

SPARTANBURG COMMUNITY COLLEGE

PROCUREMENT AUDIT REPORT

JULY 1, 2007 – JUNE 30, 2010

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November 5, 2010

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 Spartanburg Community College for the period July 1, 2007 through June 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 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 policy. 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 Spartanburg Community 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 Spartanburg Community College 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 Spartanburg Community College. Our review was performed from September 29, 2010 through October 20, 2010 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 Operating Procedures Manual, were in compliance with the South Carolina Consolidated Procurement Code and ensuing regulations.

Additionally, Spartanburg Community College requested the following increased certifications over its basic \$50,000 limits.

<u>PROCUREMENT AREAS</u>	<u>CERTIFICATION LIMITS</u>
Supplies and Services	\$ 100,000 per commitment
Information Technology	\$ 100,000 per commitment
Consultant Services	\$ 100,000 per commitment
Construction Services	\$ 100,000 per commitment
Construction Contract Change Order	\$ 10,000 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 Spartanburg Community College, 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 July 1, 2007 through June 30, 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 July 1, 2007 through June 30, 2010 with exceptions noted in Section II of the report
- (2) Procurement transactions for July 1, 2007 through June 30, 2010 as follows:
 - a) Ninety-two payments each exceeding \$2,500 with exceptions noted in Section I of the report
 - b) A block sample of three hundred sequential purchase orders from FY 2010 reviewed against the use of order splitting and favored vendors with no exceptions
 - c) Procurement card purchases for April and May 2010 with no exceptions
- (3) Ten construction contracts with seven being indefinite delivery contracts and seven Architect/Engineer and Related Professional Service Contracts with five being indefinite delivery contracts for compliance with the Manual for Planning and Execution of State Permanent Improvements, Part II with an exception noted in Section III of the report.

- (4) Minority Business Enterprise (MBE) reports for the audit period. The annual MBE Plan and goals are prepared by the State Board for Technical and Comprehensive Education¹ for the entire technical college system as one plan. Quarterly reports from Spartanburg Community College show reported MBE expenditures for the College as follows:

<u>Fiscal Year Ending</u>	<u>Actual Utilization</u>
2008	\$ 42,655
2009	\$ 4,514
2010	\$ 1,425

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

¹ In the past the State Board for Technical and Comprehensive Education (SBTCE) has been the liaison to the Office of Small and Minority Business Assistance (OSMBA) in the Governor's Office for the entire technical college system by preparing annual utilization plans for assistance to minority business enterprises (MBE). To increase accountability, the SBTCE has concluded that the technical colleges will now be responsible for filing their own annual utilization plans directly with OSMBA and reporting their own quarterly activity. The fiscal year 2010-2011 annual MBE utilization plan and check list should have been filed with OSMBA in July but OSMBA granted an extension to November 30, 2010 for the South Carolina technical college system.

SUMMARY OF AUDIT FINDINGS

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One emergency procurement was supported by an inadequate written determination.	
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Eleven (11) sole source contracts were entered into without having signed affidavits from the vendors certifying that they comply with the State's drug-free workplace act.	
III. <u>Construction Services Retention Exceeded Maximum Limit</u>	10
Our audit identified one construction payment where 10% retainage was withheld from the payment whereas a 3.5% maximum retainage was allowed.	
IV. <u>Unauthorized Procurements Not Reported</u>	10
The College did not report its record of unauthorized procurements to the Chief Procurement Officers.	

RESULTS OF EXAMINATION

I. Supplies and Services Procurements

A. Inappropriate Use of Procurement Code Exemption

The following procurements were incorrectly procured under exemptions from the South Carolina Consolidated Procurement Code, hereinafter referred to as the Code.

<u>Document Reference</u>	<u>Contract Date</u>	<u>Description</u>	<u>Amount</u>
V0088470	07/04/07	Job task analysis	\$34,183
V0108638	10/10/08	Senior citizens service study	\$12,500
V0118915	07/01/09	Senior citizens service study	\$ 3,125
B0002193	07/29/09	Production of television commercial	\$ 5,500

The first three procurements were all made under an exemption for items for commercial sale. They are consulting contracts. The job task analysis procurement was for consulting services to identify an apprenticeship program to be provided by a grant. The two senior citizens procurements were feasibility studies to determine what services the senior citizens/baby boomer group could provide. These procurements do not fall under the requirements for the articles for commercial sale exemption.

Purchase order B0002193 issued 07/29/09 in the amount of \$5,500 was for the production of a television commercial. The College claimed the advertising exemption for this which states, “advertising time or space in newspapers, radio or television.” The production of a television commercial does not fit the exemption, just the placement of the advertisement.

We recommend that the College solicit competition for these services in accordance with the Code in the future.

B. Artificially Divided Procurement without Competition

The following purchases were made separately but should have been combined into one procurement.

<u>PO</u>	<u>Date</u>	<u>Description</u>	<u>Amount</u>
P0021712	08/26/09	Fliers for Career Quest '09	\$ 2,012
P0021751	09/01/09	Posters for Career Quest '09	\$ <u>787</u>
		Total	\$ 2,799

Purchase orders P0021712 dated 08/26/09 in the amount of \$2,012 and P0021751 dated 09/01/09 in the amount of \$787 were issued to the same vendor. These purchase orders were for fliers and posters for the same event. The College did not solicit competition for either procurement. Since these items were related, they should have been combined into one procurement. The combined value of the two purchase orders was \$2,799 which exceeded the threshold that required competition.

