

**HORRY-GEORGETOWN TECHNICAL COLLEGE**

**PROCUREMENT AUDIT REPORT**

**JANUARY 1, 2008 – MARCH 31, 2011**

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January 26, 2012

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 Horry-Georgetown Technical College for the period January 1, 2008 through March 31, 2011. 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 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 Horry-Georgetown 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,

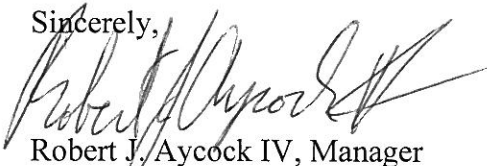
assurance of the integrity of the procurement process, that affected assets are safeguarded against loss from unauthorized use or disposition and that transactions are executed in accordance with management's authorization and are recorded properly.

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 that we believe need correction or improvement by Horry-Georgetown Technical College. Corrective action based on the recommendations described in these findings will, in all material respects, place Horry-Georgetown Technical College 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 Horry-Georgetown Technical College. Our on-site review, conducted May 24 – June 23, 2011, 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 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 South Carolina Consolidated Procurement Code and its ensuing regulations.

On May 13, 2008, the State Budget and Control Board granted Horry-Georgetown Technical College the following procurement certifications.

<u>PROCUREMENT AREAS</u>	<u>RECOMMENDED CERTIFICATION LIMITS</u>
Supplies & Services	\$ 75,000 per commitment
Consultant Services	\$ 75,000 per commitment

Our audit was performed primarily to determine if recertification is warranted. Additionally, Horry-Georgetown Technical College requested the following increased certifications.

<u>PROCUREMENT AREAS</u>	<u>RECOMMENDED CERTIFICATION LIMITS</u>
Supplies & Services	\$175,000 per commitment
Information Technology	\$175,000 per commitment
Consultant Services	\$175,000 per commitment
Construction Contract	\$150,000 per commitment
Construction Contract Change Order	\$ 5,000 per change order
Architect/Engineer Contract Amendment	\$ 10,000 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 Horry-Georgetown 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 a judgmental sample for the period January 1, 2008 through March 31, 2011, of procurement transactions for compliance testing and performed other audit procedures that we considered necessary to formulate this 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, 2008 through March 31, 2011, with exceptions noted in Section II of the report
- (2) Procurement transactions for the period January 1, 2008 through March 31, 2011 as follows:
  - a) One hundred two payments exceeding \$2,500 each with exceptions noted in Section I of the report
  - b) Three hundred numerical purchase orders reviewed against the use of order splitting and favored vendors with no exceptions
- (3) File documentation with exceptions noted in Section I of the report
- (4) Minority Business Enterprise plans<sup>1</sup> and reports for the audit period with an exception in Section III of the report
- (5) Ratification files of unauthorized procurements with no exceptions

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<sup>1</sup> 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. 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 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 technical colleges began filing their own MBE plans with OSMBA in fiscal year 2010-2011.

- (6) Approval of the most recent Information Technology Plan with no exceptions
- (7) Internal procurement procedures manuals with no exceptions
- (8) Surplus property disposal procedures with no exceptions

## SUMMARY OF AUDIT FINDINGS

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## RESULTS OF EXAMINATION

### I. Competition Issues

#### A. Inappropriate Use of Procurement Exemption

Five procurements were executed under a Board-granted exemption for software license renewals when that exemption did not apply to the items purchased:

<u>Document #</u>	<u>Date</u>	<u>Amount</u>	<u>Description</u>
CK 29794	07/14/09	\$ 9,665	Hosting Services
PO 10520	10/23/09	\$ 7,641	Hardware Maintenance
CK 33245	05/06/10	\$11,819	Hardware and Software Support
PO 12602	12/17/10	\$ 4,000	Online Software Support and Upgrades
CK 36293	01/18/11	\$ 7,745	Software Maintenance

The College purchased a variety of IT services which were all uniformly categorized under the Board's exemption covering "license agreements for computer software after such software has been competitively bid as required by the Procurement Code." The procurements included hosting services and maintenance for commerce management software, network power hardware maintenance, computer hardware and software support services, online software maintenance including technical support and product upgrades, software maintenance and support for an enterprise reporting application, and software maintenance and support for an electronic document management system. These items do not fit the definition of software licenses.

