PROCUREMENT AUDIT AND CERTIFICATION
December 23, 1982

Mr. T. Michael Copeland
Acting Deputy Executive Director
Budget and Control Board
Columbia Building, 9th Floor
Number One Main Street
Columbia, South Carolina 29201

Dear Mike:

Attached is the final Francis Marion College audit report and recommendations made by the Materials Management Office. I recommend the Budget and Control Board grant Francis Marion College two years certification as outlined in the audit report.

Sincerely,

Tony Ellis
Acting Deputy Director

TRE: rms
Attachment
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INTRODUCTION

The Audit and Certification Section of the Materials Management Office of the Division of General Services conducted an examination of the internal procurement operating procedures and policies and related manual of Francis Marion College.

Our on-site review was conducted May 26, 1982 through June 24, 1982.

Our examination 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.
PURPOSE

Our examination was directed principally to determine whether, in all material respects, the internal controls of Francis Marion College's procurement system 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 institution in its efforts to meet 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 materials management office shall review the respective governmental body's internal procurement operation, shall certify in writing that it is consistent with the provisions of this code and the ensuring regulations, and recommend to the board those dollar limits for the respective governmental body's procurement not under term contract.

On January 11, 1982, Francis Marion College submitted to the Materials Management Office a request for certification to handle their own procurements above $2,500 as follows:

<table>
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<th>Category</th>
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<td>1. Goods and Services</td>
<td>$30,000</td>
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<td>2. Consultant Services</td>
<td>$30,000</td>
</tr>
<tr>
<td>3. Construction</td>
<td>$4,000,000</td>
</tr>
<tr>
<td>4. Information Technology</td>
<td>No Additional Authority Requested</td>
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</table>

As a result of this request, we began an audit of the procurement system on May 26, 1982.
SCOPE

Our examination encompassed a detailed analysis of the internal procurement operating procedures of Francis Marion 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 up to the requested certification limits.

The Audit and Certification team of the Materials Management Office statistically selected random samples for the period August 1, 1981 - May 28, 1982, 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) evidences 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) reporting of Fiscal Accountability Act;
(10) warehousing, inventory and disposition of surplus property; and
(11) economy and efficiency of the procurement process.

At the date of this report, neither the state plan nor the College's plan for the management and use of information technology have been completed. Additionally, procedures for monitoring construction and related services procurements have not been finalized. Because of this, we feel it would be inappropriate to recommend certification in these areas at this time.

Our examination included a review of these areas so that once the aforementioned plans and procedures are completed we will be able to make recommendations for certification with only a limited follow-up review.
SUMMARY RESULTS OF EXAMINATION

Our examination of the procurement system of Francis Marion College produced findings and recommendations for improvement in the following areas:

I. GENERAL TRANSACTION CONTROL

A. Evidence of an Audit of Voucher Packages

There is lack of evidence that Accounts Payable follows established procedures in the audit of voucher packages.

B. Adequate Documentation of Purchase Order Changes

Purchase orders are being changed in price and quantity without sufficient documentation.

C. Timely Payment of Invoices

Untimely payment of invoices results in lost discounts and potentially could result in late payment penalties.

II. COMPLIANCE - GENERAL

A. Bookstore Procurements

Francis Marion College's bookstore is providing a central stores function for the college which threatens its exemption under the Code.

B. Food Service Procurements

Francis Marion College erroneously considers supply purchases for the Cafe exempt from the Code.
C. Student Organization Procurements

Francis Marion College could improve documentation establishing the exempt status of procurement relating to the activities of student organizations.

D. Confirmation of Prices on Requisitions for Less than $500

Francis Marion College's purchasing department has no established procedures to confirm prices on requisitions under $500, particularly maintenance and custodial supplies.

E. Fiscal Accountability Act Reporting

Francis Marion College is out of compliance with the requirements of the Fiscal Accountability Act.

III. COMPLIANCE - GOODS AND SERVICES

A. Lack of Competition and/or Sole Source or Emergency Determinations

Francis Marion College is procuring goods and services with no evidence of competition or written determinations.

B. Proper Ratification of an Unauthorized Purchase

The College failed to make a written determination of an unauthorized purchase.

C. Source Selection Lists

Adequate source selection lists to ensure broad base competition are not maintained.
D. Internal Control over Maintenance Repair Purchases
Francis Marion College does not require sufficient documentation in the procurement of maintenance repairs to ensure code compliance.

IV. COMPLIANCE - CONSTRUCTION
Francis Marion College's procedures in minor construction procurements are not in compliance with the Consolidated Procurement Code.

V. SUPPLY MANAGEMENT - MAINTENANCE STORES
Due to budgetary constraints, there is no formal accountability of inventory and a weak separation of duties in Francis Marion College's maintenance stores function.

VI. STANDARDIZATION AND SPECIFICATIONS - PRINT SHOP
Francis Marion College's Print Shop standardization and specification policy reduces cost effectiveness in the procurement of supplies.

