PROCUREMENT AUDIT AND CERTIFICATION

S. C. STATE LIBRARY
SEP 13 1988
STATE DOCUMENTS

SPARTANBURG TECHNICAL COLLEGE
AGENCY
MARCH 1, 1986 - DECEMBER 31, 1987
DATE
July 6, 1988

Mr. Richard W. Kelly
Division Director
Division of General Services
1201 Main Street, Suite 400
Columbia, South Carolina 29201

Dear Rick:

Attached is the final Spartanburg Technical College audit report and recommendations made by the Office of Audit and Certification. I concur and recommend the Budget and Control Board grant the College three (3) years certification as outlined in the audit report.

Sincerely,

James Forth, Jr.
Assistant Division Director

Attachment
SPARTANBURG TECHNICAL COLLEGE

AUDIT REPORT

MARCH 1, 1986 - DECEMBER 31, 1987
<table>
<thead>
<tr>
<th>TABLE OF CONTENTS</th>
<th>PAGE</th>
</tr>
</thead>
<tbody>
<tr>
<td>Transmittal Letter</td>
<td>1</td>
</tr>
<tr>
<td>Background</td>
<td>3</td>
</tr>
<tr>
<td>Scope</td>
<td>4</td>
</tr>
<tr>
<td>Results of Examination</td>
<td>5</td>
</tr>
<tr>
<td>Certification Recommendations</td>
<td>10</td>
</tr>
<tr>
<td>Reference</td>
<td>11</td>
</tr>
</tbody>
</table>
Mr. James Forth, Jr.
Materials Management Officer
Division of General Services
1201 Main Street, Suite 600
Columbia, South Carolina 29201

We have examined the procurement policies and procedures of Spartanburg Technical College for the period March 1, 1986 through December 31, 1987. As a 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 College procurement policy. Additionally, the evaluation was used in determining the nature, timing and extent of other auditing procedures that were necessary for developing an opinion on the adequacy, efficiency and effectiveness of the procurement system.

The administration of Spartanburg 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 necessary.

MATERIALS MANAGEMENT OFFICE
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 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 material respects place Spartanburg Technical College in compliance with the South Carolina Consolidated Procurement Code and ensuing regulations.

R. Voight Shealy
Manager
Audit and Certification
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 Division of General Services shall review the respective governmental body's internal procurement operation, shall verify in writing that it is consistent with the provisions of this code and the ensuing regulations, and recommend to the Board those dollar limits for the respective governmental body's procurement not under term contract.

While on site, we received a written request from Spartanburg Technical College for recertification to make procurements in the following categories and designated amounts with local funds only:

<table>
<thead>
<tr>
<th>Category</th>
<th>Requested Limit</th>
</tr>
</thead>
<tbody>
<tr>
<td>Goods and Services</td>
<td>$ 5,000</td>
</tr>
<tr>
<td>Information Technology</td>
<td>5,000</td>
</tr>
<tr>
<td>Construction Services</td>
<td>5,000</td>
</tr>
</tbody>
</table>

The College is currently certified to this level for goods and services and information technology only.
SCOPE

Our examination encompassed a detailed analysis of the internal procurement operating procedures of Spartanburg 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 Office of Audit and Certification of the Division of General Services reviewed all procurement transactions for the period March 1, 1986 - December 31, 1987, for compliance testing and performed other audit procedures that we considered necessary in the circumstances to formulate this opinion. Our review of the system included, but was not limited to, the following areas:

(1) adherence to applicable laws, regulations and internal policy;

(2) procurement staff and training;

(3) adequate audit trails and purchase order registers;

(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) inventory and disposition of surplus property;

(10) Minority Business Enterprise Utilization Plan;

(11) Disposition of surplus property.
RESULTS OF EXAMINATION

The Office of Audit and Certification conducted an examination of the internal procurement operating procedures and policies and related manual of Spartanburg Technical College. Our on-site review was conducted February 8, 1988 through February 19, 1988 and was made under the authority as described in Section 11-35-1230(1) of the South Carolina Consolidated Procurement Code and Regulation 19-445.2020.

Over the audit period, the College has maintained what we consider to be an efficient, effective procurement system. We did note, however, the below listed items which should be addressed by management.

I. Sole Source and Emergency Procurements

The following sole source and emergency procurements could have been eliminated if, in each case, one additional telephone quote had been solicited.

A. Sole Source Procurements

<table>
<thead>
<tr>
<th>PURCHASE ORDER #</th>
<th>AMOUNT</th>
<th>DESCRIPTION</th>
</tr>
</thead>
<tbody>
<tr>
<td>9018</td>
<td>$959.22</td>
<td>Fabrication of safety guards for air compressors</td>
</tr>
<tr>
<td>9127</td>
<td>527.52</td>
<td>Pressure and pump</td>
</tr>
</tbody>
</table>

Regulation 19-445.2105, Subsection B, states, "Sole source procurement is not permissible unless there is only a single supplier."
We do not believe this to be the case for these two procurements, thus they are inappropriate as sole sources. Competition should have been solicited.

