

YORK TECHNICAL COLLEGE
PROCUREMENT AUDIT REPORT
JULY 1, 2007 – JUNE 30, 2010

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

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February 1, 2011

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 York Technical 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 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 York 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

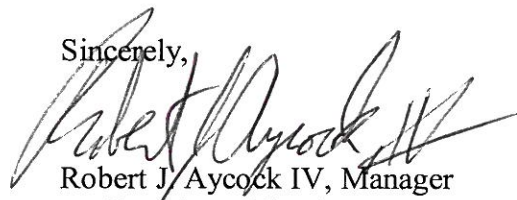
integrity of the procurement process, that affected assets are safeguarded against loss from unauthorized use or disposition and that transactions are executed in accordance with management's authorization and recorded properly.

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 that we believe need correction or improvement by York Technical College. Corrective action based on the recommendations described in these findings will, in all material respects, place York 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 York Technical College. Our on-site review, conducted September 27 – October 25, 2010, 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.

Additionally, our work was directed toward assisting York Technical College in promoting the underlying purposes and policies of the Code as outlined in Section 11-35-20, which include in part:

- (1) to provide increased economy in state procurement activities and to maximize to the fullest extent practicable the purchasing values of funds while ensuring that procurements are the most advantageous to the State and in compliance with the provisions of the Ethics Government Accountability and Campaign Reform Act;
- (2) to foster effective broad-based competition for public procurement within the free enterprise system;
- (3) to ensure the fair and equitable treatment of all persons who deal with the procurement system which will promote increased public confidence in the procedures followed in public procurement;
- (4) to provide safeguards for the maintenance of a procurement system of quality and integrity with clearly defined rules for ethical behavior on the part of all persons engaged in the public procurement process.

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 York 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 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. 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 July 1, 2007 through June 30, 2010, with six exceptions noted in Section I of the report
- (2) Procurement transactions for the period July 1, 2007 through June 30, 2010 as follows:
 - a) Eighty-five payments exceeding \$2,500 each with two exceptions in Sections IV and V of the report
 - b) Five hundred numerical purchase orders reviewed against the use of order splitting and favored vendors with no exceptions
- (3) File documentation with no exceptions
- (4) Minority Business Enterprise (MBE) reports for the audit period with an exception noted in Section II of the report. 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 York Technical College show reported MBE expenditures for the College as follows:

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.

<u>Fiscal Year Ending</u>	<u>Actual Utilization</u>
2008	0
2009	0
2010	\$19,368

- (5) Ratification files of unauthorized procurements with one exception noted in Section III of the report
- (6) Approval of 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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I. <u>Sole Source, Emergency, and Trade-In Sale Procurements</u>	
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The College failed to report sole source, emergency, and trade-in sale procurements to the chief procurement officers as required by law for seven of the twelve quarters in the audit period.	
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Fifteen sole source procurements were not included on quarterly reports.	
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One sole source procurement was reported at a value less than the purchase order amount.	
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Six procurements that were reported as sole sources did not have supporting documentation on file.	
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Two sole source procurements with values greater than fifty thousand dollars were entered into without certification of a drug-free workplace by the contractor.	
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The College failed to submit MBE progress reports to the Governor’s Office in violation of law for the entire audit period.	
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The College failed to report unauthorized procurements to the chief procurement officers as required by Regulation.	

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IV. Payments Exceeded Purchase Order Amounts

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In two instances, the College issued payments against purchase orders which exceeded the amount of the purchase orders.

V. Exemption Misapplied

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One procurement was incorrectly made under an exemption where this exemption did not apply.

RESULTS OF EXAMINATION

I. Sole Source, Emergency, and Trade-In Sale Procurements

Our review of sole source, emergency, and trade-in sale procurements identified the following issues.

A. Quarterly Reports Not Submitted

The College failed to submit the following quarterly reports of sole source, emergency, and trade-in sale procurements for seven of the twelve quarters in the audit period.

