South Carolina Division of General Services

PROCUREMENT AUDIT AND CERTIFICATION

S. C. STATE LIBRARY
NOV 17 1987
STATE DOCUMENTS

TRI-COUNTY TECHNICAL COLLEGE
AGENCY

APRIL 1, 1985 - JUNE 30, 1986
DATE
Mr. Richard W. Kelly  
Division Director  
Division of General Services  
1201 Main Street  
Columbia, South Carolina 29201

Dear Rick:

Attached is the final Tri-County Technical College audit report and recommendations made by the Office of Audit and Certification. Since no certification request above the $2,500 allowed by law was requested, and no action is necessary by the Budget and Control Board, I recommend that this report be presented to Dr. Coles for his information.

Sincerely,

Richard J. Campbell  
Assistant Division Director

Attachment
TRI-COUNTY TECHNICAL COLLEGE
AUDIT REPORT

APRIL 1, 1985 to JUNE 30, 1986
<table>
<thead>
<tr>
<th>SECTION</th>
<th>PAGE</th>
</tr>
</thead>
<tbody>
<tr>
<td>Transmittal Letter</td>
<td>1</td>
</tr>
<tr>
<td>Introduction</td>
<td>3</td>
</tr>
<tr>
<td>Scope</td>
<td>4</td>
</tr>
<tr>
<td>Summary of Audit Findings</td>
<td>6</td>
</tr>
<tr>
<td>Results of Examination</td>
<td>8</td>
</tr>
<tr>
<td>Conclusion</td>
<td>15</td>
</tr>
</tbody>
</table>
January 22, 1987

Mr. Richard J. Campbell
Assistant Division Director
1201 Main Street, Suite 600
Columbia, South Carolina 29201

We have examined the local fund procurement policies and procedures of Tri-County Technical College for the period April 1, 1985 to June 30, 1986. As part of our examination, we made a study and evaluation of the system of internal control over procurement transactions to the extent we considered necessary. The purpose of such evaluation was to establish a basis for reliance upon the system of internal control to assure adherence to the Consolidated Procurement Code and State and internal procurement policy.

The administration of Tri-County Technical College is responsible for establishing and maintaining a system of internal control over procurement transactions. In fulfilling this responsibility, estimates and judgements by management are required to assess the expected benefits and related costs of control procedures. The objectives of a system are to provide management with reasonable, but not absolute, assurance of the
integrity of the procurement process, that affected assets are safeguarded against loss from unauthorized use or disposition, and that transactions are executed in accordance with management's authorization and are recorded properly.

Because of inherent limitations in any system of internal control, errors or irregularities may occur and not be detected. Also, projection of any evaluation of the system to future periods is subject to the risk that procedures may become inadequate because of changes in conditions, or that the degree of compliance with the procedures may deteriorate.

Our study and evaluation of the system of internal control over procurement policies and procedures were conducted with due professional care. They would not, however, because of the nature of audit testing, necessarily disclose all weaknesses in the system.

The examination did, however, disclose conditions, enumerated in this report which we believe to be subject to correction or improvement.

Corrective action based on the recommendations described in these findings will in all materials respects place Tri-County Technical College in compliance with the South Carolina Consolidated Procurement Code and ensuing regulations.

R. Voight Shealy, Manager Audit and Certification
INTRODUCTION

The Office of Audit and Certification conducted an examination of the internal procurement operating procedures and policies and related manual of Tri-County Technical College.

Our on-site review was conducted August 13, 1986 through August 26, 1986 and was made under the authority as described in Section 11-35-1230(1) of the South Carolina Consolidated Procurement Code and Section 19-445.2020 of the accompanying regulations.

The examination was directed principally to determine whether, in all material respects, the procurement system's internal controls were adequate and the procurement procedures, as outlined in the 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 agency 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.
SCOPE

Our examination encompassed a detailed analysis of the internal procurement operating procedures of Tri-County Technical College and the 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. The examination was limited to procurements from local funds, which included federal funds, local contributions and student collections.