Section 11-35-1550(2)(b) of the Code states in part, "solicitation of written quotes from a minimum of three qualified sources of supply must be made and documentation of the quotes attached to the purchase requisition for a small purchase over two thousand five hundred dollars but not in excess of ten thousand dollars." Additionally, section 11-35-1550(1) of the Code states in part, "procurement requirements must not be artificially divided by governmental bodies so as to constitute a small purchase."

We recommend that the College follow the competitive requirements of the Code and not artificially divide procurements.

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. We noted the following exceptions:

A. Inadequate Emergency Determination

The following emergency procurement was not supported by an adequate determination.

<u>PO</u>	<u>Date</u>	<u>Description</u>	<u>Amount</u>
P0018262	09/24/07	Emergency medical and nurse aide equipment	\$34,295

The emergency medical and nurse aide equipment was procured for a class to be taught on the Cherokee campus of the College. The written determination that authorized the emergency procurement only stated, "There are 24 EMT-B and 16 nurse aide students signed up for courses at the Cherokee campus. We need to procure the items in order that the class can be offered this term." The determination did not provide an adequate explanation.

In a declaratory judgment issued against Greenville County School District in *Sloan v. School District of Greenville County*, No. 98-CP-23-2816 (Greenville, S.C., Ct. Common Pleas, July 15, 2003), the Court stated in part in regards to a written emergency determination that:

The Code requires a written determination to afford the District and the public sufficient information to intelligently and objectively review the decision. The decision to use the emergency exception must be sufficiently detailed to satisfy an audit, and it must be made available to the public. The purpose of the determination is to provide the basis of the decision to the school board and to the public. If the determination provides, in sufficient detail, the information necessary for the school board and the public to make an intelligent, objective review of these decisions, then it has accomplished its purpose.

We recommend that the College follow the court ruling in preparing its written determinations by providing sufficient, factual details that allow intelligent, objective reviews of

the decisions. In May of 2007, the Regulations regarding written determinations were amended to reflect the requirements in the court ruling.

B. Non-Compliance with Drug-Free Workplace Act

The College failed to obtain certifications from vendors stating they comply with the State's drug-free workplace act prior to awarding eleven (11) sole source procurements greater than \$50,000 each for the audit period reviewed.

Section 44-107-30 of the Drug-Free Workplace Act requires a written certification on any contract of \$50,000 or more stating that the vendor will provide a drug-free workplace. Sole source procurements are subject to this law.

We recommend that the College obtain signed drug-free workplace certifications from vendors on all future procurements of \$50,000 or more as required by the Act.

III. Construction Services Retention Exceeded Maximum Limit

The College withheld 10% retention on a construction contract on Project Number H59-N518-JM. Section 11-35-3030(4)(a) of the Code states in part, "...the retained amount of each progress payment or installment must be no more than three and one-half percent."

We recommend the College limit the amount of retention to no more than 3.5% allowed by the Code.

IV. Unauthorized Procurements Not Reported

The College failed to report its record of unauthorized procurements to the chief procurement officers. Effective as of the first Monday in September, 2007, a quarterly record of unauthorized contracts, including facts and circumstances surrounding the acts, corrective actions taken to prevent recurrence, and actions taken against individuals performing the acts, along with the decisions to ratify or terminate these contracts was required to be submitted

to the Chief Procurement Officers each quarter by Regulation 19-445.2015.

We recommend the College submit quarterly records of unauthorized procurements to the Chief Procurement Officers on a quarterly basis in accordance to the Regulation.

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 Spartanburg Community College in compliance with the Consolidated Procurement Code.

Spartanburg Community College has requested increased procurement certification above the basic limits of \$50,000.

Under the authority described in Section 11-35-1210 of the Procurement Code, subject to this corrective action, we will recommend Spartanburg Community 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 and Services	*\$ 100,000 per commitment
Information Technology	*\$ 100,000 per commitment
Consulting Services	*\$ 100,000 per commitment
Construction Services	\$ 100,000 per commitment
Construction Contract Change Order	\$ 10,000 per change order
Architect/Engineer Contract Amendment	\$ 5,000 per amendment

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


Robert J. Aycock, IV, Manager
Audit and Certification



January 20, 2011

Mr. Jimmy Aycock
Manager, Audit and Certification
State of South Carolina
State Budget and Control Board
Office of General Services
Materials Management Office
1201 Main Street, Suite 600
Columbia, SC 29201

Dear Mr. Aycock:

I have reviewed the draft procurement audit report for period July 1, 2007 – June 30, 2010 and I am in concurrence with the audit findings. Spartanburg Community College is constantly vigilant to assure all purchases are compliant with State Procurement Regulations. We have addressed each issue with the respective specific department managers and clarified future requirements in order to be in compliance. We concur with the recommendations and will insure they are observed, taking necessary steps to monitor.

I want to thank you and your staff for the professional manner in which you conducted the audit, then subsequent evaluation. SCC appreciates the advice given to ensure public resources are used efficiently and with the public interest.

Should you have any questions, please be certain to contact me by phone or e-mail.

Best Regards,

Wade Smith, C.P.M./C.Q.E.
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EXECUTIVE DIRECTOR

January 21, 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 Spartanburg Community College to our audit report for the period of July 1, 2007 to June 30, 2010. Also we have followed the College's corrective action during and subsequent to our fieldwork. We are satisfied that Spartanburg Community College has corrected the problem areas and the internal controls over the procurement system are adequate.

Therefore, we recommend the Budget and Control Board grant Spartanburg Community College 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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