PROCUREMENT
AUDIT AND
CERTIFICATION

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COMMISSION ON HIGHER EDUCATION
AGENCY
JULY 1, 1996 – JUNE 30, 1998
DATE
Ms. Helen T. Zeigler, Director
Office of General Services
1201 Main Street, Suite 420
Columbia, South Carolina 29201

Dear Helen:

I have attached the audit report for the Commission on Higher Education. Since we are not recommending any certification above the basic $5,000 allowed by the Code, no action is required by the Budget and Control Board. Therefore, I recommend that the report be presented to the Budget and Control Board as information.

Sincerely,

Voight Shealy
Materials Management Officer
SOUTH CAROLINA COMMISSION ON HIGHER EDUCATION
PROCUREMENT AUDIT REPORT

JULY 1, 1996 - JUNE 30, 1998
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**NOTE:** The Commission's response to issues noted in the report have been inserted immediately following the issues they refer to.
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 South Carolina Commission on Higher Education for the period July 1, 1996 through June 30, 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 Consolidated Procurement Code and State 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 South Carolina Commission on Higher Education 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, 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 South Carolina Commission on Higher Education in compliance with the 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 South Carolina Commission on Higher Education. Our on-site review was conducted July 9 through 23, 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 South Carolina Commission on Higher Education 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
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 South Carolina Commission on Higher Education 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 June 30, 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, 1996 through June 30, 1998
2. Procurement transactions for the period July 1, 1996 through June 30, 1998 as follows:
   a) Sixty-four payments each exceeding $1,500
   b) A block sample of five hundred forty-three vouchers
3. Minority Business Enterprise Plans and reports for the audit period
4. Information technology plan for the fiscal years covering July 1, 1995 through June 30, 1998
5. Internal procurement procedures manual
6. Surplus property procedures
SUMMARY OF AUDIT FINDINGS

Our audit of the procurement system of the South Carolina Commission on Higher Education, hereinafter referred to as the Commission, produced findings and recommendations as follows:

I. Unauthorized Procurements Without Competition

Five procurements exceeded the $5,000 authority level and were not supported by solicitations of competition, sole source or emergency procurement determinations or appropriate term contract references.

II. Unauthorized Procurements With Inadequate Competition

Two procurements were awarded at $115,950 and $74,997 that exceeded the $5,000 authority level and were not supported by adequate solicitations of competition, sole source or emergency procurement determinations or term contract references.

III. Other Unauthorized Procurements

Two procurements exceeded the $5,000 authority level making the procurements unauthorized. Adequate levels of competition were solicited, but not all of the required procedures were followed.

IV. General Procurement Exceptions

A. Procurements Made Without Competition

Nine procurements were made within the Commission’s authority but were not supported by solicitations of competition, sole source or emergency procurement determinations or term contract references.

B. Consultant Exemption Not Followed

None of the procurements for consultants for evaluations of academic programs had documentation to support that the consultants were procured according to an exemption granted by the Budget and Control Board.
V. Printing Services Procurement Violations

Printing procurements were not solicited in accordance to the South Carolina Government Printing Services Manual nor was the State government printing specification sheet used.

VI. Sole Source and Emergency Procurements

A. Unauthorized Sole Source

One contract was not supported by the written sole source determination.

B. Sole Source Reporting Error

One procurement submitted for ratification was subsequently processed as a sole source then reported as an emergency.

VII. Procurement Practices Need Improvement

We noted on vouchers that poor procurement practices were used.

VIII. Real Property Lease Not Reported

The Commission failed to report an exempt real property lease to the Office of General Services.

IX. Minority Business Enterprise Plan and Quarterly Reports Not Provided

We did not receive the Minority Business Enterprise (MBE) Plan for fiscal year 96-97, the approval letter from the Office of Small and Minority Business Assistance of the Governor’s Office, and the quarterly progress reports for the period of the audit.

X. Procurement Procedures Manual Inadequate

The Commission’s procurement procedures manual is inadequate.
RESULTS OF EXAMINATION

I. Unauthorized Procurements Without Competition

Five procurements exceeded the Commission’s basic $5,000 authority level and were not supported by solicitations of competition, sole source, or emergency procurement determinations or appropriate term contract references.