VII. ADDITIONAL POLICIES AND PROCEDURES NECESSARY FOR CERTIFICATION
Our examination determined that additional policies and procedures are necessary before certification can be granted for higher procurement limits.
RESULTS OF EXAMINATION

I. GENERAL TRANSACTION CONTROL

A. Evidence of an Audit of Voucher Packages

Our review of the voucher package accumulation and payment process at Francis Marion College revealed that Accounts Payable audit procedures are in effect to properly verify the accuracy of invoices and to verify that purchases are properly authorized.

Our test of these procedures, however, based on a random statistical selection of 60 vouchers in all areas of procurement, found 14 voucher packages that had no evidence that an audit by Accounts Payable had taken place.

This error rate, when projected to the entire transaction population under examination, results in there being a 90% probability that at least 13%, and up to 32%, of the vouchers contain no evidence of the required audit by Accounts Payable.

Good internal control procedures are effective only when those charged with performing the control function perform in accordance with the agency's policies. This can only be assured and responsibility clearly assigned when documentation of the procedure performed is available.

Since no evidence of Accounts Payable's audit appeared in the voucher packet, we have no assurance that Francis Marion College's established procedures are being followed.
We, therefore, recommend that the Controller inform his staff of the importance of the Accounts Payable audit function and take the necessary steps to ensure Francis Marion College's procedures are followed in processing vouchers.

B. Adequate Documentation of Purchase Order Changes

Purchase orders are being changed in price and quantity without formal documentation. Usually the documentation is a department inquiry or a packing slip reflecting an overshipment, which is then approved by annotating the purchase order. Although there is an informal "change slip" procedure in effect by the Procurement Section, our transaction test analysis determined that it was not being used.

Using attribute sampling techniques, we found the total number of errors in the classification of "purchase order changes" to be seven (7). Therefore, summarizing as before, we can project with a 90% degree of confidence that there are no less than 4.59% errors and no more than 20.18% errors in the entire population. With a population of 379 there could exist as many as 76 transactions without formal change order documentation.

Good internal control over the procurement function dictates that price changes to purchase orders be properly approved and documented. This accomplishes the following:

(1) Control of all price deviations by the Purchasing Agent, thereby effecting total centralized control of the procurement function.
(2) Monitoring of user department requests to authorize quantity changes to vendors.

(3) Preventing vendors from making unauthorized price changes on purchase orders which are issued and approved at a specific price.

(4) Ensuring that pertinent divisions within the organization are notified formally of all changes.

A strength of internal control in the procurement process lies in the routing of pertinent documents to a central location and the delegation of the approval authority to one individual, in this case the Purchasing Agent. A dilution of this internal control occurs when changes can be made to purchase orders without the proper documentation.

We recognize that Francis Marion College's size of operation makes informal communication of purchase order changes easily accomplished. However, we emphasize that the final approval authority should remain with the Purchasing Agent thus maintaining control over all purchase order changes. Change orders should be properly processed and approved before the merchandise or services are received by departments. This ensures that the final authority is being exercised by Purchasing and strengthens internal control.

C. Timely Payment of Invoices

Our test of procurement transactions determined the following:

(1) Eight vouchers were paid untimely resulting in cash discounts being lost.
(2) Two additional vouchers required in excess of 60 days from the invoice date to the payment date for processing.

Section 11-35-20(f) of the Consolidated Procurement Code states as one of its purposes:

...to provide increased economy in state procurements.

Additionally, Section 17 of Act 148 of 1981 was amended to read, in part:

Section 17.
A. Beginning January 1, 1983, all vouchers for payment of purchases of goods or services shall be delivered to the Comptroller General's Office within thirty (30) workdays from receipt of the goods or services, whichever is received later by the agency. After the thirtieth workday, the Comptroller General shall levy an amount not to exceed fifteen percent per annum from the funds available to the agency, such amount to be applied to the unpaid balance to be remitted to the vendor.

Further examination determined that Francis Marion College is on a bi-weekly payment cycle. Unless the discount term coincides with this established cycle of payment, discounts are lost.

Francis Marion College does not consider it cost effective to process vouchers to take advantage of discounts apart from the normal payment cycle, unless they are of a material nature.

As a result, the vendor's offer to reduce prices for prompt payment according to invoice terms is not taken in the above mentioned transactions.

While we did not seek to determine the dollar amount of discounts lost, we can state that we are 95% confident that no more than 80% of the transactions in the population are affected by this policy.
However, we question the policy for the following reasons:

(1) If cash discounts are considered in the source selection and award process, the integrity of the competitive system is undermined if, after the fact, such discounts are lost.

(2) There is no account in Francis Marion College's general ledger reporting system to measure the total dollars lost in order to justify the cost effectiveness of giving the payment cycle priority over invoice discount terms.

(3) Other options in procurement methodology to ensure that all advantages in price reduction can be taken have apparently not been considered.

We, therefore, recommend that Francis Marion College exercise the following options:

(1) That a discounts lost account be established to measure total funds expended as a result of present policy,

   or,

(2) Implementation of a step in the procurement process that will seek to establish cash discount terms prior to award which will allow purchasing, receiving, and accounts payable sufficient time for processing to enable Francis Marion College to take advantage of this price reduction.