We recommend these contracts be procured in accordance with the Procurement Code in the future.

B. No Competition

The following procurements were executed with no evidence of competition.

<u>Document #</u>	<u>Date</u>	<u>Amount</u>	<u>Description</u>
CK 34555	08/17/10	\$3,320	Kitchen Equipment for Culinary Arts Program
PO 12150	10/06/10	\$5,615	Service Agreement Renewal for Library Detection System

At the time, Section 11-35-1550 (2)(b) of the Procurement Code required solicitations of written quotes from a minimum of three qualified sources for purchases over two thousand five hundred dollars to ten thousand dollars.

We recommend the College solicit competition as required by the Code.

C. Lowest Bidder Not Awarded

Purchase order 9619 was issued on April 6, 2009, in the amount of \$6,382.51 for the printing of 2,000 academic planners. Three quotes were solicited. The unit prices submitted by the offerors were \$2.44, \$2.70, and \$4.25, plus an approximate shipping charge per unit which could not be determined until the time of delivery. The vendor that bid \$2.70 per unit was awarded the contract. A note in the file stated "This is the vendor we will use. Used this vendor last year – quality product, reliable, good service." The file did not contain a determination of non-responsibility or non-responsiveness for the low bidder who offered \$2.44.

At the time, Section 11-35-1550 (2)(b) of the Procurement Code stated, "Purchases over two thousand five hundred dollars to ten thousand dollars. 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. The award must be made to the lowest responsive and responsible sources."

We recommend the College award its contracts to the lowest responsive and responsible sources as required by the law.

## II. Inappropriate Sole Source Procurements

Section 11-35-1560 of the Procurement Code authorizes the use of sole source procurements when it is determined in writing that there is only one source for the required supply, service, information technology, or construction item. The written determination must explain why no other will be suitable or acceptable to meet the need. We noted the following inappropriate sole source procurements.

<u>PO #</u>	<u>Date</u>	<u>Amount</u>	<u>Description</u>
P0007808	04/23/08	\$15,000	Marketing Services
P0008145	07/01/08	\$26,000	Marketing Services
P0008852	10/06/08	\$38,000	Marketing Services
P0010089	08/05/09	\$30,000	Marketing Services
P0012370	11/08/10	\$ 8,100	Marketing Services
P0012103	09/14/10	\$ 5,000	Generator and Other Equipment

For the marketing services, the College decided that the company who provides the service be local with first-hand knowledge and experience in marketing within the unique coastal service area. Further, the vendor has to have higher education marketing in the local service area. The college concluded only one company satisfied those unique requirements. We find no justification for these requirements restrictive and unnecessary. State agencies, colleges and universities routinely compete successful contracts for marketing services. The College must do the same.

For the equipment, a vendor offered the College a substantial discount for equipment used in a demonstration. The Code provides no authority to authorize sole source procurements under these circumstances. Competition should have been solicited.

We recommend competition be solicited for these procurements in the future.

### III. MBE Assistance Lacking

Our review of the College's Minority Business Enterprise quarterly reports that are submitted to The Governor's Office of Small and Minority Business Assistance (OSMBA) revealed little to no expenditures to certified small and minority businesses over the audit period. The College set reasonable expenditure goals but failed to follow through on its expenditures.

<u>Fiscal Year</u>	<u>Dollar Goal</u>	<u>Dollars Spent</u>
2007-2008	\$123,799	\$25,846
2008-2009	\$546,874	\$20,142
2009-2010	\$283,392	\$ 0
2010-2011	\$844,022	\$ 0

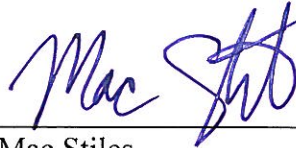
It is apparent that the College has not established as a priority the use of certified Minority Business Enterprises. We recommend the College become more aggressive in attaining its goals in making expenditures to the State's certified small and minority businesses.

