South Carolina Office of General Services

PROCUREMENT AUDIT AND CERTIFICATION

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DENMARK TECHNICAL COLLEGE
AGENCY

JULY 1, 1995 - DECEMBER 31, 1996
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 Denmark Technical College. 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 the report be presented to the Budget and Control Board as information.

Sincerely,

R. Voight Shealy  
Materials Management Officer

November 12, 1997
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NOTE: The College'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 Denmark Technical College for the period July 1, 1995 through December 31, 1996. 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 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 Denmark Technical College 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 Denmark Technical College 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 Denmark Technical College. Our on-site review was conducted February 25, 1997 through March 7, 1997, 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 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
SCAPE

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 Denmark Technical College 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 systematically selected samples from the period July 1, 1995 through December 31, 1996 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 from the period July 1, 1995 through December 31, 1996

2. Procurement transactions for the period July 1, 1995 through December 31, 1996 as follows:
   a) Forty payments each exceeding $1,500
   b) A block sample of 300 numbered purchase orders from FY 96 and FY 97, reviewed for order splitting and favored vendors
   c) A review of an additional five voucher payments from the vendor files reviewed for Code compliance from the audit period

3. Surplus property disposition procedures

4. Minority Business Enterprise reports for the audit period

5. Information technology plans for fiscal years 94/95 and 95/96

6. Internal procurement procedures manual

7. Purchase order register
SUMMARY OF AUDIT FINDINGS

Our audit of the procurement system at Denmark Technical College, hereafter referred to as the College, produced findings and recommendations as follows.

I. Compliance - General

A. Procurements Made Without Competition

Six procurements were not made competitively in accordance with the Code.

B. Unauthorized Procurements

Two procurements were unauthorized.

C. Procurements Not Combined

Two procurements could be combined and competition solicited.

D. Late Payments

Invoices were not paid within thirty working days.

II. Violation of Internal Policy

A. Purchase Orders Not Issued

Four procurements were made without a purchase order.

B. Payments Without Evidence Of Receipt Of Items

Four voucher packages lacked approval for payment or a receiving signatures.

III. Time and Date Stamping of Quotations

Responses to quotes were not time and date stamped when received at the College.
RESULTS OF EXAMINATION

I. Compliance - General

A. Procurements Made Without Competition

We found six transactions that were not in compliance with the methods of source selections as outlined in Section 11-35-1510 of the Code.

<table>
<thead>
<tr>
<th>Voucher</th>
<th>Date</th>
<th>Amount</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>80499</td>
<td>04/16/96</td>
<td>$2,000</td>
<td>Consultant services</td>
</tr>
<tr>
<td>80500</td>
<td>04/16/96</td>
<td>2,570</td>
<td>Accounting services</td>
</tr>
<tr>
<td>81256</td>
<td>06/05/96</td>
<td>3,148</td>
<td>Card catalog</td>
</tr>
<tr>
<td>81256</td>
<td>06/05/96</td>
<td>1,718</td>
<td>Media supplies</td>
</tr>
<tr>
<td>80489</td>
<td>04/15/96</td>
<td>1,586</td>
<td>Boiler repair services</td>
</tr>
<tr>
<td>81546</td>
<td>07/28/96</td>
<td>1,600</td>
<td>A&amp;E services</td>
</tr>
</tbody>
</table>

None of these transactions were supported by competition, sole source or emergency determinations, or other accepted State approvals.

The College must adhere to the source selection process in making procurements as stated in Section 11-35-1510 in the future.

COLLEGE RESPONSE

Items 1, 2, and 6 were intended to be sole source procurements. While the unique characteristics of the service provider was documented in the service contract, these characteristics were not also documented in a sole source justification. Items 3 and 4 were library purchases and considered as meeting the library books exemption from competition. Item 5 was a purchase that was originally under the $1,500 threshold, but the work to be performed exceeded the first estimate. Management has informed procurement of the proper application of competition guidelines and will review the process for compliance.