In short, vendor invoice terms are not "chiseled in stone".

As to disbursements requiring in excess of thirty workdays, we realize there may be extenuating circumstances that could prevent normal processing. However, in light of the amendments to Act 148 quoted above, we recommend that Francis Marion College closely monitor invoices
over thirty workdays old and sufficiently document the reasons for excessive delay in order to prevent unnecessary penalty.

II. COMPLIANCE - GENERAL

A. Bookstore Procurements

Our review of Francis Marion College's procurement manual indicated that the Bookstore, an auxiliary, is providing the central stores function for office supplies to all departments of the college. Further examination revealed that Francis Marion College pays the Bookstore a 10% service charge over cost for this function.

Section 11-35-710(f) of the Code, under exemptions, states:

Expenditure of funds at state institutions of higher learning derived wholly...from the operation of...bookstores....

Based on this criteria, Francis Marion College is of the opinion that Bookstore procurements do not require Code compliance.

However, we believe that the Bookstore loses its exemption in the procurement of supplies intended for college use.

Additionally, Francis Marion College's expenditure of appropriated funds for these commodities at cost plus 10% results in state funds contributing to an auxiliary function whose existence is predicated on its being wholly self-supporting from operations.

As a result, it is our opinion that Francis Marion College is out of compliance with the Code as well as the Appropriations Act.
We, therefore, recommend that all supplies actually used by Francis Marion College be procured in accordance with the Consolidated Procurement Code.

B. Food Service Procurements

Francis Marion College operates the College Cafe as an auxiliary function. It considers procurements in this area exempt from the Code for the following reasons:

(1) It is an "in house" operation.

(2) Its expenditures are derived wholly from operations.

(3) It is a canteen.

(4) The supplies purchased are part of the package for resale.

As a result of this interpretation, all supplies are purchased without regard for Code requirements. We discovered one instance where a purchase for disposable plates, bowls, etc. in excess of $2,500 was processed internally rather than through Central State Purchasing.

Section 11-35-710(f) of the Code intends to exempt wholly self-supporting canteens. The Code further exempts the purchase of food and items for commercial sale.

However, in our opinion the Code does not exempt supply purchases of the College's food service operation because it is not a canteen operation.

Furthermore, the fact that the South Carolina Tax Commission exempts the purchase of bulk food containers from sales tax when being used as part of a process to package food for resale has little bearing on Procurement Code compliance.
We, therefore, recommend that all procurements with the exception of fresh food and items for commercial sale be processed through the Director of Purchasing who will ensure that the requirements of the Consolidated Procurement Code are met.

C. Student Organization Procurements

Our examination of Francis Marion College's consultant and contractual services payments revealed that procurements of entertainers, bands, etc. are made by the Student Life Department on behalf of various student organizations. Since Francis Marion College does not segregate student activity fees in its fund accounting system, these procurements initially appear to be paid from current operating funds.

Further review determined that revenues generated by these activities offset the expenditures, and adequate internal controls are in place under the Vice President of Business Affairs to ensure that appropriated funds are not underwriting these activities.

We, therefore, concur with Francis Marion College that these contracts are exempt from the Code under Section 11-35-710(f) as activities of student organizations.

However, we would recommend that future contracts be clearly marked in order to identify their exemption from the Procurement Code. This would leave a more visible audit trail and avoid a duplication of effort by other external auditors.
D. Confirmation of Prices on Requisitions for Less than $500

During our examination of the internal procurement operating procedures and policies, it was noted that there was no evidence that the procurement division was confirming prices on requisitions furnished by the using departments. In particular, our audit revealed that in the procurement of maintenance and custodial supplies under $500, the Physical Plant buyer was making his own source selection, noting them on the requisitions and purchasing was issuing confirming purchase orders.

A well controlled procurement cycle includes proper management approval of all requisitions flowing through the College's procurement channels. The purchasing department has the responsibility to ensure that prices are fair and reasonable on orders less than $500 through the verification of any vendor prices submitted by departments.

The failure to confirm prices reduces the overall effectiveness of the procurement department as it negates its capability to monitor requests for possible excessive pricing or favored vendor treatment, and increases the possibility of purchase order changes. Additionally, by not confirming orders, the authorizing signature on the purchase order becomes unreliable in complying with Rule 19-445.2100 of the Permanent Regulations, Subsection B, dealing with the certification of prices as being fair and reasonable.

We recommend that vendor prices be confirmed by the procurement department, even when the request is less than $500. Since the internal policy and procedures manual denotes that the purchasing agent's signature indicates that the price is "fair and reasonable", then price
confirmation will ensure compliance with the regulations by Francis Marion College.

E. Fiscal Accountability Act Reporting

Partially, as a result of lack of clarification as to report procedures statewide, Francis Marion College has failed to comply with the requirements of the Fiscal Accountability Act in the following areas:

(1) Failed to report to the Comptroller General (CG) a statement of all existing contracts for permanent or capital improvements and the status of the work pursuant to such contracts.

(2) Neglected to report all expenditures as required under the Act.

