FRANCIS MARION UNIVERSITY

PROCUREMENT AUDIT REPORT

JULY 1, 2006 – DECEMBER 31, 2010

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

SC BUDGET AND CONTROL BOARD

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August 12, 2011

Mr. R. Voight Shealy
Materials Management Officer
Procurement Services Division
1201 Main Street, Suite 600
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Dear Voight:

We have examined the procurement policies and procedures of Francis Marion University for the period July 1, 2006 through December 31, 2010. 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 University'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 Francis Marion 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 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 Francis Marion University 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 Francis Marion University. Our review was performed February 28 through March 25, 2011 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.

On January 30, 2007 the State Budget and Control Board granted Francis Marion University the following procurement certifications:

PROCUREMENT AREAS	CERTIFICATION LIMITS
Supplies and Services	$ 250,000 per commitment
Consultant Services	$ 150,000 per commitment
Information Technology	$ 150,000 per commitment
Construction Services	$ 150,000 per commitment
Construction Contract Change Order	$ 50,000 per change order
Architect/Engineer Contract Amendment	$ 50,000 per amendment

Our audit was performed primarily to determine if recertification is warranted. Additionally, Francis Marion University requested the following increased certifications.

PROCUREMENT AREAS	REQUESTED CERTIFICATION LIMITS
Supplies and Services	$ 250,000 per commitment
Consultant Services	$ 150,000 per commitment
Information Technology	$ 150,000 per commitment
Construction Services	$ 150,000 per commitment
Construction Contract Change Order	$ 75,000 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 Francis Marion University, hereinafter referred to as the 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 July 1, 2006 through December 31, 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, 2006 through December 31, 2010 with exceptions noted in Section I of the report

(2) Procurement transactions for the period July 1, 2008 through December 31, 2010 as follows:

   a) One hundred and ten payments each exceeding $2,500 with exceptions noted in Section II of the report

   b) A block sample of one hundred and fifty sequential purchase orders from FY 2010 reviewed against the use of order splitting and favored vendors with no exceptions

   c) Procurement card purchases for September, October, and November 2010 with exceptions noted in Section III of the report.

(3) Seven construction contracts with five being indefinite delivery contracts and three Architect/Engineer and Related Professional Service Contracts for compliance with the Manual for Planning and Execution of State Permanent Improvements, Part II with no exceptions noted.

(4) Minority Business Enterprise Plans and reports with the following activity reported to the Governor's Office of Small and Minority Business Assistance:

Fiscal Year	Goal	Actual
FY08-09	$232,832	$136,838
FY09-10	$204,433	$120,369
FY10-11	$101,528	$ 63,934*

* July – December 2010

(5) Approval of the most recent Information Technology Plan with no exceptions

(6) Internal procurement procedures manual with no exceptions

(7) Surplus property disposition procedures with no exceptions

(8) Ratification of unauthorized procurements with no exceptions

(9) File documentation and evidence of competition with no exceptions

(10) Other tests performed as deemed necessary with no exceptions

SUMMARY OF AUDIT FINDINGS

RESULTS OF EXAMINATION

I. 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 required by Section 11-35-2440. We noted the following exceptions:

A. Inappropriate Sole Sources to the Francis Marion University Foundation

All purchase orders listed below were issued to the Francis Marion University Foundation as sole source procurements inappropriately. The procurements were as follows:

PO	PO Date	Description	PO Amount
14400	08/03/07	Administration of Rural Leadership Capacity Building Program	$80,000
15409	08/11/08	Administration of Rural Leadership Capacity Building Program	$55,000
16163	08/10/09	Administration of Rural Leadership Capacity Building Program	$30,000
13517	09/13/06	Administration of Non-Profit Leadership Institute	$91,979
16793	06/25/10	Administration of Non-Profit Leadership Institute	$65,000
13577	10/06/06	Administration and Management of "The Cottage"	$31,250
15281	06/25/08	Administration and Management of "The Cottage"	$31,250

The Foundation, a separate and distinct legal entity, is not part of Francis Marion University. For purchase orders 14400, 15409 and 16163, the University issued sole sources to the Foundation based on "This (sole source) contract is the FMU matching portion of a grant already in existence. That portion could not be competed, as the initial portion is in place." We requested grant documents to see where such a requirement existed to cause the University to have to match a grant received by the Foundation. None of the documents we received supported this claim. For purchase orders 13517 and 16793, the entire sole source determination only addressed that the Foundation has administered the Institute since the start of the program. The sole source determinations, therefore, failed to adequately explain the basis for the sole sources.

For purchase orders 13577 and 15281, the University issued sole sources to the Foundation "to maintain continuity and the existing level of service." This reason does not support justification for a sole source procurement.

