



	<u>PAGE</u>
Introduction.....	1
Scope.....	3
Summary of Findings.....	5
Results of Audit .....	6
Certification Recommendations.....	9

The Division of Procurement Services (DPS) audited Midlands Technical College's (MTC) internal procurement operating policies and procedures, as outlined in their Internal Procurement Operating Procedures Manual, under § 11-35-1230 (1) of the South Carolina Consolidated Procurement Code (Code) and Reg. 19-445.2020<sup>i</sup> of the ensuing regulations.

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

The management of MTC is responsible for the agency's compliance with the Code. Those responsibilities include the following:

- Identifying MTC's procurement activities and understanding and complying with the Code.
- Establishing and maintaining effective controls over procurement activities that provide reasonable assurance that MTC administers its procurement programs in compliance with the Code.
- Evaluating and monitoring MTC's compliance with the Code.
- 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.

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

On August 31, 2017 the State Fiscal Accountability Authority (SFAA) granted MTC the following procurement certifications:

<u>PROCUREMENT AREAS</u>	<u>CERTIFICATION LIMITS</u>
Supplies and Services	*\$ 350,000 per commitment
Consultant Services	*\$ 350,000 per commitment
Information Technology	*\$ 150,000 per commitment
Construction Contract Change Order	\$ 25,000 per change order
Architect/Engineer Contract Amendment	\$ 5,000 per amendment

During the audit MTC requested the following increases in its certification limits.

<u>PROCUREMENT AREAS</u>	<u>REQUESTED CERTIFICATION LIMITS</u>
Supplies and Services	*\$ 350,000 per commitment
Consultant Services	*\$ 350,000 per commitment
Information Technology	*\$ 150,000 per commitment
Construction Services	\$ 100,000 per commitment
Construction Contract Change Order	\$ 50,000 per change order
Architect/Engineer Contract Amendment	\$ 10,000 per amendment

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

During the audit period, MTC made expenditures as follows:

<u>13,566</u>	<u>18,596</u>	<u>19,111</u>	<u>51,272</u>
---------------	---------------	---------------	---------------

: All non-P-Card expenditures were made with purchase orders.

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 MTC's compliance with the Code for the period July 1, 2018 through June 30, 2021, the audit period, and performing other procedures that we considered necessary in the circumstances. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

The scope of our audit included, but was not limited to, a review of the following:

- (1) Internal procurement and purchasing card (P-Card) procedure manuals.
- (2) Written determinations for all sole source and emergency procurements. MTC reported the following sole source and emergency procurement activity during the audit period:

2019	16	888,522	1	2,063
2020	18	690,046	5	138,273
2021	7	448,253	6	211,201

- (3) Procurement transactions for the audit period as follows:

- a) Seventy-one expenditures each exceeding \$10k totaling \$3.3M.
- b) Direct payments of which there were none.
- c) A block of sequential expenditures over a two-month period reviewed for order splitting or the use of favored vendors.
- d) Twenty-five P-Card transactions for two judgementally selected months for compliance with the South Carolina Purchasing Card Policy and Procedures (State P-Card Policy). During the audit period MTC had 185 cardholders that made P-Card expenditures as follows:

2019	8,586	2,297,741
2020	7,979	2,137,610
2021	7,046	1,928,015

- (4) Two Design-Bid-Build projects totaling approximately \$292k, one small construction project totaling approximately \$38k, two Indefinite Quantity Contracts totaling approximately \$100k and one Construction Management at Risk project totaling approximately \$1.4M for compliance with the Manual for Planning and Execution of State Permanent Improvements.
- (5) Disposition of unauthorized procurements. MTC reported the following unauthorized procurement activity to DPS during the audit period:

2019	1	107,219
2020		-0-
2021		-0-

- (6) Reporting of surplus property dispositions and approval of trade-ins in excess of \$5k.

