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**South Carolina
Division of General Services**

PROCUREMENT AUDIT AND CERTIFICATION

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COLLEGE OF CHARLESTON

AGENCY

JULY 1, 1987 - JUNE 30, 1989

DATE

STATE OF SOUTH CAROLINA
State Budget and Control Board
DIVISION OF GENERAL SERVICES



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MATERIALS MANAGEMENT OFFICE
1201 MAIN STREET, SUITE 600
COLUMBIA, SOUTH CAROLINA 29201
(803) 737-0600

JAMES J. FORTH, JR.
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JESSE A. COLES, JR., Ph.D.
EXECUTIVE DIRECTOR

February 23, 1990

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

Dear Rick:

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

Sincerely,

A handwritten signature in cursive script, appearing to read "James J. Forth, Jr.".

James J. Forth, Jr.
Assistant Division Director

/jlj

Attachment

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JESSE A. COLES, JR., Ph.D.
EXECUTIVE DIRECTOR

January 15, 1990

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

We have examined the procurement policies and procedures of the College of Charleston for the period July 1, 1987 through June 30, 1989. 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 internal 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 the College of Charleston is responsible for establishing and maintaining a system of internal control over procurement transactions. In fulfilling

this responsibility, estimates and judgements by management are required to assess the expected benefits and related costs of control procedures. The objectives of a system are to provide management with reasonable, but not absolute, assurance of the integrity of the procurement process, that affected assets are safeguarded against loss from unauthorized use or disposition and that transactions are executed in accordance with management's authorization and are recorded properly.

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

Our study and evaluation of the system of internal control over procurement 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 the College of Charleston in compliance with the South Carolina Consolidated Procurement Code and ensuing regulations.

Voight Shealy
R. Voight Shealy, Manager
Audit and Certification

INTRODUCTION

The Office of Audit and Certification conducted an examination of the internal procurement operating procedures and policies of the College of Charleston. Our on-site review was conducted July 11, 1989 through August 18, 1989 and was made under authority as described in Section 11-35-1230(1) of the South Carolina Consolidated Procurement Code and Section 19-445.2020 of the accompanying regulation.

The examination was directed principally to determine whether, in all material respects, that 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 College in promoting the underlying purposes and policies of the Code as outlined in Section 11-35-20, which includes:

- (1) to ensure the fair and equitable treatment of all persons who deal with the procurement system of this State;
- (2) to provide increased economy in state procurement activities and to maximize to the fullest extent practicable the purchasing values of funds of the State;
- (3) to provide safeguards for the maintenance of a procurement system of quality and integrity with clearly defined rules for ethical behavior on the part of all persons engaged in the public procurement process.

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.

On March 21, 1988, the Budget and Control Board granted the following procurement certifications to the College of Charleston:

<u>Category</u>	<u>Requested Limit</u>
1. Goods and Services	\$20,000
2. Consultant Services	20,000
3. Information Technology	20,000
4. Construction	25,000

Our audit was performed primarily to determine if recertification is warranted. Additionally, the College of Charleston requested the increased certification limits below:

<u>Category</u>	<u>Requested Limit</u>
1. Goods and Services	\$50,000
2. Consultant Services	50,000
3. Information Technology	50,000
4. Construction	25,000

SCOPE

Our examination encompassed a detailed analysis of the internal procurement operating procedures of the College of Charleston 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.

We selected random samples of procurement transactions for the period July 1, 1987 through June 30, 1989, 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 provisions of the South Carolina Consolidated Procurement Code and accompanying regulations;
- (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) disposition of surplus property;
- (10) economy and efficiency of the procurement process; and,
- (11) approval of the Minority Business Enterprise Plan.

SUMMARY OF AUDIT FINDINGS

Our audit of the procurement system of the College of Charleston produced findings and recommendations in the following areas:

	<u>PAGE</u>
I. <u>Direct Expenditure Vouchers</u>	9
<p>The College manages what we believe to be a dependable direct expenditure voucher process. However, five exceptions noted indicate that additional controls may be needed for compliance.</p>	
II. <u>Compliance - Sole Source and Emergency Procurements</u>	
A. <u>Unauthorized Sole Source Procurements</u>	10
<p>Required determinations were prepared after procurements were made.</p>	
B. <u>Inappropriate Sole Sources</u>	11
<p>A one year sole source agreement was extended inappropriately for two additional years. Additionally, the College sole sourced the same firm for a second project. This was inappropriate also.</p>	
III. <u>Compliance - Accounts Payable</u>	11
<p>Changes were made without approval of the procurement department.</p>	

RESULTS OF EXAMINATION

I. Directed Expenditure Vouchers

The direct expenditure voucher (DEV) is a process used to pay an invoice where no precommitment of funds exists. The expenditure authorization (EA) form is used in this process and is considered an accounting form. A written directive exists where the Controller may process and pay certain transactions under the DEV system.

During our review we noted five payments, as detailed below that should not have been honored without prior written approval of the procurement office. They were as follows:

<u>Voucher#</u>	<u>Amount</u>	<u>Description</u>
22420	\$ 600.00	Band
22977	660.00	Consultant
00762	317.00	Diskettes
06284	2,485.74	Loan collection
07311	6,383.35	Conference

The above listed procurements were subject to the competitive requirements of the Consolidated Procurement Code; yet, through the use of DEVs, the procurement office was bypassed. As a result, these procurements were made without any evidence of competition. Further, these procurements were made by personnel who have no procurement authority. As a result, ratification must be requested for each procurement in accordance with Regulation 19-445.2015.