<table>
<thead>
<tr>
<th>Voucher</th>
<th>Date</th>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>1750</td>
<td>07/07/97</td>
<td>Book covers and stickers</td>
<td>$19,368</td>
</tr>
<tr>
<td>370</td>
<td>09/17/96</td>
<td>Computer software and hardware upgrades</td>
<td>13,350</td>
</tr>
<tr>
<td>1343</td>
<td>04/04/97</td>
<td>Access &amp; equity conference</td>
<td>9,518</td>
</tr>
<tr>
<td>1186</td>
<td>04/09/98</td>
<td>Access &amp; equity conference</td>
<td>7,751</td>
</tr>
<tr>
<td>662-664</td>
<td>12/04/97</td>
<td>3 vouchers for office furniture</td>
<td>5,259</td>
</tr>
</tbody>
</table>

The book covers and stickers were procured referencing a contract competed by the Materials Management Office (MMO) for the Commission. However, the contract scope did not include these items. It was therefore improper for the Commission to reference the contract as the procuring authority. Either a change order should have been requested through MMO or the items procured through a separate contract.

The computer software and hardware upgrades were procured for The University Center, an educational consortium of South Carolina colleges and universities and funded by those institutions. The Commission processes payments for the center. Since the Commission processed the payments for The University Center using State funds, adherence to the Code was the Commission’s responsibility.

The two procurements for the access and equity conferences were made during separate fiscal years. The Commission collected registration fees from the colleges and universities to pay for the conferences. However, with the Commission hosting the conferences and processing the procurements, the requirements of the Code applied. An exemption was approved by the Budget and Control Board for conference facilities procurements provided that the established guidelines...
be followed. The guidelines were not followed. The Commission should use the exemption guidelines for future procurements of conference facilities.

The three vouchers used to support payments for the office furniture resulted from one procurement. No competition was sought for the furniture.

We recommend the Commission request ratification of these unauthorized procurements in accordance to Regulation 19-445.2015 from the Materials Management Office. Procurements exceeding the Commission’s $5,000 authority level must be forwarded to the Materials Management Office for processing unless a term contract, exemption, sole source or emergency procurement can be used.

**COMMISSION RESPONSE**

Book covers and stickers - These materials were purchased for the Higher Education Awareness Program administered by the Commission. A $200,000 contract had been previously let through the Materials Management Office (MMO) to the same vendor. Commission personnel misunderstood the scope of the contract and assumed that additional procurements were authorized through the original MMO contract award. The staff member executing the second contract has been forbidden to directly engage vendors in contractual arrangements and has been instructed to adhere to Commission’s procurement policy.

Computer software and hardware upgrades - The University Center in Greenville, South Carolina is a consortium of public and private institutions of higher learning located immediately adjacent to Greenville Technical College. Its mission is to provide four year baccalaureate programs to the greater Greenville area as no other four year public institutions are located in the area. For the past six years funds were appropriated in the Commission’s budget to cover the costs of rent and other items at the Center. When the Center moved into a new facility in 1997, additional technology requirements were needed to complete outfitting of the classrooms. No additional appropriations were made to cover the costs of the technology needs. Arrangements were made to allow the Center to participate in the State’s Installment Purchase Program (IPP). The Center serviced its debt through the Commission. The Commission did not consult with MMO because all of the solicitations for various information technology items were made and reviewed by officials at Greenville Technical College. The Commission was not aware at the time that additional procurement actions were necessary. Although these purchases were competitively bid, the dollar levels exceeded the authority of the Commission and Greenville Technical College. Should this unusual situation occur in the future, MMO will be consulted for advice on the procedures to be followed for large scale procurements beyond the Commission’s authority.

Access and equity conferences - Staff did not retain the documentation related to the solicitation of multiple vendors for these conferences. Staff did not complete the prescribed MMO form to document compliance with the Budget and Control Board’s exemption of conference facilities procurements. The staff has been provided with the conference facilities exemption guidelines. The Commission’s Internal Operations staff has been assigned responsibility for adherence to conference exemption requirements and oversight of the procurement processed.
Office furniture - The office furniture procurements were executed without proper communication among Commission personnel. The Commission's procurement manual has been revised to include redundant checks of purchases of goods and services.

