PROCUREMENT AUDIT AND CERTIFICATION

THE CITADEL AGENCY

JANUARY 1, 1990 - JUNE 30, 1993

DATE
January 4, 1994

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

Dear Rick:

I have attached The Citadel's 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 noted in the audit report.

Sincerely,

Hardy L. Merritt
Assistant Division Director

HLM/jj
Attachment
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**NOTE:** The college's responses to issues noted in this report have been inserted immediately following the issues they refer to.
Dr. Hardy Merritt
Assistant Division Director
Division of General Services
1201 Main Street, Suite 600
Columbia, South Carolina 29201

Dear Hardy:

We have examined the procurement policies and procedures of The Citadel for the period January 1, 1990 - June 30, 1993. 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 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
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 The Citadel
in compliance with the South Carolina Consolidated Procurement
Code and ensuing regulations.

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

The Office of Audit and Certification conducted an examination of the internal procurement operating policies and procedures of The Citadel. Our on-site review was conducted August 10 through September 15, 1993, 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 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
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 October 23, 1990, the Budget and Control Board granted The Citadel the following procurement certifications:

<table>
<thead>
<tr>
<th>Category</th>
<th>Requested Limit</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Goods and Services</td>
<td>$30,000</td>
</tr>
<tr>
<td>2. Consultant Services</td>
<td>30,000</td>
</tr>
<tr>
<td>3. Information Technology</td>
<td>30,000</td>
</tr>
<tr>
<td>4. Construction Services</td>
<td>25,000</td>
</tr>
</tbody>
</table>

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

<table>
<thead>
<tr>
<th>Category</th>
<th>Requested Limit</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Goods and Services</td>
<td>$50,000</td>
</tr>
<tr>
<td>2. Consultant Services</td>
<td>50,000</td>
</tr>
<tr>
<td>3. Information Technology</td>
<td>50,000</td>
</tr>
<tr>
<td>4. Construction Services</td>
<td>100,000</td>
</tr>
</tbody>
</table>
SCOPE

Our examination was performed in accordance with 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.

We statistically selected random samples of procurement transactions for compliance testing, reviewed a block sample of purchase orders, and performed other audit procedures that we considered necessary in the circumstances to formulate this opinion. Specifically, we tested procurement transactions as follows:

(1) All sole source, emergency and trade-in sale procurements for July 1, 1990 - June 30, 1993

(2) Purchase transactions for the period July 1, 1990 - June 30, 1993 as follows:
   a) 210 systematically selected procurement transactions each exceeding $500
   b) A block sample of 500 sequentially numbered purchase orders
   c) 17 major construction contracts
   d) 16 construction related professional service contracts

(3) All work orders issued for March 1993

(4) Minority Business Enterprise Plans and reports

(5) Information Technology Plans

(6) Procurement policies and procedures manual
SUMMARY OF AUDIT FINDINGS

Our audit of the procurement system at The Citadel produced findings and recommendations in the following areas:

I. Sole Source Procurements
   A. Inappropriate Sole Sources
      We believe twelve procurements made as sole sources were inappropriate.
   B. Exempt Item Reported
      One transaction was unnecessarily reported as a sole source.
   C. Lack of Information on Sole Source Determinations
      On many of the sole source determinations, sufficient information was not available to justify the sole sources.

II. General Procurement Code Violations
   A. Procurement Made With Other Funds
      One transaction made with "other funds" was incorrectly considered exempt from the Procurement Code.
B. Procurement Without Evidence of Competition

One transaction was made without evidence of solicitations of competition, sole source or emergency procurement determination.

C. Lack of Approved Information Technology Plans

Since fiscal year 1986/87, The Citadel has only submitted one information technology plan for approval by the Budget and Control Board as required by the annual Appropriations Acts. The one plan submitted was done at our insistence on the last audit before we would recommend recertification.

D. Solicitation of Field Marking Paint

In making a solicitation of field marking paint, The Citadel improperly compared concentrated and diluted gallons in determining the award.

III. Procurement Procedures Manual

The manual needs to be updated due to the changes of the Procurement Code.
RESULTS OF EXAMINATION

I. Sole Source Procurements

We examined the quarterly reports of sole source, emergency and trade-in sale procurements for the period July 1, 1990 through June 30, 1993. 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 Consolidated Procurement Code, hereinafter referred to as the Code. We noted the following problems.

