

THE CITADEL
PROCUREMENT AUDIT REPORT
JANUARY 1, 2008 – DECEMBER 31, 2010

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NOTE: The Citadel’s responses to issues noted in this report have been inserted immediately following the items they refer to.

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December 6, 2011

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

Dear Voight:

We have examined the procurement policies and procedures of The Citadel for the period January 1, 2008 through December 31, 2010. 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 used to establish a basis for reliance upon the system of internal controls to assure adherence to the South Carolina Consolidated Procurement Code, State regulations, and the College's procurement policies. 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 The Citadel 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 are to provide management with reasonable, but not absolute,

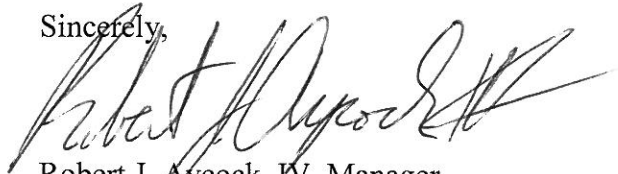
assurance of the integrity of the procurement process, that affected assets are safeguarded against loss from unauthorized use or disposition and that transactions are executed in accordance with management's authorization and recorded properly.

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 Citadel in compliance with the South Carolina Consolidated Procurement Code and ensuing regulations.

Sincerely,

A handwritten signature in black ink, appearing to read "Robert J. Aycock, IV". The signature is fluid and cursive, with a large initial "R" and "A".

Robert J. Aycock, IV, Manager
Audit and Certification

INTRODUCTION

We conducted an examination of the internal procurement operating policies and procedures of The Citadel. Our review was performed May 4 through June 28, 2011 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 internal controls of the procurement system were adequate and the procurement procedures, as outlined in the Internal Procurement Policies and Procedures Manual, were in compliance with the South Carolina Consolidated Procurement Code and ensuing regulations.

On June 17, 2008 the State Budget and Control Board granted The Citadel the following procurement certifications:

<u>PROCUREMENT AREAS</u>	<u>CERTIFICATION LIMITS</u>
Supplies and Services	\$ 250,000 per commitment
Consultant Services	\$ 250,000 per commitment
Information Technology	\$ 100,000 per commitment
Construction Contract Award	\$ 100,000 per commitment
Construction Contract Change Order	\$ 100,000 per change order
Architect/Engineer Contract Amendment	\$ 15,000 per amendment

Our audit was performed primarily to determine if recertification is warranted.

Additionally, The Citadel 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
Information Technology	\$ 100,000 per commitment
Construction Services	\$ 250,000 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 Citadel, hereinafter referred to as the College, 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 judgmental samples for the period January 1, 2008 through December 31, 2010 of procurement transactions for compliance testing and performed other audit procedures that we considered necessary to formulate this opinion. 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, 2008 through December 31, 2010 with exceptions noted in Section II of the report.
- (2) Procurement transactions for the period January 1, 2008 through December 31, 2010 as follows:
 - a) Ninety-six payments each exceeding \$2,500 with exceptions noted in Section III.
 - b) A block sample of eight hundred and sixty-six sequentially numbered purchase orders from FY 2010 reviewed against the use of order splitting and favored vendors with no exceptions.
 - c) Procurement card purchases for October, November and December 2010 with exceptions noted in Section IV of the report.
- (3) Nine construction contracts (including four indefinite delivery contracts) and six Architect/Engineer and Related Professional Service Contracts (including three indefinite delivery contracts) for compliance with the Manual for Planning and Execution of State Permanent Improvements, Part II with exceptions noted in Section I of the report.
- (4) Minority Business Enterprise Plans and reports with 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>
FY08-09	\$160,215	\$41,007
FY09-10	\$ 80,794	\$26,995
FY10-11	\$148,967	\$ -0-*

* July – December 2010

- (5) Approval of the most recent Information Technology Plan with no exceptions
- (6) Internal procurement procedures manual with no exceptions
- (7) Surplus property disposition procedures with no exceptions
- (8) Ratification of unauthorized procurements with no exceptions
- (9) File documentation and evidence of competition with no exceptions
- (10) Other tests performed as deemed necessary with no exceptions

SUMMARY OF AUDIT FINDINGS

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RESULTS OF EXAMINATION

I. Indefinite Delivery Contract Audit Exceptions

The following two audit exceptions, items A and B, relate to a construction service Indefinite Delivery Contract (IDC) H09-D016.