II. Unauthorized Procurements With Inadequate Competition

Two procurements exceeded the Commission's basic $5,000 authority level and were not supported by adequate solicitations of competition, sole source, or emergency procurement determinations or term contract references.

<table>
<thead>
<tr>
<th>Voucher</th>
<th>Date</th>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>105</td>
<td>08/26/96</td>
<td>Teleconferencing equipment</td>
<td>$38,650</td>
</tr>
<tr>
<td>224</td>
<td>08/28/96</td>
<td>Teleconferencing equipment</td>
<td>38,650</td>
</tr>
<tr>
<td>1733</td>
<td>07/01/97</td>
<td>Teleconferencing equipment</td>
<td>38,650</td>
</tr>
<tr>
<td>145</td>
<td>08/06/96</td>
<td>Local area network &amp; audio visual equipment</td>
<td>$74,997</td>
</tr>
</tbody>
</table>

Total Procurement $115,950

The vouchers above represent two procurements. Informal competition was solicited for these procurements. The first procurement for the teleconferencing equipment was supported by three written quotes. The procurement for the local area network and audio visual equipment was supported by four written quotes. Formal sealed bids should have been solicited by the Materials Management Office. Voucher 145 is only one voucher of several that was issued for a $74,997 procurement. Both procurements were solicited by The University Center. Since the Commission processed the payments for The University Center using State funds, adherence to the Code was the Commission's responsibility. Further, because the procurements exceeded the Commission's $5,000 authority level, each was unauthorized and required ratification.

We recommend the Commission request ratification of the unauthorized procurements in accordance to Regulation 19-445.2015. The ratification request for the $115,950 procurement must be submitted to the Director of the Office of General Services since it exceeded $100,000. The ratification request for the procurement of $74,997 must be submitted to the Materials Management Officer. Procurements that exceed the Commission's $5,000 authority level must
be forwarded to the Materials Management Office for processing unless a term contract, exemption, sole source, or emergency procurement can be used.

**COMMISSION RESPONSE**

The University Center in Greenville, South Carolina is a consortium of public and private institutions of higher learning located immediately adjacent to Greenville Technical College. Its mission is to provide four year baccalaureate programs to the greater Greenville area as no other four year public institutions are located in the area. For the past six years funds were appropriated in the Commission’s budget to cover the costs of rent and other items at the Center. When the Center moved into a new facility in 1997, additional technology requirements were needed to complete outfitting of the classrooms. No additional appropriations were made to cover the costs of the technology needs. Arrangements were made to allow the Center to participate in the State’s Installment Purchase Program (IPP). The Center serviced its debt through the Commission. The Commission did not consult with MMO because all of the solicitations for various information technology items were made and reviewed by officials at Greenville Technical College. The Commission was not aware at the time that additional procurement actions were necessary. Although these purchases were competitively bid, the dollar levels exceeded the authority of the Commission and Greenville Technical College. Should this unusual situation occur in the future, MMO will be consulted for advice on the procedures to be followed for large scale procurements beyond the Commission’s authority.

Access and equity conferences - Staff did not retain the documentation related to the solicitation of multiple vendors for these conferences. Staff did not complete the prescribed MMO form to document compliance with the Budget and Control Board’s exemption of conference facilities procurements. The staff has been provided with the conference facilities exemption guidelines. The Commission’s Internal Operations staff has been assigned responsibility for adherence to conference exemption requirements and oversight of the procurement processed.

### III. Other Unauthorized Procurements

On two procurements the Commission solicited adequate levels of competition. However, the awards exceeded the Commission’s $5,000 authority level making the procurements unauthorized.