(7) Small and Minority Business utilization plans and reports. MTC reported the following activity to the Division of Small and Minority Business Contracting and Certification (SMBCC):

---

2019	1,358,715	117,866
2020	1,336,588	45,713
2021	1,336,588	14,698

	<u>Page</u>
<hr/>	
A. <u>Sole Source Determinations Not Provided</u> .....	6
MTC did not provide written determinations for 12 sole source procurements.	
B. <u>Sole Source Determinations Not Authorized</u> .....	7
MTC did not date the signatures on 11 sole source written determinations and dated two written determinations after the purchase order was issued.	
<hr/>	
A. <u>Internal P-Card Manual Inadequate</u> .....	7
MTC’s internal P-Card Manual is outdated and does not address key elements of the State P-Card Policy.	
B. <u>Use of Blocked Merchant Category Codes</u> .....	8
MTC made 1,608 transactions with blocked MCCs.	
<hr/>	
	8
MTC did not include one or more required terms and conditions on five BPAs totaling approximately \$57k, and three of the five did not include the required dollar limit per call.	

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

---

Written determinations for all sole source and emergency procurements made pursuant to SC Code Ann. §§ 11-35-1560 and 1570 were evaluated to assess the appropriateness of the procurement actions and the accuracy of the quarterly reports submitted to the chief procurement officers, as required by § 11-35-2440.

A. Sole Source Determinations Not Provided

MTC did not provide written determinations for 12 sole source procurements totaling approximately \$342k. Without written determinations, we were unable to determine the justification for making these procurements without competition.

SC Code Ann. § 11-35-1560 (A) provides that: “A contract may be awarded for a supply, service, information technology, or construction item without competition if, under regulations promulgated by the board, the chief procurement officer, the head of a purchasing agency, or a designee of either officer, above the level of the procurement officer determines in writing that there is only one source for the required ...item.”

The result is that these 12 procurements are illegal or unauthorized.

Regulation 19-445.2015 (A) (1) requires that, “Upon discovering after award either (a) that a person lacking actual authority has made an unauthorized award or modification of a contract or (b) that a contract award or modification is otherwise in violation of the Consolidated Procurement Code or these regulations, as defined in section G below, must either ratify the contract in accordance with this regulation or acknowledge and declare the contract null and void.”

We recommend that MTC report all 12 of these procurements as illegal or unauthorized as required by regulation. We recommend MTC develop and implement procedures to ensure that written determinations are prepared for all sole source procurements and properly authorized by the appropriate level of management as required by the Code.

Although the 12 were previously reported as sole source procurements and solicited publicity as Intent to Sole Source, the College did not complete MMO’s form #102 for Justification for Sole Source Procurement. Therefore, as recommended, the College will complete the paperwork and report these as unauthorized procurements. Written changes were made to the standard procedures for sole source procurements.



## B. Sole Source Determinations Not Authorized

We identified 11 instances in which authorized approvers did not date their signatures on sole source written determinations totaling approximately \$475k. Without approval date, we could not determine if authorizations for these sole source procurements occurred before contract execution.

Regulation 19-445.2105 (C) (2) requires that: “The determination must be authorized prior to contract execution.” Accepted practice to document that required approvals are obtained on time is for the appropriate official to date the written determination when signing it. The result is that without dates these 11 procurements are illegal or unauthorized.

See Regulation 19-445.2015 (A) (1) in IA above.

We recommend that MTC report all 11 of these procurements as unauthorized or illegal as required by regulation. We also recommend that MTC develop and implement procedures to ensure that written determinations are prepared and properly authorized for all sole source procurement as required by the Code.

These were the results of administrative oversights. The purchase orders were finalized after the signing of MMO's form #102 for Justification for Sole Source Procurement but since the dates were omitted, the College will comply by reporting these as unauthorized procurements. These were previously reported as sole source procurements. Staff training was conducted, and written changes were made to the standard procedures for sole source procurements.

---

MTC had 185 cardholders who spent approximately \$6.4M during the audit period. We reviewed MTC's P-Card policies and procedures and tested 25 P-Card transactions for compliance with the State P-Card Policy. We identified the following areas of non-compliance.

