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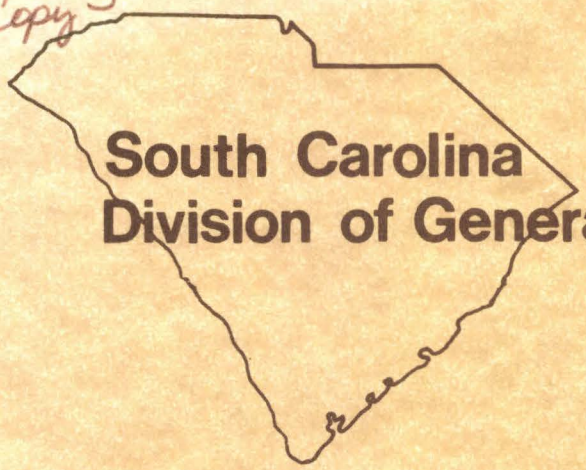

South Carolina
Division of General Services

PROCUREMENT AUDIT AND CERTIFICATION

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THE CITADEL
AGENCY

OCTOBER 1, 1986 - DECEMBER 31, 1989
DATE

STATE OF SOUTH CAROLINA

State Budget and Control Board

DIVISION OF GENERAL SERVICES

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GOVERNOR

GRADY L. PATTERSON, JR.
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COMPTROLLER GENERAL

RICHARD W. KELLY
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JAMES J. FORTH, JR.
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JAMES M. WADDELL, JR.
CHAIRMAN, SENATE FINANCE COMMITTEE

WILLIAM D. BOAN
CHAIRMAN, WAYS AND MEANS COMMITTEE

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

October 5, 1990

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

Dear Rick:

I have enclosed the procurement audit report of The Citadel as prepared by the Office of Audit and Certification. I concur with their recommendation that the Budget and Control Board grant the College procurement certification and request that you submit the report to them.

Sincerely,

James J. Forth, Jr.
Assistant Division Director

JJF/jm

Attachment

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Note: The Citadel's responses to specific issues noted in this report have been inserted immediately following the items they refer to.

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

October 4, 1990

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 examined the procurement policies and procedures of The Citadel for the period October 1, 1986 through December 31, 1989. 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 Citadel 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 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. 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 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 of The Citadel. Our on-site review was conducted February 26 through April 5, 1990, 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, that the procurement system's internal controls were adequate and the procurement procedures, as outlined in The Citadel's 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 November 10, 1987, the Budget and Control Board granted The Citadel the following procurement certifications:

Category	Certified Limit
1. Goods and Services	$10,000 per purchase commitment
2. Consultant Services	$10,000 per purchase commitment
3. Information Technology	$10,000 per purchase commitment
4. Construction Services	$25,000 per purchase commitment

The Citadel's current procurement certification expires November 10, 1990. This audit was performed primarily to determine if recertification is warranted. Additionally, The Citadel requested the following increased certification limits:

Category	Requested Limit
1. Goods and Services	$30,000 per purchase commitment
2. Consultant Services	30,000 per purchase commitment
3. Information Technology	30,000 per purchase commitment
4. Construction	25,000 per purchase commitment

SCOPE

Our examination was performed in accordance with the Generally Accepted Auditing Standards as they apply to compliance audits. It encompassed a detailed analysis of The Citadel's internal procurement operating procedures 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 up to the requested certification limits.

We statistically selected random samples of 218 procurement transactions for the period July 1, 1988 - December 31, 1989, for compliance testing, reviewed a block sample of 800 purchase orders, and performed other audit 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 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

(11) approval of the 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:

PAGE

I. Compliance - General

A. Goods and Services 10

One insurance contract was renewed without bids or a sole source justification. One purchase order was issued using the wrong bid prices.

B. Consultant Services 11

Four contracts were not supported by either bids or sole source justifications. One consultant contract was unauthorized.

C. Information Technology 12

Two invitations for sealed bids were not advertised in "South Carolina Business Opportunities." One purchase of equipment/supplies was unauthorized.

II. Information Technology Plan Approval 13

The Citadel has not submitted an Information Technology Plan to the Office of Information Planning and Management for approval since fiscal year 1986/87.

III. Compliance - Sole Source Procurements 14

Seven procurements of information technology equipment did not meet sole source criteria.

IV. Compliance - Construction 15

We noted one exception in the construction contracts area.

RESULTS OF EXAMINATION

I. Compliance - General

As part of our testing, we reviewed samples of 218 randomly selected procurement transactions. The following exceptions were noted.

A. Goods and Services

REQ/PO#	Amount	Item Description
34502	$7,695.00	Insurance
58676	2,343.50	Miscellaneous hardware

Requisition 34502 was submitted to finance for payment for insurance renewal on the college's yacht, the Mariah. This insurance renewal was neither bid nor sole sourced.