B. Emergency Procurements

<table>
<thead>
<tr>
<th>PURCHASE ORDER #</th>
<th>AMOUNT</th>
<th>DESCRIPTION</th>
</tr>
</thead>
<tbody>
<tr>
<td>2286</td>
<td>$ 976.00</td>
<td>25,000 Printed flyers</td>
</tr>
<tr>
<td>9030</td>
<td>1,485.00</td>
<td>7,500 Printed brochures</td>
</tr>
</tbody>
</table>

Regulation 19-445.2110, Subsection D, states in part, "Any governmental body may make emergency procurements when an emergency condition arises and the need cannot be met through normal procurement methods..."

Since each procurement was less than $1,500.00, the normal procurement method would have been solicitation of telephone quotations from a minimum of two qualified sources. Considering the fact that this would have required making one additional telephone call for each procurement, we must believe that the normal procurement method could have been used. Thus, these transactions are inappropriate as emergency procurements.

II. Unauthorized Procurement

Purchase order 8724, totalling $1,357.50, was a sole source procurement for a marketing consultant. According to the invoice, service began January 3, 1986, but the purchase order was not prepared until February 27 and the required sole source determination was not approved until February 28.
Section 11-35-1560 of the Procurement Code states:

A contract may be awarded for a supply, service, or construction item without competition when, under regulations promulgated by the board, the chief procurement officer, the head of purchasing agency, or a designee of either officer, above the level of the procurement officer, determines in writing that there is only one source for the required supply, service or construction item.

This section clearly requires a written determination by an official with the requisite authority. This must be prepared and approved in advance of a commitment being made to a vendor.

Since this was not completed before a commitment was made to the vendor, the procurement was unauthorized. Ratification must be requested from the College President in accordance with Regulation 19-445.2015.

III. Compliance - General

Our tests of general procurement activity included but were not limited to review of the following:

(1) Eighty randomly selected procurements;
(2) All other invitations for bids and requests for proposals processed by the College since receiving certification; and
(3) A block sample of seven hundred fifty purchase orders in numerical sequence.

The vast majority of these procurements were handled properly. However, we did note two exceptions.

First, the College prepared a request for proposals for the production of a videotape giving an overview of the five academic divisions. A determination justifying the use of a request for proposals instead of an invitation for bids was not prepared, as required by Section 11-35-1530 of the Procurement Code.
We remind the College that such a determination must be prepared to justify the use of requests for proposals and recommend that this be done for all future transactions of this type.

Second, the State Materials Management Office made a procurement of welding rods for the College totalling $3,570.00 plus tax for a total of $3,748.50. The unit price was .714 per pound. The vendor invoiced the College at a price of .753 per pound for a total cost of $3,953.25. The accounting department paid the invoice even though it was $204.75 higher than their bid price. The increase appears to be unwarranted.

The College does not have an official written purchase order change policy. Such a policy should be added to the purchasing procedures manual. The policy should allow for small discrepancies in payment of freight, tax, additional units without a formal change order, but the policy should have a total dollar limit. Anytime there is a change in unit cost, the purchasing officer should review the situation prior to payment to determine if the change is valid or not.

Finally, the College should contact the vendor in question and request a refund for this overcharge.

IV. Review of the Procurement Procedures Manual

As part of our examination, we reviewed the Purchasing Policies and Procedures Manual. We recommend the manual be expanded to address the following topics:
A. Competitive Sealed Bids Greater than $2,500.00 to include:

1. Bidder's List - address procurements from $2,500.00 to $5,000.00
2. Receipt and Safeguarding of Bids
3. Unidentified Bids
4. Bid Opening Procedures
5. Postponement of Bid Opening
6. Disclosure of Bid Information
7. Bid Acceptance and Evaluation
8. Rejection of Bids
9. Alternate Bids
10. Nonresponsive Bids
11. Tie Bids
12. In-State Bidders Reference
13. Unsigned Bids
14. Correction Creates Low Bid
15. Award
16. Protests Against Award

B. Legal Services

C. Auditing Services

D. Art Procurements

E. Compensation and Honorariums

F. Equipment Repair

G. Conflict of Interest

H. Retention of Procurement Records

I. Amendment to Purchase Order
CERTIFICATION RECOMMENDATIONS

An enumerated in our transmittal letter, corrective action based on the recommendations described in the findings contained in the body of this report, we believe, will in all material respects place Spartanburg Technical 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 this corrective action, we recommend Spartanburg Technical College be certified to make direct agency procurements for three (3) years up to the limits as follows when using local funds:

