

COASTAL CAROLINA UNIVERSITY
PROCUREMENT AUDIT REPORT
APRIL 1, 2009 – SEPTEMBER 30, 2012

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January 8, 2014

**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 Coastal Carolina University for the period April 1, 2009 through September 30, 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 Coastal Carolina University. 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 Coastal Carolina University 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

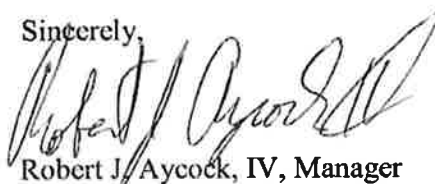
reasonable, but not absolute, assurance of the integrity of the procurement process, that affected assets are safeguarded against loss from unauthorized use or disposition and that those transactions are executed in accordance with management's authorization and recorded properly.

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 Coastal Carolina University in compliance with the 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 Coastal Carolina University. We conducted our on-site review from November 28th through December 7, 2012. 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 Coastal Carolina University the following procurement certifications.

<u>PROCUREMENT AREAS</u>	<u>CERTIFICATION LIMITS</u>
Supplies & Services	\$ 200,000 per commitment
Consultant Services	\$ 100,000 per commitment
Revenue Generating Management Services	\$ 1,000,000 per commitment
Construction Services	\$ 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, Coastal Carolina University requested the following certification increases.

<u>PROCUREMENT AREAS</u>	<u>CERTIFICATION LIMITS</u>
Supplies & Services	\$ 300,000 per commitment
Consultant Services	\$ 200,000 per commitment
Revenue Generating Management Services	\$ 1,000,000 per commitment
Information Technology	\$ 100,000 per commitment
Construction Services	\$ 200,000 per commitment
Construction Contract Change Order	\$ 150,000 per change order
Architect/Engineer Contract Amendment	\$ 50,000 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 Coastal Carolina University 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 April 1, 2009 through September 30, 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 April 1, 2009 through September 30, 2012 with exceptions noted in Section I of the report
- (2) Procurement transactions for the period April 1, 2009 through September 30, 2012 as follows:
 - a) Ninety-eight payments each exceeding \$2,500 with no exceptions
 - b) Two hundred thirty-two sequentially filed purchase orders reviewed against the use of order splitting and favored vendors with no exceptions
 - c) Procurement card purchases for July & August 2012 with exceptions noted in Section II
- (3) Minority Business Enterprise Plans and reports, with no exceptions noted, 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>
2009-2010	\$478,683	\$ 63,950
2010-2011	\$656,574	\$195,863
2011-2012	\$658,750	\$ 31,391

- (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 RESULTS

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<p>Two procurements made as sole sources were inappropriate.</p>	
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<p>We identified procurements made from Merchant Category Codes that were supposed to be blocked.</p>	

RESULTS OF EXAMINATION

I. Inappropriate Sole Source Procurements

Section 11-35-1560 of the Procurement Code authorizes the use of sole source procurements when an agency determines in writing that there is only one source for the required supply, service, information technology, or construction item. We noted the following inappropriate sole source procurements.

<u>PO#</u>	<u>PO Date</u>	<u>Amount</u>	<u>Description</u>
DEV 893	09/10/10	\$ 3,206	Subscription for employment research tool
P0034537	06/06/12	\$26,459	Treadmills

The University issued DEV 893 to procure a web-based subscription service for employment research for students and alumni based on the justification that the program was the only career search provider that brings an extensive research component, resume information management, and ease of accessibility together in one program. Purchase order P0034537 procured treadmills as a sole source by determining the equipment being placed in a new facility of being the highest quality and contained the latest technology to appeal to today's college student. Neither of the sole source determinations addressed why no other service or product would meet the needs.

Section 11-35-1560, Sole Source Procurement, paragraph (A) states in part, "A contract may be awarded for a supply, service, or construction item without competition when, 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, or construction item. In cases of reasonable doubt, competition must be solicited." Additionally, Section 11-35-1560 (B) states in part, "...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."

We recommend competition be solicited in accordance with the Procurement Code for the types of transactions listed above.

