PROCUREMENT AUDIT AND CERTIFICATION

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COLLEGE OF CHARLESTON
AGENCY

JULY 1, 1995 - MARCH 31, 1998
DATE
MATERIALS MANAGEMENT OFFICE
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COLUMBIA, SOUTH CAROLINA 29201
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R. VOIGHT SHEALY
ASSISTANT DIRECTOR
January 14, 1999

Ms. Helen T. Zeigler, Director
Office of General Services
1201 Main Street, Suite 420
Columbia, South Carolina 29201

Dear Helen:

I have attached the College of Charleston’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,

/R. Voight Shealy
Materials Management Officer

/tl
COLLEGE OF CHARLESTON
PROCUREMENT AUDIT REPORT
JULY 1, 1995 - MARCH 31, 1998
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NOTE: The College's responses to issues noted in this report have been inserted immediately following the items they refer to.
Dear Voight:

We have examined the procurement policies and procedures of the College of Charleston for the period July 1, 1995 through March 31, 1998. 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 South Carolina Consolidated Procurement Code and College 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 College of Charleston 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 College of Charleston 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 College of Charleston. Our review was conducted May 12 through June 10, 1998, 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 College of Charleston 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 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 January 30, 1996, the Budget and Control Board granted the College of Charleston the following procurement certifications:

<table>
<thead>
<tr>
<th>Category</th>
<th>Limit</th>
</tr>
</thead>
<tbody>
<tr>
<td>Goods and Services</td>
<td>$100,000 per commitment</td>
</tr>
<tr>
<td>Consultants Services</td>
<td>100,000 per commitment</td>
</tr>
<tr>
<td>Information Technology</td>
<td>100,000 per commitment</td>
</tr>
<tr>
<td>Construction Services</td>
<td>25,000 per commitment</td>
</tr>
</tbody>
</table>

Our audit was performed primarily to determine if recertification is warranted. No additional certification over the current limits was requested.
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 College of Charleston 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, 1995 through March 31, 1998 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 period July 1, 1995 through March 31, 1998

2. Procurement transactions for the period July 1, 1992 through June 30, 1995 as follows:
   a) Ninety-one judgmentally selected procurement transactions
   b) Twenty-three blanket purchase agreements
   c) A block sample of four hundred eighty-seven purchase orders filed by vendor
   d) Three major construction contracts and four professional service selections related to construction
   e) Physical Plant work order procedures

3. Minority Business Enterprise Plans and reports for the audit period

4. Information technology plan for the audit period

5. Internal procurement procedures manual review

6. Surplus property disposition procedures

7. Real Property Management Office approvals for leases

8. File documentation and evidence of competition
SUMMARY OF AUDIT FINDINGS

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

I. Sole Source Procurements

Two sole source procurements that exceeded $50,000 were not supported by the required drug-free workplace certification.

II. General Procurement Exceptions

A. Inadequate Solicitations of Competition

Three procurements were not supported by adequate solicitations of competition.

B. Construction Services

For the construction project to reroof the Central Energy Facility, the contractor was given the notice to proceed by the College before the State Engineer approved the contract.

C. Preference Misapplied

The College misapplied a preference causing the contract to be awarded to the wrong vendor.

D. Internal Controls

Two internal control problems were noted. First, a vendor was consistently overpaid by the College. Second, on some purchase orders the contract price was "as invoiced." The associated award statements recorded the contracts amounts in a one unit aggregate total of all line items rather than the value per each line item.
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, 1995 through March 31, 1998. This review was performed to determine the appropriateness of the procurement actions taken and the accuracy of the reports submitted to the Office of General Services as required by Section 11-35-2440 of the Code. We found most of these transactions to be correct but did note the following exceptions.

We noted two sole source procurements that exceeded $50,000 where the College did not obtain the required drug-free workplace certification stating the vendor was in compliance with the South Carolina Drug-Free Workplace Act.

<table>
<thead>
<tr>
<th>Grant Reference</th>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>5-26038</td>
<td>Teaching institutes</td>
<td>$86,873</td>
</tr>
<tr>
<td>6-36018</td>
<td>Teaching institutes</td>
<td>81,183</td>
</tr>
</tbody>
</table>

Section 44-107-10 et seq. of the South Carolina Code of Laws requires on any contract of $50,000 or more that a certification be obtained stating that the vendor maintains a drug-free workplace. Sole source and emergency procurements are subject to this law.

We recommend the College obtain the drug-free workplace certification on all contracts of $50,000 or greater.

COLLEGE RESPONSE

Per the audit recommendation, a drug-free workplace certification has been obtained from the vendor. The workplace, however, is the College of Charleston. The South Carolina Commission on Higher Education, through the Eisenhower fund, grants to the College of Charleston funds to prepare pre-college teachers for South Carolina schools through the vendor's program. The vendor's program is funded through the National Science Foundation to select the best middle and high school science teachers in the United States and bring them to Princeton, New Jersey for in-depth training in their particular science. The vendor pays for all training, travel, lodging, textbook compilation, printing and coordination. From these teachers, the vendor selects the "best of the best" and forms the vendor teams to teach institutes. These teams of four teachers become a traveling resource to states involved in vendor's program. Each scientific discipline has a separate team and institute. The College is the only university in the state to have been chosen to host the vendor's program and the payments made by the College to the vendor were for the on-site use of the traveling teams. The workplace was the College of Charleston, not a
vendor's office in New Jersey. In the future we will follow your recommendation to secure drug-free workplace certifications from all providers of services of $50,000 or greater.