(3) Neglected, since the passage of the Act (1976), to reconcile the data collected for FAA reporting to General Services with the Accounts Payable check distribution files of Francis Marion College.

Act 561 of 1976, Section 4, states in part:

The quarterly reports required by this act shall include the following information current to the end of the last preceding quarter;

(2) A statement of all existing contracts for permanent or capital improvements and the status of the work pursuant to such contracts....

Additionally, Section 5 states in part:

All agencies, departments and institutions of state government shall...furnish to the Division of General Services of the Budget and Control Board...a statement of all expenditures...for commodities which were not purchased through the Division. Such statements shall be prepared in
the commodity code structure and report format established by the Division for reporting commodities purchased through the Division's central purchasing system....

...Expenditures for units under two hundred dollars shall be reported in the aggregate and units in excess of two hundred dollars shall be itemized.

Further, 561 as amended May 30, 1977, states in part:

...it is the intent of the General Assembly that all funds including state, federal, and other agency revenues, and also including any financial transactions covered by the budget code of the Comptroller General's office, be included in the reporting requirements of this Act....

While Francis Marion College is faithful to the requirements of the Fiscal Accountability Act in reporting all procurements that are handled on purchase orders by the Director of Purchasing, including limited purchase orders (direct vouchers), the following procurements are not reported:

(1) Bookstore
(2) Food Service
(3) Library
(4) Prepaids
(5) Contractual Services and/or Consultants
(6) Construction Procurements

The General Assembly, without a major audit effort, cannot readily know the procurement activity of Francis Marion College in the areas of:

(1) Permanent and capital improvements;
(2) Total commodities purchased with any degree of fiscal reliability.
Additionally, by not establishing FAA input as a reliable data base, Francis Marion College deprives itself of the internal fringe benefits that could result therefrom, such as:

(1) Planning and scheduling acquisitions;
(2) Consolidation of commodities for better prices;
(3) Monitoring of user department needs for efficiency, cost effectiveness and small order abuse;
(4) Evaluation of purchasing goals.

Until such time as updated statewide guidelines are finalized, we recommend Francis Marion College take prompt action to establish and implement the necessary controls to ensure the following:

(1) The Comptroller General receives a quarterly report on all existing contracts and status of work done on capital and permanent improvements.
(2) Francis Marion College instruct all procurement centers to route procurement information through the Director of Purchasing in order to facilitate a prompt entry into the FAA database.

III. COMPLIANCE - GOODS AND SERVICES

A. Lack of Competition and/or Sole Source or Emergency Determinations

Our examination of 60 transactions in the area Goods and Services determined that a number of procurements in excess of $500 were not made in compliance with the Consolidated Procurement Code and the Permanent Regulations. We determined that 12 transactions of a sample of 60 were
procured without evidence of competition, or a determination that the procurement was either "sole source" or "emergency". We can, therefore, project on a statistical basis, using a 95% confidence level, that at least 11% of all transactions processed by purchasing are not in compliance with the Consolidated Procurement Code in this regard. With a total population of 379, this would translate to a probable minimum of 42 transactions completed without competition or appropriate written determinations.

We understand that Francis Marion College had not fully implemented the Consolidated Procurement Code until January, 1982, partially due to the delay in receiving the appropriate documents. This would explain the unfavorable statistical projections of the compliance aspect of our audit.

Section 19-445.2100, Subsection B, Items 2 and 3 of the regulations state in part:

Purchases from $500.01 to $1499.99. Solicitations of verbal or written quotes from two qualified sources of supply shall be made and documented that the procurement is to the advantage of the State, price and other factors considered, including the administrative cost of the purchase. Such documentation shall be attached to the requisition.

Additionally,

Purchases from $1500.00 to $2499.99. Solicitation of written quotations from three qualified sources of supply shall be made and documented that the procurement is to the advantage of the State, price and other factors considered, including the administrative cost of the purchase. Such documentation shall be attached to the purchase requisition. When prices are solicited by telephone, the vendors shall be requested to furnish written evidence of their quotation.
Of course, the primary cut-off in the Code of $2,500 requires the full sealed bid procurement process for all purchases over that amount not covered by one of the specific exceptions.

Some of the samples which might have been classified as sole source were not documented as such and processed in accordance with the Consolidated Procurement Code.

Our review of the Internal Procedures Manual of Francis Marion indicates that proper small purchasing policies and procedures have been described in that document. We recommend an adherence to these and other procedures by all people involved in the procurement function.

B. Proper Ratification of an Unauthorized Purchase

During our examination we noted one item in the amount of $533.83 that was obtained directly by a department with a requisition submitted after-the-fact for payment to be processed by purchasing. The unauthorized purchase was ratified by the procurement division without the required written determination.

The Consolidated Procurement Code Regulation 19-445.2015, Subsection A: Unauthorized Procurements, Item 3, states in part:

...the head of the governmental body shall prepare a written determination as to 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.

This example serves to illustrate a weakness by procurement division personnel in understanding those sections of the Code which pertain
to procurements requiring a written determination. The problem is compounded by the fact that the Policy and Procedures Manual does not address this part of the Code and Regulations with clarity.

