South Carolina
Division of General Services

PROCUREMENT
AUDIT AND
CERTIFICATION

S. C. STATE LIBRARY
NOV 7 1987
STATE DOCUMENTS

THE CITADEL
AGENCY

APRIL 1, 1985 - SEPTEMBER 30, 1986
DATE
September 30, 1987

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

Dear Rick:

Attached is the final audit report of The Citadel and recommendations made by the Office of Audit and Certification. I concur and recommend the Budget and Control Board grant The Citadel three (3) years certification as outlined in the audit report.

Sincerely,

Richard J. Campbell  
Assistant Division Director

Attachment
# TABLE OF CONTENTS

<table>
<thead>
<tr>
<th>Section</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>Transmittal Letter</td>
<td>1</td>
</tr>
<tr>
<td>Introduction</td>
<td>3</td>
</tr>
<tr>
<td>Background</td>
<td>4</td>
</tr>
<tr>
<td>Scope</td>
<td>5</td>
</tr>
<tr>
<td>Summary of Audit Findings</td>
<td>6</td>
</tr>
<tr>
<td>Results of Examination</td>
<td>8</td>
</tr>
<tr>
<td>Certification Recommendations</td>
<td>19</td>
</tr>
</tbody>
</table>
May 6, 1987

Mr. Richard J. Campbell
Assistant Division Director
Division of General Services
300 Gervais Street
Columbia, South Carolina 29201

We have examined the procurement policies and procedures of The Citadel for the period April 1, 1985 through September 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 recertification above the $2,500 limit.

The administration of The Citadel 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 Citadel 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 The Citadel. Our on-site review was conducted November 18 through December 19, 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 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.

Section 11-35-1230(1) of the South Carolina Consolidated Procurement Code states in part:

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. Increased certification limits were not requested.
SCOPE

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

The Audit and Certification team statistically 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. warehousing, inventory and 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 at The Citadel produced findings and recommendations in the following areas:

I. Compliance - General
   A. Procurement Exceptions - Random Sample
      As part of our testing, we reviewed samples of two hundred forty randomly selected transactions. During this test, we noted six compliance exceptions.
   B. Review of Competitive Sealed Bid Invitations
      In addition to the testing mentioned in I.A. previously, we reviewed all formal competitive sealed bid invitations processed by The Citadel since receiving procurement certification. We noted exceptions and/or weaknesses in nine of these.
   C. Consolidation of Orders
      Four consecutively numbered purchase orders were processed in a manner so as to circumvent the competitive sealed bid process.
II. **Compliance-Emergency Procurements**

Two procurements in excess of ten thousand dollars each were made legitimately as emergencies. In both cases, competition was solicited but not as much as was practicable under the circumstances.

III. **Compliance - Departmental Purchase Orders**

Four departmental purchase orders exceeded the college's limit of fifty dollars.

IV. **Procurement Procedures**

Our observations of procurement procedures at the college resulted in several recommendations for improvement.
RESULTS OF EXAMINATION

I. Compliance - General

A. Procurement Exceptions - Random Sample

As part of our testing, we reviewed samples of two hundred forty randomly selected transactions. The following exceptions were noted.

<table>
<thead>
<tr>
<th>P.O. #</th>
<th>P.O. Amount</th>
<th>Item Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>41940</td>
<td>$2,167.36</td>
<td>Open-plan system panels</td>
</tr>
<tr>
<td>42057</td>
<td>1,275.00</td>
<td>Oscilloscope</td>
</tr>
<tr>
<td>42531</td>
<td>502.71</td>
<td>Storage Boxes</td>
</tr>
<tr>
<td>43351</td>
<td>2,474.85</td>
<td>Boat</td>
</tr>
<tr>
<td>48391</td>
<td>3,885.00</td>
<td>Microfiche duplicator</td>
</tr>
<tr>
<td>47885</td>
<td>3,195.00</td>
<td>Mimeograph Machine</td>
</tr>
</tbody>
</table>

The college procured the open-plan panels (P.O. 41940) from the state contract vendor for office furniture. However, that term contract indicated that "open-plan panels are excluded from state contract and therefore must be purchased using another procurement method."

