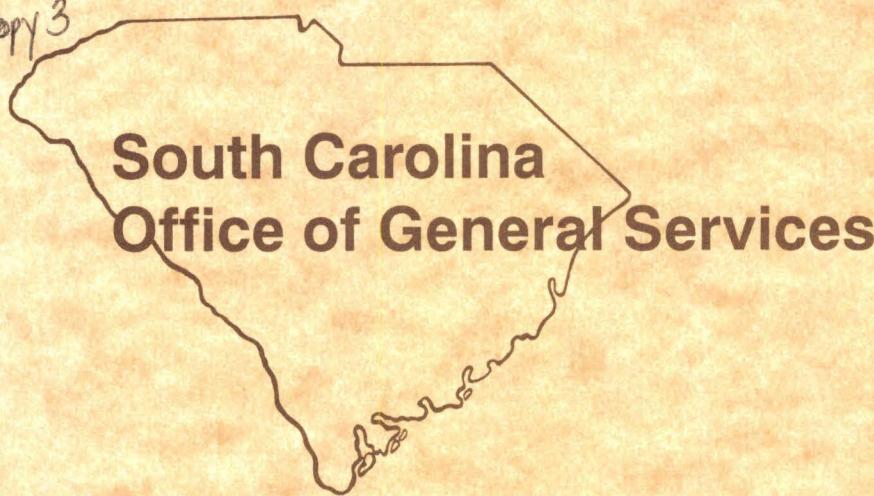


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**South Carolina
Office of General Services**

**PROCUREMENT
AUDIT AND
CERTIFICATION**

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THE CITADEL

AGENCY

JULY 1, 1996 – MARCH 31, 1999

DATE

STATE OF SOUTH CAROLINA
State Budget and Control Board
OFFICE OF GENERAL SERVICES

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GOVERNOR

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DIRECTOR

MATERIALS MANAGEMENT OFFICE
1201 MAIN STREET, SUITE 600
COLUMBIA, SOUTH CAROLINA 29201
(803) 737-0600
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R. VOIGHT SHEALY
ASSISTANT DIRECTOR

August 25, 1999

Mr. Robert W. McClam, Director
Office of General Services
1201 Main Street, Suite 420
Columbia, South Carolina 29201

Dear Robbie:

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 year certification as noted in the audit report.

Sincerely,

Voight Shealy
R. Voight Shealy
Materials Management Officer

/jl

**THE CITADEL
PROCUREMENT AUDIT REPORT**

JULY 1, 1996 – MARCH 31, 1999

TABLE OF CONTENTS

	PAGE
Transmittal Letter.....	1
Introduction	3
Background	4
Scope	5
Summary of Audit Findings	6
Results of Examination	7
Certification Recommendations	10
Follow-up Letter.....	11

NOTE: The College's response to issues noted in the report have been inserted immediately following the issues they refer to.

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R. VOIGHT SHEALY
ASSISTANT DIRECTOR

August 4, 1999

Mr. R. Voight Shealy
Materials Management Officer
Office of General Services
1201 Main Street, Suite 600
Columbia, South Carolina 29201

Dear Voight:

We have examined the procurement policies and procedures of The Citadel for the period July 1, 1996 through March 31, 1999. 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 the College's 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 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, assurances 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 that 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.

Sincerely,



Larry G. Sorrell, Manager
Audit and Certification

INTRODUCTION

We conducted an examination of the internal procurement operating policies and procedures of The Citadel. Our on-site review began on May 13, 1999 and was made under 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 Citadel in promoting the underlying purposes and policies of the Code as outlined in Section 11-35-20, which includes:

- (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 Office 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 December 10, 1996 the Budget and Control Board granted The Citadel the following procurement certifications:

<u>Category</u>	<u>Limit</u>
Goods and Services	\$100,000 per commitment
Consultants	\$100,000 per commitment
Information Technology	\$100,000 per commitment
Construction	\$100,000 per commitment

Our audit was performed primarily to determine if re-certification is warranted.

Additionally, The Citadel requested the following certification limits.

<u>Category</u>	<u>Limit</u>
Goods and Services	\$100,000 per commitment
Consultants	\$100,000 per commitment
Information Technology	\$100,000 per commitment
Construction Contract Award	\$100,000 per commitment
Construction Contract Change Order	\$ 25,000 per commitment
Architect/Engineer Contract Amendment	\$ 15,000 per commitment

SCOPE

We conducted our examination in accordance with Generally Accepted Auditing Standards as they apply to compliance audits. Our examination encompassed a detailed analysis of the internal procurement operating procedures of The Citadel and its related policies and procedures manual to the extent we deemed necessary to formulate an opinion on the adequacy of the system to properly handle procurement transactions.