We recommend that a more positive method of control of DEV payments be implemented. The procurement office should review DEVs greater than \$500.00 to assure full compliance with the Consolidated Procurement Code.

COLLEGE RESPONSE

Accept recommendations and will institute written procedures for all D.E.V.'s not specifically authorized to be rejected by Controller's Office for review by Purchasing.

II. Compliance - Sole Source and Emergency Procurements

We reviewed the quarterly reports of sole source and emergency procurements and all available supporting documents for the period July 1, 1987 - June 30, 1989. This review was performed to determine the appropriateness of the procurement actions taken and the accuracy of the reports submitted to the Division of General Services.

We found the majority of the transactions to be proper and correctly reported. However, we did encounter the following problems which affect compliance with the Procurement Code.

A. Unauthorized Sole Source Procurements

The below listed sole source procurements were made and later confirmation sole source determinations were prepared. The Consolidated Procurement Code requires that sole source determinations be prepared and approved prior to procurements being made as each determination is the basis for the procurement.

<u>PO#</u>	<u>Amount</u>	<u>Description</u>
75905	\$ 1,930.00	Rental fee for exhibit
75770	5,000.00	L.P gas service
78448	1,710.14	Rental of school buses
77550	32,356.17	Chilled water and steam
DEV	750.00	Shipping of art collection

These procurements were unauthorized as the determinations were prepared after the procurements were made. As such, they must be ratified in accordance with Regulation 19-445.2015.

B. Inappropriate Sole Sources

The College entered into an agreement for intragovernmental professional and management consulting services in February 1986. During our last audit, we stated that we could accept this consultant as a sole source only for the transition period of the new administration and that the College should seek competition through the "request for proposal" methodology. The College sought and received proposals for which a contract went into effect on July 1, 1989. We take exception with the extension of the sole source for two additional years.

The same company was contracted to "assist the College in developing requests for proposals to procure the development of new Management Information Systems." We do not accept this company as a sole source for this procurement.

We recommend that future sole source procurements be limited to those that are only available from a single supplier as stipulated in Section 11-35-1560 of the Consolidated Procurement Code.

COLLEGE RESPONSE

Accept recommendations and understand the law regarding sole source procurements and in any case where there is reasonable doubt will solicit competition.

III. Compliance - Accounts Payable

In six cases, there were minor differences between purchase order prices and resulting vendor invoice prices. The invoice prices were paid by the accounts payable department. Although the differences were minor, the reasons for the changes were unclear.

Additionally, on the following transactions, freight was paid when the purchase order clearly stated it was the responsibility of the vendor.

<u>PO#</u>	<u>Freight Paid</u>
73214	\$ 30.00
79000	121.27

Finally, a \$196.80 discount was missed on purchase order number 81488. Payment was made three days after the invoice was received. This was within the discount period offered by the vendor but the discount was not taken.

The payments of freight and the missed discount are indications of a lack of due care that resulted directly in overcharges to the College.

We recommend that all changes in quantity or price be referred to the purchasing office for disposition. If authority to approve minor changes is to be delegated to accounts payable it should be limited and should be done in writing. When discrepancies are cleared by accounts payable they should be noted. Inappropriate payments of freight and missed discounts should be eliminated entirely through careful scrutiny of vendor invoices.

COLLEGE RESPONSE

Accept recommendations and Purchasing will examine current procedures delegating minor change authority to accounts payable for broadening. These procedures will be implemented in writing. Accounts payable will document discrepancies and the basis for their resolution. Again, we pledge to eliminate inappropriate payments through continued careful scrutiny of vendor invoices.

CERTIFICATION RECOMMENDATIONS

As 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 the College of Charleston in compliance with the South Carolina Consolidated Procurement Code and ensuing regulations.

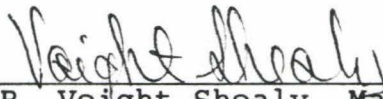
Under the authority described in Section 11-35-1210 of the Procurement Code, subject to corrective action, we recommend the College of Charleston be recertified to make direct agency procurements for three (3) years up to the limits which are as follows:

<u>Procurement Areas</u>	<u>Recommended Certification Limits</u>
I. Goods and Services	*\$ 50,000 per purchase commitment
II. Construction Services	* 25,000 per purchase commitment
III. Consultants	* 50,000 per purchase commitment
IV. Information Technology in accordance with the approved Information Technology Plan	* 50,000 per purchase commitment

*The total potential commitment to the State whether single year or multi-term contracts are used.

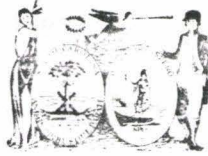


Marshall B. Williams, Jr.
Supervisor, Audit and Certification



R. Voight Shealy, Manager
Audit and Certification

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JESSE A. COLES, JR., Ph.D.
EXECUTIVE DIRECTOR

February 16, 1990

Mr. James J. Forth, Jr.
Assistant Division Director
1201 Main Street, Suite 600
Columbia, South Carolina 29201

Dear Jim:

We have returned to the College of Charleston to determine the progress made toward implementing the recommendations in our audit report covering the period July 1, 1987 through June 30, 1989. During this visit, we followed up on each recommendation made in the audit report through inquiry, observation and limited testing.

The Audit and Certification Section observed that the College of Charleston 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, 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 as outlined in the audit report, be granted for a period of three (3) years.

Sincerely,

A handwritten signature in cursive script that reads 'Voight Shealy'.

R. Voight Shealy, Manager
Audit and Certification

/jllj

