

MIDLANDS TECHNICAL COLLEGE

PROCUREMENT AUDIT REPORT

JANUARY 1, 2013 – JUNE 30, 2016

TABLE OF CONTENTS

	<u>PAGE</u>
Transmittal Letter.....	1
Introduction.....	3
Scope.....	4
Summary of Audit Findings.....	6
Results of Examination.....	7
Certification Recommendations.....	10
Follow-up Letter	11

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

HENRY MCMASTER, CHAIR
GOVERNOR

CURTIS M. LOFTIS, JR.
STATE TREASURER

RICHARD ECKSTROM, CPA
COMPTROLLER GENERAL



THE DIVISION OF PROCUREMENT SERVICES

DELBERT H. SINGLETON, JR.
DIVISION DIRECTOR
(803) 734-8018

JOHN ST. C. WHITE
MATERIALS MANAGEMENT OFFICE
(803) 737-0600
FAX: (803) 737-0639

HUGH K. LEATHERMAN, SR.
CHAIRMAN, SENATE FINANCE COMMITTEE

W. BRIAN WHITE
CHAIRMAN, HOUSE WAYS AND MEANS COMMITTEE

GRANT GILLESPIE
EXECUTIVE DIRECTOR

July 18, 2017

Mr. John St. C. White
Materials Management Officer
Division of Procurement Services
1201 Main Street, Suite 600
Columbia, South Carolina 29201

Dear John:

We have examined the procurement policies and procedures of Midlands Technical College for the period January 1, 2013 through June 30, 2016. 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 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 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 Midlands Technical College in compliance with the South Carolina 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 Midlands Technical College. We conducted our audit under authority granted 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 Operating Procedures Manual, were in compliance with the South Carolina Consolidated Procurement Code and ensuing regulations.

On September 3, 2013 the State Budget and Control Board granted Midlands Technical College the following procurement certifications:

<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.

Our audit was performed primarily to determine if recertification is warranted. Additionally, the Midlands Technical College requested the following increased certification levels.

<u>PROCUREMENT AREAS</u>	<u>CERTIFICATION LIMITS</u>
Supplies & Services	*\$ 350,000 per commitment
Information Technology	*\$ 150,000 per commitment
Consultant Services	*\$ 350,000 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.

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 at Midlands Technical 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, 2013 through June 30, 2016 of procurement transactions managed by the College 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 January 1, 2013 through June 30, 2016 with exceptions noted in Section I
- (2) Procurement transactions for the period January 1, 2013 through June 30, 2016 as follows:
 - a) Seventy-nine payments each exceeding \$10,000.00 with exceptions noted in Section II
 - b) Two hundred and fifty purchase orders reviewed against the use of order splitting and favored vendors with no exceptions
 - c) Twenty-one procurement card transactions in December 2015, January, and February 2016 with an exception noted in Section III
- (3) Minority Business Enterprise Plans and reports with no exceptions noted. The following activity was reported to the Governor's Office Division of Small and Minority Business Contracting and Certification:

<u>Fiscal Year</u>	<u>Goal</u>	<u>Actual</u>
2013-2014	\$ 8,740,203.40	\$ 348,976.40
2014-2015	\$ 8,886,902.40	\$ 424,479.47
2015-2016	\$ 1,637,082.30	\$ 718,507.57

- (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 no exceptions
- (8) File documentation and evidence of competition with no exceptions
- (9) Other tests performed as deemed necessary with no exceptions

SUMMARY OF AUDIT FINDINGS

PAGE

- | | | |
|------|---|---|
| I. | <u>Inappropriate Sole Source Procurements</u> | 7 |
| | Five sole source procurements were deemed inappropriate. | |
| II. | <u>No Written Determinations for Selected Procurement Methods</u> | 8 |
| | Three procurements utilizing alternate procurement methods were not supported with written determinations authorizing the use of these alternate methods. | |
| III. | <u>Procurement Card Increased Single Transaction Limit Not Authorized</u> | 9 |
| | A procurement card with a single transaction limit of \$60,000.00 was not authorized by the Materials Management Officer. | |

RESULTS OF EXAMINATION

I. Inappropriate Sole Source Procurements

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

Purchase Order P0026479 dated November 14, 2012 in the amount of \$16,221 and P0027737 dated July 26, 2013 in the amount of \$11,149 were both issued as sole sources for scanners to include maintenance and support. Competition existed for the procurements.

Blanket Orders B0005573 dated August 27, 2012 in the amount of \$59,000 and B0005956 dated August 23, 2013 in the amount of \$55,000 were both issued as sole sources for field studies and media productions. These services were procured as sole sources based upon established working relationships with central South Carolina school districts and institutions of higher education. This was not a valid reason for sole sourcing a procurement under the South Carolina Consolidated Procurement Code.

Purchase Order P0028948 dated March 17, 2015 in the amount of \$199,026 for 3D equipment was issued as a sole source because the vendor was already servicing four other colleges. This was not a valid reason for sole sourcing a procurement under the South Carolina Consolidated Procurement Code.

