



Lander University

INDEPENDENT PROCUREMENT AUDIT REPORT

for the Audit Period:
November 1, 2019, to October 31, 2022

Office of Audit & Certification
Division of Procurement Services
July 17, 2023

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ABBREVIATIONS

AP	– Accounts Payable
Cardholder	– Purchasing Card Holder
Code	– SC Consolidated Procurement Code and ensuing Regulations
COTS	– Commercially Available Off-the-Shelf
CPO	– Chief Procurement Officer
DFWA	– Drug Free Workplace Act
DPS	– Division of Procurement Services
ITMO	– Information Technology Management Office
PI Manual	– Manual for Planning and Execution of State Permanent Improvements
MBE	– Minority Business Enterprise
MMO	– Materials Management Office
OCG	– Office of the Comptroller General
OSE	– Office of State Engineer
PCA	– Purchasing Card Administrator
P-Card	– Purchasing Card
P-Card Coordinator	– Statewide P-Card Program Contract Administrator at DPS
PO	– Purchase Order
SCEIS	– South Carolina Enterprise Information
SMBCC	– Small and Minority Business Contracting and Certification
SPO	– Surplus Property Office
State PO Policy	– State of South Carolina Statewide Purchase Order Policy
STL	– Single Transaction Limit

INTRODUCTION

DPS audited Lander University's (the University) internal procurement operating policies and procedures, as outlined in their internal Procurement Operating Procedures Manual, under § 11-35-1230 of the Code and Reg. 19-445.2020.

The primary objective of our audit was to determine whether, in all material respects, the internal controls of the University's procurement system were adequate to ensure compliance with the Code.

Management of the University is responsible for the University's compliance with the Code. Those responsibilities include the following:

- Identifying the University's procurement activities and understanding and complying with the Code
- Establishing and maintaining an effective organization structure and system of internal control over procurement activities that provide reasonable assurance that the University administers its procurement programs in compliance with the Code
- Establishing clear lines of authority and responsibility for making and approving procurements
- Documenting the University's system of internal control over its procurement activities in an internal procurement procedure manual
- Taking corrective action when instances of noncompliance are identified, including corrective action for the findings of this audit

Because of inherent limitations in any system of internal controls, errors or irregularities may occur and not be detected. 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 review and evaluation of the system of internal control over procurement transactions, as well as our overall audit of procurement policies and procedures, was conducted with professional care. However, because of the nature of audit testing, they would not necessarily disclose all weaknesses in the system.

INTRODUCTION

Our audit was also performed to determine if recertification under SC Code Ann. § 11-35-1210 is warranted.

On June 27, 2018 the State Fiscal Accountability Authority (SFAA) granted the University the following procurement certifications:

<u>PROCUREMENT AREAS</u>	<u>CURRENT CERTIFICATION \$ LIMITS</u>
Supplies and Services	200,000 per commitment*
Consultant Services	200,000 per commitment*
Information Technology	150,000 per commitment*
Construction Contract Award	200,000 per commitment*
Construction Contract Change Order	75,000 per change order
Architect/Engineer Contract Amendment	50,000 per amendment

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

During the audit, Lander did not request an increase in its certification limits.