We understand that the vendor may have indicated that the state term contract included open-plan panels. It is the college's responsibility, however, to determine if such statements are correct.

The college used the sole source methodology to procure an oscilloscope at a price of $1,275.00 (P.O. 42057). However, six months later, they submitted a request to State Procurements for six more oscilloscopes of the same model number. As a result of the competitive process and consolidation of orders, an award was made to another vendor (State P.O. #51330) for these items at a unit cost of $1,133.75 a savings of $141.25 each.
Competition was not solicited for the procurement of storage boxes (P.O. 42531) because it was anticipated to be less than $500.00, the threshold at which competition is required. However, the addition of freight charges resulted in the purchase exceeding $500.00. All cost except for sales tax must be considered when determining the level of competition required.

The procurement of a new boat (P.O. 43351) for $2,474.85 included a trade-in allowance of $120.00. The college 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 the trade-in value of used equipment shall be the dollar limit which determines proper solicitation practices."

The two procurements of a microfiche duplicator and a mimeograph machine (P.O.'s 48391 and 47885) were made based on competitive sealed bids. However, the solicitation was not advertised as required by Section 11-35-1580, Item 4, of the Consolidated Procurement Code, which states in part "All invitations to compete for information technology procurements shall be formally advertised in an official state government publication." The definition of information technology in Section 11-35-310(1) of the Procurement Code includes office equipment of this nature.

We recommend that care be taken to ensure that:

(1) state term contracts are utilized correctly;
(2) sole source procurements are made only where appropriate;
(3) all components of cost are considered when determining competition requirements; and,
(4) information technology procurements are advertised in "South Carolina Business Opportunities."

COLLEGE RESPONSE

The Citadel concurs with all findings and recommendations. Procedures have been revised or developed and are now in place to ensure proper compliance. All Citadel procurement officers have been reminded of the requirements as noted.

B. Review of Competitive Sealed Bids

In addition to the testing mentioned in I.A. previously, we reviewed all formal competitive sealed bid invitations processed by the college since receiving procurement certification. We noted the following exceptions and/or weaknesses:

1) Bid number 6126-70 for an automatic flush valve was not awarded to the low bidder based on the fact that his delivery time was twelve weeks where as the successful bidder's delivery time was five weeks. To complicate matters, the successful bidder bid an alternate, not the item specified. The low bidder bid as specified.

The bid conditions stated, "Delivery desired in five days. Delivery may be a factor in the award."
We question this award on the basis that; (1) the required delivery time was unreasonable as evidenced by the fact that no one could meet it; (2) the rejected low bidder submitted a bid for the specified item but the successful bidder did not; and (3) the delivery condition in the invitation for bids was not specific, indicating may rather than will and showing it as a desired delivery time. Since no vendor could meet the desired delivery, it was not mandatory.

2) On bid numbers 6121-793 and 7109-120, bids were solicited from less than the required number of vendors. Regulation 19-445.2035, which establishes the required number of invitations for bids for various dollar amounts, states in part, "If the minimum number of qualified bidders required by this Regulation cannot be solicited, the appropriate Chief Procurement Officer or the head of a governmental body shall certify in writing that all known sources were solicited." These determinations were not prepared.

3) The college has a policy of documenting reasons for single bid responses. However, this was not done on bid numbers 6121-793, 7108-120, 7120-700 and 7125-793. We concur with this policy and recommend that it be applied consistently.

4) Vendor terms offering a discount if payment was made within thirty days were not taken into consideration in determining the award for bid numbers 6126-670 and 7125-793. Offers of cash discounts for payment within short periods of time such as ten to fifteen days should not be considered if it is doubtful that payment can be made as required. However, liberal
discount offers of thirty days should be considered when determining awards. The Citadel should take care to fully implement and consistently apply the requirements of the Consolidated Procurement Code and internal policy for competitive sealed bidding. These are in the interest of compliance and protection of the college.