A. IDC and Delivery Order Expenditure Limits Exceeded

The total amount expended on IDC H09-D016 for all projects totaled \$835,551.84 exceeding the limit established by statute for this type of contract. At that time, section 11-35-3310(1)(a) limited total expenditures on IDCs to \$750,000 over a two year period. Additionally, an IDC project for Alumni House renovations in the amount of \$299,225.04 exceeded the \$150,000 per project limit allowed by the same section of the Code. IDCs are bid for on-call, miscellaneous repair and minor construction type contracts. They were not intended to be used for major construction projects. Section 11-35-3310(1) states, "Indefinite delivery contracts may be awarded on an as-needed basis for construction services pursuant to the procedures in Section 11-35-3015(2)(b)...."

On August 1, 2011, the Higher Education Efficiency and Administrative Policies Act (HEEAPA) became law authorizing college and university IDC limits up to \$1,000,000 and per project limits up to \$250,000. However, this amendment to the Code was not in effect at the time these exceptions occurred.

We recommend that the College comply with the South Carolina Consolidated Procurement Code regarding IDC total expenditure limitations and per project limitations. Larger projects should be bid separately under normal construction procurement procedures.

The Citadel's Response

The Citadel concurs; both limits were exceeded due to the Alumni House Project. Once work started, additional building code issues were discovered and additional repairs / cost were required to complete the project in accordance with the building code.

B. All Delivery Orders Awarded to One Vendor

A procurement for construction service IDCs resulted in three contract awards; however all delivery (work) orders were awarded to one vendor only. Per the OSE Manual for Planning and Execution of State Permanent Improvements-Part II, “If the agency has awarded multiple contracts, it shall use a method of providing each contractor a fair opportunity to be considered for being awarded work under the IDC”.

In those circumstances in which multiple contracts have been awarded, we recommend that the College establish a method to provide contractors a fair opportunity to be considered for delivery order awards under the IDC.

The Citadel’s Response

The Citadel concurs with this finding; on several projects only one contractor submitted a quote for the Delivery Order. The Citadel has put into place the following procedure to ensure that this will not occur in the future: The Citadel now sends all Vendors the scope of work and awards the Delivery Order to the lowest Vendor.

C. IDC Activity Not Reported to OSE

Of the seven IDCs selected for review during the audit, activity on four construction and one A&E IDC had not been reported to the OSE.

<u>IDC Project #</u>	<u>Delivery Order Description</u>	<u>Total Amount Expended</u>	<u>Type</u>
H09-DO16-PG	Alumni House Renovations	\$299,225	Construction IDC
H09-DO26-PG	Vandiver Steamline	\$ 45,238	Construction IDC
H09-DO25-PG	Stevens Barracks Renovations	\$ 28,343	Construction IDC
H09-DO26-PG	Financial Trading Room	\$ 56,471	Construction IDC
H09-DO23-PG	Building and Roof Repairs/Maint.	\$100,070	A&E IDC

Per the OSE Manual for Planning and Execution of State Permanent Improvements-Part II, “The agency must submit to OSE quarterly reports on all its IDC contracts”.

We recommend that the College comply with reporting requirements on all IDC activity on all construction and A&E IDCs.

The Citadel’s Response

The Citadel concurs with this finding; the economic downturn resulted in the elimination of one of only two project managers in the Construction Management Office and thus an oversight of this report. The Citadel is now in the process of hiring an additional project manager. The Citadel has put into place the following procedure to ensure that this will not occur in the future: The responsibility for submitting the Quarterly Reports has been assigned to the Construction Management Accountant.

II. Sole Source and Emergency Procurements

We tested sole source and emergency procurements made pursuant to Sections 11-35-1560 (Sole Source Procurements) and 11-35-1570 (Emergency Procurements) to determine the appropriateness of the procurement actions and the accuracy of the quarterly reports submitted to the chief procurement officers required by Section 11-35-2440. We noted the following exceptions:

A. Inappropriate Sole Source Procurements

The following procurements made as sole sources were inappropriate.