UNIVERSITY RESPONSE

The Rural Area Leadership Initiative began in 2007 and was conducted by the Francis Marion University Education Foundation. The university received State Appropriations (in FY 2007 and FY 2008) earmarked to provide Rural Assistance Initiatives. Several programs were initiated as a result of this funding including the Rural Area Leadership Initiative. The intent of the program was to address capacity building in South Carolina's rural communities through a series of on-site training programs for both non-profit and civic communities in various locations. The Francis Marion University Education Foundation received grant funding to support this program which in effect served to supplement the funding the University was appropriated for Rural Assistance programs. The University recognizes that a grant to the Francis Marion University Education Foundation cannot obligate the University for state-appropriated matching funds. Further, the University clearly recognizes that the Francis Marion University Education Foundation is a separate legal entity from the University. The program in its current form is called the Rural Leadership Institute (RLI) and is now solely funded through the Francis Marion University Education Foundation without any supplemental funding from the University. This sole source procurement will not recur.

The Non-Profit Leadership Institute (NPLI) was established in 2001 to provide leadership training to strengthen non-profit organizations across the state. This nine-month program brings experts from the public, private and non-profit sectors across the country to address participants on various topics to provide the latest thinking in the non-profit sector with to date

approximately 250 graduates representing 38 of 46 counties in the state. The Francis Marion University Education Foundation has administered this program since its inception. While there are courses offered at numerous higher education institutions in non-profit management, there is no other program in the state that offers such an abbreviated program delivered to such a diverse group involved in non-profit management. Once the current contract is completed, the University will issue a solicitation for these services if the program continues in its current iteration.

Since 2008, the University has discontinued paying the Francis Marion University Education Foundation for management of the Cottage. This sole source will not recur.

B. Other Inappropriate Sole Source and Emergency Justifications

Two other procurements, one issued as a sole source and the other as an emergency, were inappropriate as such.

PO	PO Date	Description	Type	PO Amount
13331	07/19/06	Athletic Apparel	Sole Source	$ 4,649
13446	08/24/06	Privacy Fence	Emergency	$ 5,353

Purchase order 13331 for athletic apparel was processed as a sole source based on the fact that these items are factory direct with minimum retail markup and that competition in the past has placed an undue burden on the vendors. The reference to 'undue burden on vendors' in the written determination indicates that the apparel is available from multiple suppliers. Additionally, markup in cost is not an acceptable reason to declare a sole source procurement.

UNIVERSITY RESPONSE

The University will not use this justification for future sole source procurements.

Purchase order #13446 for the construction of a privacy fence was processed as an emergency based on the fact that this structure would have significant impact on the initial and ongoing success of "The Grill", the College's on-campus faculty house. The emergency determination states that this is "critical economy". Concerns regarding the location and visibility of this dumpster should have been identified early enough in advance to have allowed

adequate time to solicit competition for the construction of a privacy fence under normal procedures.

Section 11-35-1560 of the Procurement Code allows for a contract to be awarded without competition if the head of the purchasing agency or a designee 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. Section 11-35-1570 of the Procurement Code allows the head of a purchasing agency or a designee to make emergency procurements only when there exists an immediate threat to the public health, welfare, critical economy and efficiency, or safety.

We recommend that the University adhere to the statutes for sole source and emergency procurements.

UNIVERSITY RESPONSE

The University will seek competition in advance of any similar future situation as to preclude the need for an Emergency Procurement.

C. Non-Compliance with Drug-Free Workplace Act

The University did not obtain Drug-Free Workplace Certifications for sole source and emergency procurements which exceeded $50,000. 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 and emergency procurements are subject to this law.

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

UNIVERSITY RESPONSE

The University will be vigilant to obtain Drug-Free Workplace Certifications for Sole Source Procurements and Emergency Procurements above $50,000.

II. Supplies and Services Procurements

A. Vendor Payment Not Properly Supported

Requisition 84873 dated January 5, 2009 in the amount of $3,420 was for the annual renewal of country club dues for the period November 1, 2008 through November 01, 2009. However, the requisition was supported with a previously paid invoice covering dues for the period November 1, 2007 through November 1, 2008.

Per the University's Procurement Manual (page 25), repairs, memberships, subscriptions and magazine/publication orders not purchased by the library can be paid through requisition. Sound business practices dictate that invoices and requisitions and/or purchase orders be matched to ensure agreement prior to authorizing payment to vendors.

We recommend that processes be implemented by the University to ensure agreement between invoices and requisitions and/or purchase orders prior to authorizing payment to vendors. The outdated invoice should not have been paid.