<table>
<thead>
<tr>
<th>Voucher</th>
<th>Date</th>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>1090</td>
<td>01/28/97</td>
<td>Consultant for performance funding</td>
<td>$27,000</td>
</tr>
<tr>
<td>1276</td>
<td>03/13/97</td>
<td>Consultant for performance funding</td>
<td>27,000</td>
</tr>
<tr>
<td>1710</td>
<td>06/20/97</td>
<td>Consultant for performance funding</td>
<td>6,000</td>
</tr>
</tbody>
</table>

**Procurement Total**

\$60,000
The procurement for the consultant was done as a request for proposal (RFP) by the Commission. Even though a sufficient level of competition was solicited, many of the RFP procedures were not followed. The RFP did not address vendor protest rights or award posting location. Further, a notice of intent to award was not sent to all respondents. The Commission also could not provide us with any of the vendors’ responses or the evaluation committee’s score sheets.

The Commission’s procurement authority level is $5,000. Because the Commission made a $60,000 procurement, the contract was unauthorized. Ratification in accordance to Regulation 19-445.2015 must be requested from the Materials Management Officer. Any future RFPs the Commission desires must be sent to the Materials Management Office for processing.

The Commission failed to consider freight costs when soliciting pricing for the multimedia projector. The freight costs pushed the total price over $5,000, the Commission’s authority level, thus making the procurement unauthorized as defined in Regulation 19-445.2015. Ratification from the Materials Management Officer must be requested. The Commission must consider all costs except sales tax when soliciting pricing from vendors.

**COMMISSION RESPONSE**

Consultants - The implementation of Act 359 of 1996 required that the Commission staff oversee an independent study to examine its new plan for funding higher education in the state’s public institutions of higher learning. The Commission requested and received $60,000 from the Budget and Control Board for the purpose of obtaining consultant services to review the staff’s funding plan. Due to the time constraints imposed by the annual funding cycle, the study had to be completed within four months from the date Act 359 was passed by the General Assembly. Within the four month time frame, the Commission had one month to bid the study and the consultant had three months to complete it. The Materials Management Office stated that the solicitation process did not allow for a one month bidding period for the $60,000 amount. It was clear that the unusual time constraints forced the Commission into a situation that would have otherwise qualified as an emergency as defined in Regulation 19-445.2110, but this was not documented. In the absence of emergency conditions, future request for proposals exceeding the Commission’s authority level will be processed through MMO.
Multimedia projector - The Commission failed to consider the shipping charges for this item in its consideration of the procurement. Redundant controls are in place to assure that the Commission considers such costs in relation to its authorization level.

IV. General Procurement Exceptions

A. Procurements Made Without Competition

The following nine procurements were within the Commission's authority but were not supported by solicitations of competition, sole source, or emergency procurement determinations or term contract references.

<table>
<thead>
<tr>
<th>Voucher</th>
<th>Date</th>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>74</td>
<td>07/15/97</td>
<td>Printing of statistical abstract books</td>
<td>$4,626</td>
</tr>
<tr>
<td>54</td>
<td>07/16/96</td>
<td>Computer equipment</td>
<td>3,576</td>
</tr>
<tr>
<td>122</td>
<td>08/02/96</td>
<td>Software &amp; software licenses</td>
<td>3,299</td>
</tr>
<tr>
<td>414</td>
<td>10/16/97</td>
<td>Plan &amp; facilitate retreat for the Commission</td>
<td>2,895</td>
</tr>
<tr>
<td>54</td>
<td>07/22/97</td>
<td>Computer maintenance</td>
<td>2,351</td>
</tr>
<tr>
<td>202</td>
<td>08/28/97</td>
<td>Communications board &amp; control panel</td>
<td>2,245</td>
</tr>
<tr>
<td>113</td>
<td>08/02/96</td>
<td>Computer</td>
<td>2,110</td>
</tr>
<tr>
<td>319</td>
<td>09/10/96</td>
<td>Computer</td>
<td>1,698</td>
</tr>
<tr>
<td>209</td>
<td>08/28/97</td>
<td>Renewal of 3 year on-site repair plan</td>
<td>1,597</td>
</tr>
</tbody>
</table>

Section 11-35-1550(2) of the Code requires solicitation of verbal or written quotes from a minimum of three qualified sources for procurements from $1,500.01 to $5,000.00. Section 11-35-2030 of the Code allows for a multi-term contract for more than a year provided a multi-term determination is prepared and the contract period is included in the solicitation.