A. Inappropriate Sole Sources

We noted twelve sole sources which were inappropriate in our opinion. They were:

<table>
<thead>
<tr>
<th>PO Number</th>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. A101027</td>
<td>Charter boat insurance</td>
<td>$8,496.00</td>
</tr>
<tr>
<td>2. A200791</td>
<td>Charter boat insurance</td>
<td>8,496.00</td>
</tr>
<tr>
<td>3. A300950</td>
<td>Charter boat insurance</td>
<td>8,496.00</td>
</tr>
<tr>
<td>4. P102153</td>
<td>Wood stools</td>
<td>9,656.92</td>
</tr>
<tr>
<td>5. A100349</td>
<td>Diploma covers</td>
<td>1,040.00</td>
</tr>
<tr>
<td>6. P200700</td>
<td>Golf hitting cage</td>
<td>2,168.00</td>
</tr>
<tr>
<td>7. A100456</td>
<td>Summer camp insurance</td>
<td>1,134.15</td>
</tr>
<tr>
<td>8. A200575</td>
<td>Summer camp insurance</td>
<td>1,153.70</td>
</tr>
<tr>
<td>9. A300551</td>
<td>Summer camp insurance</td>
<td>1,055.95</td>
</tr>
<tr>
<td>10. A202427</td>
<td>Scientific supplies</td>
<td>7,538.91</td>
</tr>
<tr>
<td>11. A100992</td>
<td>Consultant</td>
<td>4,800.00</td>
</tr>
<tr>
<td>12. A100993</td>
<td>Consultant</td>
<td>4,000.00</td>
</tr>
</tbody>
</table>

The charter boat insurance was for three fiscal years. We called another insurance company in the Charleston area and they said they would offer this insurance to The Citadel. The wood stools were justified on the basis of being 24 inches high. The purchase order specified 25 inches of height. Regardless, we do not believe wood stools were a sole source. The diploma covers...
were specifically designed for The Citadel. We do not believe this is adequate justification for a sole source. If The Citadel has a traditional design it wishes to maintain, other vendors should be given the opportunity to match this design.

On the summer camp insurance, we believe other insurers would be willing to write this insurance. The equipment supplies were not manufactured by the company they were bought from. We believe competition is available from other distributors.

For both of the consultants, we believe these were personnel matters and not procurement issues. Both individuals were sole sourced on the basis they were to be hired by The Citadel.

We recommend The Citadel solicit competition on these transactions in the future.

**COLLEGE RESPONSE**

Concur. Competition will be solicited in the future.

B. Exempt Item Reported as Sole Source

We believe one transaction done as sole source falls into an exempt category making sole source unnecessary. This transaction was as follows:

<table>
<thead>
<tr>
<th>PO Number</th>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>A200502</td>
<td>Leased books</td>
<td>3,224.60</td>
</tr>
</tbody>
</table>

Books are exempt from the Code. Whether books are leased or bought makes no difference.

We recommend procurement of books not be reported as a sole source.
COLLEGE RESPONSE

Concur. Procurement of books, leased or otherwise, will not be reported as a sole source.

C. Lack of Information on Sole Source Determinations

During our review of sole source determinations, we had to ask a lot of questions due to the lack of information recorded on the sole source determinations. This information is used to justify the sole source procurement method over other procurement methods. Regulation 19-445.2105 requires agencies to document any sole source decision with "an explanation as to why no other will be suitable or acceptable to meet the need."

We recommend The Citadel record sufficient information on its sole source determinations to justify why an item, supply or service is unique and available from a single source.

COLLEGE RESPONSE

Concur. In some instances back up documents could have been referenced which would have provided the additional justification. Future sole source determinations will provide justification why an item, supply or service is unique and available from a single source.

II. General Procurement Code Violations

We selected random samples from the four primary procurement areas identified by the Code of goods and services, consultants, construction and information technology. In all, we tested 210 transactions. Our findings are listed below.
A. Procurement Made With Other Funds

In our samples we noted one procurement made with what The Citadel classified as other funds. This transaction was for artist services for $1,710.00 and was paid on voucher number 716.

Section 11-35-40(2) states in part, "This code shall apply to every expenditure of funds by this State under contract acting through a governmental body as herein defined irrespective of the source of the funds,..." Also, 11-35-710 exempted procurements of art subject to approval by the South Carolina Arts Commission. The required approval was not obtained.

We recommend The Citadel consider these other funds subject to the provisions of the Code unless specifically exempted under Section 11-35-710.

COLLEGE RESPONSE

Concur. Other funds will be considered subject to the provisions of the Code unless specifically exempted under Section 11-35-710. The funds used for this purchase were donations from individuals. The Citadel was only the conduit to pay. The artwork was an oil painting of a former Chairman of The Citadel Board of Visitors with all costs to be paid from contributions of friends and family. The "contract" was not with The Citadel.