II. Procurement Card Blocked Merchant Category Code Usage

Our review of the University's procurement card transactions during the months of July and August 2012, revealed procurements made against blocked Merchant Category Codes (MCCs). Section IV. General Procedures - Blocked Vendors, of the University's Purchasing Card Program manual identifies blocked MCCs which are restricted from procurement card use. When we questioned how these blocked MCCs were used, we learned the University administers overrides on an individual transaction basis. The practice has been to consider overrides on a case-by-case basis, with approval given and administered by the University's P-Card Administrator or her backup, and only after a documented request has been received from the Cardholder.

We recommend that if a procurement card user has a need to unblock a MCC for a stated purpose and time frame, that the user make a written request to the University's Procurement Card Administrator to unblock the MCC. The Procurement Card Administrator shall either approve or decline such requests based on her assessment of the needs and best interests of the University. The University must amend its manual to provide for procedures to allow for temporary unblocked MCCs provided the requestor submits sufficient justification. A written record of each temporarily unblocked code must be maintained.

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 Coastal Carolina University 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 Coastal Carolina University 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
Consultant Services	*\$ 200,000 per commitment
Revenue Generating Management Services	*\$ 1,000,000 per commitment
Construction Services	\$ 200,000 per commitment
Construction Contract Change Order	\$ 150,000 per change order
Architect/Engineer Contract Amendment	\$ 50,000 per amendment

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



Robert J. Aycock, IV, Manager
Audit and Certification



Procurement Services

January 10, 2014

Mr. Robert J. Aycocock, IV
Manage, Audit and Certification
Division of Procurement Services
1201 Main Street, Suite 600
Columbia, South Carolina 29201

Dear Jimmy:

The University is in receipt of the Procurement Audit Report for the period of April 1, 2009 through September 20, 2012.

Understanding the field auditor for this review, Mr. Allen Townsend, is no longer with your division, we do appreciate the professional manner in which the audit was conducted and his comments concerning efficiencies in our procurement operations.

With respect to the two exceptions noted in the report, the University provides the following responses:

I. Inappropriate Sole Source Procurements

Response:

The University's policy is to adhere to the requirements of the SC Procurement Code with all sole source procurements including the related written determinations necessary for such procurements. In regards to the two procurements noted, we understand the inadequacies of the respective written determinations to properly communicate the unique aspects of the products being procured. The University will continue to strive to write determinations that fully explain the justification for sole source procurements.

II. Procurement Card Blocked Merchant Category Code Usage

Response:

While not required of higher education institutions, the University has established various purchasing card account profiles that block certain transactions at the point of sale based on the vendor's Merchant Category Code (MCC). Potential overrides to these blocked transactions are considered on a case-by-case basis by the University's Purchasing Card Administrator, with approvals being properly documented. Although following the appropriate practice, the University realizes that its Purchasing Card Program Manual in use at the time of the audit contained, in error, the entire listing of blocked MCCs which are applicable to other non-higher education state agencies.



Procurement Services

Mr. Robert J. Aycock, IV
January 10, 2014
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Further, the manual stated that cardholders would not be able to make purchases from vendor types on the list and did not provide provisions for override procedures. The University revised its manual (with approval from the Chief Procurement Officer as required by the Code) in July 2013 to appropriately reflect the procedures in place and recommended by the audit. The revised manual does not contain an exact listing of blocked merchant types, but does state that certain transactions will be blocked at the point of sale. It provides procedures under which a temporary override may be requested and obtained, and that appropriate documentation will be retained of such transactions.

The University appreciates the report recommendation regarding increases in our various procurement certification limits. We trust the above responses and resulting actions will continue to support this recommendation. Please advise should you need any additional information.

As always, the University welcomes ideas and suggestions regarding our procurement practices.

Sincerely,

Dean P. Hudson
Director, Procurement Services

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January 13, 2014

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 Coastal Carolina University to our audit report for the period of April 1, 2009 through September 30, 2012. We have followed-up on the University's corrective action during and subsequent to our fieldwork. We are satisfied with the results.

Therefore, we recommend the Budget and Control Board grant Coastal Carolina University 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	\$.63
Total Cost	\$6.93