We recommend the Commission comply with the competitive requirements of the Code.

COMMISSION RESPONSE

The Commission has adjusted its policies and practices to deal with the problem that underlies each of the above findings which was the lack of documentation for each transaction. The revised procurement manual expressly instructs both the Procurement Officer and the Coordinator for Internal Operations to ensure adequate documentation is filed with the payment instrument for every financial transaction prior to final processing.
B. Consultant Exemption Not Followed

We tested procurements of consultants for evaluations of academic programs for compliance with the Commission's approved exemption to the Code. We found that none of the procurements had documentation to support that the consultants were procured according to the approved procedures. On August 14, 1990, the Budget and Control Board granted the following exemption specifically for the Commission.

Exempted the Commission on Higher Education's procurement of consultants for evaluations of academic programs from the requirements of the Procurement Code, provided the Commission follows procedures approved by the Division of General Services.

We recommend the Commission procure consultants for evaluations of academic programs in accordance to the exemption by following the approved procedures and support the procurements with sufficient documentation to satisfy audit. If the Commission desires to adjust its procedures for these procurements, the proposed procedures must be submitted to the Office of General Services for approval.

COMMISSION RESPONSE

The Commission was unable to produce sufficient documentation that it had followed an exemption of the acquisition of consultants for the academic program reviews required by law. In practice, the procedures outlined in the exemption document were followed. However, staff did not always retain documentation demonstrating compliance, partly because much of the solicitation process was conducted via telephone. Staff have since be provided with the procedure for academic program review consultants contained in the Commission's procurement manual.

V. Printing Services Procurement Violations

All printing procurements are required to be solicited in accordance to the provisions provided in the South Carolina Government Printing Services Manual. One of the requirements is to reference the terms and conditions in the manual for printing services solicitation. The Commission failed to incorporate the reference in the solicitations we reviewed. The manual also requires that all printing service solicitations be made using the State government printing
specification sheet. The sheet was developed to provide specifications to the printing vendors in a consistent manner. The Commission did not use the specification sheet on any of the printing service solicitations we reviewed. Some of the printing service audit findings discussed below could have been avoided if the Commission had used the printing specification sheet.

<table>
<thead>
<tr>
<th>Voucher</th>
<th>Date</th>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>890</td>
<td>12/18/96</td>
<td>Palmetto Fellows applications</td>
<td>$2,346</td>
</tr>
<tr>
<td>934</td>
<td>01/07/97</td>
<td>Copies of Palmetto Fellows applications</td>
<td>2,075</td>
</tr>
<tr>
<td>1228</td>
<td>04/16/98</td>
<td>P's and Q's report</td>
<td>4,152</td>
</tr>
<tr>
<td>1426</td>
<td>06/15/98</td>
<td>Printing of statistical abstract</td>
<td>4,999</td>
</tr>
</tbody>
</table>

On voucher 890 the quote of the awarded vendor was not recorded. The quotes that were recorded were those of the other vendors and not the awarded vendor. Further, the purchase order/requisition used to support the procurement did not record the awarded vendor’s price either. The only document with a price was the vendor’s invoice. If the printing specification sheet was used to solicit quotes, the vendors would have responded on this form resulting in all quotes being properly documented.

On voucher 934, prices from three vendors were shown based on a total quantity. Unit pricing was not obtained. In the printing industry, it is customary that a plus or minus delivery tolerance, known as overruns and underruns, of the ordered quantity are allowed. The total price is adjusted for the delivered quantity. Therefore, it is necessary that unit pricing be obtained. The printing specification sheet includes a location for unit price and total price of the quote. Additionally, the Commission was invoiced a higher quantity than what was ordered. Because unit pricing was not obtained, we could not reconcile the quantity invoiced to the quantity quoted. The original awarded quote was for 58,300 copies for a price of $1,600. To determine the unit price, we divided the total price by the total copies which equals $0.0274 each. The actual quantity delivered was 69,171, an 18.6% increase, for a total price of $2,075. The unit price for the increased quantity equaled $0.03 each. At $0.0274 each, the Commission should have paid
$1,895 and not $2,075. This is why obtaining unit pricing is important. Further, the Manual limited overruns and underruns to 5% at the time of the procurement. On January 1, 1998, the overruns and underruns allowance was changed to 2.5%.

