South Carolina Office of General Services

PROCUREMENT AUDIT AND CERTIFICATION

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SOUTH CAROLINA HIGHER EDUCATION TUITION GRANTS COMMISSION
AGENCY

JULY 1, 1996 - MARCH 31, 1998
DATE
Ms. Helen T. Zeigler, Director
Office of General Services
1201 Main Street, Suite 420
Columbia, South Carolina 29201

Dear Helen:

I have attached the audit report for the South Carolina Higher Education Tuition Grants Commission. 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
SOUTH CAROLINA HIGHER EDUCATION TUITION GRANTS
COMMISSION
PROCUREMENT AUDIT REPORT

JULY 1, 1996 - MARCH 31, 1998
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NOTE: The Commission’s response to issues noted in the report have been inserted immediately following the issues they refer to.
Mr. R. Voight Shealy  
Materials Management Officer  
Office of General Services  
1201 Main Street, Suite 600  
Columbia, South Carolina 29201  

Dear Voight:  

We have examined the procurement policies and procedures of the South Carolina Higher Education Tuition Grants Commission for the period July 1, 1996 through March 31, 1998. As part of our examination, we studied and evaluated the system of internal control over procurement transactions to the extent we considered necessary.  

The evaluation was to establish a basis for reliance upon the system of internal control to assure adherence to the South Carolina Consolidated Procurement Code and State procurement policy. Additionally, the evaluation was used in determining the nature, timing and extent of other auditing procedures necessary for developing an opinion on the adequacy, efficiency and effectiveness of the procurement system.  

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

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

Our study and evaluation of the system of internal control over procurement transactions, as well as our overall examination of procurement policies and procedures, were conducted with professional care. However, because of the nature of audit testing, they would not necessarily disclose all weaknesses in the system.

The examination did, however, disclose conditions enumerated in this report which we believe need correction or improvement. Corrective action based on the recommendations described in these findings will in all material respects place the South Carolina Higher Education Tuition Grants Commission in compliance with the Consolidated Procurement Code and ensuing regulations.

Sincerely,

Larry G. Sorrell, Manager
Audit and Certification
INTRODUCTION

We conducted an examination of the internal procurement operating policies and procedures of the South Carolina Higher Education Tuition Grants Commission. Our on-site review was conducted April 28 through May 1, 1998 and was made under Section 11-35-1230(1) of the South Carolina Consolidated Procurement Code and Section 19-445.2020 of the accompanying regulations.

The examination was directed principally to determine whether, in all material respects, the procurement system's internal controls were adequate and the procurement procedures, as outlined in the Internal Procurement Operating Procedures Manual, were in compliance with the South Carolina Consolidated Procurement Code and its ensuing regulations.

Additionally, our work was directed toward assisting the South Carolina Higher Education Tuition Grants Commission in promoting the underlying purposes and policies of the Code as outlined in Section 11-35-20, which include:

(1) to ensure the fair and equitable treatment of all persons who deal with the procurement system of this State

(2) to provide increased economy in state procurement activities and to maximize to the fullest extent practicable the purchasing values of funds of the State

(3) to provide safeguards for the maintenance of a procurement system of quality and integrity with clearly defined rules for ethical behavior on the part of all persons engaged in the public procurement process
SCOPE

We conducted our examination in accordance with Generally Accepted Auditing Standards as they apply to compliance audits. Our examination encompassed a detailed analysis of the internal procurement operating procedures of the South Carolina Higher Education Tuition Grants Commission and its related policies and procedures manual to the extent we deemed necessary to formulate an opinion on the adequacy of the system to properly handle procurement transactions.

