFICATION

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STATE BOARD FOR TECHNICAL AND COMPREHENSIVE EDUCATION

AGENCY

MAY 6, 1986

DATE
May 6, 1986

Mr. Tony R. Ellis
Division Director
Division of General Services
300 Gervais Street
Columbia, South Carolina  29201

Dear Tony:

Attached is the final State Board for Technical and Comprehensive Education audit report and recommendations made by the Office of Audit and Certification. Since no certification request above the $2,500 allowed by law remains to be considered by the Budget and Control Board, I recommend that this report be presented to Mr. Putnam for his information.

Sincerely,

Richard W. Kelly
Assistant Division Director

RWK:kl
Attachment
STATE BOARD FOR TECHNICAL AND COMPREHENSIVE EDUCATION

AUDIT REPORT
JULY, 1985
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July, 1985

Mr. Richard W. Kelly
Director of Agency Certification
and Engineering Management
Columbia, South Carolina 29201

We have examined the procurement policies and procedures of the State Board for Technical and Comprehensive Education (State TEC) for the period July 31, 1981 - June 30, 1985. 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 the State Board for Technical and Comprehensive Education 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 due professional care. They would not, however, because of the nature of audit testing, necessarily disclose all weaknesses in the system.

The examination did 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 Agency in compliance with the South Carolina Consolidated Procurement Code and ensuing regulations.

R. Voight Shealy, Director
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 State TEC.

Our on-site review was conducted May 21, 1985 through July 22, 1985, 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.
SCOPE

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

The Audit and Certification team statistically selected random samples for the period July 1, 1984 - June 14, 1985, 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 regulations;
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. trade-in sales;
8. source selections;
9. file documentation of procurements;
10. warehousing, inventory and disposition of surplus property;
11. economy and efficiency of the procurement process;
(12) approval of Minority Business Enterprise Utilization Plan; and

(13) adherence to State term contracts.
SUMMARY OF AUDIT FINDINGS

Our audit of the procurement system at State TEC produced findings and recommendations in the following areas:

I. Sole Source and Emergency Procurements
   Approval of a number of sole source determinations appeared to be "after the fact" as indicated by the document dates.

II. Compliance - Goods and Services
   Our examination of transactions in the area of goods and services determined that some procurements were not made in compliance with the Consolidated Procurement Code and regulations.

III. Compliance - Information Technology
   In six cases, systems leases, license agreements and maintenance agreements were extended without evidence of competition or sole source determinations.

IV. Compliance - Construction
   In four instances construction firms were not sent a copy of bid tabulations, as required by Section 11-35-3020(2)(b)(iv) of the Code.

V. Minority Business Enterprise Utilization Plan
   State TEC's Minority Business Enterprise Utilization Plan has not been approved by the Office of Small and Minority Business Assistance.
VI. Review of Internal Procurement Procedures Manual

Our review of the current procurement procedures manual indicated numerous areas that needed to be added, changed, or expanded.
RESULTS OF EXAMINATION

I. Sole Source Procurements

We examined the quarterly reports of sole source and emergency procurements and trade-in sales and all available supporting documents for the period July 31, 1981 through March 31, 1985. This review was performed 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 these transactions to be proper and accurately reported but did note the following problems:

The justification dates of these transactions indicate that they were approved after-the-fact.

<table>
<thead>
<tr>
<th>PO Number</th>
<th>PO Date</th>
<th>Justification Date</th>
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<tbody>
<tr>
<td>13951</td>
<td>06/23/83</td>
<td>07/18/83</td>
</tr>
<tr>
<td>0026</td>
<td>07/06/83</td>
<td>07/18/83</td>
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<td>0031</td>
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<td>0062</td>
<td>07/07/83</td>
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<tr>
<td>0123</td>
<td>07/12/83</td>
<td>07/18/83</td>
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</table>

The total of these procurements was $213,170.00.

Section 11-35-1560 of the Procurement Code, which provides for sole source procurement, indicates a contract may be awarded without competition by the chief procurement officer, the head of a purchasing agency, or a designee of either office above the level of the procurement officer. Thus, the procurement officer must receive approval for sole source procurements prior to commitments being made. Otherwise, they are unauthorized procurements.
Since we cannot determine that these sole source procurements were properly authorized before the commitments were made, they must be ratified by the Materials Management Officer. Section 19-445.2015 should be reviewed for guidance.