### A. Internal P-Card Manual Inadequate

MTC's most recent P-Card manual was last updated in January of 2019 and it did not address key elements of the State P-Card Policy. We recommend that MTC develop an updated P-Card Manual that covers the key requirements of the State P-Card Manual including the following:

- Establishing written internal procedures for properly setting up each P-Card profile.
- A provision for documented Level 1 and II P-Card training.
- Procedures and criteria for establishing communicating single transaction limits.
- A provision for limiting the number of liaisons per cardholder. (Span of Control)
- A documented filing system and document retention policy.

We recommend that MTC revise its P-Card procedure manual to include the key requirements of the State P-Card Policy. Procurement Services provides a P-Card manual checklist on its website that may be helpful in revising the College's manual.

The College concurs with the findings. As recommended, the College will revise its P-Card procedure manual to include key requirements of the State P-Card Policy.

B. Use of Blocked Merchant Category Codes

MTC's P-Card Policy requires that certain types of vendors be blocked from P-Card purchases. As a Group B Agency under State P-Card Policy, MCC restrictions only apply when imposed by the entity's own P-Card Policy. MTC provided a listing of their blocked MCCs. We identified 1,608 purchases totaling \$826k made under blocked MCCs without prior approval by the P-Card Administrator.

We recommend MTC re-evaluate its use of blocked MCCs to make the prohibition effective. Then revise P-Card training to increase Cardholder awareness of the blocked MCCs. Finally, MTC should develop and implement procedures for monthly P-Card liaison reviews that include checking for blocked MCC usage.

The College concurs with the findings and will re-evaluate its use of blocked MCCs and make changes in the P-Card training to increase Cardholders' awareness of the blocked MCCs. In addition, a more specific monthly review for P-Card liaison will be developed to verify the checking of blocked MCCs usage.

---

Five BPAs totaling approximately \$57k did not describe the extent of obligation as required. Per Regulation 19-445.2100 (E) (3) (b): "Extent of obligation. A statement that the State is obligated only to the extent of authorized calls placed against the BPA."

Three of the five BPAs totaling approximately \$37k also did not contain the required provision listing the names of individuals authorized to place calls against the BPAs and their respective dollar limits. Per Regulation 19-445.2100 (E) (3) (c): "Notice of individuals authorized to place calls and dollar limitations. A provision that lists the names of individuals authorized to place calls under the agreement, identified by organizational component and the dollar limitations per call for each individual shall be furnished to the supplier by the Procurement Officer."

We recommend that MTC modify the BPAs to include the extent of obligation statement as well as a provision listing authorized individuals and their respective dollar limitations per call, as required by SC Code of Regulation 19-445.2100 (E). We also recommend that MTC develop and implement procedures to ensure that future BPAs contain all terms and conditions required by regulation.

The College concurs with the findings but since these are older BPAs, we are unable to go back and modify them as the referenced documents were closed in the corresponding budget year. The College has conducted staff training as well as made changes to the written policy for BPAs.

In closing, as the College will continue to utilize this audit as a tool to improve upon our procurement performance, please let us know if you have any questions and/or concerns related to the College's responses.

We recommend Midlands Technical College (MTC) advertise all sole source procurements, regardless of amount, for one year, ending August 31, 2023. We further recommend that MTC shall provide a written corrective action plan for preparation and maintenance of sole source documentation by November 1, 2022 to the Division of Procurement Services for submittal to the five member Authority.

We recommend twenty percent of MTC's P-Cards be suspended immediately and remain suspended until August 31, 2023.