The Office of Audit and Certification of the Division of General Services selected random samples for the period July 1, 1985 to June 30, 1986, of procurement transactions for compliance testing and performed other auditing procedures that we considered necessary in the circumstances to formulate this opinion. As specified in the Consolidated Procurement Code and related regulations, our review of the system included, but was not limited to, the following areas:

(1) adherence to provisions of the South Carolina Consolidated Procurement Code and accompanying regulations;
(2) procurement staff and training;
(3) adequate audit trails and purchase order register;
(4) evidence of competition;
(5) small purchase provisions and purchase order confirmations;
(6) emergency and sole source procurements;
(7) source selections;
(8) file documentation of procurements;
(9) warehousing, inventory and disposition of surplus property;
(10) economy and efficiency of the procurement process; and
(11) approval of Minority Business Enterprise Utilization Plan.
SUMMARY OF AUDIT FINDINGS

Our audit of the procurement system of Tri-County Technical College produced findings and recommendations in the following areas:

I. Compliance - General

Ten procurements were not supported by evidence of competition, which is the cornerstone of the Consolidated Procurement Code. Additionally, in two of these cases, the individual making the procurements exceeded his authority and in four cases the College exceeded its authority.

II. Compliance - Sole Source Procurements

Four procurements were made improperly as sole sources. Competition should have been solicited. In another instance, a sole source procurement was made toward the completion of a permanent improvement project without the required approval of the State Engineer's Office.

III. Leases of Real Property

The College entered into two leases of real property without the required approval of the Real Property Management Section of the Division of General Services.
IV. Internal Control Weakness

Five procurements were made without the issuance of purchase orders in violation of internal policy.

V. Procurement Procedures Manual

The College does not have a procurement procedures manual as required by Section 19-445.2005 of the regulations.
RESULTS OF EXAMINATION

I. Compliance - General

Our review of sixty-six randomly selected transactions for the period July 1, 1985 through June 30, 1986 revealed the following procurements that were not made in compliance with the Consolidated Procurement Code, regulations and/or the internal operating procedures.

1. The following payments were made for procurements that were not supported by evidence of competition.

<table>
<thead>
<tr>
<th>Check Number</th>
<th>P.O. Number</th>
<th>Purchase Amount</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>1) 124</td>
<td>N/A</td>
<td>$ 740.00</td>
<td>Consultant</td>
</tr>
<tr>
<td>2) 766</td>
<td>N/A</td>
<td>1,950.54</td>
<td>Carpet</td>
</tr>
<tr>
<td>3) 865</td>
<td>400</td>
<td>868.54</td>
<td>Maintenance supplies</td>
</tr>
<tr>
<td>4) 8635</td>
<td>N/A</td>
<td>1,559.69</td>
<td>Locks</td>
</tr>
<tr>
<td>5) 8078 &amp; 7953</td>
<td>951</td>
<td>2,621.10</td>
<td>Repair equipment</td>
</tr>
<tr>
<td>6) 310</td>
<td>1940</td>
<td>626.70</td>
<td>Maintenance supplies</td>
</tr>
<tr>
<td>8) -</td>
<td>Contract</td>
<td>7,660.80</td>
<td>Security-July 1, 1986-August 31, 1986</td>
</tr>
<tr>
<td>9) 1323</td>
<td>N/A</td>
<td>6,000.00</td>
<td>Labeling Machine</td>
</tr>
<tr>
<td>10) -</td>
<td>Contract</td>
<td>1,143.00</td>
<td>Maintenance-Mailing machine</td>
</tr>
</tbody>
</table>

The Consolidated Procurement Code requires evidence of competition for each procurement that exceeds $500.00 unless it is made from state term contract, is exempt from the requirements of the Code or is justified as a sole source or emergency procurement. The College should take immediate action to effect compliance with the competitive requirements of the Procurement Code.
Additionally, items 3, 5, 6, 7, 8, and 9 are unauthorized procurements. Items 3 and 6 are purchases of maintenance supplies under an open account with a local vendor. They are within the College's authority, but exceed the limit authorized in the purchase order. Items 5, 7, 8, and 9 exceed the College's procurement authority of $2,500.00.