We recommend that both the departmental user manual and the Internal Policy and Procedures Manual of Francis Marion College explicitly address the policy regarding "unauthorized procurements". We do feel that the operating departments should be allowed to obtain prices or reference suggested vendors on their requisitions as long as the authorized procurement process is being followed. However, it should be clearly stated that departments are not authorized to make awards, nor assure vendors that they will receive orders, as commitments can only be finalized by the purchasing department.

C. Source Selection Lists

Our review of transactions in the Goods and Services area indicated that procedures for expanding the source selection lists to foster broad base competition were not adequate. We noted in the area of janitorial supplies that a procurement for laundry soap was solicited from only one vendor, with the procurement division indicating that all known sources who could supply the commodity had been solicited. We acknowledge that this procurement was made prior to the enactment of the Procurement Code. However, we noted there were several vendors who could submit a competitive quote and furnish the particular brand specified.

The Consolidated Procurement Code Section 11-35-20 states in part as its underlying purpose and policy:
...to foster effective broad-based competition for public procurement within the free enterprise system.

Additionally, when levels of certification above $2,500 are granted to state agencies, and contracts are awarded by competitive sealed bidding, it is imperative to ensure that agency bidder's lists contain all known sources interested in bidding on state requirements and capable of doing so.

We encourage Francis Marion College to continually improve its efforts to expand its bidder's list to promote competition. An ineffective bidder's list for a commodity can result in higher administrative costs, excessive vendor grievances and dilution of the value of the procurement dollar.

We recommend that Francis Marion College implement a procedure for expanding source selections, thereby maximizing the purchasing dollar through competition. The procedures should include but not be limited to the following:

(1) Reviewing future supply requisitions where only one vendor is recommended and contacting the product manufacturer for distributor lists.

(2) Availing themselves of product information books and publications such as: The Thomas Register, South Carolina Directory of Manufacturers, etc.


(4) Contact other agencies to establish a free flow of information regarding interested bidders and their products.
(5) Review the Minority Business Bid List supplied by General Services.

D. Internal Control over Maintenance Repair Purchases

The Physical Plant is authorized to handle the procurement of maintenance repairs under the supervision of the Vice President for Finance. Our examination of the transactions in the maintenance repair category indicates that some procurements over $500 are being made without documentation of competition, and without a purchase order being prepared. These examples included but were not limited to:

(1) A Grading and Paving Company for $3,000
(2) A Body Shop for $600
(3) A Painter for $550

Good internal control dictates that delegated authority for procurements outside the procurement division, be monitored for competition and code compliance.

At the present time the policy and procedures manual directs that repair information from the Physical Plant be compiled on a requisition and forwarded to purchasing. This document along with the invoice for the repair is checked and processed as a prepaid without a purchase order.

The weakness in the procedures is that they do not allow the procurement division to monitor repair purchases before the fact with the resulting lack of ability to correct the problems.

We recommend for the purpose of clarification regarding maintenance repairs by the Physical Plant that the following changes be implemented:
(1) Physical Plant's authority to process procurements of maintenance repairs should be addressed in the Francis Marion Purchasing Policy and Procedures Manual, specifying the extent of their authority and parameters of their procurements.

(2) Specifically, to provide more effective control by purchasing, all Physical Plant procurements should be limited to a certain dollar amount set by management. Procurements above that dollar amount should be processed by the procurement division in accordance with their procedures. Procurements below the limit made by the Physical Plant Department should be adequately documented with telephone and/or written quotations as needed.

IV. COMPLIANCE - CONSTRUCTION

Our examination of construction procurements included a review of project #H18006, Campus Development Phase IV. This construction phase was initially approved prior to the Code for the purpose as follows:

- Chilled Water Expansion
- Paving and Utilities
- Gasoline Storage
- Warehouse Expansion

The source of funding was Campus Development Fees which are generated by designating a portion of student fees for capital improvements.
Since the above construction was completed under budget estimates, approved funds were available for minor small improvements.

Francis Marion College's procurement authorization methodology for these small improvements involved verbal approval by the State Engineer with written approval such as E-7's and E-11's to be received after the work was complete.

We reviewed the following procurements entered into subsequent to the Code under this E-1 approval:

1. Refinishing Doors, Windows and Columns - Stokes Building
2. Miscellaneous Paving and Grading
3. Construction of a Kiln - Fine Arts Building

The requirements of the memorandum dated March 22, 1982 from Mike Copeland to all state agencies for construction procurement, B. Basic Equipment, and C. Construction Material for In-House Construction, states: "Bids shall be received and awarded by the agency per Section 11-35-3020(2) of the Code."

Based on this memorandum, we determined that Francis Marion College was out of compliance in the following areas:

(A) Procurements in excess of $10,000
   1. No public advertisement of the project.
   2. No Bid Security, Performance Bonds or Payments Bonds were required.
   3. A 10% Retention was enforced.
   4. No method of contract administration was requested or approved.
(B) Procurements less than $10,000

(1) No evidence of competition in certain cases.

