South Carolina Office of General Services

PROCUREMENT AUDIT AND CERTIFICATION

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SOUTH CAROLINA STATE UNIVERSITY
AGENCY
JANUARY 1, 1996 - JUNE 30, 1997
DATE
Ms. Helen T. Zeigler, Director
Office of General Services
1201 Main Street, Suite 420
Columbia, South Carolina 29201

Dear Helen:

I have attached South Carolina State University’s procurement audit report and recommendations made by the Office of Audit and Certification. I concur and recommend the Budget and Control Board grant the University a three year certification as noted in the audit report.

Sincerely,

R. Voight Shealy
Materials Management Officer
## TABLE OF CONTENTS

<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>Background</td>
<td>4</td>
</tr>
<tr>
<td>Scope</td>
<td>5</td>
</tr>
<tr>
<td>Summary of Audit Findings</td>
<td>6</td>
</tr>
<tr>
<td>Results of Examination</td>
<td>7</td>
</tr>
<tr>
<td>Certification Recommendations</td>
<td>13</td>
</tr>
<tr>
<td>University Response</td>
<td>14</td>
</tr>
<tr>
<td>Follow-up Letter</td>
<td>15</td>
</tr>
</tbody>
</table>
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 South Carolina State University for the period January 1, 1996 through June 30, 1997. As part of our examination, we studied and evaluated the system of internal control over procurement transactions to the extent we considered necessary.

The evaluation was to establish a basis for reliance upon the system of internal control to assure adherence to the Consolidated Procurement Code and University 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 South Carolina State University 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 South Carolina State University in compliance with the South Carolina Consolidated Procurement Code and ensuing regulations.

Sincerely,

Larry G. Sorrell, Manager
Audit and Certification
INTRODUCTION

We conducted an examination of the internal procurement operating policies and procedures of South Carolina State University. Our on-site review was conducted July 29, 1997 through August 25, 1997, and was made under Section 11-35-1230(1) of the South Carolina Consolidated Procurement Code and Section 19-445.2020 of the accompanying regulations.

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

Additionally, our work was directed toward assisting the University 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
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 contract. The Office 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.

On March 5, 1996, the Budget and Control Board granted South Carolina State University the following procurement certifications:

<table>
<thead>
<tr>
<th>CATEGORY</th>
<th>REQUESTED LIMITS</th>
</tr>
</thead>
<tbody>
<tr>
<td>Goods and Services</td>
<td>$25,000</td>
</tr>
<tr>
<td>Information Technology in accordance with the approved information technology plan</td>
<td>$25,000</td>
</tr>
<tr>
<td>Consultants Services</td>
<td>$25,000</td>
</tr>
</tbody>
</table>

Our audit was performed primarily to determine if re-certification is warranted. The University did not request increased certification limits.
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 South Carolina State University 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 systematic samples for the period January 1, 1996 through June 30, 1997 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 January 1, 1996 through June 30, 1997

(2) Procurement transactions for the period January 1, 1996 through June 30, 1997 as follows:
   a) One hundred twenty payments exceeding $1,500 each
   b) A block sample of all purchase orders issued to vendors with last names beginning with T through Z for fiscal year 1997 reviewed for order splitting and favored vendors
   c) A review of Accounts Payable's invoice file to determine pending late payments
   d) A sample of one hundred seventy work orders issued by the Physical Plant during April 1997

(3) Seven professional service contracts and five construction contracts for compliance with the Manual for Planning and Execution of State Permanent Improvements

(4) Minority Business Enterprise reports for the audit period

(5) Information technology plan approval for fiscal year 96/97

(6) Internal procurement procedures manual

(7) Surplus property procedures
SUMMARY OF AUDIT FINDINGS

Our audit of the procurement system of South Carolina State University, hereinafter referred to as the University, produced findings and recommendations as follows:

I. Sole Source and Emergency Procurements

A. Inappropriate Sole Sources

Three sole source transactions were inappropriate.

B. Drug-Free Workplace

Two emergency procurements that exceeded $50,000 did not have the required drug-free workplace certification.

II. Blanket Purchase Agreement Requirements

Blanket purchase agreements should be competed and contracts established.

III. No Competition

One transaction lacked evidence of competition, sole source, or emergency determination.

IV. Overpayments

Three payments exceeded the amounts or terms listed on the purchase orders.

V. Untimely Payment of Invoice

The University is frequently paying invoices over the allowable thirty workday time period.

VI. Construction

One emergency construction procurement was not reported to the Materials Management Office.
RESULTS OF EXAMINATION

I. Sole Source and Emergency Procurements

We examined the quarterly reports of sole source and emergency procurements for the period January 1, 1996 through June 30, 1997. 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 found most of these transactions to be correct but did note the following exceptions.

A. Inappropriate Sole Sources

We noted three sole source transactions we believe to be inappropriate.

