

COLLEGE OF CHARLESTON
PROCUREMENT AUDIT REPORT
APRIL 1, 2007 – SEPTEMBER 30, 2010

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May 16, 2011

Mr. R. Voight Shealy
Materials Management Officer
Division of Procurement Services
1201 Main Street, Suite 600
Columbia, South Carolina 29201

Dear Voight:

We have examined the procurement policies and procedures of the College of Charleston for the period April 1, 2007 through September 30, 2010. As part of our examination, we studied and evaluated the system of internal controls over procurement transactions to the extent we considered necessary.

The evaluation established a basis for reliance upon the system of internal controls to assure adherence to the Consolidated Procurement Code, State regulations and the procurement policies of the College. Additionally, the evaluation determined the nature, timing and extent of other auditing procedures necessary for developing an opinion on the adequacy, efficiency and effectiveness of the procurement system.

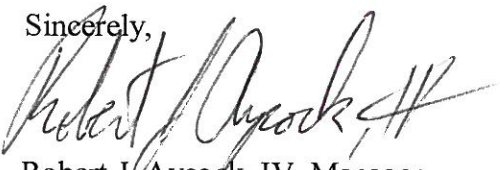
The administration of the College of Charleston is responsible for establishing and maintaining a system of internal controls over procurement transactions. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of control procedures. The

objectives of a system of internal controls 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 those transactions are executed in accordance with management's authorization and recorded properly.

Because of inherent limitations in any system of internal controls, 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 controls 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 the College of Charleston in compliance with the Consolidated Procurement Code and ensuing regulations.

Sincerely,

Robert J. Aycock, IV, Manager
Audit and Certification

INTRODUCTION

We conducted an examination of the internal procurement operating policies and procedures of the College of Charleston. We conducted our on-site review from January 17 through February 18, 2011. Our review 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.

On September 25, 2007 the State Budget and Control Board granted the College of Charleston the following procurement certifications:

<u>PROCUREMENT AREAS</u>	<u>CERTIFICATION LIMITS</u>
Goods and Services	\$ 300,000 per commitment
Consultant Services	\$ 300,000 per commitment
Information Technology	\$ 200,000 per commitment
Construction Contract Change Order	\$ 25,000 per change order
Architect/Engineer Contract Amendment	\$ 5,000 per amendment

Our audit was performed primarily to determine if recertification is warranted. Additionally, the College of Charleston requested the following increased certifications.

<u>PROCUREMENT AREAS</u>	<u>REQUESTED CERTIFICATION LIMITS</u>
Supplies and Services	\$ 500,000 per commitment
Consultant Services	\$ 500,000 per commitment
Printing Services	\$ 500,000 per commitment
Information Technology	\$ 200,000 per commitment
Construction Services	\$ 100,000 per commitment
Construction Contract Change Order	\$ 100,000 per change order
Architect/Engineer Contract Amendment	\$ 15,000 per amendment

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 the College of Charleston 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 samples for the period April 1, 2007 through September 30, 2010 of procurement transactions for compliance testing and performed other audit procedures that we considered necessary to formulate our 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 April 1, 2007 through September 30, 2010 with no exceptions noted
- (2) Procurement transactions for the period April 1, 2007 through September 30, 2010 as follows:
 - a) Ninety-nine payments each exceeding \$2,500 with exceptions noted in Section IV of the report
 - b) Four-hundred and sixty-seven sequentially filed purchase orders reviewed against the use of order splitting and favored vendors with no exceptions
 - c) Procurement card transactions for the months of June and July 2010 with exceptions noted in Sections I & II of the report
- (3) Minority Business Enterprise Plans and reports with no exceptions and the following activity reported to The Governor's Office of Small and Minority Business Assistance

<u>Fiscal Year</u>	<u>Goal</u>	<u>Actual</u>
2006-2007	\$ 61,875	\$66,657
2007-2008	\$392,497	\$47,622
2008-2009	\$365,759	\$19,378
2009-2010	\$159,639	\$15,593