B. Procurement Without Evidence of Competition

We found one transaction made without evidence of solicitations of competition, sole source or emergency procurement determination.

<table>
<thead>
<tr>
<th>PO Number</th>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>P102561</td>
<td>Relocate burglar alarm</td>
<td>$1,200.00</td>
</tr>
</tbody>
</table>
We fail to see any reason why this transaction was not made in accordance with the Code.

We recommend competition be solicited or sole source or emergency procurement determination be made if appropriate on this transaction in the future.

COLLEGE RESPONSE

Concur. This purchase was in support of moving the Treasurer's Office from Bond Hall to the temporary trailers. The vendor was the only vendor who could accomplish the work due to our annual contract with them to provide burglar alarm services. The purchase was ratified by the president on December 9, 1993.

C. Lack of Approved Information Technology Plans

In our last audit report we cited The Citadel for failing to submit for approval the annual Information Technology (IT) Plans. We refused to recertify The Citadel in Information Technology until an IT plan was approved by the Office of Research and Statistical Services of the Budget and Control Board as required by the annual Appropriations Acts. As a result, The Citadel submitted an IT plan for fiscal year 1991/92. Since that time no other plans have been submitted. In all, since fiscal year 1986/87 The Citadel has only submitted one IT plan to the Budget and Control Board, the one we required.

We recommend immediate corrective action be taken to ensure these annual plans are submitted for approval. The information technology certification specifically states "Information Technology in accordance with the approved Information Technology Plan." Without these approved plans The Citadel has no information technology certification.
Concur. The Citadel has submitted an information technology plan for the coming year. The Citadel fully intends to comply with state requirements to submit an annual Information Technology Plan. The Citadel's Director of Information Resources Management will forward the plan to the State's Director of Information Resources Management (DIRM) annually. The State's DIRM will notify the Manager of Audit and Certification and The Citadel's Vice President for Finance and Business Affairs that the plan has been submitted.

D. Solicitation of Field Marking Paint

A solicitation for field marking paint was processed specifying the number of concentrated gallons The Citadel wished to procure (Ref. PO P100260 at $3,364). What The Citadel failed to specify was the specific concentrate it desired. On one particular line item of 400 gallons of concentrate, vendors offered dilution ratios from 1 to 1 to 4 to 1. All vendors bid on 400 gallons of concentrate. Diluted at 1 to 1, it would yield 800 gallons. Diluted at 4 to 1, it would yield 2000 gallons. This is a significant difference.

To help avoid confusion, we recommend in the future The Citadel specify the number of diluted gallons it wishes to procure, then let the vendors determine how many gallons of their product will be required to yield that amount.

Concur. All future purchases of field marking paint where dilution is possible will be stated in diluted gallons.
III. Procurement Procedures Manual

Due to the changes made to the Code which took effect July 1, 1993, we request The Citadel to update its manual. This should be accomplished before we submit this report to the Budget and Control Board to recommend recertification.

COLLEGE RESPONSE

The updated procedures manual will be forwarded under separate cover by January 10, 1994.
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 The Citadel in compliance with the South Carolina Consolidated Procurement Code and ensuing regulations.

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:

<table>
<thead>
<tr>
<th>Procurement Areas</th>
<th>Requested Certification Limits</th>
</tr>
</thead>
<tbody>
<tr>
<td>Goods and Services</td>
<td>*$ 50,000 per purchase commitment</td>
</tr>
<tr>
<td>Consultant Services</td>
<td>*$ 50,000 per purchase commitment</td>
</tr>
<tr>
<td>Information Technology in accordance with the approved Information Technology Plan</td>
<td>*$ 50,000 per purchase commitment</td>
</tr>
<tr>
<td>Construction Services</td>
<td>*$100,000 per purchase commitment</td>
</tr>
</tbody>
</table>

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

Robert J. Aycock, IV
Audit Manager

R. Vought Shealy, CFE, Manager
Audit and Certification
January 4, 1994

Dr. Hardy Merritt
Assistant Division Director
Division of General Services
1201 Main Street, Suite 600
Columbia, South Carolina 29201

Dear Hardy:

Since we completed our field work, we have met with Citadel officials to discuss the exceptions noted and received correspondence indicating corrective action towards the recommendations. Based on the resolution of all issues, a visit to the college for a formal follow-up was not necessary.

We recommend the Budget and Control Board grant the college procurement recertification for three years at the levels noted in the report.

Sincerely,

R. Voight Shealy, Manager
Audit and Certification

RVS/jj