(2) There appeared to be evidence of splitting work orders to circumvent the requirements of the $2,500 limit on purchasing procedures.

We recommend that Francis Marion College notify the State Engineer promptly in writing of its method of contracting administration on all construction projects. Additionally, we suggest verbal approvals be noted and placed in the construction files.

We further recommend that the Director of the Physical Plant comply with the requirements of Section 11-35-3020(2) of the Code on procurements in excess of Francis Marion College's certification limit and so notify the State Engineer in writing.

For procurements of $2,500 up to Francis Marion College's approved certification limit, the Director of the Physical Plant should follow the requirements of Section 11-35-1520 and so notify the State Engineer in writing.

For procurements of less than $2,500, Section 11-35-1550 should be adhered to and the State Engineer so notified in writing.

V. SUPPLY MANAGEMENT - MAINTENANCE STORES

Our examination included inquiry and observation concerning the Maintenance Stores operation at Francis Marion College. From this review we determined the following:
(1) There is no formal system of accountability for inventory receipt and issues, except the work order tickets. Restocking decisions are made using the visual method. Additionally, no physical inventory is taken to establish the value of the assets.

(2) There is a weak separation of duties between the purchasing and the stores function. The maintenance supervisor is responsible for the procurement of items to restock the inventory and the control of issues from inventory. Both are physically located in the Maintenance Shop.

Good internal control should provide reasonable assurance that assets are safeguarded and the effectiveness of such procedures require an adequate separation of duties.

This lack of accountability and control procedures are acknowledged by Francis Marion College and are a result of a cost/benefit decision by management.

The Maintenance Stores operation is comparatively small. Only high use items are stocked, i.e., tools, bolts, screws, etc. Motors, carpet squares, ceiling tiles, etc., are stocked in the Central Warehouse which is totally separate from the Maintenance Department and under different management control.

Due to this condition, Francis Marion College feels that the costs involved in establishing a formal inventory control system and separating the purchasing function from the stores function would exceed the benefits derived therefrom because of the small size of the operation.
Our examination leads us to concur with Francis Marion College. However, we would suggest an annual cost/benefits analysis be made by Francis Marion College in order to ensure that this inventory does not increase to a material amount requiring more effective control.

VI. STANDARDIZATION AND SPECIFICATIONS - PRINT SHOP

Our examination also included a test to determine if Francis Marion College standardizes purchases to satisfy single end use. Also, we addressed the question, does Francis Marion College write specifications in a manner to serve the agency's best interest?

Our review of Print Shop procedures revealed that standardization of specifications is not adequately addressed.

The Procurement Code states as its purpose in Article I: "to maximize the purchasing values of the funds of the State."

Because the Print Shop Manager does not have the expertise to determine the cost saving impact when purchasing printing supply items available on state contract and the purchasing department lacks the expertise to monitor these types of commodities for standardization and specifications, materials are requisitioned and procured which have comparable items under term contracts that would serve the same purpose.

Prior to leaving the audit site, we discussed this issue with the Director of Purchasing. We suggested that she meet with the Print Shop Manager and share with him the cost differences that occur as a result of minor specification requirements on the requisition.
In turn, we suggested the Print Shop Manager brief the Director of Purchasing on paper and other supply requirements and the method by which he makes material selections.

We feel, with this channel of communication opened, corrective action will follow and printing material procurements will become more cost effective.

VII. ADDITIONAL POLICIES AND PROCEDURES NECESSARY FOR CERTIFICATION

Due to the recent implementation of the Code and its ensuing regulations, Francis Marion College has not had time to establish and implement all the necessary policies and procedures to ensure their adherence to the Code and thereby qualifying them for certification.

We recommend the following additional policies and procedures be established and implemented:

(1) Authorized Signature Forms for Division Heads.

(2) Bid Security, Bid Opening and Award Procedures as outlined in the Permanent Regulations.

(3) Construction and Related Procurement Procedures added to the manual.

(4) Blanket Purchase Order Logs, and Agreements.

(5) In-State Bidder's Preference and Tie Bid Procedures.

(6) Unauthorized Procurement Ratification Procedures.

SUMMARY OF AUDIT CONCLUSIONS

We have examined the procurement policies and procedures of Francis Marion College for the period August 1, 1981 - May 28, 1982. As a part of our examination, we reviewed and tested the College's system of internal control over procurement transactions to the extent we considered necessary to evaluate the procurement system. 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 College procurement policy. Additionally, the evaluation was used in determining the nature, timing, and extent of other auditing procedures that were necessary for developing a recommendation for certification above the $2,500 limit.

The objective of internal control is to provide reasonable but not absolute, assurance of the safeguarding of the procurement process, and of the reliability of the purchasing records. The concept of reasonable assurance recognizes that the cost of a system of internal control should not exceed the benefits derived and also recognizes that the evaluation of these factors necessarily requires estimates and judgments by management.