UNIVERSITY RESPONSE

The University no longer pays for this expenditure. Processing this payment utilizing a prior year invoice was inconsistent with the University's daily procedures for ensuring agreement between invoices and requisitions and/or purchase order before processing a multitude of annual payments. This issue has been discussed with both the University's Athletic Director and the University's Accounting Office to prevent recurrence.

B. No Written Justification for Selected Procurement Method

Alternate procurement methods were not supported with written determinations authorizing the use of these procurement methods.

PO#	PO Date	Description	PO Amount
15730	01/15/09	Outdoor Advertising	Fixed Price
16030	06/12/09	Student Search Service	Fixed Price

Purchase Order 15730 was issued to provide outdoor advertising on an as-needed basis. Purchase Order 16030 was issued to provide lists of potential students to University Admissions on an as-needed basis. Both contracts were procured using the fixed price bidding method which required a written determination justifying the use of this bidding method over an award based on low bid. Section 11-35-1525(1) of the Procurement Code states, "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 subject to the provisions of Section 11-35-1520 and the ensuing regulations, unless otherwise provided for in this section."

We recommend that the University comply with the written determination requirements of the Procurement Code as required by the statute. Failing to prepare the written determination renders contracts illegal.

UNIVERSITY RESPONSE

The University now employs solicitation checklists to preclude appropriate forms and justifications being omitted.

III. Procurement Cards

A. Billing Statements Not Signed

According to the University's Purchasing Card Program Manual, card liaisons are responsible for collecting vendor receipts from cardholders and reconciling statements, however there is no requirement in the manual that the liaisons sign the monthly statement signifying review and approval for payment.

The Division of Procurement Services Materials Management Office South Carolina Purchasing Card Policy and Procedures manual dated May 5, 2010, which sets the minimum standards for using the procurement card program, Section III(B)(5)(e) requires liaisons to "Sign

the monthly billing statement and/or the Cardholder transaction logs signifying review and approval for payment. This responsibility cannot be delegated to another person;"

We recommend the University revise its purchasing card manual to require liaisons to sign monthly statements signifying review and approval for payment.

UNIVERSITY RESPONSE

The University's Purchasing Card Program Manual has been revised to require each liaison to sign cardholder monthly statements signifying review. This requirement has been circulated to cardholders and liaisons.

B. No Internal Audits Being Performed

No internal audits are currently being performed within the procurement card program to ensure compliance with established policy and procedure guidelines.

Section 6 of the University's Purchasing Card Program Manual states, "The Program Administrator oversees all elements of the card program and is responsible for performing periodic audits of the card program." Section 15 of this manual states, "...there will be periodic departmental audits performed by the Program Administrator to be documented in the file with copies of results forwarded to the department head. Random audits will be performed by the Program Administrator and will require the liaison to verify, at a minimum ..."

We recommend that the University comply with the provisions established in the University's Purchasing Card Program Manual regarding performance of internal audits within the procurement card program.

UNIVERSITY RESPONSE

The University's Purchasing Office conducted internal audits as described above during the term of this audit review; however, upon the departure of the prior Director of Purchasing in June of 2009, no audits were performed during the remainder of the audit period. The subsequent Director of Purchasing only held the position for nine months and did not reinstate the internal auditing program. Due to transitioning into the position, the current Director of Purchasing did not implement the audit program during the remainder of the audit period. However, the audit program has now been reinstated in earnest with ten internal audits conducted during fall 2011.

Three of those audits have been completed with the remaining seven audits pending completion prior to December 30, 2011. Per University policy, post-audit correspondence will be sent to the cardholder, his/her liaison, and department head regarding audit findings and concerns. As a supplement to the prior audit procedures, the University's Accounting Office will now review each audit file in addition to the University's Purchasing Office.

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 Francis Marion University in compliance with the Consolidated Procurement Code.

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

PROCUREMENT AREAS	CERTIFICATION LIMITS
Supplies and Services	*$ 250,000 per commitment
Consultant Services	*$ 150,000 per commitment
Information Technology	*$ 150,000 per commitment
Construction Services	$ 150,000 per commitment
Construction Contract Change Order	$ 75,000 per change order
Architect/Engineer Contract Amendment	$ 50,000 per amendment

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

J. Lane Warren, CFE, CBM
Audit Manager

Robert J. Aycock, IV, Manager
Audit and Certification

SC BUDGET AND CONTROL BOARD

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November 28, 2011

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

Dear Voight:

We have reviewed the response from Francis Marion University to our audit report for the period of July 1, 2006 to December 31, 2010. Also we have followed the University's corrective action during and subsequent to our fieldwork. We are satisfied that Francis Marion University has corrected the problem areas and the internal controls over the procurement system are adequate.

Therefore, we recommend the Budget and Control Board grant Francis Marion University 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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