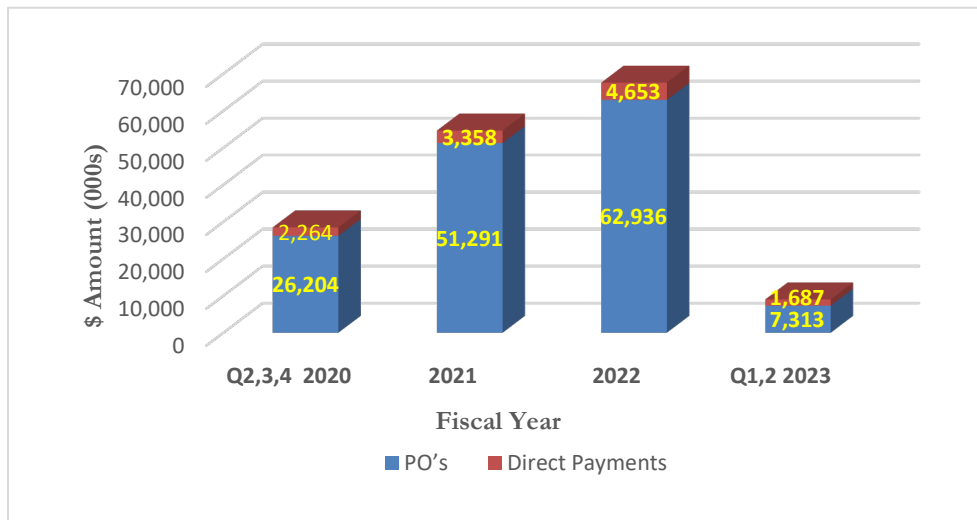
SCOPE

We conducted our audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. Our audit included testing, on a sample basis, evidence about the University's compliance with the Code for the period November 1, 2019 through October 30, 2022, the audit period, and performing other procedures we considered necessary in the circumstances. We believe the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives

Total Expenditures

During the audit period, the University made expenditures as follows:

	\$ Amount (000s)				Total
	Q2,3,4 FY2020	FY2021	FY2022	Q1,2 FY2023	
POs ¹	26,204	51,291	62,936	7,313	147,745
Direct Pay ²	2,264	3,358	4,653	1,687	11,963
Total Spend	28,468	54,650	67,589	9,001	159,707



¹ **POs** represents all expenditures made with a Purchase Order. These are required for most contract purchases by the terms of the contract and is the preferred procurement instrument when a government unit orders or procures supplies or services from a vendor.

² **Direct Pays** are made without purchase order based on the State Purchase Order Policy. These may occur with purchases of supplies or services that are exempt from the Code or for such things as payment for P-Card purchases or purchases less than \$2500.

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Note: The University's responses to issues raised in this report have been inserted immediately following the recommendations in the body of the report.

RESULTS OF AUDIT

I. Supplies and Services

We audited expenditures exceeding \$10,000 made with POs, and expenditures made without a PO to determine compliance with the Code.

Our review of procurements for the audit period did not identify any compliance issues.

II. Direct Payments

A. Lander Does Not Have a PO Policy

We found multiple instances where Lander's AP Department rejected invoices not referencing a PO with a stamp "sent to business office for check without PO." Subsequently, they were marked "Code Exempt" and then added a handwritten note referencing an exemption.

Lander did not have a policy specifying when a purchase can be made without a PO, Direct Payment. According to Lander, "POs are not required by the Code, therefore if the vendor does not require a PO for processing and if it doesn't serve Landers's needs to issue one, they are free to approach as a direct pay." The risk of unauthorized procurements is increased when there is no policy describing specific conditions under which a purchase can be made without a PO.

Per the State PO Policy, "A Direct Pay is a payment method only. It does not establish compliance with the SC Consolidated Procurement Code & Regulations or other State regulations." In addition, the State PO Policy states, Direct Payments "should not be used as a matter of convenience as it leads to a reduction in controls and approvals."

Having a policy in place that specifies when a PO is required reduces the risk of bypassing Lander's procurement procedures and non-compliance with the Code.

Recommendation: We recommend Lander revise its internal procurement procedures to require the use of POs and to limit circumstances where Direct Payment is acceptable using the State PO Policy as a guide. Lander should send its revised internal procedures to DPS for approval. We further recommend that, for a period of one year, the University process exempt purchases with a PO approved by the University's Procurement Department, and that the PO specify which exemption is being applied. If the exemption being applied is based on the source of funds, Lander's procedures must be able to document the segregation of exempt from non-exempt funds.

University Response

Institutional Response: We accept the auditors' findings, and the following action will be taken to address the recommendation.

Corrective Action: Procurement Services will be updating its Policy and Procedure Manual to reflect the requirement of purchase orders as the preferred method of procuring supplies or services

RESULTS OF AUDIT

from a vendor as stated in the State's Purchase Order Policy. Exceptions to this rule will mirror those of the State's policy. For a period of one year, Lander will process exempt purchases with a purchase order specifying which exemption is being applied and documenting the segregation of exempt funds as applicable to the code. This practice will be implemented no later than August 31, 2023 with the updated policy to follow by September 30, 2023 with appropriate approvals.