Quarters Not Submitted

07/01/07 - 09/30/07

10/01/07 - 12/31/07

01/01/08 - 03/31/08

07/01/08 - 09/30/08

10/01/08 - 12/31/08

01/01/09 - 03/31/09

04/01/09 - 06/30/09

Section 11-35-2440(1)(a) of the Procurement Code requires governmental bodies to submit quarterly records of all contracts made pursuant to 11-35-1560 (sole source procurements) and 11-35-1570 (emergency procurements) to the chief procurement officers; and 11-35-3830(3) requires governmental bodies to submit quarterly records of trade-in sale procurements to the chief procurement officers. This information must be reported to the Budget and Control Board annually and made available for public inspection.

We recommend the College comply with these sections of the Code pertaining to the submission of quarterly reports. Reports must still be filed for these quarters.

COLLEGE RESPONSE

The College will comply with sections of the Code pertaining to the submission of quarterly reports and will ensure that all quarterly reports are submitted to the Materials Management Office on a timely basis. The College acknowledges that the reports in question were not submitted timely, and the Director of Auxiliary Services, who was responsible for completing these reports, is no longer employed by the College. Reports for the quarters in question have been submitted to the Materials Management Office.

B. Unreported Sole Source Procurements

The following fifteen procurements made as sole sources were not included on the College's quarterly reports:

<u>PO#</u>	<u>Date</u>	<u>Description</u>	<u>Amount</u>
11641	07/31/07	Radiography Equipment Maintenance	\$ 3,000
12232	10/18/07	Compressors for Building Chiller	\$ 9,907
12258	10/26/07	Baby Simulators	\$ 50,230
12259	10/26/07	Test Analysis Software	\$ 7,257
13725	08/26/08	Radiography Equipment Maintenance	\$ 3,000
14053	10/31/08	Blower Doors and Duct Blasters	\$ 6,883
14140	11/20/08	Welding Stations	\$255,302
14444	01/27/09	Software and IT Support	\$ 2,745
14540	02/12/09	Security/Smoke Detection System	\$ 5,511
14547	02/13/09	Development of Energy Rating Course and Training	\$ 16,675
14872	04/20/09	Fire Alarm Inspection and Monitoring	\$ 10,888
14945	05/01/09	Building Analyst Course	\$ 16,000
15865	09/10/09	Radiography Equipment Maintenance	\$ 3,500
16402	12/04/09	Energy Usage Tracker	\$ 2,731
16515	12/30/09	Architecture Hardware System	\$ 44,284

The documents were found in a sole source file but were never recorded on the College's submitted reports. Section 11-35-2440(1)(a) of the Procurement Code requires a governmental body to submit quarterly records of all sole source contracts made pursuant to 11-35-1560 to the chief procurement officers.

We recommend the College comply with this section of the Code pertaining to the reporting of sole source procurements. Amended reports must be filed for these procurements.

COLLEGE RESPONSE

The College agrees that fifteen procurements made as sole sources were not included in the quarterly reports and will comply with the section of the Code pertaining to reporting sole source procurements. The amended reports have been submitted.

C. Under Reported Sole Source Amount

The College procured scheduling system software licenses and maintenance as a sole source on purchase order 12977, dated April 2, 2008. The amount of the purchase order was \$58,267. The amount listed on the quarterly report was \$50,000.

We recommend the College report sole source contract values accurately. The College should also submit an amended report to capture the deficit of the reported sole source amount.

COLLEGE RESPONSE

The College agrees that the amount for purchase order 12977 was incorrect in the Sole Source Report for the quarter. This report was amended to reflect the correct amount, and the College will ensure that all future reports contain correct amounts.