<table>
<thead>
<tr>
<th>PO</th>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>706359</td>
<td>Internet service</td>
<td>$6,979</td>
</tr>
<tr>
<td>704286</td>
<td>Internet service</td>
<td>14,939</td>
</tr>
<tr>
<td>702253</td>
<td>Consultant</td>
<td>5,381</td>
</tr>
</tbody>
</table>

The Internet service procurements were issued to the same vendor. Other Internet providers are available for this type service. Additionally, the Office of Information Resources (OIR) approval for this type service was not obtained. South Carolina Code of Laws Section 1-11-430 requires that all purchases of telecommunications equipment and services for State government use be secured through the Budget and Control Board (Board). The Office of Information Resource Management (OIR) is designated by the Board as the Office responsible for securing telecommunications equipment and services. Our review produced no such approval or coordination with OIR. As a result the two procurements are unauthorized as defined in Regulation 19-445.2015.
The consultant was procured for an on-air fund-raiser through the University's campus radio. A note in the purchase order file indicated there were other consultants that could perform this type of service.

We recommend that all future procurements of telecommunications equipment or services be coordinated through OIR. The unauthorized procurements must be submitted for ratification from the President to the Materials Management Office in accordance with Regulation 19-445.2015. Procurements that do not meet the definition of a sole source should be procured in accordance with the Code.

B. Drug Free Workplace

We noted two emergency procurements that exceeded $50,000. The University did not obtain the required drug-free workplace certification stating the vendor was in compliance with the South Carolina Drug-Free Workplace Act.

<table>
<thead>
<tr>
<th>PO</th>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>C600015</td>
<td>Steam line replacement</td>
<td>$290,350</td>
</tr>
<tr>
<td>P704502</td>
<td>Printing</td>
<td>67,425</td>
</tr>
</tbody>
</table>

Section 44-107-10 et seq. of the South Carolina Code of Laws requires on any resultant contract of $50,000 or more that a certification be obtained from the recipient stating that the vendor maintains a drug-free workplace. Emergency procurements are subject to the above stated law.

We recommend the University obtain the drug-free workplace certification on all future contracts exceeding $50,000.
II. **Blanket Purchase Agreement Requirements**

Our audit revealed that several types of goods and services were being procured on blanket purchase agreements (BPAs). The procurements included automobile repairs, equipment repairs, dry cleaning, and linen rental. Since these types of procurements are easily identified, the University could establish term contracts rather than blanket purchase agreements.

We recommend the University evaluate its larger BPAs to determine if competed contracts would better serve the University. We believe the items identified during the audit, when competed, will result in a cost savings for these items. Also, with competed contracts in place, more flexibility can be offered the departments since the purchase commitment per call would not have to be limited to $500 as it is now.

III. **No Competition**

On purchase order 70504 for $9,020 for a consultant, the procurement lacked evidence of competition, sole source or emergency determination. The University considered this purchase exempt because the vendor was named in a grant. The exemption referenced to by the University stated in part... "exempted procurements made by a requesting agency for the purchase of grant-specified and approved major equipment, subcontracts, and consultants the agency determines to be essential to the successful completion of the grant funded project if those procurements are made in accordance with procedures approved by the Office of General Services on an agency by agency basis." Grant-specified exemption procedures have not been approved by the Office of General Services for the University.

We recommend the University solicit the competition, justify as a sole source, or request a grant-specified exemption from the Office General Services for these types procurements.
IV. Overpayments

Purchase order 605143 was issued for printing refund checks. The award was made to purchase 10,000 checks at $288.62 per thousand. The vendor invoiced the University for 11,000 checks at $310.62 per thousand. The University paid the amounts on the invoice. The South Carolina Government Printing Manual allows for an overrun up to 5% for quantities less than 500,000. By accepting the 11,000 checks at $310.62 per thousand, the University overpaid the vendor as follows:

<table>
<thead>
<tr>
<th>Quantity Allowable Per Purchase Order</th>
<th>COST PER PURCHASE ORDER</th>
<th>Extended Cost</th>
</tr>
</thead>
<tbody>
<tr>
<td>10,500</td>
<td>288.62/M</td>
<td>$3,030.51</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Quantity Per Invoice</th>
<th>Cost Per Invoice</th>
<th>Overpayment</th>
</tr>
</thead>
<tbody>
<tr>
<td>11,000</td>
<td>310.62/M</td>
<td>$386.31</td>
</tr>
</tbody>
</table>

Purchase order P600000654 was issued on March 26, 1996 for a new Web Alpha Server for $10,100 per a solicitation that included delivery. A freight charge of $75 was included on the invoice and was paid.

Purchase order 705803 was issued to purchase 805 lapel pins at $3.40 each. The vendor invoiced the University for 837 lapel pins at $3.40 each. The University issued check 01-045092 to pay for the 837 lapel pins. The additional 32 lapel pins were $108.80.

We recommend the University take more care in matching the purchase orders with invoices. Any discrepancies should be forwarded to the purchasing office for resolution. Furthermore, we recommend the University request a refund on the overpayments on purchase orders 605143 and P600000654.
V. Untimely Invoice Payments

During our voucher payment review, we noted the following invoices that were not paid in a timely manner.