**COLLEGE RESPONSE**

The Citadel concurs with all findings and recommendations. The director of procurement services now reviews all bid packages prior to mailing to ensure compliance. All procurement officers have been briefed on the proper consideration of discounts as well as the proper procedures for documentation of non-response. Action has been completed to correct all findings and implement all recommendations.

**C. Consolidation of Orders**

The following consecutively numbered purchase orders were processed in a manner so as to circumvent the competitive sealed bid process.

<table>
<thead>
<tr>
<th>P.O. #</th>
<th>Date</th>
<th>Req. #</th>
<th>Date</th>
<th>Acknowledgement</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>43027</td>
<td>06/28/85</td>
<td>06773</td>
<td>06/26/85</td>
<td>06/26/85</td>
<td>$2,336.04</td>
</tr>
<tr>
<td>43028</td>
<td>06/28/85</td>
<td>06774</td>
<td>06/26/85</td>
<td>06/26/85</td>
<td>2,241.69</td>
</tr>
<tr>
<td>43029</td>
<td>06/28/85</td>
<td>06775</td>
<td>06/26/85</td>
<td>06/26/85</td>
<td>1,549.49</td>
</tr>
<tr>
<td>43030</td>
<td>06/28/85</td>
<td>06778</td>
<td>06/26/85</td>
<td>06/26/85</td>
<td>1,327.20</td>
</tr>
</tbody>
</table>
The above requisitions for office furniture were initiated by the same person, from the same academic department, on the same date. These procurements which totaled $7,454.42, should have been combined and solicited using the competitive sealed bid methodology. In this case, five or more qualified bidders should have been solicited in accordance with Regulation 19-445.2035.

**COLLEGE RESPONSE**

As we noted during the exit interview on 15 July 1987, this improper utilization of consecutively numbered purchase orders took place in order to expedite end of the fiscal year orders. However, The Citadel concurs that the four orders should have been consolidated and bid competively. Action has been taken to preclude such actions in the future.

II. Compliance Emergency Procurements

We reviewed all sole source and emergency procurements and supporting documents for the period April 1, 1985 through June 30, 1986 for the purpose of determining the appropriateness of procurement actions taken and the accuracy of the reports submitted to the Division of General Services.

We found the majority of the transactions to be accurate and correctly reported; however, we did encounter the following emergency procurements where additional competition should have been solicited.
<table>
<thead>
<tr>
<th>P.O. #</th>
<th>Amount</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>43307</td>
<td>$12,285.00</td>
<td>Office shelves...&quot; unusually large class of freshman created shortage.&quot;</td>
</tr>
<tr>
<td>43308</td>
<td>13,230.00</td>
<td>Wardrobe cabinets. Same justification as above.</td>
</tr>
</tbody>
</table>

Although these two emergency procurements seem valid, in our opinion, additional competition could have been solicited. P.O. 43307 was supported by one phone quotation and two "No Bids", and P.O. 43308 was supported by two phone quotes. Section 11-35-2110, Subsection E, states in part that "...as much competition as is practicable should be solicited." These orders were made from the same vendor on the same day. The items procured are normally available as open-line products. Chances are that competition would have been available if solicited through an invitation for bids. The Procurement Code regulations allow for a minimum seven day bid. We recommend the college seek more competition on future emergency procurements of this size where time permits.

**COLLEGE RESPONSE**

The Citadel will attempt to solicit more competition for future emergency purchases. When competition must be limited for any reason, those facts will be fully documented in the emergency procurement documentation.
III. Compliance-Departmental Purchase Order

We reviewed departmental purchase orders for fiscal year 1985/86. The following orders exceeded the college's limit of fifty dollars.

<table>
<thead>
<tr>
<th>P.O. #</th>
<th>Amount</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>2547</td>
<td>$146.39</td>
<td>Miscellaneous merchandise for various departments</td>
</tr>
<tr>
<td>2540</td>
<td>100.89</td>
<td>for various departments throughout the college.</td>
</tr>
<tr>
<td>2542</td>
<td>113.39</td>
<td></td>
</tr>
<tr>
<td>2535</td>
<td>112.80</td>
<td></td>
</tr>
</tbody>
</table>

COLLEGE RESPONSE

The director of procurement has developed a formal microcomputer program to review departmental purchase order data and identify departments in which possible abuse of the limited purchase authority is noted. Where appropriate, authority to use departmental purchase orders will be suspended. The Citadel is confident that the many benefits of the departmental purchase order system far outweigh the very few apparent abuses of the system.
IV. Procurement Procedures

The following recommendations are made to tighten the procurement procedures at the college.