AGENCY RESPONSE

All five purchase orders cited were for duplication of an existing training configuration and verbal sole source authorization was provided prior to execution of the orders. Required written sole source authorization prior to issuance of the purchase order has been implemented. Ratification granted by Materials Management Officer on February 3, 1986.

II. Compliance - Goods and Services

Our examination of transactions in the goods and services area consisted primarily of a random sample of sixty (60) transactions from the period July 1, 1984 through June 30, 1985. In addition, we reviewed four hundred twenty-five (425) consecutively numbered purchase orders from fiscal year 1984. We found the majority of these transactions to be in compliance with the Code and regulations, however we did note the following exceptions:

1. Expenditures were made without adequately documented competition nor the preparation of sole source determinations for the following procurements:
<table>
<thead>
<tr>
<th>PO Number</th>
<th>Item</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>0260</td>
<td>Caliper</td>
<td>$517.92</td>
</tr>
<tr>
<td>0290</td>
<td>Bond Paper</td>
<td>$760.50</td>
</tr>
<tr>
<td>0327</td>
<td>Maintenance Agreement</td>
<td>$2,087.11</td>
</tr>
<tr>
<td>1358</td>
<td>Plumbing Tools</td>
<td>$1,112.94</td>
</tr>
<tr>
<td>1359</td>
<td>Volt Amp. Tester</td>
<td>$687.96</td>
</tr>
<tr>
<td>1362</td>
<td>Book Return</td>
<td>$675.95</td>
</tr>
<tr>
<td>1364</td>
<td>Scientific Equipment</td>
<td>$1,066.00</td>
</tr>
<tr>
<td>1444</td>
<td>Book Binding System</td>
<td>$593.84</td>
</tr>
<tr>
<td>1486</td>
<td>Angle Plates, End Mills</td>
<td>$513.66</td>
</tr>
<tr>
<td>1958</td>
<td>Caliper</td>
<td>$608.40</td>
</tr>
<tr>
<td>3299</td>
<td>Assorted Hardware</td>
<td>$716.42</td>
</tr>
<tr>
<td>3487</td>
<td>Printing</td>
<td>$568.57</td>
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Regulation 19-445.2100, Subsection B, Items 2 and 3, require solicitation of verbal or written quotes from a minimum of two (2) qualified sources of supply for purchases from $500.01 to $1,499.99 and three (3) written quotes for purchases from $1,500.00 to $2,499.99.

These transactions were not handled in accordance with these sections of the regulations. We remind the Procurement Office that documentation must be maintained to support the fact that all procurements were made in accordance with the Procurement Code.

Also, during the audit we noted numerous procurements from State contracts where the term contract number was not referenced on the purchase order. When utilizing these contracts, the appropriate contract numbers must be used.

2. Substantial equipment acquisitions were included on voucher number 2941 for the reimbursement of $42,215 to a company for its pre-employment training program. The nature of the program mandated use of equipment manufactured to company specifications and site
readiness in accordance with the training program's time frame.

Although this expenditure was a reimbursement rather than a direct procurement, it should be justified by a written determination supporting the acquisition of equipment in this manner.

In our opinion, this and all future reimbursement transactions should be supported by written sole source determinations. However, we insist that when sufficient time is available, training equipment be procured through the usual competitive solicitation process.

AGENCY RESPONSE

Purchase Orders 0290, 0327, 1358, 1359, 1362, 1364, 1444, 1958, and 3487 should have been documented sole source procurements. Purchase Orders 0260, 1486, and 3299 should have been designated emergency procurements in conjunction with training class start-ups for new industry. Procedures have been implemented to insure that the appropriate documentation is completed for each procurement transaction. Ratification granted by Materials Management Officer on February 3, 1986.