B. Unauthorized Procurements

We noted two unauthorized procurements.

<table>
<thead>
<tr>
<th>Item</th>
<th>Voucher</th>
<th>Date</th>
<th>Amount</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>81946</td>
<td>08/29/96</td>
<td>$1,778</td>
<td>Computer cards</td>
</tr>
<tr>
<td>2</td>
<td>80763</td>
<td>04/16/96</td>
<td>15,395</td>
<td>Security guard services</td>
</tr>
</tbody>
</table>
Item one was for computer cards ordered on purchase order 16726 for $1,462. However, the ordering department changed the purchase order to another type card and the amount to $1,778. The internal procedures manual states in part, “a change order must be issued for all invoices that exceed the total purchase order by five percent and the change order must be approved by the Vice President of Fiscal Affairs.” A change order was not prepared. Item two exceeded the College’s procurement authority of $5,000.

We recommend ratifications be requested in accordance with Regulation 19-445.2015. The ratification request for item one must be submitted to the College President. The ratification request for item two must be submitted by the College President to the Materials Management Officer as the value exceeded the College’s authority of $5,000.

**COLLEGE RESPONSE**

When the network cards arrived, the College discovered that they were the wrong cards when they did not work once linked to the system. The College sent them back and requested that the vendor supply the correct network cards. The College’s impression was that the vendor would replace the incorrect cards with the correct cards ordered through the original purchase order. However, when the invoice was received, the vendor had billed the College for a different card (albeit the one received) that also was more expensive. In this situation, it was too late to prepare a change order since the invoice was already in hand.

The College’s individual requests for security guard services totaled $15,395 for the 1995-1996 academic year with the single service provider. This condition occurred because the institution could not anticipate that the two security guards employed by the College would each incur medical emergencies that took them out of work and required dependence on the security guard contract. There was no way to know how long the employed security guards would be out on sick leave. In the future, the College will make cost comparisons using an hourly rate and monitor the use of contracts security guard services throughout the year. Appropriate ratification request are in progress.

Management has informed procurement of the proper application of change order guidelines and the College’s procurement authority limit. Management will review the process for compliance.

C. Procurements Not Combined

Purchase order 16533 for $1,425 was issued to procure the floral arrangements for the commencement/awards dinner on May 3, 1996. Purchase order 16550 for $967 was issued to procure the floral arrangements for the commencement reception on May 4, 1996. Section 11-
35-1550(1) of the Code states in part, "Procurement requirements shall not be artificially divided by governmental bodies so as to constitute a small purchase, i.e. less than $1,500."

We recommend the procurement department examine departmental requisitions that could be combined.

**COLLEGE RESPONSE**

The College did not artificially divide the purchase to constitute a small purchase. Each of the purchases was derived by two departments working independently of each other. Management has informed procurement of the economy and efficiency of combining requisitions while competition guidelines. Management will review the process for compliance.

D. Late Payments

The accounts payable section does not time and date stamp vendor invoices when received. Therefore, we could not determine exactly the length of time between the date received and date paid. From the dates on the invoices, we believe the following payments or partial payments were not made within thirty working days as required by Section 11-35-45 of the Code.

<table>
<thead>
<tr>
<th>Voucher</th>
<th>Voucher Date</th>
<th>Invoice Dates</th>
<th>Amount</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>80763</td>
<td>04/16/96</td>
<td>06/95 - 03/96</td>
<td>$15,394</td>
<td>Security guard services</td>
</tr>
<tr>
<td>81256</td>
<td>06/05/96</td>
<td>09/95, 11/95, 2/96 &amp; 3/96</td>
<td>4,441</td>
<td>Office furniture services</td>
</tr>
<tr>
<td>80489</td>
<td>04/15/96</td>
<td>08/94 - 03-96</td>
<td>6,482</td>
<td>Boiler parts &amp; maintenance</td>
</tr>
<tr>
<td>0417</td>
<td>03/29/96</td>
<td>01/96</td>
<td>6,195</td>
<td>Plumbing parts and services</td>
</tr>
</tbody>
</table>

We recommend that accounts payable time and date stamp all incoming invoices to verify the time of receipt. Also, we recommend the College pay all invoices in a timely manner as required by Section 11-35-45 of the Code.