II. General Procurement Exceptions

A. Inadequate Solicitations of Competition

Our testing revealed three procurements which were not supported by adequate solicitations of competition.

<table>
<thead>
<tr>
<th>Document</th>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Voucher 980</td>
<td>Program for race relations</td>
<td>$50,000</td>
</tr>
<tr>
<td>PO 602551</td>
<td>Air handler units</td>
<td>31,338</td>
</tr>
<tr>
<td>PO 603979</td>
<td>Printing services</td>
<td>26,700</td>
</tr>
</tbody>
</table>

The procurement for race relations was processed through a Direct Expenditure Authorization (DEA) instead of using the normal procurement process. The College considered the expenditure not to be subject to the Code since it was designated as a specific line item in the State's Appropriations Act. Our review of the Appropriations Act showed that a line item designation was included for race relations but did not designate a specific vendor. Without a vendor designation, the Code applied and competition should have been solicited.

Two solicitations of competition plus advertisement in the South Carolina Business Opportunities (SCBO) supported the procurement for air handler units. Prior to June 13, 1997, which is when this procurement was made, the Code required five solicitations of competition using the competitive sealed bidding method plus advertisement in SCBO. Beginning on June 13, 1997, only advertisement in SCBO is required for sealed bid procurements.

The procurement for printing services was made using the small purchase procedures, an informal method of procurement. Since the procurement was awarded at over $25,000, the formal bidding procedures, competitive sealed bidding, should have been followed. By not following the formal procedures, no public bid opening was held and vendors were not offered protest rights.

We recommend the minimum competition requirements of the Code be followed.
B. Construction Services

For the construction project to reroof the Central Energy Facility, the construction service contractor was given the notice to proceed on form SE-390 by the College instructing the contractor to begin services before the Office of the State Engineer (OSE) approved the contract. The SE-390 instructed the contractor to begin services on June 2, 1997, whereas the request for authority to execute a construction contract on form SE-380 was approved by the OSE on June 10, 1997. Section 6.27, paragraph A.2. of the Manual For Planning And Execution Of State Permanent Improvements, Part II, requires, that when a contract is over the agency's construction certification, the agency shall send the SE-390 to the contractor only after the SE-380 has been approved by the OSE.

We recommend the College adhere to this section of the Manual.

C. Preference Misapplied

On the solicitation ITB-96.18 for computer equipment for $40,846, the College misapplied a preference causing the contract to be awarded to the wrong vendor. The awarded vendor claimed the South Carolina Resident Vendor Preference (SCRVP) which was 2% at the time. The apparent low bidder claimed the United States End Product Preference (USEPP) which was also 2%. The buyer incorrectly believed the SCRVP applied to all items regardless of unit price while the USEPP did not apply to items whose unit costs exceed $10,000. Neither preference applies to items with a unit cost greater than $10,000. As a result of the misapplication of preferences, the contract was not awarded to the correct vendor. Based on the corrected computations, the apparent low bid of $40,782 should have been awarded the contract.

We recommend the College correctly apply preferences.
D. Internal Controls

We noted two problems with internal controls at the College. First, a vendor was consistently overpaid by the College. Because the Department approved the invoices, Accounts Payable did not question the overpayment. The purchase order specified a fee of 28% to the vendor for bad student loan collections. The vendor consistently invoiced and was paid a rate of 33.33% of student loan collections costing the College $1,719 in overpayments. While the Departments have primary responsibility to determine invoice accuracy, Accounts Payable should also verify invoice accuracy. Since a copy of the purchase order was attached to the payment we reviewed, sufficient information was readily available to detect the overpayments.

We recommend invoices and purchase orders be reconciled before payments are made.

The second internal control problem involved the preparation of purchase orders and award notice statements prepared by the Procurement Office. On some procurements the purchase orders record the price of the contract as "as invoiced." The associated award statements record the contract amount in a one unit aggregate total rather than the prices per line items in the solicitation.

We recommend the purchase orders and award statements include the value of each line item as well as the aggregate total.

COLLEGE RESPONSE

The vendor overpayment problem has been corrected and the vendor in question has provided full reimbursement to the College. Letters documenting this have been provided to Audit and Certification. The procurements cited were all indefinite delivery contracts. We accept your recent recommendation on how to better represent contract award of indefinite delivery contracts and will detail what comprises the aggregate award, as per your example. This is a good solution and should give all concerned a clearer picture of the award, without creating unrealistic expectations.
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 College of Charleston in compliance with the South Carolina Consolidated Procurement Code and ensuing regulations.

Under the authority described in section 11-35-1210 of the Code, subject to this corrective action, we will recommend recertification for three years at the levels below:

<table>
<thead>
<tr>
<th>PROCUREMENT AREA</th>
<th>RECOMMENDED CERTIFICATION LIMITS</th>
</tr>
</thead>
<tbody>
<tr>
<td>Goods and Services</td>
<td>*$100,000</td>
</tr>
<tr>
<td>Consultants Services</td>
<td>*$100,000</td>
</tr>
<tr>
<td>Information Technology</td>
<td>*$100,000</td>
</tr>
<tr>
<td>Construction Services</td>
<td>*$ 25,000</td>
</tr>
</tbody>
</table>

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

Robert J. Aycock, IV
Audit Manager

Larry G. Sorrell, Manager
Audit and Certification
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 College of Charleston to our audit report for the period of July 1, 1995 - March 31, 1998. Also we have followed the College's corrective action during and subsequent to our field work. 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 College of Charleston the certification limits noted in our report for a period of three years.

Sincerely,

Larry G. Sorrell, Manager  
Audit and Certification

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