III. Compliance - Information Technology

In the area of information technology, we found the following transactions that were processed without documented competition or sole source justifications.
<table>
<thead>
<tr>
<th>PO Number</th>
<th>Annual Amount</th>
<th>Type Service</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. 2318</td>
<td>$1,020.00</td>
<td>System Lease renewal</td>
</tr>
<tr>
<td>2. 2471</td>
<td>$2,975.00</td>
<td>System Lease renewal</td>
</tr>
<tr>
<td>3. 2739</td>
<td>$1,250.00</td>
<td>Maintenance renewal</td>
</tr>
<tr>
<td>4. 2851</td>
<td>$1,800.00</td>
<td>Lease fee for compilers</td>
</tr>
<tr>
<td>5. 3462</td>
<td>$1,000.00</td>
<td>License Agreement</td>
</tr>
<tr>
<td>6. Voucher 3481</td>
<td>$13,824.00</td>
<td>Maintenance Agreement</td>
</tr>
</tbody>
</table>

All of these were renewals of long term contracts. The original contracts were entered into prior to the Code and are "rolled over" annually without seeking competition.

All renewals of long-term contracts must be made in accordance with the Procurement Code. Since July 1, 1983, this has included contracts entered into prior to the enactment of the Code. Section 17 of the Permanent Provisions of the 1983/84 Appropriations Act required the following:

Any contract entered into prior to July 30, 1981, by a governmental body as defined in Item (18) of Section 11-35-310 of the 1976 Code and which is proposed to be renewed must be renewed in accordance with the provisions of the South Carolina Consolidated Procurement Code (Chapter 35 of Title 11 of the 1976 Code).

All contracts such as these must be resolicited at the end of the current contract year or, if appropriate, sole source determinations must be prepared for each one.

Furthermore, since total payments for items 2 and 6 are above the Agency's certification limit, this has resulted in their being unauthorized procurements. Consequently, these procurements must be ratified by the Materials Management Officer as required in Regulation 19-445.2015, Subsection A, Items 1 and 2.
AGENCY RESPONSE

We were not aware that proprietary software maintenance and license renewal was subject to competition. We have verified that all six transactions cited continue to be sole source procurements. The required sole source authorization will be executed as each component is renewed if the source status does not change. Ratification granted by Materials Management Officer on February 3, 1986.

IV. Compliance - Construction

During our review of construction procurements and the related files we noted the following exceptions:

1. Documentation which verified that construction firms who responded to a solicitation were sent a copy of the bid tabulation was not located. This situation existed for the Tri-County Student Center, project number H59-8318; and the Greenville Energy Management System, project number H59-8217; Parts A, B, and C.

Section 11-35-3020(2) of the Code requires the using agency to send all responsive bidders a copy of the bid tabulation within ten (10) working days after the bid opening.

In future bids, State TEC must ensure that all firms are sent a copy of the bid tabulation and document such in the file.

2. The successful bidder's bid bond, performance bond and labor and materials payment bond for the Greenville
Energy Management System, Parts A and B, were never located.

Section 11-35-3030(1) of the Code requires bid bonds for all competitive sealed bidding for construction contracts. In addition, Section 11-35-3030(2) requires the delivery of contract performance and payment bonds to the using agency when a construction contract is awarded.

In future bids State TEC must ensure that all required bonds are received and documented in the file.

AGENCY RESPONSE

Prior to the audit, we were dependent upon the architectural firms to insure compliance with the bid notification requirements. A more complete check list has been established to insure that appropriate documentation is received for the file and to verify compliance with construction procurement procedures. Ratification granted by Materials Management Officer on February 3, 1986.

V. Minority Business Enterprise Utilization Plan

State TEC's Minority Business Enterprise (MBE) Utilization Plan has not received approval from the Office of Small and Minority Business Assistance. All MBE Plans have been submitted in a timely manner; however, according to the Director of the Office of Small and Minority Business Assistance, the following areas should be addressed prior to submission of TEC's FY 85/86 MBE Plan.
1. Plan should have the policy statement signed by the head of the Agency or by the Board.

2. Plan should include procedures for designation and negotiation of contracts.

3. Plan should include a statement on the income tax credit available to prime contractors who utilize minority businesses. This statement should be part of the bid and contract package.

4. Plan should address procedures for making progress payments.

5. A more detailed and reasonable goal should be included in plan.

State TEC should contact the Minority Business Office to work out problems with the plan in order to affect compliance with the Procurement Code.