We remind the purchasing office that unless original insurance contracts were competed, including renewals, competition must be solicited or sole source determinations must be prepared to support renewals.

Purchase order 58676 for screen door hardware was correctly awarded on a lot basis for $2,078.50. However, the procurement officer inadvertently wrote in the prices from a higher bid when processing the purchase order. This resulted in the college expending an additional $265.00.

We caution the purchasing department to double check contract awards to ensure the correct bidder and cost figures are correctly entered on all purchase orders.

COLLEGE RESPONSE

Requisition #34502 has been determined to be a sole source purchase. A sole source justification has been completed and reported to the Materials Management Office as an amendment. Findings such as this will be eliminated in the future. With the new purchasing system all requests, regardless of category, are forwarded to the purchasing office for processing.

The vendor was notified of the error made on purchase order #58676 and has agreed to provide a $265.00 credit. Buyers will double check all awards to ensure that proper data is being conveyed to the purchase order.

B. Consultant Services

We noted the following procurements of consultant services that were neither competed nor supported by sole source or emergency procurement determinations:

REQ/PO#	Amount	Item Description
56065	$3,075.00	Professional fees
55985	5,884.00	Professional fees
38724	4,000.00	Honorarium
31757	600.00	Honorarium
30639	1,323.25	Consultant fees

Purchase orders 56065 and 55985 were for professional fees to companies listed in FEMA grants to perform work relating to school facilities in the Charleston, South Carolina area.

If a Federal grant dictates that a governmental body procure goods and services from a particular vendor, the grant requirement may justify a sole source. By accepting the grant funds, The Citadel accepted the grant requirements. In our opinion, a sole source justification should have been prepared for each contract and reported to the Division of General Services.

Requisitions 38724 and 31757 were requests for payments on two honorariums for guest speakers.

Requisition 30639 dated April 24, 1989, was for consultant service fees performed March 13 - 17, 1989. These services were not requested through the purchasing office and are therefore unauthorized. This procurement must be ratified by the President of The Citadel in accordance with Regulation 19-445.2015(1).

Unless specifically exempted, procurements of consultant services are subject to the same requirements as all other procurements. We recommend that in the future, The Citadel ensure that procurements of consultant services comply with the Code.

COLLEGE RESPONSE

The requisitions/purchase orders have been determined to be sole source procurements. All have had sole source justifications prepared and an amended report has been submitted to the Materials Management Office.

Purchase orders #56065 and $55985 were processed without the sole source justification because the Director of Procurement Services misinterpreted a statement made at a statewide procurement director's meeting. The entire purchasing staff has been advised how to treat grant purchases whenever a particular vendor is dictated in the grant.

Requisition #30639 has been processed as an unauthorized procurement.

A purchasing software system was installed on March 26, 1990. One of the procedures established during implementation was that Direct Expense Voucher (DEV) payments would no longer be processed. All purchase requisitions are routed to the purchasing officer. This action should prevent future findings of this nature.

C. Information Technology

Two procurements of information technology equipment (P.O.'s 58332 and 60843) were made based on competitive sealed bids. However, the solicitations were not advertised in "South Carolina Business Opportunities" as required by Section 11-35-1580, Item

4, of the Consolidated Procurement Code. We recommend that this requirement be adhered to in the future.

We also noted one unauthorized procurement for $1,322.31 of information technology equipment on purchase order number 59764. The items were ordered by a department and received prior to the issuance of a purchase order. Since the commitment was made prior to the issuance of a purchase order, the procurement is unauthorized. Ratification must be requested from The Citadel President in accordance with Regulation 19-445.2015.

COLLEGE RESPONSE

One purchase which was not advertised was an oversight on the part of the buyer and director. The other purchase was waived by the Director of Procurement Services; however, unlike purchases of goods and services, information technology purchases cannot be waived. All buyers and the director are now aware of the requirements of the South Carolina Procurement Code and will adhere to such requirements.

Purchase order #59764 has been ratified by the President. This was the only unauthorized purchase that has been documented against the individual and department. The purchasing officer will continue to monitor purchases for unauthorized purchases. Those purchases found to be unauthorized will be forwarded to the President for ratification.

II. Information Technology Plan Approval

According to the Office of Information Technology Planning and Management, The Citadel has not submitted an annual Information Technology (IT) Plan for review and approval since fiscal year 86-87. The college makes its information technology purchases on the basis of "ad hoc" requests as needs arise. The Citadel is the only State college/university which does not submit a plan for review and approval.