There are inherent limitations that should be recognized in considering the potential effectiveness of any system of internal control. In the performance of most control procedures, errors can result from misunderstanding of instructions, mistakes of judgment, carelessness, or other personal factors. Control procedures whose effectiveness depends upon segregation of duties can be circumvented by collusion. Similarly,
control procedures can be circumvented intentionally by management with respect to the execution and recording of transactions. Further, projection of any evaluation of internal control to future periods is subject to the risks that the procedures may become inadequate because of changes in conditions and that the degree of compliance with the procedures may deteriorate.

It should be understood that our study and evaluation of the College's system of internal control over procurement operations for the period August 1, 1981 - May 28, 1982, which was made for the purpose set forth in the first paragraph above, would not necessarily disclose all weaknesses in the system.

Our review of the system of internal procurement control did, however, disclose the aforementioned conditions which we believe to be subject to improvement.

Corrective action based on the recommendations described in these findings will in all material respects place Francis Marion College in compliance with the South Carolina Consolidated Procurement Code and ensuing regulations.

Under the authority described in Section 11-35-1210 of the Procurement Code, subject to the above corrective action, we recommend that Francis Marion College be certified to make direct agency procurements as follows:
RECOMMENDED CERTIFICATION LIMITS

I. GOODS AND SERVICES, EXCLUSIVE OF PRINTING EQUIPMENT

$5,000.00 per purchase commitment

II. CONSULTANTS

$5,000.00 per purchase commitment

This would result in Francis Marion College handling 99% of purchase orders issued.

As indicated in the Scope section of our report, certification recommendations in the areas of Information Technology and Construction and Related Services are being deferred until completion of statewide procedures in these areas.

Walter A. Taylor
In Charge Auditor

Robert W. Wilkes, Jr., CPA
Director, Audit and Certification
Ms. Barbara McMillan, Director  
Contracts & Audit Management  
Materials Management Office  
800 Dutch Square Blvd., Suite 150  
Columbia, South Carolina 29210  

Re: Draft Procurement Audit Report  

Dear Barbara:  

We appreciate the opportunity to review and offer comments regarding the preliminary draft report. We do wish to separately address the points covered in this report. Our responses are listed below:

I. General Transaction Control

A. Evidence of an Audit of Voucher Packages

Audit procedures are in effect to properly verify invoice accuracy and to insure that purchases are properly authorized. Staff actions are currently carefully monitored to prevent this kind of oversight.

B. Adequate Documentation of Purchase Order Changes

Price changes to purchase orders are authorized by the Purchasing Agent before payment is made, and all interested parties are informed of any changes regarding an order. This procedure has been accomplished by informal memos and this system has appeared to be adequate for the College; however, we are considering the development of a formal Change Order form which would satisfy the items stressed in the draft report.

C. Timely Payment of Invoices

The Purchasing Office will seek to establish cash discount terms prior to issuing an order and all cash discounts will be taken. We have reviewed the accounts payable run for the end of August 1982, a typical month as far as purchasing activity is concerned, and noted that the majority of discounts were taken. Discounts in the amount of $50.00/plus were missed. In our opinion, this is an insignificant amount;
however, we will attempt to take advantage of all price reductions offered by vendors.

It is our policy to issue payment within 30 days for goods and services that have been received to the satisfaction of Francis Marion College.

II. Compliance - General

A. Bookstore Procurements

We wish to formally apply for an exemption for procurements made by the College Store in order that we may continue to operate the Store under our present policy. In providing the central stores function for office supplies, the Store performs a cost efficient service. Under our present structure, office supplies are easily distributed, additional labor is not required to handle a special stockroom, and current funds are not tied up in inventory.

During fiscal year 1981-82, sales for departmental office supplies amounted to less than 4.5% of total sales. We project that this figure will decrease this year and during fiscal year 1983-84 because of budgetary constraints. The 10% markup amounted to some $1900 last year. When tax, freight charges, and labor are considered, this markup, from our vantage point, appears to be reasonable.

Until such time in the distant future when volume of sales would justify the establishment of a separate central stores operation and an additional part-time position, it is most economical for the College Store to continue to provide this service to the College.

B. Food Service Procurements

Purchasing authority is delegated to the Director of the Food Service operation, an auxiliary function, for the procurement of perishables, food-related items, and items for commercial sale. The Food Service Director is also authorized to procure supplies utilized by the Food Service operation in accordance with the ordinances of the Consolidated Procurement Code. All paperwork and documentation relating to such procurements will be reviewed by the Director of Purchasing.

C. Student Organization Procurements

Future contracts and documents concerning procurements made on behalf of student organizations will carry an indication that these procurements are exempt from the Consolidated Procurement Code.
D. Confirmation of Prices on Requisitions under $500

The Purchasing Office will continue to randomly verify prices on small purchases and will attempt to confirm prices within the time and staff limitations under which it operates.

E. Fiscal Accountability Act Reporting

Francis Marion College was unaware that it had failed to comply with the reporting requirements of the Fiscal Accountability Act. Indeed, we have never received any communication from the Division of General Services to indicate noncompliance.

Based on our own experience with this report format, we strongly question the usefulness of the FAA report. A considerable amount of staff time is required to prepare this monthly report and we have yet to derive any benefits from it.