We selected a judgmental sample for the period July 1, 1996 through March 31, 1998 of procurement transactions for compliance testing and performed other audit procedures that we considered necessary to formulate this opinion. Specifically, the scope of our audit included, but was not limited to, a review of the following:

1. All sole source, emergency and trade-in sale procurements for the period July 1, 1996 through March 31, 1998

2. Procurement transactions for the period July 1, 1996 through March 31, 1998 as follows:
   a) Eleven payments each exceeding $1,500
   b) A block sample of forty seven vouchers

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

4. Information technology plan for fiscal years covering July 1, 1995 through June 30, 1998

5. Internal procurement procedures manual

6. Surplus property procedures
RESULTS OF EXAMINATION

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

I. **Inappropriate Sole Sources**

   We examined the quarterly reports of sole source and emergency procurements for the period July 1, 1996 through March 31, 1998. This review was performed to determine the appropriateness of the procurement actions taken and the accuracy of the reports submitted to the Office of General Services as required by Section 11-35-2440 of the Code. We noted the following problems.

The Commission has been procuring services and equipment from two vendors as sole sources. The sole source method was inappropriate and these procurements should have been competed. The procurements cited represented voucher payments made during the audit period.

<table>
<thead>
<tr>
<th>Voucher Number</th>
<th>Date</th>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>DV 52</td>
<td>08/12/96</td>
<td>Data processing/consulting services</td>
<td>$4,250*</td>
</tr>
<tr>
<td>DV 194</td>
<td>11/22/96</td>
<td>Data processing/consulting services</td>
<td>3,017*</td>
</tr>
<tr>
<td>DV 232</td>
<td>12/20/96</td>
<td>Data processing/consulting services</td>
<td>5,185*</td>
</tr>
<tr>
<td>DV 294</td>
<td>02/12/97</td>
<td>Data processing/consulting services</td>
<td>7,375</td>
</tr>
<tr>
<td>DV 343</td>
<td>03/13/97</td>
<td>Data processing/consulting services</td>
<td>4,865</td>
</tr>
<tr>
<td>DV 464</td>
<td>06/23/97</td>
<td>Data processing/consulting services</td>
<td>5,268</td>
</tr>
<tr>
<td>DV 81</td>
<td>09/23/97</td>
<td>Data processing/consulting services</td>
<td>4,011</td>
</tr>
<tr>
<td>DV 169</td>
<td>01/05/98</td>
<td>Data processing/consulting services</td>
<td>1,785*</td>
</tr>
<tr>
<td>DV 229</td>
<td>02/11/98</td>
<td>Data processing/consulting services</td>
<td>3,400*</td>
</tr>
<tr>
<td>DV 262</td>
<td>03/16/98</td>
<td>Data processing/consulting services</td>
<td>3,655*</td>
</tr>
</tbody>
</table>

**Total** $21,519
<table>
<thead>
<tr>
<th>Voucher Number</th>
<th>Date</th>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>DV 115</td>
<td>10/10/96</td>
<td>Data processing equipment &amp; installation</td>
<td>$1,272</td>
</tr>
<tr>
<td>DV 206</td>
<td>11/26/96</td>
<td>Data processing equipment &amp; installation</td>
<td>829</td>
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<tr>
<td>DV 248</td>
<td>01/13/97</td>
<td>Data processing equipment &amp; installation</td>
<td>615</td>
</tr>
<tr>
<td>DV 451</td>
<td>06/06/97</td>
<td>Data processing equipment &amp; installation</td>
<td>1,973</td>
</tr>
<tr>
<td>DV 164</td>
<td>12/18/97</td>
<td>Data processing equipment &amp; installation</td>
<td>1,284</td>
</tr>
<tr>
<td>DV 179</td>
<td>01/13/98</td>
<td>Data processing equipment &amp; installation</td>
<td>3,583</td>
</tr>
<tr>
<td></td>
<td></td>
<td><strong>Total</strong></td>
<td><strong>$9,556</strong></td>
</tr>
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</table>

For an item or service to qualify as a sole source, it must be unique and only available from a single source. Regulation 19-445.2105 requires in part, "In cases of reasonable doubt, competition should be solicited."

