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**South Carolina
Division of General Services**

PROCUREMENT AUDIT AND CERTIFICATION

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JANUARY 6, 1987

DATE

STATE OF SOUTH CAROLINA
BUDGET AND CONTROL BOARD
DIVISION OF GENERAL SERVICES
300 GERVAIS STREET
COLUMBIA, SOUTH CAROLINA 29201
(803) 737-2150

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HOUSE WAYS AND MEANS COMMITTEE

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

December 9, 1986

Mr. Richard W. Kelly
Division Director
Division of General Services
300 Gervais Street
Columbia, South Carolina 29201

Dear Rick:

Attached is the final Educational Television Commission audit report and recommendations made by the Office of Audit and Certification. Since no certification request above the \$2,500 allowed by law remains to be considered by the Budget and Control Board, I recommend that this report be presented to Dr. Coles for his information.

Sincerely,

A handwritten signature in cursive script, appearing to read "WJ Clement".

William J. Clement
Assistant Division Director

Attachment

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

May 6, 1986

Mr. William J. Clement
Assistant Division Director
300 Gervais Street
Columbia, South Carolina 29201

We have examined the procurement policies and procedures of The South Carolina Educational Television Commission (hereinafter referred to as ETV) for the period July 1, 1984 to January 31, 1986. As 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.

The administration of ETV 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 ETV in compliance with the South Carolina Consolidated Procurement Code and ensuing regulations.

R. Voight Shealy
R. Voight Shealy, Manager
Audit and Certification

RESULTS OF EXAMINATION

The Office of Audit and Certification conducted an examination of the internal procurement operating procedures and policies and related manual of ETV for the period July 1, 1984 through January 31, 1986. Our on-site review was conducted February 24, 1986 to March 17, 1986 and 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.

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.

ETV has maintained what we consider to be a professional, efficient procurement system. We did note, however, the below listed items which should be addressed by management.

Purchase order 60215 was issued for \$455.76, but the resulting payment on voucher 60731 was for \$522.66, an increase of \$66.90 for freight charges. Competition was not obtained as ETV did not consider freight in the procurement process. Without freight the procurement was less than \$500.00 so it would not require competition.

In February, 1985, the Director of Audit and Certification circulated the Procurement Audit Newsletter to all state

procurement directors to inform them of various audit exceptions that might be avoided. Item 8 of that letter reiterated that the Materials Management Officer had established that when identifying the proper procurement methodology, the procurement officer must consider the total acquisition cost including sales tax and freight.

We recommend that, when applicable, freight costs be considered when determining total acquisition cost. Once total acquisition cost is determined, the applicable procurement methodology should be utilized.

AGENCY RESPONSE

A memorandum was issued to all personnel on August 15, 1986, cautioning them to ensure that adequate freight charges are included on all applicable Purchase Orders.

Purchase order 61406 for \$1,008.00 was issued after the items had been ordered by someone without purchasing authority as evidenced by the invoice date being September 11, 1985 and the purchase order date being October 1, 1985. This transaction is an unauthorized procurement and must be ratified pursuant to Regulation 19-445.2015. In the future, after-the-fact purchase orders should not be issued without a formal ratification from the appropriate official.

AGENCY RESPONSE

Purchase order #61406 dated October 1, 1985 was issued after the invoice date due to vendor error. Quotes were obtained on September 6, 1985 from two sources as required by regulations. The low bidder apparently thought they had received the order and shipped the items. Ratification action has been completed on this purchase.

We reviewed sole source procurements for the quarters ending March, 1985 to December, 1985 and noted the following weaknesses:

1. Improper Sole Source Procurement

The following determination did not adequately support a sole source procurement and the transaction is questionable as such:

<u>Purchase Order</u>	<u>Amount of Purchase Order</u>	<u>Description</u>
52910	\$2,812.60	Mailing machine and scale

We recommend that sole source procurements be limited to unique items only available from a single supplier, as required by section 19-445.2105 of the regulations.

AGENCY RESPONSE

The sole source approving official must rely on technical personnel to determine if items are in fact sole source. In the future, additional opinions will be solicited in those cases where the possibility of multiple sources exist.

2. Sole Sources Not Reported

The agency made the following six procurements using the sole source methodology but failed to report the transactions to the Division of General Services, as required by Section 11-35-2440 of the Code.

<u>Purchase Order</u>	<u>Amount of Purchase Order</u>
53794	\$2,265.00
53866	\$1,250.00
53970	\$3,700.00
50656	\$2,499.00
61202	\$ 515.00
54985	\$ 700.00

We recommend that the agency implement procedures to assure that each transaction determined to be a sole source is properly reported to the Division of General Services. Amended reports for the appropriate time periods should be prepared.

AGENCY RESPONSE

Procedures have been implemented to insure that all sole source procurements are reported as required. An amended report will be submitted along with the next due report.

An audit stamp is used by the Accounting Department to indicate the performance of expenditure voucher verification steps. On five transactions, all sections of the audit stamp were not initialled by the personnel performing the review. Re: Purchase orders 50659, 53083, 54553, 61100 and 62633. We recommend that each step of the audit stamp be initialled by the person who completed the task.

AGENCY RESPONSE

We will be more careful in the future to avoid these minor administrative errors.

In two cases, the items or services received were not identical to those ordered. In one case, the item received was returned to the vendor and a comparable item was ordered to replace it. Re: Purchase order 61202. In another case, a purchase order for \$700.00 to repair a printer resulted in a payment of \$1,460.78. Re: Purchase order 54985. These changes should have been officially authorized through the use of change orders.

AGENCY RESPONSE


In the future, change orders will be issued when appropriate.

CONCLUSION

As enumerated in our transmittal letter, corrective action based on the recommendations in the body of this report, we believe, will in all material respects place the South Carolina Educational Television Commission in compliance with the South Carolina Consolidated Procurement Code and ensuing regulations. Because additional certification was not requested, we recommend that the South Carolina Educational Television Commission be allowed to continue procuring all goods and services, construction, information technology and consulting services up to the basic level as outlined in the Procurement Code.



Larry G. Sorrell
Audit Manager



R. Voight Shealy, Manager
Audit and Certification

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

December 9, 1986

Mr. William J. Clement
Assistant Division Director
Division of General Services
300 Gervais Street
Columbia, South Carolina 29201

Dear Bill:

We have reviewed the response to our audit report of the Educational Television Commission (ETV) covering the period July 1, 1984 through January 31, 1986. Combined with observations made during our site visit and discussions with ETV officials during our exit conference, the Office of Audit and Certification is satisfied that problem areas have been corrected and that internal controls over the procurement system are adequate.

Additional certification was not requested, therefore we recommend that ETV be allowed to continue procuring all goods and services, construction, information technology and consulting services up to the basic level as outlined in the Consolidated Procurement Code regulations.

Sincerely,

Handwritten signature of R. Vought Shealy in cursive.

R. Vought Shealy, Manager
Audit and Certification