Each unauthorized procurement must be ratified in accordance with Section 19-445.2015 of the regulations. The procurements less than $2,500.00 (items 3 and 6 above) must be ratified by the College President. The procurements from $2,500.00 to $25,000.00 (items 5, 8, and 9 above) must be ratified by the Materials Management Officer of the Division of General Services. The procurement of security services for $49,795.20 (item 7 above) must be ratified by the Director of General Services.

The ratification process requires that a written determination be prepared by the head of the governmental body stating the facts and circumstances surrounding the act, what corrective action is being taken to prevent reoccurrence, action taken against the individual committing the act and documentation that the price paid is fair and reasonable. If the price paid is unreasonable, the individual may be held pecuniarily liable for the difference.

**COLLEGE RESPONSE**

When the Technical Colleges were placed under the Procurement Code, an effort was made to educate those most
involved in purchasing decisions as to its requirements. With the exception of those judgement decisions, violations of the code resulted from a lack of knowledge of details of the code or a misunderstanding of requirements. In no case from our investigation did we find there was a deliberate attempt to circumvent the Code. It is an accepted fact that ignorance of the law is not an excuse and while this is the case, it is only our desire to take those actions necessary to bring the College in compliance.

The audit was helpful in clarifying those points where violations were found. The Purchasing Manual has been completed and will be used for reference.

The problems found in the audit have been transmitted to the top levels of supervisors including all deans. Not only the responsibility, but the authority to enforce the regulations have been delegated to the Vice-President for Finance and the Purchasing Officer. This has been communicated to all those employees seeking to procure goods and services. Anyone making unauthorized purchases may be held personally liable for those purchases.

II. **Compliance - Sole Source Procurements**

We reviewed the quarterly reports for sole source procurements for the period April 1, 1985 through June 30, 1986. The majority of these transactions were properly justified and accurately reported to the Division of General Services, however we did have the following types of exceptions.
1. The following procurements were made improperly as sole sources. Competition should have been solicited.

<table>
<thead>
<tr>
<th>PURCHASE ORDER</th>
<th>AMOUNT</th>
<th>DESCRIPTION</th>
</tr>
</thead>
<tbody>
<tr>
<td>1864</td>
<td>$3,599.50</td>
<td>Forms</td>
</tr>
<tr>
<td>1183</td>
<td>2,189.62</td>
<td>Forms</td>
</tr>
</tbody>
</table>

2. The College issued purchase order 7013 for $18,750 for the installation of a water chiller that was part of a permanent improvement project. Section 70.05 of the Manual for Planning and Execution of State Permanent Improvements requires that prior to making a sole source procurement, the College must, in written form, notify the State Engineer's Office, via the sole source justification form SE-550, of the College's intent to award a contract using this methodology. The College did not request the approval of the State Engineer for this procurement.

We recommend that sole source procurements be limited to transactions as defined in Section 19-445.2105 of the regulations. Future sole source procurements that are part of a permanent improvement project, must be approved in advance by the State Engineer's Office.

**COLLEGE RESPONSE**

Sole source purchases have been kept to a minimum, but in an education institution of this type with hands-on training there is probably more than average.
The two purchases of new computer forms were based on incomplete information supplied by the department ordering them. Since that time, although it is questionable whether any savings are being realized, a procedure has been developed to prevent a recurrence.

The second purchase was made because the full procedures were not known. The State Engineers Office knew of our plans in general because they had supervised the bidding of the contract for the Student Center. This involved the alternate bid on the chiller. They probably were not aware that for training purposes the chiller to be bought under a training equipment grant was to be sole sourced.

III. Leases of Real Property

The College entered into two leases of real property without the approval of the Real Property Management Section of the Division of General Services.

<table>
<thead>
<tr>
<th>Lease Total</th>
<th>Lease Number</th>
<th>Date of Lease</th>
<th>Length of Lease</th>
</tr>
</thead>
<tbody>
<tr>
<td>$6,000</td>
<td>18402</td>
<td>11/20/85</td>
<td>Twelve months</td>
</tr>
<tr>
<td>9,600</td>
<td>18406</td>
<td>12/04/85</td>
<td>Twelve months</td>
</tr>
</tbody>
</table>

Section 11-35-1590 of the Procurement Code, which is supported by Section 19-445.2120 of the regulations, requires the approval of the Division of General Services before a governmental body leases or rents office space or other real property. Specifically, the regulations section states in part, "No governmental body shall contract for the lease, rental, or use of no-State-owned real property without approval of the Division of General Services....".
We recommend that, in the future, proposed leases of real property be presented to the Real Property Management Section of the Division of General Services for approval.