Now that the Code requires quarterly reporting of various procurements (emergency, sole source, trade-ins, minority business) to other departments of State government, our efforts are needlessly duplicated. We urge reevaluation and clarification of statewide procedures concerning the reporting requirements of the FAA.

III. Compliance - Goods and Services

A. Lack of Competition and/or Sole Source or Emergency Determinations; Statistical interpolations by the auditors do not truly represent the degree of compliance in the area of goods and services. Daily efforts are made to procure goods and services in compliance with the Consolidated Procurement Code and to submit required determinations. With implementation and compliance of the Code occurring simultaneously with passage of the act, it was impossible to comply 100% without clear guidelines and directives. These guidelines were forthcoming with the Emergency Rules and Regulations approved by the Budget and Control Board. These regulations were not received until November 1981. After this, internal purchasing policies were revised and compliance was attempted in January 1982. Since the audit covered the period August 1981 - May 1982, some procurements made prior to January 1982 were not in total compliance with the Code.

B. Proper Ratification of an Unauthorized Purchase

Francis Marion College will make every attempt to prevent unauthorized purchases. Should such a purchase occur, proper ratification will be made in accordance with the points outlined in the Emergency Regulations.
C. Source Selection Lists

Source selection lists are currently maintained by the Purchasing Office and are constantly expanded by appropriate measures including the procedures recommended in the audit report.

D. Internal Control over Maintenance Repairs

The College's internal procedures manual will address Physical Plant's authority to procure maintenance repairs in accordance with the Consolidated Procurement Code. Requests for maintenance repairs in excess of $1500 will be forwarded to the Purchasing Office for processing.

IV. Compliance - Construction

Francis Marion College will continue to handle construction procurement according to the guidelines established by the Office of the State Engineer in conjunction with Procurement Code requirements. Specific cases were reviewed which I believe indicates that a concerted effort was made and will continue to be made to assure compliance with State rules and regulations.

V. Supply Management - Maintenance Stores

Given the present economic climate and the small size of our maintenance stores operation, it is our opinion that our current method of handling maintenance stores is the most efficient. We concur that there is a weak separation of duties between the purchasing and stores function; however, until budgetary conditions allow us to reinstate positions and restore our funding level, we feel that our present setup is most practical.

VI. Standardization and Specifications - Print Shop

The Purchasing Director consults regularly with the Print Shop Manager in order to procure printing supplies in the manner which is most cost effective.

VII. Additional Policies and Procedures Necessary for Certification

The suggested procedures are currently under consideration and corrective action will be taken in order to fully comply with the South Carolina Consolidated Procurement Code.

Respectfully yours,

N. C. Frederick
Vice President for Business & Finance

cc: Dr. Walter D. Smith, President
    Mrs. L. Cooper, Purchasing Agent
    Mrs. S. Brown, Internal Auditor/Budget Analyst
December 22, 1982

Mr. Tony R. Ellis
Acting Deputy Director
Division of General Services
800 Dutch Square Boulevard, Suite 150
Columbia, South Carolina 29210

Dear Tony:

We have reviewed the progress of Francis Marion College toward implementing the recommendations in our audit report covering the period of August 1, 1981 - May 28, 1982. During our review, we followed up on each recommendation made in the audit report through inquiry, observation and/or limited testing.

Because the College felt that it would be uneconomical and not in the best interest of the College and the State to comply with the Consolidated Procurement Code in the purchase of supplies used by the College as we had recommended in our report point entitled "Bookstore Procurements", we determined that we were not in a position to ask the Budget and Control Board to grant certification for the College to make procurements at a recommended higher dollar limit as provided for in Section 11-35-1210 of the Code.

Subsequent to our determination, Francis Marion approached the Budget and Control Board for an exemption from the Consolidated Procurement Code for these purchases of supplies. At its December 17, 1982, meeting, the Board approved the request for exemption with the following stipulations:

1. The sales of such supplies [by the Bookstore] to other departments of the College under this exemption should not exceed 5% of total bookstore sales, or $30,000, whichever is less, in any fiscal year.

2. This exemption should not be granted for an indefinite period, but rather should be effective for the same two year period for which the College is certified by the Board to make purchases above $2,500. At the end of this two year period, the College should resubmit its request for an
exemption to the Board if the College still feels a need for same. The Contracts and Audit Management auditors of the Division of General Services should examine and reassess the circumstances surrounding this exemption each time that they re-audit the College's total procurement system.

Other than the supply purchases issue discussed above, the Audit and Certification Section observed that the College has made substantial progress toward correcting the problem areas found and improving the internal controls over the procurement system. We feel that, with the changes made and with the exemption granted by the Board, the system's internal controls should be adequate to ensure that procurements are handled in compliance with the Consolidated Procurement Code and ensuing regulations.

We, therefore, recommend that the certification limits for Francis Marion College, as outlined in the audit report, be granted for a period of two (2) years, or until the Materials Management Office Audit and Certification Section returns to the institution.

Sincerely,

Barbara A. McMillan, Director
Contracts and Audit Management

BAM:rms