We selected a judgmental sample for the period July 1, 1996 through March 31, 1999 of procurement transactions for compliance testing and performed other audit procedures that we considered necessary to formulate this opinion. Specifically, the scope of our audit included, but was not limited to, a review of the following:

- (1) All sole source, emergency and trade-in sale procurements for the audit period July 1, 1996 through March 31, 1999
- (2) Procurement transactions from the period July 1, 1996 through March 31, 1999 as follows:
 - (a) One hundred and two judgmentally selected procurement transactions
 - (b) An additional sample of seven informal quotes, six sealed bids and one request for proposal
 - (c) A block sample of three hundred and fifty numerical purchase orders reviewed for order splitting and favored vendors
 - (d) A review of four months of voucher payments for credit card purchases
- (3) Nine major construction contracts and four related professional A&E service selections reviewed for compliance with the Manual for Planning and Execution of State Permanent Improvements
- (4) Surplus property disposition procedures
- (5) Minority business enterprise plans and reports for the audit period
- (6) Information technology plans and approval
- (7) Internal procurement procedures manual
- (8) Physical Plant work order system
- (9) File documentation and evidence of competition

SUMMARY OF AUDIT FINDINGS

Our audit of the procurement system of The Citadel, hereinafter referred to as the College, produced the following findings and recommendations.

	<u>PAGE</u>
I. <u>Sole Source Procurements</u>	7
A. <u>Delegation of Sole Source Authority</u>	
During our testing of sole source transactions we saw where the Controller, in the absence of the Vice President for Finance and Business Affairs, would authorize sole source procurements. The President had not delegated sole source authority to the Controller.	
B. <u>Drug-Free Workplace Certification</u>	7
Two sole source procurements of \$50,000 or more were not supported by the drug-free workplace certifications.	
C. <u>Unauthorized Sole Source Procurements</u>	8
Two sole source procurements were authorized after the purchase orders had been issued.	
II. <u>General Procurement Activity</u>	8
A. <u>Multi-Term Determinations Not Prepared</u>	
Multi-term determinations were not prepared on two multiple year contracts.	
B. <u>Bidders Preference Erroneously Applied</u>	9
Five awards for less than \$10,000 had the bidder's preferences erroneously applied.	

RESULTS OF EXAMINATION

I. Sole Source Procurements

A. Delegation of Sole Source Authority

During our testing of sole source transactions, we noted that the Controller, in the absence of the Vice President for Finance and Business Affairs, approved the justifications to support three sole source procurements. However, the Controller had not been delegated sole source authority. Section 11-35-1560 of the Code allows for the delegation of sole source authority by either the chief procurement officer or the head of a governmental body.

We recommend the delegation of sole source authority be done in accordance with the Code.

COLLEGE RESPONSE

The Director of Financial Services has been delegated authority to approve sole source transactions.

B. Drug-Free Workplace Certification

We noted the following two sole source procurements of \$50,000 or more where the College failed to obtain the required drug-free workplace certifications from the vendors stating they were in compliance with the South Carolina Drug-Free Workplace Act.

<u>PO</u>	<u>Amount</u>	<u>Description</u>
P700596	\$ 55,000	Waste disposal
P901944	212,824	Security services

Section 44-107-10 of the South Carolina Code of Laws requires on any resultant contract greater than \$50,000 or more that a certification be obtained from the recipient stating that the vendor maintains a drug-free workplace. Sole source procurements are subject to this section of the law.

We recommend the College obtain the drug-free workplace certification on all future sole source contracts of \$50,000 or more.

COLLEGE RESPONSE

The College will obtain the drug-free workplace certification on all future sole source contracts of \$50,000 or more. To assist in this endeavor a sole source determination checklist has been developed.

C. Unauthorized Sole Source Procurements

The justifications to support the following two sole source procurements were authorized after the purchase orders were issued.

