

MIDLANDS TECHNICAL COLLEGE

PROCUREMENT AUDIT REPORT

JULY 1, 2008 – DECEMBER 31, 2012

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

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EXECUTIVE DIRECTOR**

June 26, 2013

**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 Midlands Technical College for the period July 1, 2008 through December 31, 2012. 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 Midlands Technical 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 Midlands Technical College 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 due to 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 Midlands Technical College in compliance with the Consolidated Procurement Code and ensuing regulations.

Sincerely,

A handwritten signature in black ink, appearing to read "Robert J. Aycock, IV". The signature is stylized 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 Midlands Technical College. Our on-site review was conducted January 14 through February 22, 2013. Our review was made under Section 11-35-1230(1) of the 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 Consolidated Procurement Code and its ensuing regulations.

On June 29, 2009, the State Budget and Control Board granted Midlands Technical College the following procurement certifications.

<u>PROCUREMENT AREAS</u>	<u>CERTIFICATION LIMITS</u>
Supplies & Services	\$ 200,000 per commitment
Information Technology	\$ 100,000 per commitment
Consultant Services	\$ 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, Midlands Technical College requested the following increased certification levels.

<u>PROCUREMENT AREAS</u>	<u>CERTIFICATION LIMITS</u>
Supplies & Services	\$ 300,000 per commitment
Information Technology	\$ 100,000 per commitment
Consultant Services	\$ 300,000 per commitment
Construction Contract Change Order	\$ 25,000 per Change Order
Architect/Engineer Contract Amendment	\$ 5,000 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 Midlands Technical College, hereinafter referred to as MTC, 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 July 1, 2008 through December 31, 2012 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 July 1, 2008 through December 31, 2012, with exceptions noted in Section I of the report
- (2) Procurement transactions for the period July 1, 2008 through December 31, 2012 as follows:
 - a) One hundred payments each exceeding \$2,500, with no exceptions
 - b) Five construction contracts and three professional service contracts for compliance with The Manual for Planning and Execution of State Permanent Improvements, with no exceptions
 - c) Three hundred sixty-eight line items of sequentially filed purchase orders reviewed against the use of order splitting and favored vendors, with no exceptions
 - d) Procurement card transactions, with one exception noted in Sections 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>Goal¹</u>	<u>Actual</u>
2008-2009	N/A	\$96,087
2009-2010	N/A	\$32,898
2010-2011	See footnote	\$16,475
2011-2012	\$6,811,669	\$19,628

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

¹ In past years the State Board for Technical and Comprehensive Education (SBTCE) served as the liaison to the Office of Small and Minority Business Assistance (OSMBA) in the Governor's Office for the entire technical college system. SBTCE prepared one annual utilization plan for assistance to minority business enterprises (MBE) for the entire technical college system each year. To increase accountability, the SBTCE concluded that the technical colleges should be responsible for filing their own annual utilization plans directly with OSMBA and reporting their own quarterly activity. The technical colleges began filing their own MBE plans with OSMBA in fiscal year 2010-2011. MTC submitted its first MBE plan for fiscal year 2011-2012.

SUMMARY OF RESULTS

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Seven procurements made as sole sources were deemed inappropriate and should have been competed.	
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Written determinations for four sole source procurements failed to provide sufficient information to support the procurements as sole sources.	
II. <u>Procurement Card Cardholder Activity Statements Not Approved</u>	9
Our testing revealed seven separate cardholder activity statements that did not have the procurement card holders' nor supervisors' signatures approving the procurement card transactions for payment.	

RESULTS OF EXAMINATION

I. Sole Source Procurements

Section 11-35-1560 of the Procurement Code states “A contract may be awarded for a supply, service, information technology, or construction item without competition if [it is determined] in writing that there is only one source for the required supply, service, information technology, or construction item.” Additionally, Regulation 19-445.2105 states “Any request by a governmental body that a procurement be restricted to one potential contractor shall be accompanied by an explanation as to why no other will be suitable or acceptable to meet the need.” We noted the following exceptions.

A. Inappropriate Sole Source Procurments

We noted the following inappropriate sole source procurements.

<u>PO #</u>	<u>Date</u>	<u>Description</u>	<u>Amount</u>
BMP03852	07/01/08	Project Management Consulting	\$34,420.00
P0020907	07/16/08	Office Furniture	6,975.00
B0004440	08/14/09	Continuing Education Management Consulting	34,450.00
B0004807	07/02/10	Continuing Education Management Consulting	15,000.00
B0004868	01/05/11	Continuing Education Management Consulting	18,000.00
P0025030	07/12/11	Continuing Education Management Consulting	3,000.00
P0025783	02/21/12	Breathing Simulator	32,308.95

The project management and continuing education management consulting services were procured as sole sources based on the contractor’s familiarity with the MTC’s programs. This prior knowledge and experience is not a sound and legally sufficient basis to declare a vendor a sole source provider of consulting services.

The office furniture was procured as a sole source based on the fact that other furniture had been custom made by the vendor and that matching furniture was critical in the purchase of new furniture. Aesthetic appearance is not a sound and legally sufficient basis to declare a vendor a sole source provider of office furniture.