(1) During a test of a block sample of five hundred purchase orders, we noted what we consider to be a high frequency of change orders. From time to time change orders are necessary but a little more care in the processing of original orders might reduce their number.

(2) Purchase orders 43027 and 43028 were awarded based on a low price from a vendor catalog. However, the price sheet from the catalog was not retained. In the future, we recommend that catalog price sheets be copied and retained to document the prices used.

(3) Sealed bid number 6127-500 was awarded based on a vendor's personal quotation submitted in response to the invitation. In this case, his terms and conditions agreed with ours so there was no problem. Care must be taken however to ensure that, if vendor forms are accepted, their terms and conditions agree with those requested in the invitation for bids.

(4) We were unable to locate the college's written policy regarding procedures for the continued development of the bidders list through the addition of bidders, maintenance of bid history records, periodic updates.

The overall effectiveness of the procurement system to maximize the purchasing dollar is directly related to the quality of the bidders list. Maintaining qualified sources of supply and
broadening of the vendor base enhances competition and normally results in lower prices for the same or higher quality of goods.

**COLLEGE RESPONSE**

The Citadel concurs with each of the four recommendations provided and has already taken necessary action to implement each.
CERTIFICATION RECOMMENDATIONS

As enumerated in our transmittal letter, corrective action based on the recommendations described in the findings contained in the body of this report, we believe, will in all material respects place The Citadel in compliance with the South Carolina Consolidated Procurement Code and ensuing regulations. In accordance with Section 11-35-1230 of the Code, The Citadel should take this corrective action prior to September 30, 1987.

Toward this end, the Office of Audit and Certification will perform a follow-up review on or about that date to determine if the proposed corrective action has been taken. Based on the follow-up review and subject to this corrective action, we will recommend that The Citadel be recertified at the current levels, which are as follows:

<table>
<thead>
<tr>
<th>CATEGORY</th>
<th>AMOUNT</th>
</tr>
</thead>
<tbody>
<tr>
<td>I. Goods and Services</td>
<td>* $10,000 per purchase commitment</td>
</tr>
<tr>
<td>II. Consultant Services</td>
<td>* $10,000 per purchase commitment</td>
</tr>
<tr>
<td>III. Information Technology in accordance with the approved Information Technology Plan</td>
<td>* $10,000 per purchase commitment</td>
</tr>
<tr>
<td>IV. Construction Services</td>
<td>* $25,000 per purchase commitment</td>
</tr>
</tbody>
</table>

*This limit means the total potential purchase commitment to the State whether single year or multi-term contracts are used.
COLLEGE RESPONSE

On 6 July, 1987, The Citadel implemented the first phase of a new administrative computer support system which, when fully implemented, will provide a much broader range of management controls and reports for the entire procurement process at the college. The combination of corrective actions implemented in response to this audit report, other improvements recommended verbally by the audit staff, and the improvements offered by the new computer system will enable The Citadel to offer more responsive procurement service to its faculty and staff while, at the same time, fully complying with all provisions of the South Carolina Procurement Code.

James M. Stiles
James M. Stiles, P.P.B.
Audit Supervisor

R. Voight Shealy
R. Voight Shealy, Manager
Audit and Certification
September 30, 1987

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

Dear Richard:

We have returned to The Citadel to determine the progress made toward implementing the recommendations in our audit report covering the period April 1, 1985 through September 30, 1986. During this visit, we followed up on each recommendation made in the audit report through inquiry, observation and limited testing.

We observed that The Citadel 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 as outlined in the audit report, be granted for a period of three (3) years.

Sincerely,

R. Voight Shealy, Manager  
Audit and Certification

MATERIALS MANAGEMENT OFFICE