- (4) Approval of the most recent Information Technology Plan with no exceptions.
- (5) Internal procurement procedures manual with no exceptions
- (6) Surplus property disposition procedures with no exceptions
- (7) Ratification of Unauthorized Procurements with exceptions noted in Section III of the report
- (8) File documentation and evidence of competition with no exceptions
- (9) Other tests performed as deemed necessary with no exceptions

SUMMARY OF RESULTS

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I. <u>Unauthorized Procurement Card Transactions</u>	7
<p>Four procurement card transactions exceeded the internal control spending limit established by the College of Charleston <u>Purchasing Card Program Cardholder Policies & Procedures Manual</u>.</p>	
II. <u>Use of Blocked Merchant Category Codes</u>	7
<p>We identified procurements made from blocked MCCs in violation of internal controls.</p>	
III. <u>Ratification of Unauthorized Procurements</u>	8
<p>Ratifications of unauthorized procurements did not always address all required attributes of a ratification. Additionally, unauthorized procurements under \$2,500 were not ratified by an appropriate official nor were they reported to the Chief Procurement Officers as required by the regulation.</p>	
IV. <u>Restrictive Specification</u>	9
<p>The College awarded a contract whose specifications required three items which can only be "imported" by one certain vendor, a vendor who competed on the solicitation and won the contract.</p>	

RESULTS OF EXAMINATION

I. Unauthorized Procurement Card Transactions

The internal control spending limit established by the College of Charleston Purchasing Card Program Cardholder Policies & Procedures Manual sets the maximum single transaction limit at \$2,500. The following transactions exceeded the \$2,500 limit:

<u>Purchase Date</u>	<u>Card Last 4 Digits</u>	<u>Amount</u>	<u>Description</u>
06/04/10	4130	\$10,777.52	Baseball Team Lodging, Myrtle Beach, SC
06/12/10	4130	\$ 6,390.07	Baseball Team Lodging, Myrtle Beach, SC
07/22/10	7493	\$ 6,160.00	Postage Stamps
06/18/10	5736	\$ 2,557.86	Large LCD Touch Screen Display

Since the procurement card transactions exceeded the single transaction limit of \$2,500, the procurements were unauthorized.

We recommend the College of Charleston, hereinafter referred to as the College; adhere to the single transaction limit established in its policies and procedures manual. Ratification must be requested in accordance with Regulation 19-445.2015.

COLLEGE RESPONSE

The first two transactions are for athletic team travel which is allowed by the State Comptroller General's office. However, we did not have written authorization naming the users of the "ghost" account but have subsequently secured written approval from Voight Shealy. The next item was for postage which is exempt from the Procurement Code and the card holder was given express permission via an override through the WORKS system for that single purchase. The last item was purchased, after being competed in compliance with the Procurement Code, by a Procurement Officer in the Procurement Office. We had been given written permission for our buyers to make purchases with their PCards over the \$2500 limit but it was not updated to include this new buyer. We have subsequently secured written permission for the current Procurement Officers.

II. Use of Blocked Merchant Category Codes

The College's Purchasing Card Program Cardholder Policies & Procedures Manual identifies blocked merchant category codes (MCC) which are restricted from procurement card use. We identified purchases made from blocked MCCs in violation of the manual. We learned that several individuals have authority to temporarily unblock MCC's on a case by case basis.

We recommend the College amend its manual to provide for procedures to allow temporarily unblocked MCCs provided the requestor submits sufficient justification. A written record of each temporarily unblocked code must be maintained.

COLLEGE RESPONSE

Our manual outlines policies and procedures and serves as a general guideline for end users. We did not want to “broadcast” exceptions could be made. We thought by making a conscious decision to give express authority to unblock certain MCCs for specific purchases for certain groups of purchasers based on their internal mission at the College we would be meeting the burden of compliance. However, we now understand that by so doing we violated our written procedures so we have corrected the manual and included wording allowing overrides for specific requests when it is determined that the specific code and/or specific purchase is legitimate.