**COLLEGE RESPONSE**

Accounts payable and procurement personnel have been required to date stamp invoices and requisitions. Management will review for timely payment and compliance.
II. Violation of Internal Policy

A. Purchase Orders Not Issued

Four payments were not supported by a purchase order.

<table>
<thead>
<tr>
<th>Voucher</th>
<th>Date</th>
<th>Amount</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>80499</td>
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<td>$2,000</td>
<td>Consultant services</td>
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<tr>
<td>80500</td>
<td>04/16/96</td>
<td>2,570</td>
<td>Consultant services</td>
</tr>
<tr>
<td>80763</td>
<td>04/16/96</td>
<td>15,395</td>
<td>Security guard services</td>
</tr>
<tr>
<td>414</td>
<td>01/11/96</td>
<td>7,022</td>
<td>Flooring repair</td>
</tr>
</tbody>
</table>

The procurement procedures manual section “Processing the Purchase Order” states, “official purchase order is typed from the information on the requisitions. The purchase order is signed by the Vice President of Fiscal Affairs.”

We recommend the College follow its procedures in regards to the issuance of purchase orders.

**COLLEGE RESPONSE**

The College has changed its internal policy through Area Commission approval. A purchase order is no longer required for consultant services.

B. Payments Without Evidence Of Receipt Of Items

Four payments were made without signatures by College employees indicating the receipt of goods and services.

<table>
<thead>
<tr>
<th>Voucher</th>
<th>Check Date</th>
<th>Amount</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>79156</td>
<td>01/18/96</td>
<td>$4,850</td>
<td>Auditing services</td>
</tr>
<tr>
<td>80763</td>
<td>04/16/96</td>
<td>15,395</td>
<td>Security guard services</td>
</tr>
<tr>
<td>0414</td>
<td>01/11/96</td>
<td>7,022</td>
<td>Flooring repair</td>
</tr>
<tr>
<td>80489</td>
<td>04/15/96</td>
<td>1,585</td>
<td>Boiler parts &amp; repair</td>
</tr>
</tbody>
</table>

Since the voucher packages did not contain receiving reports or other evidence that goods and services were received, the payments should not have been made.
COLLEGE RESPONSE
Management has reinforced documentation of receipt requirements to accounts payable. Management will review the process for compliance.

III. Time and Date Stamping of Quotations

When the purchasing office receives informal written quotations, the envelopes are discarded leaving the official file without any evidence that the quotes were received timely.

We recommend the purchasing office time and date stamp the quotation envelopes when received. The office should either file the stamped envelopes or time and date stamp the responses at the time of opening to confirm the timely receipt of the responses.

COLLEGE RESPONSE
Procurement personnel have been required to date stamp requisitions. Management will review compliance.
CONCLUSION

As enumerated in our transmittal letter, corrective action based on the recommendations described in this report, we believe, will in all material respects place Denmark Technical College in compliance with the South Carolina Consolidated Procurement Code and ensuing regulations.

Due to the variety of exceptions, the Office of Audit and Certification will perform a follow-up review by September 30, 1997, in accordance with Section 11-35-1230 of the Code to determine if the proposed corrective action has been taken by the College.

The College has not requested increased procurement certification above the basic limit of $5,000 allowed by the Procurement Code. Subject to corrective action listed in this report, we will recommend the College 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.

James M. Stiles, CPPB
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 Denmark Technical College's response to our audit report for July 1, 1995 - December 31, 1996. A follow-up review of procurement transactions from August 1, 1997 to October 15, 1997 was completed on October 29, 1997. We are satisfied that the College has corrected the problem areas and the internal controls over the procurement system are adequate.

Additional certification was not requested. Therefore, we recommend the College 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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