The Information Technology Planning Manual, which the Citadel helped develop, states in part... "In developing agency information technology plans, agencies are asked to project their needs and resources for a minimum of three consecutive fiscal years and to update these projections on an annual basis...."

We recommend The Citadel submit an IT Plan for fiscal year 1991/92 to the Office of Information Technology Planning and Management for approval.

COLLEGE RESPONSE

The Director of Information Resource Management has been tasked to prepare and submit an Information Technology Plan to Information Technology Planning and Management by August 31, 1990. A copy of plan will be forwarded to the Procurement Audit and Certification Office.

III. Compliance - Sole Source Procurements

We examined the quarterly reports of sole source procurements for October 1, 1986 - December 31, 1989, for the purpose of determining the appropriateness of the procurement actions taken, and the accuracy of the reports submitted to the Division of General Services. We found the majority of these transactions to be appropriate, however, we did note the following information technology equipment, software and/or supplies that should have been bid by dealers as well as the manufacturer.

Purchase Order #	Dollar Amount	Description
49860	$ 8,977.50	Memory boards
49883	19,725.33	Hardware & software
49969	1,101.60	Furniture
50710	1,404.96	Controller
50716	2,434.00	Software maintenance

50377	2,235.25	Printer
59024 (items 2,3,4 & 5)	102,450.17	Disk drive cabinet, cables

The terminology "only one source" is intended to mean one manufacturer or unique service provider distributing through one distribution channel. If an agency's specifications for a product or service are requested due to a unique circumstance or need only satisfied by the procurement of that specific product/service and there is more than one source of distribution, the procurement is not a sole source. We recommend that The Citadel strictly apply this standard to its sole source procurements. In any case of reasonable doubt, competition should be solicited.

COLLEGE RESPONSE

All but one of the sole source purchases noted were made in the 1986-87 time frame when The Citadel was just beginning to acquire its computer system. All purchases made were thought to be justifiable sole source purchases based on information available at that time. We have, since that time, built a list of vendors who are capable of supplying DEC equipment and have successfully bid DEC components. The purchasing staff will continue to evaluate requests for sole source purchases and will, in cases of reasonable doubt, solicit competition.

IV. Compliance - Construction

For our audit period we tested 13 professional service selection contracts and 12 construction contract procurements. We noted one exception.

The Citadel entered into a contract for $79,000 for professional services five months prior to the State Engineer's approval. The date recorded on the contract was August 21, 1987. The State Engineer's form SE-220, "Professional Services

The State Engineer's form SE-220, "Professional Services Selection Approval Request", was not approved by his office until January 4, 1988. Since the SE-220 authorizes an agency to enter into a professional services contract, the contract can not be fully executed until the SE-220 form has been approved by the State Engineer.

Section 11-35-3220 of the South Carolina Code of Laws gives the State Engineer sole authority over the procurements of these professional services. Since the Citadel established this contract without the State Engineer's approval, it is unauthorized. The Citadel must request ratification from the Director of the Division of General Services in accordance with Regulation 19-445.2015.

We recommend that The Citadel obtain the State Engineer's approval before proceeding with all future procurements of construction professional services.

COLLEGE RESPONSE

The Citadel, like all other state agencies, submits a signed contract to the State Engineer, who documents his approval on Form SE-220 after his review. There was a considerable lag between the date of the contract signing, August 21, 1987, and the State Engineer's approval on January 4, 1988. The Citadel will request ratification from the Director of the Division of General Services in accordance with Regulation 19-445.2015 and will gain the State Engineer's approval in a more timely fashion in the future.

CERTIFICATION RECOMMENDATIONS

As enumerated in our transmittal letter, corrective action based on the recommendations described 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.

The College should complete this corrective action by August 31, 1990. We will perform a follow-up review to determine if this has been done.

Under the authority described in Section 11-35-1210 of the Procurement Code, subject to this corrective action, we recommend The Citadel be recertified to make direct agency procurements for three (3) years up to the limits as follows:

Procurement Areas	Requested Certification Limits
Goods and Services	*$30,000 per purchase commitment
Consultant Services	*$30,000 per purchase commitment
Information Technology in accordance with the approved Information Technology Plan	*$30,000 per purchase commitment
Construction Services	*$25,000 per purchase commitment

*The total potential purchase commitment 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

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JAMES J. FORTH, JR.
ASSISTANT DIVISION DIRECTOR

October 4, 1990

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 The Citadel to follow up on the recommendations that we made in this report. Through this visit and the telephone conversations and meetings that we have held since the audit, we have confirmed that the College has complied with our recommendations.

Since they have corrected these exceptions, we recommend that the Budget and Control Board grant the procurement certification noted in the report.

Sincerely,

Voight Shealy

R. Voight Shealy, Manager
Audit and Certification

RVS/jm

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