## CONCLUSION

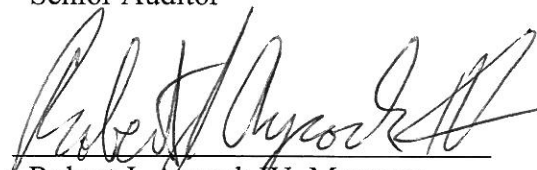
As enumerated in our transmittal letter, corrective action based on the recommendations described in this report will, in all materials respects place Horry-Georgetown Technical College in compliance with the South Carolina Consolidated Procurement Code and ensuing regulations.

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

<u>PROCUREMENT AREAS</u>	<u>RECOMMENDED CERTIFICATION LIMITS</u>
Supplies & Services	*\$150,000 per commitment
Consultant Services	*\$150,000 per commitment
Information Technology	*\$100,000 per commitment
Construction Contract	\$100,000 per commitment
Construction Contract Change Order	\$ 5,000 per change order
Architect/Engineer Contract Amendment	\$ 10,000 per amendment



\_\_\_\_\_  
Mac Stiles  
Senior Auditor



\_\_\_\_\_  
Robert J. Aycock IV, Manager  
Audit and Certification

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



March 15, 2012

Mr. Jimmy Aycock  
Audit and Certification Manager  
Materials Management Office  
1201 Main Street, Suite 600  
Columbia, SC 29201

Dear Mr. Aycock:

We are in receipt of Horry-Georgetown Technical College's Procurement Audit Report as completed by your staff. We concur with your findings and recommendations and have already implemented appropriate policies, procedures and practices to address any and all of the issues you identified. These measures are fully in place and functioning as intended. Attached is a detail of the procedural changes for your reference.

We do not feel the need for a formal exit interview is necessary at this time. All of the findings were clearly reviewed with Mac Stiles before he left the campus to write his report.

We would, however, like to ask for you to reconsider our request for IT Purchase Authorization Levels of \$150,000. The Audit that you have just completed identified (5) issues relating to IT purchases. All (5) of these issues were a result from one (single) error and that is our misinterpretation of exemption 78. We have since received clarification that this exemption only pertains to license renewals and cannot be used when software upgrades and/or maintenance is included in the renewal. We believe that with our new processes in place to ensure accuracy and compliance with the state procurement code, we will not have this issue in the future.

Please accept our sincere appreciation for the thoroughness of your audit, and the professional manner in which it was conducted. Should you have questions or require any additional information, as always feel free to contact me at (843)349-5279.

Again, thanks to you and all your team.

Sincerely,

Harold N. Hawley, CPA  
VP-Business Affairs – HGTC

## Horry Georgetown Technical College

### Improvements to Procurement Processes - March 2012

Below is a list of process improvements that were implemented in September of 2011 while our State Audit was still taking place. These changes are working well and have eliminated any potential violations that might occur in future Procurement transactions.

- All transactions resulting in a fee to a vendor will now be processed through the Procurement Office for a review of compliance. Exceptions are: P-Card statements and Utilities.
- We have added to our Vendor database a field that will identify each vendor if they are a "Minority" or a "Sole Source" vendor. By running a detail Vendor Spend Report at the end of each month, the Procurement Manager is able to confirm that all spending in these categories is included in the MMO Quarterly Report.
- Training has been provided to the IT and Procurement staff with the proper reasoning and use of exemption #78 (*License agreements for computer software after such software has been competitively bid as required by the Procurement Code.*) Everyone now understands that anything other than a license renewal, but be bid or sole sourced.
- We have added the Procurement Managers name to the approval of all Sole Source documents to assure that the SS request is valid and has been written correctly.
- A file has been created for all purchases of equipment and software that will result in annual expenditures, such as license renewals, maintenance agreement, annual upgrade fees, etc. This way, the auditor will be able to see the original procurement process for which the equipment was purchased.
- Printed Minority Vendor Catalog and dispersed to key personnel throughout the College to try and promote activity with these vendors.
- Continue to make public as many bids as possible to allow Minority vendors an opportunity to submit bids.



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EXECUTIVE DIRECTOR

April 9, 2012

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 Horry-Georgetown Technical College to our audit report for the period of January 1, 2008 to March 31, 2011. Also we have followed the College's corrective action during and subsequent to our fieldwork. We are satisfied that Horry-Georgetown Technical 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 Horry-Georgetown Technical College the certification limits noted in our report for a period of three years.

Sincerely,

Robert J. Aycok, IV, Manager  
Audit and Certification

RJA/gs

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