On voucher 1228, the Commission failed to issue a purchase order/requisition authorizing the procurement in accordance with internal policy. We could not locate any signatures in the documents authorizing this procurement. The only authorized signature was recorded on the voucher authorizing the payment, not the procurement. Further, the invoice could not be reconciled into the vendor's quote.

For voucher 1426, only two written quotes were documented. Just as with voucher 890, the awarded vendor's quote was not documented. A purchase order was issued after the invoice was received. The invoice was dated May 21, 1998. The purchase order was approved May 27, 1998. The actual order date, per the invoice, was May 19, 1998. The two written quotes from the other vendors were dated February 23, 1998 and April 15, 1998. Quotes used to support procurements should be current. Most vendors limit the validity of their quotes to 30 to 60 days.

We recommend the Commission review and revise its processes for procuring printing services. The South Carolina Government Printing Services Manual and government printing specification sheet must be used on all printing solicitations.

**COMMISSION RESPONSE**

The Commission has obtained a copy of the most recent South Carolina Government Printing Services Manual and has referenced it in its procurement manual. The Printing Services Manual will be used in each instance that printing services are procured.

VI. **Sole Source and Emergency Procurements**

   A. **Unauthorized Sole Source**

   The Commission reported a sole source contract of $4,900 plus expenses for consulting services to perform data analysis and offer advice regarding performance funding. No purchase order was issued. No written determination was provided justifying the vendor as a sole source.
Section 11-35-1560 of the Code requires a written determination approved by an authorized official for each sole source procurement. The written determination must include the basis of the proposed sole source. Since the sole source is proposed at the time of the written determination, the determination must be prepared and approved prior to the procurement. Furthermore, the amount reported on the quarterly report did not include the consultant's expenses. The contract was for $4,900 for services plus expenses. Additionally, voucher 1303 was issued on May 8, 1998, to pay for one additional day of service at $1,000 plus $1,414 for travel and other related consultant expenses. The total procurement of $7,314 rather than $4,900 should have been reported. Since the total procurement of $7,314 was not supported by the written determination and exceeded the Commission's procurement authority of $5,000, the procurement was unauthorized as defined in Regulation 19-445.2015. A ratification request for the unauthorized procurement per Regulation 19-445.2015 must be prepared and submitted to the Materials Management Officer.

A written determination must be prepared for each proposed sole source procurement. The Commission needs to report the total costs when reporting sole source procurements.

**COMMISSION RESPONSE**

The Commission had not adequately documented the justification for a sole source procurement of consultant services, neither had it considered expenses related to consultant travel as part of the procurement. Staff responsible for the purchase of goods and services have since been made aware that procurements made under special circumstances, such as the use of a sole source, must be documented thoroughly on the proper MMO forms. It is clearly understood that consultant travel expenses must be considered a part of the total procurement in any event.

**B. Sole Source Reporting Error**

The need for an advertising consultant to develop a trade show exhibit came to the attention of the Commission in October of 1997. The delivery of the trade show exhibit was February of 1998. The Commission entered into a contract with a vendor without soliciting competition for $29,981 on December 16, 1997. The Commission paid the advertising consultant on voucher 1269 dated April 20, 1998. In May of 1998, the Commission acknowledged the procurement as being unauthorized and submitted the procurement to the Materials Management Officer for ratification.
ratification. However, about the time of the ratification request, a sole source determination was completed and approved. The sole source procurement was subsequently reported on the quarterly report, but identified as an emergency rather than a sole source. The reporting of the procurement was not necessary because it was an unauthorized procurement that had been ratified.

We recommend the quarterly report be amended removing the procurement as an emergency. No other reporting is necessary.

**COMMISSION RESPONSE**

We agree that this situation ought to have been categorized as an emergency procurement and reported as same. The Commission has amended the original report as suggested in the report.