We recommend these services and equipment be competed in the future.

Additionally, the procurements of the consultant denoted with an asterisk in the amount column did not have the travel expense included on the sole source reports. All costs paid by the Commission should be reported including the travel expense.

**COMMISSION RESPONSE**

The Commission has been involved over the past three years with changing from a mainframe computer to a PC-network system. The agency sole sourced the services and equipment because they were both former employees of the manufacturer of the mainframe and were extremely knowledgeable of the Commission’s hardware and software needs resulting from their working with the Commission’s systems while employed by the manufacturer. Based on the recommendation of the procurement audit, all future computer hardware and software needs of the Commission after the current projects are completed will be competed in accordance with the Consolidated Procurement Code.

II. **Procurement Without Competition**

One procurement was noted that was not supported by solicitations of competition or state term contract reference.

<table>
<thead>
<tr>
<th>Voucher Number</th>
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<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>DV 116</td>
<td>10/10/96</td>
<td>Personal computer</td>
<td>$1,565</td>
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</table>
The personal computer was a state term contract item and should have been bought from the contract vendor. Section 11-35-310(35) makes term contracts mandatory unless the agency can show a 10% or more savings and the term contract vendor would not match the competitor’s price.

We recommend the Commission adhere to Section 11-35-310(35) of the Code and utilize term contracts when the items offered meet the Commission’s needs.

**COMMISSION RESPONSE**

The procurement in question was a $1,565 personal computer that exceeded the $1,500 limit by $65. In actuality, the cost of the computer was under $1,500. However, the cost of an extended warranty was unknowingly not included in the sales price. When included, it inflated the total price of the personal computer to over the $1,500 limit. The Commission is aware that all purchase between $1,501 and $5,000 should either be bought under state contract or competitively bid. In the future, all purchases will be made in strict adherence to the Consolidated Procurement Code.

**III. Procurement Procedures Manual**

The Commission has no procurement procedures manual. Regulation 19-445.2005 states:

All governmental bodies shall develop an internal procurement procedures manual and forward a copy of such to the Materials Management Officer. Upon receipt of the respective governmental body’s internal procurement procedures manual, the Materials Management Office shall be responsible for the following review:

1. Determine that written internal operations procedures as submitted are consistent with the South Carolina Consolidated Procurement Code and Regulations.

2. Notify the governmental body of its findings in writing.

We recommend the Commission adhere to the Regulation and develop a procedures manual for review by our office.

**COMMISSION RESPONSE**

The Commission at one time had a procurement procedures manual, but due to employee turnover in the position responsible for procurement activity, no updated manual could be located. The Commission has, in cooperation with the Materials Management Office, already begun putting together an agency procurement manual that will be updated each year and adhered to by the employee(s) responsible for the procurement of goods and services. This procurement manual will be submitted to the Materials Management Office for approval.
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 the South Carolina Higher Education Tuition Grants Commission in compliance with the Consolidated Procurement Code.

Under the authority described in Section 11-35-1210 of the Procurement Code, subject to this corrective action and since the South Carolina Higher Education Tuition Grants Commission has not requested additional procurement certification, we will recommend the Commission be allowed to continue procuring all goods and services, consultants services, construction services and information technology up to the basic level of $5,000 as allowed by the Consolidated Procurement Code and accompanying regulations.

Robert J. Aycock, IV
Audit Manager

Larry G. Sorrell, Manager
Audit and Certification
Mr. R. Voight Shealy  
Materials Management Officer  
Materials Management Office  
1201 Main Street, Suite 600  
Columbia, South Carolina 29201

Dear Voight:

We have reviewed the South Carolina Higher Education Tuition Grants Commission’s response to our audit report for July 1, 1996 - March 31, 1998. We are satisfied that the Commission has corrected the problem areas and the internal controls over the procurement system are adequate.

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

Sincerely,

Larry G. Sorrell, Manager  
Audit and Certification

LGS/tl