<u>PO</u>	<u>PO Date</u>	<u>Description</u>	<u>PO Amount</u>
A900571	08/15/08	Chapel Organ Repairs	\$ 8,140
A901294	11/10/08	Music Stands	\$ 3,340
A901568	12/15/08	E-mail Software	\$ 6,987
P0000158	07/13/09	Web-based Software	\$ 5,416
P0000222	07/16/09	Report Building Application	\$ 5,227
P0000253	07/20/09	Software Maintenance Agreement	\$ 7,380

<u>PO</u>	<u>PO Date</u>	<u>Description</u>	<u>PO Amount</u>
P0000652	08/20/09	Management System Software	\$17,500
P0003149	05/06/10	Online Assessment Services	\$ 6,300
P0004549	09/24/10	Management System Software	\$17,500

The written justification for PO A900571 for repairs to the chapel's organ states that the vendor has completed repairs on the chapel's organ in the past and is very familiar with it. Familiarity is not justification for a sole source.

The written justification for PO A901294 for the replacement of music stands states that three name brands were considered in the decision to procure the selected stands. Visual comparison was performed to determine the College's selection.

The written justification for PO A901568 for e-mail software states that this software is the industry standard used by many colleges and universities. Industry standard is not justification for a sole source.

The written justification for PO P0000158 for web-based software states that the College's IT Department has used this software for many years and reflects all features and benefits of the software. No explanation is provided however, stating why this software is a sole source.

Written justifications for PO P0000222 (Report Writing Software) and PO P0000253 (Software Maintenance) state their functions, however neither state why they are sole sources.

Written justifications for PO 0000652, PO P0004549, and PO P0003149 for Management System Software and Online Assessment Services state what each system does, but not why it is a sole source.

Section 11-35-1560 authorizes the use of sole source procurements when the written determinations for the proposed sole source procurements indicate there is only one source for the required supply, service, information technology, or construction item, and no other will be suitable or acceptable to meet the need.

We recommend that the College comply with the sole source statute. These transactions should be competed in the future.

The Citadel's Response

The Citadel concurs with these findings and will ensure that the procedures for reporting Sole Source are followed in accordance with the South Carolina Consolidated Procurement Code in the future.

B. Inadequate Determinations for Sole Sources

Determination documents did not adequately support the following sole source procurements.

<u>PO</u>	<u>PO Date</u>	<u>Description</u>	<u>PO Amount</u>
A802987	05/09/08	Spectrophotometer	\$21,580
A901154	10/23/08	Digitizing Microfilmed Data	\$12,902

The written determination for PO A802987 for a spectrophotometer states that by purchasing this product directly from the manufacturer the College will avoid the additional cost associated with utilizing the vendor's distribution system. Cost is not an acceptable reason to declare a sole source procurement.

The written determination for PO A901154 for digitizing microfilmed data states that the provider is currently in partnership with the Library of Congress to digitize historical newspapers and; due to their recognition and complexity of digitizing microfilmed data, they were selected as a single vendor for this project. The justification fails to indicate whether this is the only vendor that can digitize microfilm.

Section 11-35-1560 authorizes the use of sole source procurements when the written determination for the proposed sole source indicates there is only one source for the required supply, service, information technology, or construction item, and no other will be suitable or acceptable to meet the need. Regulation 19-445.2105 C. states in part, “The determination must contain sufficient factual grounds and reasoning to provide an informed, objective explanation for the decision.”

We recommend that the College comply with the sole source statute and regulation to ensure determinations contain sufficient factual grounds and reasoning to provide an informed, objective explanation for the decision.

The Citadel’s Response

The Citadel concurs with these findings and has implemented training to all Procurement Staff as to the correct method to document a Sole Source in accordance with the South Carolina Consolidated Procurement Code.

III. Supplies and Services

No Award Notices Sent to Bidders

No ‘Notice of Award’ or ‘Intent to Award’ was sent to bidders for the following three solicitations:

<u>PO</u>	<u>PO Date</u>	<u>Description</u>	<u>PO Amount</u>	
P0003807	07/15/10	Waste Disposal (Multi-year Contract)	\$309,625 (Total Potential Value of Contract)	No ‘Intent to Award’ sent to Bidders
P0004412	09/17/10	Yearbooks (Multi-year Contract)	\$159,600 (Total Potential Value of Contract)	No ‘Intent to Award’ sent to Bidders
P803062	05/20/08	Refrigerators	\$ 71,530	No ‘Notice of Award’ sent to Bidders

Section 11-35-1520(10) requires for contracts with a total or potential value in excess of fifty thousand dollars but less than one hundred thousand dollars, notice of the award of the contract must be given by posting and must be sent to all bidders responding to the solicitation on the same day that the notice is posted. For contracts with a total or potential value of one hundred thousand dollars or greater, notice of an intended award of a contract must be given by posting the notice for ten days before entering into a contract and must be sent to all bidders responding to the solicitation on the same day that the notice is posted.”