D. Inadequate Written Determinations for Sole Source Procurements

The College failed to provide adequate written determinations for the following sole source procurements:

<u>PO#</u>	<u>Date</u>	<u>Description</u>	<u>Amount</u>
12232	10/18/07	Compressors for Building Chiller	\$9,907.01
13068	04/23/08	Body Part Simulators	\$3,711.30
13423	06/30/08	Stationery	\$3,210.00
14053	10/31/08	Building Test Equipment	\$6,883.15
16064	10/08/09	Web-based Tutorials	\$4,403.58

The written determination for the procurement of compressors provided no justification for the vendor being a sole supplier of the chillers being procured. The determination for the body part simulators explicitly states that the vendor is not the manufacturer of the simulators being procured. It claims that it is the only distributor in the United States. However, it does not indicate why the simulators are unique to fit the needs of the College. The determination for stationery cites the vendor as the sole provider for SC Pathways products but makes no defense of why these products are unique to fit the needs of the College. The procurement of building test equipment was supported with a determination of compatibility, but the vendor used was not cited as a sole provider of the equipment. The determination for web-based tutorials provides for neither the uniqueness of the products or services or for the uniqueness of the provider.

Procurement Code statute 11-35-1560 for sole source procurements states that a contract may be awarded without competition if it has been determined in writing that there is only one source for the required supply or service. Further, it states that the written documentation must include the determination and basis for the proposed sole source procurement. Regulation 19-445.2105(C) for sole source procurements requires that written determinations contain sufficient factual grounds and reasoning to provide an informed, objective explanation for the decision.

We recommend the College prepare its written determinations as required in the regulation by providing sufficient factual details and reasoning to provide an informed, objective explanation for each decision.

COLLEGE RESPONSE

In the future, the College will more fully document sole source determinations with facts and reasons in accordance with Regulation 19-445.5012(B). The Procurement Department is providing training on sole source guidelines.

E. Missing Documentation

The following six procurements were reported in the College's quarterly records for sole source and emergency activity, but the purchase orders and sole source (SS) or emergency (E) determinations were not available for review:

<u>PO#</u>	<u>Date</u>	<u>Description</u>	<u>Amount</u>
13097	04/29/08	Software Maintenance (SS)	\$ 3,312.10
13339	06/13/08	Anti-Virus Software Maintenance (SS)	\$ 9,160.00
13424	06/30/08	Training Consultant (SS)	\$ 3,000.00
15657	08/19/09	Processes Training (SS)	\$51,512.60
16301	11/17/09	Robot Repair (SS)	\$ 4,379.93
16450	12/14/09	Water Main Repair (E)	\$ 6,121.76

Retention of procurement records is required by section 11-35-2430 of the Procurement Code.

We recommend that the College retain all records in accordance with the guidelines and schedules approved by the Department of Archives and History.

COLLEGE RESPONSE

The College acknowledges that documentation for six procurements, reported in the quarterly reports for sole source or emergency determinations, was not available for review and is implementing processes to scan all quarterly reports and supporting documents.

F. Non-Compliance with Drug-Free Workplace Act

The College failed to obtain certifications that the vendors maintained a Drug-Free Workplace prior to award of contracts for two sole source procurements greater than \$50,000 for the period reviewed.

<u>Date</u>	<u>PO#</u>	<u>Description</u>	<u>Amount</u>
04/02/08	12977	Software Licenses and Maintenance	\$ 58,267.75
11/20/08	14140	Welding Stations	\$255,302.00

Both of the above contracts were procured as sole sources without having a signed affidavit from the vendors indicating they would provide a drug-free workplace. Section 44-107-30 of the Drug-Free Workplace Act requires a written certification from vendors on any contract of \$50,000 or more stating that the vendors 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.

COLLEGE RESPONSE

The College is in concurrence with the findings and will adhere to the recommendation.

II. Minority Business Enterprise Records

The College is not reporting its quarterly MBE expenditures to the Office of Small and Minority Business Assistance (OSMBA) in the Governor's Office. After our inquiry, fiscal year ending (FYE) 2010 MBE expenditures were partially generated, but these reports were incomplete and not submitted to the OSMBA. In addition, no reports were provided for FYE 2008 or FYE 2009. Section 11-35-5240(2) requires each agency to submit quarterly progress reports to the OSMBA

We recommend the College submit its quarterly progress reports to the OSMBA, including those expenditures that occurred during the audit period.