<table>
<thead>
<tr>
<th>Invoice Date</th>
<th>Check Date</th>
<th>Check Number</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>12/21/95</td>
<td>03/20/96</td>
<td>29898</td>
<td>$5,880</td>
</tr>
<tr>
<td>02/08/96</td>
<td>04/29/96</td>
<td>31834</td>
<td>5,955</td>
</tr>
<tr>
<td>01/19/97</td>
<td>04/16/97</td>
<td>45682</td>
<td>3,200</td>
</tr>
<tr>
<td>09/26/96</td>
<td>04/21/97</td>
<td>45864</td>
<td>560</td>
</tr>
<tr>
<td>10/02/96</td>
<td>04/21/97</td>
<td>45864</td>
<td>9,913</td>
</tr>
<tr>
<td>01/24/97</td>
<td>05/28/97</td>
<td>47454</td>
<td>9,631</td>
</tr>
</tbody>
</table>

The invoices were received and entered into the payment system by Accounts Payable. For a check to be released, Central Receiving must also acknowledge that the items have been received by the user departments. This is verified by the department signing the green receiving copy of the purchase order.

An additional review of unpaid invoices in Accounts Payable revealed thirty three purchase orders, shown as completed over thirty work days, had not been paid. The user departments are not returning receiving reports to Central Receiving in a timely manner.

Section 11-35-45 of the Code states in part:

The lump sum institutions of higher education are responsible for the payment of all goods and services within thirty work days after the receipt of the goods and services, whichever is received later, and shall pay an amount not to exceed fifteen percent per annum on any unpaid balance which exceeds the thirty work-day-period, if the vendor specifies on the statement or the invoice submitted to such institutions that a late penalty is applicable if not paid within thirty work days after the receipt of goods and services.
We recommend the University review the invoice payment process. The review should begin from the time goods are accepted at the receiving dock until Central Receiving releases the invoice for payment. Special attention should be given to the turn around time of the receiving document from the user department to Central Receiving. The University must ensure vendors are paid in a timely manner.

VI. Construction

The University failed to report an emergency procurement to the Materials Management Office. An emergency contract for steam line replacement between the boiler plant and Dukes Gym for $290,350 was issued on project H24-9557-DS on June 18, 1996. Section 11-35-2440 of the Code requires the quarterly reporting of emergency procurements. A break down in communication between the Physical Plant and the Procurement Office resulted in the emergency not being reported.

We recommend an amended report be prepared and submitted to the Materials Management Office to correct the reporting error. Furthermore, better communication between the two sections must be established to ensure accurate reporting of emergency procurements.
CERTIFICATION RECOMMENDATIONS

As enumerated in our transmittal letter, corrective action based on the recommendations described in this report, we believe, will in all material respects place South Carolina State University in compliance with the South Carolina Consolidated Procurement Code and ensuing regulations. We will perform a follow-up review by January 15, 1998 to ensure that the University has completed this corrective action.

Under the authority described in Section 11-35-1210 of the Procurement Code, subject to this corrective action, we will recommend the University be recertified to make direct agency procurements for three years up to the limits as follows:

<table>
<thead>
<tr>
<th>PROCUREMENT AREA</th>
<th>RECOMMENDED CERTIFICATION LEVELS</th>
</tr>
</thead>
<tbody>
<tr>
<td>Goods and Services</td>
<td>*$25,000 per commitment</td>
</tr>
<tr>
<td>Information Technology</td>
<td>*$25,000 per commitment</td>
</tr>
<tr>
<td>Consultants Services</td>
<td>*$25,000 per commitment</td>
</tr>
</tbody>
</table>

*This means the total potential purchase commitment to the state whether single year or multi-term contracts are used.

James M. Stiles, CPPB
Audit Manager

Larry G. Sorrell, Manager
Audit and Certification
January 8, 1998

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

Dear Mr. Sorrell:

The University is in receipt of the final exit report submitted by your office. The University concurs with your findings and have taken the appropriate steps to addressing these issues. The University accepts the recommended level and length of certification by your office. The University would like to extend their gratitude and appreciation to your audit staff:

Mr. Jim Stiles, Audit Manager  
Mr. David Rawls, Senior Auditor

These two gentleman were of tremendous support to the University and their dedication and knowledge exemplifies the high degree of professionalism of your agency. We look forward to a continued positive relationship with your agency.

Sincerely,

Ronald Garrick  
Vice President of Finance and Management

cc: Leon Sanders, Assistant Vice President for Business and Finance  
Jim Stiles, CPPB, Audit Manager  
David Rawls, CPPB, Senior Auditor
Dear Voight:

We have reviewed the response from South Carolina State University to our audit report for the period of January 1, 1996 - June 30, 1997. Also we have followed the University's corrective action during and subsequent to our field work. We are satisfied that the University has corrected the problem areas and the internal controls over the procurement system are adequate.

Therefore, we recommend the Budget and Control Board grant South Carolina State University the certification limits noted in our report for a period of three years.

Sincerely,

Larry G. Sorrell, Manager
Audit and Certification

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