<table>
<thead>
<tr>
<th>PROCUREMENT AREAS</th>
<th>RECOMMENDED CERTIFICATION LIMITS</th>
</tr>
</thead>
<tbody>
<tr>
<td>Goods and Services</td>
<td>$5,000 *per purchase commitment</td>
</tr>
<tr>
<td>(Local Funds Only)</td>
<td></td>
</tr>
<tr>
<td>Information Technology in</td>
<td>$5,000 *per purchase commitment</td>
</tr>
<tr>
<td>accordance with the approved Information Technology Plan</td>
<td></td>
</tr>
<tr>
<td>(Local Funds Only)</td>
<td></td>
</tr>
<tr>
<td>Construction</td>
<td></td>
</tr>
<tr>
<td>(Not Recommended At This Time)</td>
<td></td>
</tr>
</tbody>
</table>

*Total potential commitment whether single year or multi-term contracts are used.

James M. Stiles, PPB
Audit Supervisor

R. Voight Shealy, Manager
Audit and Certification
June 22, 1988

Mr. R. Voight Shealy  
Audit and Certification  
Budget and Control Board  
Division of General Services  
1201 Main Street, Suite 420  
Columbia, S.C. 29210

Dear Mr. Shealy:

Reference our discussion on May 25, 1988 in your office. At that time we reviewed the Audit Report prepared by Mr. Jim Stiles for Spartanburg Technical College. This is in response to the discrepancies listed in that Report.

Item #1: Purchase Order 9018 - It was necessary that these guards be fabricated and installed on-site to immediately correct a safety violation cited by O.S.H.A. We contacted several contractors in our area, but found none that could provide the fabrication service within our timeframe.

Item #2: Purchase Order 9217 - This equipment was required in an instructional environment where compatibility with existing equipment was essential. Although we searched through three vendor catalogs, similar or compatible equipment was not found. Krause and Associates was the only known source.

Item #3 and #4: Purchase Order 2286 and 9030 - In both cases, urgency of the situation dictated to us at that time that an Emergency Procurement was appropriate. We acted on this premise.

Item #5: Purchase Order 8724, Unauthorized Procurement - This procurement was rectified by the ratification authority in a memo provided to the Audit Division and dated May 13, 1988.

It is noted that of the five violations listed above, none occurred subsequent to the audit by your office in April 1986. Each of these violations occurred prior to that time. I would like to surmise that the prior audit was successful in bringing these items to our attention and that we have been successful in our remediation.

One additional concern outlined by your auditor was the need to expand our Purchasing Policies and Procedures Manual. This has been accomplished. Copies of the new procedures were provided your office during our May 13th meeting.
We appreciate the opportunity to discuss these items with you and provide our rationale for specific procurement actions that have taken place. If we can provide further information, please advise.

Sincerely,

Ralph D. Waddell, Jr.
Vice President
For Business Affairs

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

JAMES J. FORTH, JR.
ASSISTANT DIVISION DIRECTOR
July 6, 1988

Mr. James J. Forth, Jr.
Materials Management Officer
Division of General Services
1201 Main Street, Suite 600
Columbia, South Carolina 29201

Dear James:

We have reviewed the response to our audit report of Spartanburg Technical College covering the period March 1, 1986 through December 31, 1987. Combined with observations made during our site visit, this review has satisfied the Office of Audit and Certification that the College is correcting the problem areas found and that internal controls over the procurement system are adequate.

We therefore, recommend that the certification limits for Spartanburg Technical College outlined in the audit report be granted for a period of three (3) years.

Sincerely,

R. Wight Shealy
Manager
Audit and Certification

MATERIALS MANAGEMENT OFFICE

State Supply & Surplus Property Management
Supply, Warehousing & IMS
State Procurements & Information Technology Management Office
1201 Main Street
Spartanburg, South Carolina 29301
(803) 737-0600

Training & Research
300 Gervais Street
Annex 3
Cola. S.C. 29201
737-2060

Office of Audit & Certification
1201 Main Street
Suite 600
Cola. S.C. 29201
737-0600

State Supply & Surplus Property Management
W. Cola. S.C. 29169
739-5490

Training & Research
300 Gervais Street
Annex 3
Cola. S.C. 29201
737-2060

Office of Audit & Certification
1201 Main Street
Suite 600
Cola. S.C. 29201
737-0600

State Procurements & Information Technology Management Office
1201 Main Street
Spartanburg, South Carolina 29301
(803) 737-0600

Training & Research
300 Gervais Street
Annex 3
Cola. S.C. 29201
737-2060

Office of Audit & Certification
1201 Main Street
Suite 600
Cola. S.C. 29201
737-0600

State Procurements & Information Technology Management Office
1201 Main Street
Spartanburg, South Carolina 29301
(803) 737-0600

Training & Research
300 Gervais Street
Annex 3
Cola. S.C. 29201
737-2060

Office of Audit & Certification
1201 Main Street
Suite 600
Cola. S.C. 29201
737-0600