AGENCY RESPONSE

As indicated in the audit findings, all MBE Plans had been submitted for approval. The plan for 1985/86 was revised and submitted with the revisions discussed with the Office of Small and Minority Business Assistance. (Approved per letter from John Gadsden 3/10/86)

VI. Review of Internal Procurement Procedures Manual

As a part of our examination we reviewed State TEC's Procurement Procedures Manual to determine if their written procedures were consistent with the Consolidated Procurement Code and its regulations.
Our review revealed that the following areas need to be added, changed, or expanded:

1. Under Part II, Operating Procedures, regarding goods and services and consultant services, the following clause should be updated to the current policy regarding local funds: "internal college requisitions are processed under local jurisdiction except for equipment purchased from state and federal funds."

2. Change all references from "Central Purchasing" to read "State Procurements."

3. The following general topics should be specifically addressed within the manual rather than just noting "reference S.C. Consolidated Procurement Code."
   - Procurement Authority
   - Purpose Statements (Goals and Objectives)
   - Determination of Compliance Statement with Code and regulations
   - Ethical Standards

4. Address the following General Procurement Policy Statements.
   - Retention of Records
   - Restrictive Specifications
   - Expenditure of Funds (Federal)
   - Vendor Grievances
   - Minority Business Policy
   - Unauthorized Procurements
   - Term Contract Usage
   - Complaints Against Vendors
- Professional Development
- Conflict of Interest
- Sample Submission
- Authorized Signature Approval
- Advance Notice of Needs
- Approval Authority for Determinations (i.e., Sole Source and Emergency for Central Office and Individual Colleges)

5. Include the updated exempted commodities list.

6. Receiving Procedures (Quality Assurance) should be added.

7. Small Purchases less than $2,500 methods (number of quotations for specific dollar range).
   - Telephone Quotations
   - Informal Written Quotations
   - Blanket Purchase Agreements (if applicable)

8. Other Procurement Procedures to be addressed.
   - Consultants
   - Architect-Engineer and Construction - include flow chart and update new SPIRS form numbers
   - Information Technology - include flow chart

9. Note procedures for reporting quarterly sole source and emergency procurement and trade-in sales by the central office and the colleges.

10. The late payment penalty should be included.

11. Address formal changes to purchase orders and/or contract procedures.

12. A pertinent "exhibit" appendix should be added.
AGENCY RESPONSE

The audit was conducted immediately following the implementation of a material change in interpretation of the scope of the Procurement Code as it applies to the TEC system. The procedures manual has been revised to reflect the revised scope and recommendations provided in the audit findings. (Internal Procedures Manual approved by Certification and Audit Section 4/7/86)
CONCLUSION

As enumerated in our transmittal letter, corrective action based on the recommendations described in the findings in the body of this report, we believe will in all material respects place the State Board of Technical and Comprehensive Education in compliance with the South Carolina Consolidated Procurement Code and ensuing regulations.

In accordance with Code Section 11-35-1230(1) the Board should take this corrective action prior to March 31, 1986, the end of the next subsequent quarter.

Subject to this corrective action and because additional certification was not requested, we recommend that the State Board of Technical and Comprehensive Education be allowed to continue procuring all goods and services, construction, information technology and consulting services up to the basic level as outlined in the Procurement Code.

James M. Stiles, PPB Audit Manager

R. Voight Shealy, Director Audit and Certification
Mr. Richard W. Kelly  
Director of Agency Certification  
and Engineering Management  
300 Gervais Street  
Columbia, South Carolina 29201

Dear Rick:

We have returned to the State Board for Technical and Comprehensive Education to determine the progress made toward implementing the recommendations in our audit report covering the period July 31, 1981 through June 30, 1985. During this visit, we followed up on each recommendation made in the audit report through inquiry, observation and limited testing.

The Audit and Certification Section observed that the Board has made substantial progress toward correcting the problem areas found and improving the internal controls over the procurement system. We feel that, 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.

Because additional certification was not requested, we recommend that the State Board for Technical and Comprehensive Education be allowed to continue procuring all goods and services, construction, information technology and consulting services up to the basic level as outlined in the Procurement Code.

Sincerely,

R. Voight Shealy  
Director  
Audit and Certification