The breathing simulator was procured as a sole source citing reasons why the new equipment would interface with other equipment MTC owned without indicating reasons why it was the only item that would meet the needs.

We recommend MTC only issue sole source determinations when supplies or services are unique and only available from one source, as outlined in the Code and Regulations regarding sole source procurements.

College Response

The College has addressed procedures regarding sole sources and will adhere to the Procurement Code and Regulations.

B. Inadequate Determinations for Sole Source Procurements

Written determinations for four sole source procurements failed to provide sufficient information to support the procurements as sole sources.

<u>PO #</u>	<u>Date</u>	<u>Description</u>	<u>Amount</u>
P0021934	02/26/09	Lab Equipment	\$12,738.03
P0023429	03/31/10	Tensile Tester	5,883.93
P0024523	03/01/11	Bladder Scanner	15,131.25
P0025977	04/05/12	Automotive Training Equipment	76,251.00

Written determinations for four sole source procurement transactions failed to provide enough information to show that the transactions were unique items only available from a single source. The written determination for the lab equipment stated it was only available from the vendor but did not say why other equipment would not do. The written determination for the tensile tester stated that no other company manufactured any unit of a similar nature. That does not explain why no other tensile tester will meet the needs of MTC. The written determination claims the bladder scanner is only available from the vendor and is in use in the college's clinical facilities. It does not explain why no other scanner will do. The written determination for the automotive training equipment states the vendor is the

manufacturer. That statement does not support that the equipment is only available from the vendor nor does it explain why no other training equipment will do.

Section 11-35-1560(A) states “A contract may be awarded for a supply, service, information technology, or construction item without competition if ... the chief procurement officer, the head of a purchasing agency, or a designee of either officer ... determines in writing that there is only one source for the required supply, service, information technology, or construction item. Paragraph (B) provides, “Any decision by a governmental body that a procurement be restricted to one potential vendor must be accompanied by an explanation as to why no other will be suitable or acceptable to meet the need.” Regulation 19-445.2105 (C) requires that the determination contain sufficient factual grounds and reasoning to provide an informed, objective explanation for the decision.

We recommend MTC comply with the sole source statute and regulation by providing sufficient factual grounds and reasoning to provide an informed, objective explanation for the decision on each sole source procurement.

College Response

The Procurement Office has addressed and will continue to address procedures regarding sole source justifications with departments of the College. In the future, we will either solicit for competition or justifications will be more appropriate.

II. Procurement Card Transactions Cardholder Activity Statements not Approved

Our testing revealed seven separate cardholder activity statements that did not have the procurement card holders’ nor supervisors’ signatures approving the procurement card transactions for payment. The statements reflect the card holders month activity and should be signed indicating that the transactions were appropriate and recommended for payment. While the MTC procurement card manual does not require these signatures, State policy does. Section III of the State P card policy manual establishes supervisors/ approving officials roles and responsibilities. Among them include approving the procurement card cardholder activity statements and verifying that cardholder activity statements contain the cardholder’s signature.

We recommend MTC amend its procurement card manual to require cardholder and supervisor signatures on the cardholder activity statements taking responsibility for the transactions and recommending them for payment in accordance with State policy.

College Response

Supervisor signatures will be obtained for all procurement card transactions.

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 Midlands Technical College in compliance with the Consolidated Procurement Code and ensuing regulations.

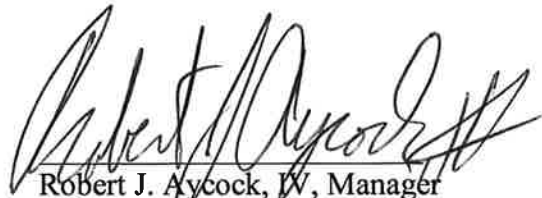
Under the authority described in Section 11-35-1210 of the Consolidated Procurement Code, subject to this corrective action, we will recommend that Midlands Technical College be recertified to make direct agency procurements for three years up to the limits as follows:

<u>PROCUREMENT AREAS</u>	<u>CERTIFICATION LIMITS</u>
Supplies & Services	\$ 300,000 per commitment
Information Technology	\$ 100,000 per commitment
Consultant Services	\$ 300,000 per commitment
Construction Contract Change Order	\$ 25,000 per Change Order
Architect/Engineer Contract Amendment	\$ 5,000 per Amendment

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



Mac Stiles
Senior Auditor



Robert J. Aycock, IV, Manager
Audit and Certification

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MARCIA S. ADAMS
EXECUTIVE DIRECTOR

July 29, 2013

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

Dear Voight:

We have reviewed the response from Midlands Technical College to our audit report for the period of July 1, 2008 through December 31, 2012. We have followed-up on Midlands Technical College's corrective action during and subsequent to our fieldwork.

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

Sincerely,

Robert J. Aycock, IV, Manager
Audit and Certification

Total Copies Printed	11
Unit Cost	<u>\$.52</u>
Total Cost	<u>\$5.72</u>