Responsible department for corrective action: Procurement Services Office and the Office of Finance and Administration

B. Exemptions Inappropriately Applied

Lander made 12 purchases of executive recruiting services totaling \$131k, and 11 purchases of liability insurance totaling approximately \$298k based on the athletic funds' exemption § 11-35-710 (6). According to the University, the funds used included funds generated from athletics, bookstore, canteen sales, dining services and housing. Funds derived from dining services and housing are not qualified under the exemption. Lander further explained that the prior administration took the position that any revenue generated by auxiliary activities was exempt, but that future procurements will be made in compliance with the Code. Exempt funds must be separately accounted for and adequately segregated to preserve the exemption. Liability insurance has a well-defined marketplace and state agencies obtain more cost-effective coverage through a competitive procurement process.

Lander made nine purchases of international health and accident insurance for students studying abroad, student academic pursuits, totaling approximately \$392k using funds "derived from insurance fees collected from students by Lander and were approached as pass-through fees." The exemption for funds derived from activities of student organizations does not cover fees collected from students to cover costs associated with student academic pursuits.

University Response

Institutional Response: Lander University accepts the auditors' findings, and the following action will be taken to address the recommendation.

Corrective Action: Procurement Services will be updating their Policy and Procedure Manual to reflect the recommendations of the audit, reference the Legal Exemptions Table provided on the DPS website, and to clarify that all funds generated by athletics are not exempt by default. Such funds must be adequately segregated and documented on exempt procurements, if applicable. Additionally, fees collected from students do not constitute an exempted class. This practice will cease immediately with the updated policy to follow by September 30, 2023 with appropriate approvals.

Responsible department for corrective action: Procurement Services Office and the Office of Finance and Administration

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C. Bookstore Exemption Inappropriately Applied

Lander made 78 purchases of graduation supplies totaling approximately \$105k through the bookstore without competition. The commercial resale exemption only applies when there is a market in the commercial sense. Because there is no real market for graduation supplies other than to students, they should be acquired through competitive procurements. The exemption for the expenditure of funds at state institutions of higher learning derived wholly from the operation of bookstores applies to funds generated thru the bookstore, after all expenditures. The cost of operations must be fully paid before there are any funds for the institution to retain under this exemption. Lander's purchases of graduation supplies through the bookstore without competition were not exempt and are considered unauthorized or illegal procurements.

Recommendation: We recommend the University develop and implement procedures to ensure the appropriate use of Procurement Code exemptions, and that Lander procurement personnel seek additional information on Procurement Code exemptions to ensure their understanding. We further recommend the University ratify or terminate the identified purchases made through the improper application of exemptions and report them to DPS as unauthorized or illegal as required by Regulation 19-445.2015.

University Response

Institutional Response: Lander University accept the auditors' findings, and the following action will be taken to address the recommendation.

Corrective Action: Procurement Services will be updating their Policy and Procedure Manual to reflect the recommendations of the audit, reference the Legal Exemptions Table provided on the DPS website, and to clarify that all funds generated by bookstore activities are not exempt by default. Such funds must be adequately segregated and documented on exempt procurements if applicable. Additionally, fees collected from students do not constitute an exempted class. This practice will cease immediately with the updated policy to follow by September 30, 2023 with appropriate approvals.

Responsible department for corrective action: Procurement Services Office and the Office of Finance and Administration

III. Sole Source Procurements

Written determinations for all sole source procurements pursuant to SC Code Ann. § 11-35-1560 were evaluated to assess the appropriateness of the procurement actions and the accuracy of the quarterly reports required by § 11-35-2440. During the audit period Lander reported 99 sole source procurements totaling approximately \$3.8M to DPS.

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Our testing of sole source procurements did not identify any compliance issues.

IV. Emergency Procurements

All written determinations for emergency procurements made pursuant to SC Code Ann. § 11-35-1570 were evaluated to assess the appropriateness of the procurement actions and the accuracy of the quarterly reports required by § 11-35-2440. Lander conducted three emergency procurements totaling approximately \$53k during the audit period.

Our testing of emergency procurements did not identify any compliance issues.

V. Construction

We tested construction, architectural/engineer, and related professional service contracts for compliance with the Code and the PI Manual.

Our testing of construction did not identify any areas of noncompliance.

VI. P-Cards

Lander had 188 P-Cards in use during the audit period and spent approximately \$9.2M across 24,263 transactions. The volume of usage increases the risk that misuse, or abuse of P-Cards will not be prevented or detected without adequate management oversight.