We recommend that the College comply with the South Carolina Consolidated Procurement Code relating to notification of awarded contracts to bidders.

The Citadel’s Response

The Citadel concurs with this finding and has implemented a check list review sheet in all Tendering Files to ensure that this process is completed before the file is closed.

IV. Procurement Cards

A. Use of Blocked Merchant Category Codes

The College’s Procurement Card Policies and Procedures Manual (Appendix A) identifies blocked merchant category codes (MCC) which are restricted from procurement card use, however we identified 58 purchases made from blocked MCCs in violation of this manual. To unblock an MCC, the cardholder contacted the procurement card administrator who temporarily unblocked the MCC. However, the procurement card manual does not provide authority for the procurement card administrator to temporarily unblock MCCs.

We recommend the College either adhere to its procurement card manual or provide procedures to temporarily unblock MCCs provided sufficient justification exists. Written records of each temporarily unblocked code must be maintained.

The Citadel's Response

The Citadel concurs with this finding and has modified the procurement card manual to allow for this process which changed procedures to ensure that this finding will not occur in the future.

B. Single Transaction Limits Not Approved by CPO

During our review of the College's procurement card transaction limit and assignments, three cards were identified with single transaction limits greater than \$2,500 which had not been approved by the Materials Management Office's Chief Procurement Officer (CPO). The Division of Procurement Services Materials Management Office South Carolina Purchasing Card Policy and Procedures manual establishes minimum standards for use of the P-Card in order to ensure compliance with all applicable State laws pertaining to purchasing as contained in the State Code. Section D(1) of the manual established that each P-Card is subject to the "no compete" (\$2,500) Purchase Limit. Section D(2) states, "To raise or lower the Single Purchase Limit, the P-Card Administrator must submit the requested change in writing (E-mail or memo) to the MMO Chief Procurement Officer." On August 1, 2011, the Higher Education Efficiency and Administrative Policies Act became law authorizing college and university governing boards to raise procurement card single transaction limits up to \$10,000. However, this amendment to the Code was not in effect at the time these exceptions occurred.

We recommend the College establish single transaction limits on all procurement cards in accordance with State policies.

The Citadel's Response

The Citadel concurs with this finding and has put into place the following procedure to ensure that this will not occur in the future: All Procurement Cards have had the buying limits standardized at \$2,500.00 for single transactions with a monthly limit of \$10,000.00. In no instance will a purchase above the \$2,500.00 be authorized unless placed on a requisition.


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 The Citadel in compliance with the Consolidated Procurement Code.

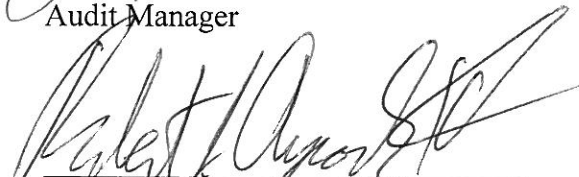
Under the authority described in Section 11-35-1210 of the Procurement Code, subject to this corrective action, we will recommend The Citadel be certified to make direct agency procurements for three years up to the following limits.

<u>PROCUREMENT AREAS</u>	<u>CERTIFICATION LIMITS</u>
Supplies and Services	\$ 500,000 per commitment*
Consultant Services	\$ 500,000 per commitment*
Information Technology	\$ 100,000 per commitment*
Construction Services	\$ 250,000 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.



J. Lane Warren, CFE, CBM
Audit Manager



Robert J. Aycock, IV, Manager
Audit and Certification

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MARCIA S. ADAMS
EXECUTIVE DIRECTOR

April 11, 2012

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

Dear Voight:

We have reviewed the response from The Citadel to our audit report for the period of January 1, 2008 through December 31, 2010. We have followed-up on The Citadel's corrective action during and subsequent to our fieldwork. Also, Audit and Certification conducted a follow-up review at The Citadel on April 9, 2012.

We are satisfied that The Citadel has taken corrective action to prevent the recurrence of the problem areas noted and that steps have been implemented to help ensure internal controls over the procurement system are adequate.

Sincerely,

Robert J. Aycock, IV, Manager
Audit and Certification

cc: Mr. James de Luca, Procurement Director
J. Lane Warren, Audit Manager

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