**VII. Procurement Practices Need Improvement**

Voucher 952 was dated February 13, 1998 for $3,965 to reupholster the board room chairs. Three written quotes were obtained, however the quotes were not comparable. Two of the quotes did not address fabric costs. One of the two quotes offered pricing on two different seam styles which were not addressed by the other two vendors. The quote dates indicated that the two vendors not awarded were solicited two months prior to the vendor whose quote was awarded. A summary of quote information follows.

<table>
<thead>
<tr>
<th>Vendor 1 (Awarded)</th>
<th>Vendor 2</th>
<th>Vendor 3</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Quote Dates</strong></td>
<td>11/29/97</td>
<td>09/22/97</td>
</tr>
<tr>
<td>Recover 19 Chairs</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Top seam stitch</td>
<td>$150 each ($2,850)</td>
<td>$125 each ($2,375)</td>
</tr>
<tr>
<td>Single seam stitch</td>
<td>$125 each ($2,375)</td>
<td></td>
</tr>
<tr>
<td>Pick up &amp; Delivery</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Fabric - 57 yards</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Garrick graphite</td>
<td></td>
<td>$14/yard</td>
</tr>
<tr>
<td>Travis burch</td>
<td></td>
<td>$13/yard</td>
</tr>
<tr>
<td>Plymouth charcoal</td>
<td></td>
<td>$20/yard</td>
</tr>
</tbody>
</table>
The purchase order contained more than the vendor included in its quote, specifically fabric. The purchase order authorized $125 per chair (19 chairs) plus $27.90 per yard (57 yards) for fabric. The purchase order also included $119 for sales tax on labor charges. Sales tax is generally not required on labor costs. Further, the vendor that was awarded was not the low quote. The invoice shows that the Commission paid the awarded vendor for garrick graphite fabric. The total purchase order amount excluding sales tax was $3,965. Comparing another vendor’s quote for $120 per chair (19 chairs) plus $14 per yard for garrick graphite fabric (57 yards) plus $100 for pick up and delivery equals $3,178. The difference in the two quotes was $787 more to the awarded vendor. Finally, the vendor’s invoice cannot be reconciled to the purchase order, yet it was paid. The invoice was for $649 less than the purchase order amount. No explanation was included in the file explaining the difference.

We recommend the Commission develop a specific set of specifications for its quotes and solicit competition based on those specifications. A fair comparison of quotes can then be made in determining the correct award.

On voucher 1042 the Commission paid $4,274 for two personal computers. Three quotes were solicited supporting the procurement with each quote responding to pricing for one personal computer. However, the purchase order was issued for two personal computers. Since two personal computers were ordered, two personal computers should have been solicited.

We also question why the Commission did not use the statewide term contract for personal computers. Section 11-35-310(35) makes it mandatory for all State agencies to use term contracts for their required goods or services when a contract is available. A provision is included that allows agencies to procure outside of term contracts when the agency is offered a price that is at least 10% less than the term contract price for the same item provided that the term contract vendor will not meet the lower price offered by the other vendor. The Commission did not meet the 10% criteria. We recommend the Commission use term contracts when the goods or services offered meet the needs of the Commission. When competition is solicited, the
Commission's needs should be clearly defined and communicated to vendors through bid specifications.

On voucher 1364 dated June 5, 1998, a purchase order was issued for $2,603 excluding sales tax. However, the invoice was for $1,981 without sales tax. Because the purchase order was not descriptive as to what was ordered and only stated personal computer and sound cards, we could not determine if the Commission got what it ordered. The vendor's invoice did detail what was delivered. The payment copy of the purchase order had a hand written note that stated, "Price reduced because zip drives were not available" but the invoice showed that a zip drive was delivered and invoiced. Three quotes were solicited for this procurement with the award being made to the low bidder. The low bidder included a zip drive, among other items, in the quote. However, the other two quotes did not include zip drives. Since the low bidder offered the zip drive, an additional item, whereas the other two quotes did not, it is likely that the addition of the zip drives to the other two higher quotes would have resulted in even higher prices. Therefore, the awarded vendor probably would not have changed. However, in order to maintain the integrity of the bid process, all vendors must be allowed to quote on the same items. As stated earlier, when competition is solicited, the Commission's needs should be clearly defined and communicated to vendors through specifications.