<u>PO</u>	<u>Justification Date</u>	<u>PO Date</u>	<u>Amount</u>	<u>Description</u>
A800275	7/11/97	6/11/97	\$3,282	Student entertainment
A801507	2/13/98	2/3/98	2,145	Consultant

Section 11-35-1560 of the Code allows for a procurement without competition if the head of a governmental body or a designee above the level of the procurement officer determines in writing that only one source exists for a needed supply or service. Since the Code is so specific about sole source authority, the justification must be authorized prior to the proposed sole source procurement. Since the justifications were not authorized prior to the procurements, each procurement is unauthorized as defined in Regulation 19-445.2015.

We recommend that the justification for each proposed sole source procurement be authorized in advance. Ratification must be requested from the College President in accordance with Regulation 19-445.2015 for the two unauthorized sole source procurements.

COLLEGE RESPONSE

Justification for a sole source procurement is authorized in advance of purchase. Purchase orders are not mailed until the determinations are approved by the Vice President for Finance and Business Affairs. Closer attention will be paid to ensure that the determination is dated before the purchase order. The President has ratified the two unauthorized sole source procurements.

II. General Procurement Activity

A. Multi-Term Determinations Not Prepared

The College did not prepare multi-term determinations on the following multiple year contracts which had an option to extend clause.

<u>Solicitation</u>	<u>Description</u>	<u>Amount</u>
IFB T8022-8/2/97	Gift shop tote bags	\$3,881/year with option to extend 3 years
RFP R8062-12/2/97	Consultant	\$51,000/year with option to extend 1 year

Section 11-35-2030 of the Code requires that, prior to the utilization of a multi-term contract, a written determination be prepared to justify a contract for greater than 12 months.

We recommend the College prepare a determination for each multi-term contract as defined in the Code.

COLLEGE RESPONSE

Written determinations will be prepared for multi-term contracts. A checklist has been developed to ensure compliance.

B. Bidder Preference Erroneously Applied

We noted five informal quotation awards for less than \$10,000 where the resident vendor preference was erroneously considered in the award.

<u>Quotation Number</u>	<u>Description</u>	<u>Amount</u>
Q8118-RH-5/11/98	Tables	\$4,779
Q9003-RH-7/9/98	Video projector	\$3,318
Q9006-RH-7/14/98	Video projector & stand	\$8,605
Q9009-JW-7/24/98	Demolition services	\$7,100
Q9096-JW-3/23/99	HVAC system	\$5,430

Section 11-35-1524 of the Code addresses the procurement preferences for South Carolina vendors and products. However, Section 11-35-1524 (C) (4) (Exceptions) states, " This section (11-35-1524) shall not apply to any solicitation, bid, offer or procurement where the contract award is less than \$10,000." The application of the preferences did not effect the awards.

We recommend the College not consider preferences for the exceptions listed in Section 11-35-1524(C).

COLLEGE RESPONSE

Preferences will only be considered for those solicitations where they apply. The Director and Procurement Officers have undergone procurement training by the Office of General Services and additional in-service training.

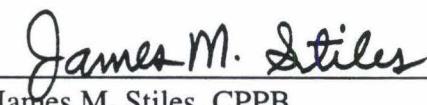
CERTIFICATION RECOMMENDATIONS

As enumerated in our transmittal letter, corrective action based on the recommendations described in this report, we believe, will in all material respects places 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 will recommend The Citadel be recertified to make direct agency procurements for three years up to the following levels.

<u>PROCUREMENT AREAS</u>	<u>RECOMMENDED CERTIFICATION LEVELS</u>
Goods and Services	*\$100,000 per commitment
Consultant Services	*\$100,000 per commitment
Information Technology	*\$100,000 per commitment
Construction Contract Award	\$100,000 per commitment
Construction Contract Change Order	\$ 25,000 per change order
Architect/Engineer Contract Amendment	\$ 15,000 per change order

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



James M. Stiles, CPPB
Audit Manager



Larry G. Sorrell, Manager
Audit and Certification

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R. VOIGHT SHEALY
ASSISTANT DIRECTOR
August 25, 1999

Mr. R. Voight Shealy
Materials Management Officer
Materials Management Office
1201 Main Street, Suite 600
Columbia, South Carolina 29201

Dear Voight:

We have reviewed the response from The Citadel to our audit report for the period of July 1, 1996 - March 31, 1999. Also we have followed the College's corrective action during and subsequent to our fieldwork. We are satisfied that the College has corrected the problem areas and the internal controls over the procurement system are adequate.

Therefore, we recommend the Budget and Control Board grant The Citadel the certification limits noted in our report for a period of three years.

Sincerely,

Larry G. Sorrell, Manager
Audit and Certification

LGS/jl

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