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

As provided in SC Code Ann. § 11-35-1210, we recommend that MTC's procurement authority to make direct agency procurements be increased to the following limits for three years:

<u>PROCUREMENT AREAS</u>	<u>CERTIFICATION LIMITS</u>
Supplies and Services <sup>1</sup>	*\$ 350,000 per commitment
Information Technology <sup>2</sup>	*\$ 150,000 per commitment
Construction Services	\$ 100,000 per commitment
Construction Contract Change Order	\$ 50,000 per change order
Architect/Engineer Contract Amendment	\$ 10,000 per amendment

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

---

Edward Welch, CPA  
 Audit Manager  
 Audit & Certification

---

Crawford Milling, CPA, CGMA  
 Director, Audit & Certification

---

<sup>1</sup> Supplies and Services includes non-IT consulting services

<sup>2</sup> Information Technology includes consulting services for any aspect of information technology, systems, and networks

---

<sup>i</sup> Regulation 19-445.2020 Certification

(A) Review Procedures.

- (2) The Materials Management Officer shall review and report on the government body's entire internal procurement operation to include, but not be limited to the following:
- (a) Adherence to provisions of the Code and these Regulations.
  - (b) Procurement staff and training.
  - (c) Adequate audit trails and purchase order register.
  - (d) Evidence of competition.
  - (e) Small purchase provisions and purchase order confirmation.
  - (f) Emergency and sole source procurements.
  - (g) Source selection.
  - (h) File documentation of procurements.
  - (i) Decisions and determinations made pursuant to section 2015.
  - (j) Adherence to any mandatory policies, procedures, or guidelines established by the appropriate chief procurement officers.
  - (k) Adequacy of written determinations required by the Code and these Regulations.
  - (l) Contract administrations.
  - (m) Adequacy of the governmental body's system of internal controls to ensure compliance with applicable requirements.
- (3) The report required by item A(2) shall be submitted to the board.

**SECTION 11-35-1230.** Auditing and fiscal reporting.

(1) The Division of Procurement Services, through consultation with the chief procurement officers, shall develop written plans for the auditing of state procurements.

(2) In procurement audits of governmental bodies thereafter, the auditors from the Division of Procurement Services shall review the adequacy of the governmental body's internal controls in order to ensure compliance with the requirement of this code and the ensuing regulations. A noncompliance discovered through audit must be transmitted in management letters to the audited governmental body and the board. The Division of Procurement Services shall provide in writing proposed corrective action to governmental bodies. Based upon audit recommendations, the board may revoke certification as provided in Section 11-35-1210 and require the governmental body to make all procurements through the appropriate chief procurement officer above a dollar limit set by the board, until such time as the board is assured of compliance with this code and its regulations by that governmental body.

**SECTION 11-35-1210. Certification.**

(1) Authority. In an amount up to fifty thousand dollars in actual or potential value, individual governmental bodies may make direct procurements not under term contracts. Subject to the following and subject to any ensuing regulations:

(a) the board may assign differential dollar limits below which individual governmental bodies may make direct procurements not under term contracts. The Division of Procurement Services shall review the respective governmental body's internal procurement operation, shall certify 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; and

(b) the Director of the Division of Procurement Services may authorize an individual governmental body to make direct procurements not under term contracts in an amount up to one hundred fifty thousand dollars. All authority granted pursuant to this item must be in writing, and the director shall advise the board in writing of all such authorizations.

(2) Policy. Authorizations granted by the board or the Director of the Division of Procurement Services to a governmental body are subject to the following:

(a) adherence to the provisions of this code and the ensuing regulations, particularly concerning competitive procurement methods;

(b) responsiveness to user needs;

(c) obtaining the best prices for value received.

(3) Adherence to Provisions of the Code. All procurements shall be subject to all the appropriate provisions of this code, especially regarding competitive procurement methods and nonrestrictive specifications.

(4) Subject to subsection (1), the State Board for Technical and Comprehensive Education, in coordination with the appropriate chief procurement officer, may approve a cumulative total of up to fifty thousand dollars in additional procurement authority for technical colleges, provided that the Division of Procurement Services makes no material audit findings concerning procurement. As provided by regulation, any authority granted pursuant to this paragraph is effective when certified in writing by the Division of Procurement Services.