Program Administration

We reviewed Lander's P-Card Policy and Procedures for compliance with the State P-Card Policy and identified weaknesses in program oversight.

A. Insufficient Internal P-Card Manual

We reviewed Lander's Internal P-Card Procedures Manual, dated September 2019, which was in effect during the audit period, for compliance with State P-Card Policy. We identified areas of non-compliance as follows: The following key areas were omitted from Lander's manual:

1. A documented Level I training program and a documented record and acknowledgement of training for employees with program responsibility
2. A requirement for supervisor/approvers and cardholders to sign the monthly bank statements.
3. A requirement to perform an annual independent audit.
4. Procedures for limiting Supervisor/Liaison span of control.
5. Consequences of misuse or fraudulent use and a method for reporting suspected misuse or fraudulent use.

State P-Card Policy III (A) (1) lists key requirements agencies must include in their internal P-Card manuals.

RESULTS OF AUDIT

Recommendation: We recommend Lander revise its internal P-Card Manual to document a system of internal controls to ensure compliance with key requirements in the State P-Card Policy. Procurement Services' website has a P-Card Manual Checklist that may be of assistance in revising the manual.

University Response

Institutional Response: Lander University accept the auditors' findings. We would like to make note that Lander did have a training program in place that each cardholder was required to complete and acknowledge with a signature and date before they were given a card. This program covered the P-Card manual page by page, but a training guide was not established as part of this training.

Corrective Action: Procurement Services will be updating the university's internal P-Card Manual to address the insufficiencies identified in the audit and will be referencing the aforementioned check list. Lander is revising and documenting our Level I training program. The new program will document the requirements for supervisor/approvers to review and sign the monthly statement, the requirement to perform an annual independent audit, limitations on Supervisor/Liaison span of control to the recommended 5-10 cardholders, and the consequences of misuse or fraudulent use as well as a method for reporting suspected misuse or fraudulent use. This will be fully implemented by September 30, 2023

Responsible department for corrective action: Procurement Services Office and the Office of Finance and Administration

B. Written Designation of the PCA Not Provided

Lander did not provide written designation of the PCA to the P-Card Coordinator as required by State P-Card Policy III (A) (1) (d).

Recommendation: We recommend Lander provide written designation of their PCA to the P-Card coordinator. We further recommend Lander update their internal P-Card Manual to include this requirement.

University Response

Institutional Response: Lander University accept the auditors' findings, and the following action will be taken to address the recommendation.

Corrective Action: Procurement Services will immediately draft a written designation of the PCA to the C-Coordinator at DPS. Scott Pilgrim, Director of Procurement will be the primary and Joseph Greenthal, Vice President for Finance and Administration will be the secondary until the assistant director position in the procurement office is filled.

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Responsible department for corrective action: Procurement Services Office and the Office of Finance and Administration

C. Documented Training Program

Lander did not have a documented Level I training program for P-Cardholders as required by Section III (A) (4) (a) of the State P-Card Policy.

Recommendation: We recommend Lander develop and implement procedures requiring all P-Card holders, supervisors/approvers, and liaisons be trained prior to being issued a P-Card and that the cardholder agreement include acknowledgement of that training.

University Response

Institutional Response: Lander University accept the auditors' findings. We would like to make note that Lander did have a training program in place that each cardholder was required to complete and acknowledge with a signature and date before they were given a card. This program covered the P-Card manual page by page, but a training guide was not established as part of this training.

Corrective Action: Procurement Services is revising its Level I training program and ensuring that all card holders receive documented training prior to receiving their card. This will be implemented no later than August 31, 2023.

Responsible department for corrective action: Procurement Services Office and the Office of Finance and Administration

D. Inactive P-Cards Not Cancelled

Lander had ten P-Cards that had not been used in over a year. State P-Card Policy III (A) (1) (a)(xi) requires monitoring for inactive cards and promptly closing accounts and cards no longer needed. Lander's Internal P-Card Manual also requires cards that are inactive for more than one year be closed.

Recommendation: We recommend closing all unused P-Card accounts and developing and implementing procedures to require monitoring and timely closing of inactive P-Cards as required by State P-Card Policy III (A) (1) (xi) and its internal P-Card Manual.

University Response

Institutional Response: Lander University accepts the auditors' findings. Although this requirement existed in our internal manual of policies and procedures, this step was overlooked.