Section 11-35-1560(A) states, "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 supply, service, information technology, or construction item." Regulation 19-44.2105(B) provides guidance on circumstances that may necessitate sole source procurements. None of the circumstances provided for the aforementioned procurements coincided with the Regulation.

We recommend the College comply with Section 11-35-1560 and Regulation 19-44.2105(B) of the South Carolina Consolidated Procurement Code regarding sole source procurements. These procurements must be competed in the future.

College Response

We have reviewed the events and developed tools to assist the Procurement Department in preventing future oversights.

II. No Written Determinations for Selected Procurement Methods

Blanket Order B0006750 dated July 28, 2015 in the amount of \$17,338 and B0006748 dated July 28, 2015 in the amount of \$17,500, both for painting services, were awarded to vendors through fixed price bidding procedures. To use fixed price bidding procedures, a written determination to authorize this method of procurement over competitive sealed bidding, the preferred method of awarding contracts under the Procurement Code must be prepared. Section 11-35-1525(1) of the Procurement Code states in part, “When a purchasing agency determines in writing that the use of competitive sealed bidding is either not practicable or not advantageous to the State, a contract may be entered into by competitive fixed price bidding....” The College did not provide a written determination authorizing the use of fixed price bidding. Furthermore, we do not believe that competing painting services through competitive sealed bids can be shown not to be practicable or advantageous to the State.

Blanket Order B00064657 dated July 1, 2015 in the amount of \$10,800 for employee assistance program services was awarded through a competitive sealed proposal. Competitive sealed proposals require a written determination to authorize this method of procurement over competitive sealed bidding. No written determination was provided by the College.

Section 11-35-1530(1) of the South Carolina Consolidated Procurement Code states in part, “if a purchasing agency determines in writing that the use of competitive sealed bidding is either not practicable or not advantageous to the State, a contract may be entered into by competitive sealed proposals...” We recommend the College comply with the requirement for written determinations to authorize the use of

fixed price bids and competitive sealed proposals over competitive sealed bidding. Using alternative methods of procurement over competitive sealed bidding must be shown to be more advantageous and why competitive sealed bidding is not practicable.

College Response

We have reviewed the events and developed tools to assist the Procurement Department in preventing future oversights.

III. Procurement Card Single Transaction Limit Not Authorized

No authorization could be provided by the College for a procurement card with a single transaction limit of \$60,000. The South Carolina Higher Education Efficiency and Administrative Policies Act of 2011 (HEEPA) authorizes the State Board for Technical and Comprehensive Education to increase single-transaction limits of the procurement card up to \$10,000. Single transaction limits exceeding \$10,000 however, must be authorized by the Materials Management Officer (MMO). The College was unable to provide approval from the MMO for the single transaction limit of \$60,000.00.

Section II(D)(1) of the South Carolina Purchasing Card Policy and Procedures Manual states in part, “To raise the Single Transaction Limit above the “no compete” Purchase Limit, the P-Card Administrator must submit the requested change in writing (E-mail or memo) to the MMO Chief Procurement Officer ...”.

We recommend the College comply with the South Carolina Purchasing Card Policy and Procedures Manual by requesting authorization for all procurement cards with single transaction limits exceeding \$10,000.00.

College Response

In accordance with prior communications with you office, we have requested approval for the other cardholder whose transactions limit exceeds the \$10,000 threshold.

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 South Carolina Consolidated Procurement Code.

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

<u>PROCUREMENT AREAS</u>	<u>CERTIFICATION LIMITS</u>
Supplies & Services	*\$ 350,000 per commitment
Information Technology	*\$ 150,000 per commitment
Consultant Services	*\$ 350,000 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.



Mary E. Jefferson
Senior Auditor



Robert J. Aycock, IV, Manager
Audit and Certification

HENRY MCMASTER, CHAIR
GOVERNOR

CURTIS M. LOFTIS, JR.
STATE TREASURER

RICHARD ECKSTROM, CPA
COMPTROLLER GENERAL



HUGH K. LEATHERMAN, SR.
CHAIRMAN, SENATE FINANCE COMMITTEE

W. BRIAN WHITE
CHAIRMAN, HOUSE WAYS AND MEANS COMMITTEE

GRANT GILLESPIE
EXECUTIVE DIRECTOR

THE DIVISION OF PROCUREMENT SERVICES

DELBERT H. SINGLETON, JR.
DIVISION DIRECTOR
(803) 734-8018

JOHN ST. C. WHITE
MATERIALS MANAGEMENT OFFICE
(803) 737-0600
FAX: (803) 737-0639

July 25, 2017

Mr. John St. C. White
Materials Management Officer
Division of Procurement Services
1201 Main Street, Suite 600
Columbia, South Carolina 29201

Dear John:

We have reviewed the response from Midlands Technical College to our audit report for the period of January 1, 2013 through June 30, 2016. In our opinion, the College complies with the South Carolina Consolidated Procurement Code, State regulations, and the College's procurement policies and procedures in all material respects and the internal procurement operating procedures are adequate to properly handle procurement transactions. Therefore, we recommend the State Fiscal Accountability Authority 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>\$.49</u>
Total Cost	<u>\$5.39</u>