COLLEGE RESPONSE

This was the first lease made after being placed under the code and was verbally agreed to only 3 months after that date. It was not known approval had to be obtained. This will be done in the future as is currently being done for another off-campus classroom.

IV. Internal Control Weakness

The College made payments for five procurements without the issuance of purchase orders, as required by Section 4-122 of the procedures manual.

<table>
<thead>
<tr>
<th>Check Number</th>
<th>Purchase Amount</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>766</td>
<td>$1,950.54</td>
<td>Carpet</td>
</tr>
<tr>
<td>760</td>
<td>2,450.00</td>
<td>Labor</td>
</tr>
<tr>
<td>814</td>
<td>750.00</td>
<td>Bricks</td>
</tr>
<tr>
<td>8635</td>
<td>1,559.69</td>
<td>Locks</td>
</tr>
<tr>
<td>1323</td>
<td>6,000.00</td>
<td>Labeling machine</td>
</tr>
</tbody>
</table>

The College should adhere to the procedures as outlined in the procedures manual.

COLLEGE RESPONSE

While purchase orders are not issued for all purchases, we would agree that this area should be more closely controlled. The new computerized purchasing system being installed will almost be the control in itself.
V. Procurement Procedures Manual

The College does not have a procurement procedures manual that outlines purchasing authority, policy and procedures as required in Section 19-445.2005 of the regulations. The Office of Audit and Certification is currently working with the appropriate persons to develop an acceptable manual. The manual must be prepared and approved by this office.

COLLEGE RESPONSE

The procedures manual had not been completed due to lack of manpower. It has now been done and is in the Office of Audit and Certification for review.
CONCLUSION

Due to the number and nature of the exceptions noted herein, we must state our concern over management of the procurement function at Tri-County Technical College. Most of the exceptions are a direct result of the lack of centralized control over this critical function. Immediate action is necessary to establish and enforce centralized procurement authority and to eliminate the problem areas revealed by this audit.

Subject to this corrective action and because additional certification was not requested, we recommend that Tri-County Technical College be allowed to continue procuring all goods and services, construction, information technology and consulting services up to the basic level as outlined in the Procurement Code.

Larry G. Sorrell
Audit Manager

R. Voight Shealy, Manager
Audit and Certification
COLLEGE RESPONSE

While we do not agree with the lack of flexibility allowed under the Procurement Code and question, because of the costs involved in its administration, the true savings being realized by the State of South Carolina, we do recognize that it is a South Carolina law. As such, steps have been taken to hopefully eliminate unauthorized purchases and bring the College into compliance.
October 15, 1987

Mr. Richard J. Campbell
Assistant Division Director
Division of General Services
1201 Main Street
Columbia, South Carolina 29201

Dear Richard:

We have returned to Tri-County Technical College to determine the progress made toward implementing the recommendations in our audit report covering the period April 1, 1985 through June 30, 1986. During this visit, we followed up on each recommendation made in the audit report through inquiry, observation and limited testing.

We observed that the College has made substantial progress toward correcting the problem areas found and improving the internal controls over the procurement system. With the changes made, the system's internal controls should be adequate to ensure that procurements are handled in compliance with the Consolidated Procurement Code and ensuing regulations.

Additional certification was not requested, therefore we recommend that Tri-County Technical College be allowed to continue procuring all goods and services, construction, information technology and consulting services up to the basic level as outlined in the Consolidated Procurement Code regulations.

Sincerely,

R. Voight Shealy, Manager
Audit and Certification

MATERIALS MANAGEMENT OFFICE

STATE OF SOUTH CAROLINA
BUDGET AND CONTROL BOARD
DIVISION OF GENERAL SERVICES
1201 MAIN STREET, SUITE 600
COLUMBIA, S.C. 29201
(803) 737-0600