Corrective Action: Procurement Services has implemented a reporting procedure through the Bank of America Works Application that will identify cards that have not been used in 12 months and deactivate them as applicable. This is currently in effect. This action will be conducted semi-annually.

RESULTS OF AUDIT

Responsible department for corrective action: Procurement Services Office and the Office of Finance and Administration

E. Cardholders Exceeded STL

Lander cardholders made six purchases above their STLs without the required pre-approval from the University President for purchases greater than \$2,500 but less than \$10,000.

Recommendation: We recommend Lander follow State P-Card Policy II (B) (2) and II (D) and Landers's own Internal P-Card Policy regarding STLs. Liaison reviewers should include approvals for purchases made greater than the cardholder's STLs.

University Response

Institutional Response: Lander University accepts the auditors' findings.

Corrective Action: Procurement Services is updating its P-Card Manual to clarify the requirement for pre-approval by the University President for p-card purchases greater than \$2,500 but less than \$10,000 per State P-Card Policy II (B) (2) and II (D). This will be implemented in writing by September 30, 2023, but enacted immediately in practice.

Responsible department for corrective action: Procurement Services Office and the Office of Finance and Administration

F. Payments Made on Open Accounts

Lander had twelve Cardholders who made payments on open accounts during the audit period. Part IV (E) (12) of the State P-Card Policy prohibits payments on open accounts.

Recommendation: We recommend Lander follow State P-Card Policy IV (E) (12). State P-Card Policy provides for the use of a Ghost Card Account that may be appropriate for the needs of the University.

University Response

Institutional Response: Lander University accepts the auditors' findings.

Corrective Action: Procurement services will identify any such accounts and make the necessary changes to either eliminate or determine what is the appropriate purchasing method going forward. This will be completed by September 30, 2023 with most examples already addressed prior to this plan of action.

Responsible department for corrective action: Procurement Services Office and the Office of Finance and Administration

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G. No Documented Liaison Review

Lander did not assign P-Card liaisons to review transactions for compliance with the Procurement Code as required by Part III (C) of the State P-Card Policy.

Recommendation: We recommend Lander assign liaisons in accordance with the State P-Card Policy and update its internal P-Card Policy to provide for a documented monthly review by Liaisons that ensures effective reviews are consistently performed for unallowable purchases, split transactions, and the use of blocked MCC. Accepted practice is to use a checklist to document and ensure an effective review of business need and required documentation for each purchase.

University Response

Institutional Response: Lander University accepts the auditors' findings. The majority of cardholders did have liaisons assigned; however, it is clear not all appropriate steps were taken by the assigned liaisons.

Corrective Action: Procurement Services is implementing a checklist to document and ensure a review per the State P-Card Policy. Liaison assignments will be reviewed, ensuring each cardholder has a liaison and each liaison will be provided a checklist to aid them in the review of monthly statements. The checklist will be provided to liaisons by September 15, 2023.

Responsible department for corrective action: Procurement Services Office and the Office of Finance and Administration

P-Card Transaction Testing

We performed tests of P-Card transactions to ensure compliance with State and University P-Card policies and procedures. Transaction testing identified areas of non-compliance which were not identified by the PCAs or supervisor/approvers during the monthly review and reconciliation of cardholder statements.

A. Personal Purchases

Lander cardholders made three personal purchases during the audit period totaling \$237.88. State P-Card Policy IV (E) (1) prohibits personal purchases of any kind. Lander's P-Card Manual requires the PCA to close an account if a cardholder makes an unauthorized or personal purchase.

Recommendation: We recommend Lander close the accounts of the Cardholders who made personal purchases per the University's internal procedures and retrain Cardholders to comply with State P-Card and internal P-Card policies. We further recommend the University implement the use of checklists in the monthly liaison review to identify purchases which violate State and internal P-Card policies.

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University Response

Institutional Response: Lander University accepts the auditors' findings. The personal transactions made in error, both occurred within the same department. The campus has drastically reduced the p-card program.

Corrective Action: One of the cards identified with a personal transaction has since been deactivated. The other cardholder's account is remaining active as the sole cardholder for the department; however, the cardholder will be required to be re-trained on the State P-Card Policy per our revised documented Level I Training. The university will also be following the recommendation regarding liaisons to further monitor and approve the transactions of this individual. Corrective training for this individual is in the process of scheduling.