Voucher 1108 was issued on March 31, 1998, for training services for a new computer system for $2,225. The procurement was supported with two written quotes. The awarded vendor's quote was not documented. For the two quotes, the Commission recorded the vendor names and the total cost but did not identify the items being solicited. Therefore, we have no way of knowing if these quotes were related to the procurement. We recommend that quotes record vendor names, phone numbers, persons quoting, items quoted, unit costs, total costs, freight if applicable, and the date of the call. The Commission's informal quote sheet should be modified to include these elements.

Voucher 1385 was issued June 10, 1998, for $4,154 for the design and printing of scholarship brochures procured from a contract established by the Materials Management Office.
The transaction was not supported with a purchase order, purchase requisition, or receiving report. The only signature was the authorization for payment. Internal procedures require that procurements be supported by a purchase order and that payments include receiving reports. We recommend the payments not be processed unless supported by the proper documents.

**COMMISSION RESPONSE**

The Commission concurs with this finding. In August of 1997, the Commission's procurement practices underwent an administrative reorganization. The reorganization included formalizing the position of a Procurement Officer and adding a very experienced and qualified person in that capacity to the staff. The Commission feels that these changes will assure that its procurement policies and procedures are observed, that the records and reports produced are reliable, and will reduce the recurrence of findings of the nature contained in the report.

VIII. **Real Property Lease Not Reported**

The Commission has been leasing storage space for the amount of $96 per month. The current lease runs month to month and began April 24, 1998. An exemption from the real property leasing procedures was passed by the Budget and Control Board for leases less than $10,000 annually provided that the leases are reported to the Office of General Services. This lease was not reported.

We recommend the Commission report the exempt lease to the Office of General Services.

**COMMISSION RESPONSE**

The Commission has reported the real property lease to the Office of General Services.

IX. **Minority Business Enterprise Plan and Quarterly Reports Not Provided**

We did not receive the Minority Business Enterprise (MBE) Plan or the approval letter from the Office of Small and Minority Business Assistance of the Governor's Office for the fiscal year ending June 30, 1997. None of the quarterly progress reports for the period of the audit were provided. Section 11-35 5240 of the Code requires that the annual MBE plan be submitted for approval and quarterly progress reports be made.
We recommend the Commission file an annual report recapping the number and dollar value of contracts awarded to eligible minority businesses for the fiscal year ending June 30, 1998. The Commission needs to comply with the reporting requirements for subsequent fiscal years.

**COMMISSION RESPONSE**

The Commission has reported its financial transactions with registered minority businesses for fiscal year ending June 30, 1998 to the Governor's Office of Small and Minority Business Assistance and will comply with both annual and quarterly reporting requirements.

X. Procurement Procedures Manual Inadequate

The Commission's procurement procedures manual is inadequate. We provided a copy of an approved manual as a guide in developing a new one. We recommend the Commission develop a new procurement policies and procedures manual and forward it to our office for approval as required by Regulation 19-445.2005.

**COMMISSION RESPONSE**

A manual was prepared and submitted to MMO.
CONCLUSION

We must state our concern over the variety of audit exceptions. Our sample included only sixty-four payments, most of which resulted in some type of audit finding addressed in this report. The Commission must reevaluate its procurement practices and procedures for compliance with the Code.

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 South Carolina Commission on Higher Education in compliance with the 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 South Carolina Commission on Higher Education be allowed to continue procuring goods and services, consultant services, construction and information technology up to the basic level of $5,000 as allowed by the South Carolina Consolidated Procurement Code and accompanying regulations.

[Signatures]

Robert J. Aycock IV
Audit Manager

Larry G. Sorrell, Manager
Audit and Certification
June 7, 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 South Carolina Commission on Higher Education to our audit report July 1, 1996 - June 30, 1998. Also we have followed the Commission's corrective action during and subsequent to our fieldwork. We are satisfied that the Commission has corrected the problem areas and the internal controls over the procurement system are adequate.

Additional certification was not requested. Therefore, we recommend the Commission be allowed to continue procuring all goods and services, construction, information technology and consulting services up to the basic level of outlined in the Code.

Sincerely,

Larry G. Sorrell, Manager
Audit and Certification

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