III. Ratifications of Unauthorized Procurements

We reviewed ratifications of unauthorized procurements to determine if the ratifications were properly executed in accordance with regulation 19-445.2015. Not all of the ratifications addressed action taken against the individual committing the act and in some instances, failed to address corrective action taken to prevent recurrence as required by the regulation. Additionally all unauthorized procurements under \$2,500 were not ratified by an official designated by the College President nor were unauthorized procurements under \$2,500 reported to the Chief Procurement Officers as required by the regulation.

We recommend the College adhere to Regulation 19-445.2015 by addressing the required elements of the ratification, making sure an appropriate official executes the ratification decision and making sure all illegal procurements are reported to the Chief Procurement Officers.

COLLEGE RESPONSE

The College reported all unauthorized purchases that violated the Procurement Code. We did not report small purchases that did not violate the Procurement Code but only violated our internal procedures. Departments have been delegated the authority to make purchases under \$2500 and we ask them to use a RQ to request a purchase order as a payment instrument if they cannot purchase with a Pcard. We have subsequently changed our internal procedures to address non-use of a RQ to request a PO on small purchases (under \$2500) as a non-conforming purchase instead of an unauthorized purchase. We agree that not all elements of some of the ratifications were complete.

IV. Restrictive Specification

The College awarded a contract on solicitation 10.10.DH.Q to provide stage lighting equipment in the amount of \$32,850. The specifications contained in the bid schedule required, among other things, three items which can only be "imported" by one certain vendor, the same vendor who won the contract. Regulation 19-445.2140.B requires "All specifications shall be written in a non restrictive manner..." to permit maximum practicable competition. We saw no reason to restrict the specifications.

We recommend the College specify functional or performance criteria to permit maximum practicable competition.

COLLEGE RESPONSE

College agrees. The College should not have specified parts to be imported by one of the offerors.

CONCLUSION

As enumerated in our transmittal letter, corrective action based on the recommendations described in this report, we believe, will in all material respects place the College of Charleston in compliance with the Consolidated Procurement Code and ensuing regulations.


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

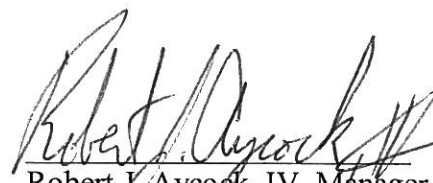
PROCUREMENT AREAS

REQUESTED CERTIFICATION LIMITS

Supplies and Services	\$ *500,000 per commitment
Consultant Services	\$ *500,000 per commitment
Printing Services	\$ *500,000 per commitment
Information Technology	\$ *200,000 per commitment
Construction Services	\$ 100,000 per commitment
Construction Contract Change Order	\$ 100,000 per change order
Architect/Engineer Contract Amendment	\$ 15,000 per amendment

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


Allen R. Townsend, CBM
Audit Manager


Robert J. Aycock, IV, Manager
Audit and Certification

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ELEANOR KITZMAN
EXECUTIVE DIRECTOR

July 19, 2011

Mr. R. Voight Shealy
Materials Management Officer
Materials Management Office
1201 Main Street, Suite 600
Columbia, South Carolina 29201

Dear Voight:

We have reviewed the response from the College of Charleston to our audit report for the period of April 1, 2007 to September 30, 2010. Also we have followed the College's corrective action during and subsequent to our fieldwork. We are satisfied that the College of Charleston has corrected the problem areas and the internal controls over the procurement system are adequate.

Therefore, we recommend the Budget and Control Board grant the College of Charleston the certification limits noted in our report for a period of three years.

Sincerely,

Robert J. Aycock, IV, Manager
Audit and Certification

RJA/gs

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