Responsible department for corrective action: Procurement Services Office and the Office of Finance and Administration

B. Bank Statements Lacked Cardholder and Management Approval

Lander Cardholders did not date their signatures on bank statements in 17 instances and cardholders did not sign the bank statements in seven instances. Without dates or signatures, we cannot determine if the cardholders reviewed the statements attesting to their accuracy and completeness as required by Part III (D) (4) of the State P-Card Policy.

Lander supervisor/approvers did not date their signatures on the bank statements in 15 instances and supervisor/approvers did not sign the bank statements in nine instances. Without dates and signatures, we cannot determine if supervisors/approvers reviewed the bank statements before the deadline for payment as required by State P-Card Policy III (B) (8).

Recommendation: We recommend Lander develop and implement procedures requiring timely signatures of approval on monthly bank statements by both the cardholders and supervisors/managers. We also recommend that Lander provide refresher training for cardholders and managers who have oversight responsibility for P-Cards.

University Response

Institutional Response: Lander University accepts the auditors' findings.

Corrective Action: Procurement Services will be updating their P-Card Level I training program to reflect the recommendations of the audit and will stress the requirement of timely signatures of approval including the date from both cardholders and supervisors/managers as well as the requirement for annual retraining of all cardholders. This will be completed by September 30, 2023.

Responsible department for corrective action: Procurement Services Office and the Office of Finance and Administration

RESULTS OF AUDIT

C. Cardholders Storing P-Cards on External Website

One Lander cardholder stored their P-Card on external website. Per State P-Card Policy III (D) (1) (c) cardholders should maintain security of the account number, expiration date and security code at all times.

Recommendation: We recommend Lander cardholders remove their P-Cards from all external websites and update their Internal P-Card Procedure Manual to include these requirements.

University Response

Institutional Response: Lander University accepts the auditors' findings.

Corrective Action: Procurement Services will be updating their P-Card Level I training program to reflect the recommendations of the audit stressing the requirement that cardholders do not save card information on any websites. Furthermore, Procurement Services will be emailing all cardholders making them aware of the revised P-Card manual, reminding them of this requirements, and directing them to remove their P-Card from any external websites. This will be completed by September 30, 2023. The email message to direct cardholders of the need to remove saved card information from external websites will be messaged by August 31, 2023.

Responsible department for corrective action: Procurement Services Office and the Office of Finance and Administration

VII. Unauthorized or Illegal Procurements

We tested Unauthorized or Illegal Procurements to determine compliance with the Code and Regulations.

All reported unauthorized or illegal procurements were properly resolved.

VIII. Surplus Property

We tested asset disposals to determine compliance with the Code and State policies and procedures. Our testing of asset disposals did not identify any compliance issues.

IX. Assistance to Minority Business Enterprises (MBE)

We requested copies of the University's Annual MBE utilization plans and quarterly progress reports to assess compliance with the Code. We did not identify any significant compliance issues.

CERTIFICATION RECOMMENDATION

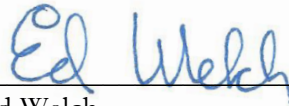
We recommend twenty percent of Landers's P-Cards be suspended for six months from the date the University provides DPS with a list of the suspended P-Cards. We further recommend that the University revise its P-Card procedures and submit to DPS for approval.

We believe corrective action based on the recommendations in this report will make Lander University's internal procurement operations consistent with the South Carolina Consolidated Procurement Code and ensuing regulations.

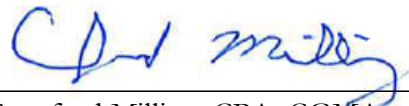
As provided in SC Code Ann. § 11-35-1210, we recommend Lander University's procurement authority to make direct University procurements be re-certified up to the following limits for three years:

<u>PROCUREMENT AREAS</u>	<u>RECOMMENDED CERTIFICATION \$ LIMITS</u>
Supplies and Services ³	200,000 per commitment*
Information Technology ⁴	150,000 per commitment*
Construction Contract Award	200,000 per commitment*
Construction Contract Change Order	75,000 per change order
Architect/Engineer Contract Amendment	50,000 per amendment

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



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Director, Audit & Certification

³ Supplies and Services includes non-IT consulting services

⁴ Information Technology includes consulting services for any aspect of information technology, systems, and networks