COLLEGE RESPONSE

The College agrees that reports were not submitted for FYE 2008 and FYE 2009. The College will comply with Section 11-35-5240(2) and submit quarterly and annual reports to the Office of Small and Minority Business Assistance on a timely basis. Reports for expenditures that occurred during the audit period have been submitted.

III. Unauthorized Procurements

The College failed to maintain and report a record of unauthorized procurements. 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.

COLLEGE RESPONSE

The College agrees with the findings and will include records of unauthorized procurements in the quarterly reports.

IV. Payments Exceeded Purchase Order Amounts

The College issued two blanket purchase orders for newspaper advertising which is exempt from the Procurement Code. In two instances, the payments against these purchase orders exceeded the amounts authorized. Purchase order 651, dated September 13, 2007, was issued in the amount of \$6,000. On June 6, 2008, a check was issued in the amount of \$7,612.36, exceeding the purchase order by \$1,612.36. Purchase order 672, dated September 26, 2007, was issued in the amount of \$7,500. On June 19, 2008, a check was issued in the amount of \$9,219.13, exceeding the purchase order by \$1,719.13. The amounts that exceeded the authorization were unauthorized and will have to be submitted for ratification in accordance with Regulation 19-445.2015.

COLLEGE RESPONSE

The College agrees with the findings that checks were issued in amounts that were more than the amount of the blanket purchase order. The College has established guidelines for blanket purchase orders, and training will be provided to ensure compliance. The Procurement Department will comply with the code and regulations for all blanket purchase orders.

V. Exemption Misapplied

On purchase order 17194, dated May 24, 2010, software maintenance renewals were purchased, and the exemption for software licenses cited. The value of the procurement was \$26,951.25. Software maintenance is not included in this exemption and must be procured through one of the source selection methods authorized in Section 11-35-1510 of the Procurement Code.

We recommend the College procure software maintenance in accordance to the Procurement Code.

COLLEGE RESPONSE

The purchase order in question included items from Datatel, the sole source provider. The exemption used for software license pertained to one line item of the purchase order. The remaining line items were for software maintenance, which is non-exempt, and a sole source procurement should have been completed for those non-exempt items. In the future, the College will solicit per Procurement Code. The College agrees with the finding that the exemption was misapplied.

CONCLUSION

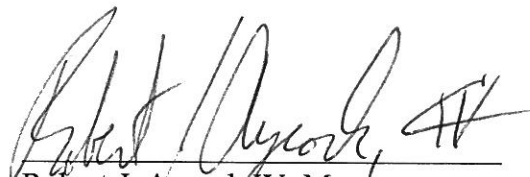
We must state our concern over the number of findings in this audit report. York Technical College has failed to comply with some of the basic statutory reporting requirements of the South Carolina Consolidated Procurement Code. Corrective action must be taken immediately. Our office will perform a follow-up review to monitor the progress of each recommendation in this report.

As enumerated in our transmittal letter, corrective action based on the recommendations described in this report, we believe, will in all material respects place York Technical College in compliance with the Consolidated Procurement Code and ensuing regulations.

Under the authority described in Section 11-35-1210 of the Procurement Code, subject to this corrective action which we confirm through our follow-up, we will recommend York Technical College be allowed to continue to make direct agency procurements up to the basic limits in law.



Mac Stiles
Senior Auditor



Robert J. Aycock IV, Manager
Audit and Certification

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ELEANOR KITZMAN
EXECUTIVE DIRECTOR

July 22, 2011

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

Dear Voight:

In our audit report, we committed to performing a follow-up review to verify completion of all corrective action at York Technical College (the College). We performed that follow-up July 15-19, 2011. We reviewed procurement activity for the period July 1, 2010 through June 30, 2011. The results of that review are below.

Sole Source, Emergency, and Trade-In Sale Procurements

During our audit, we discovered the College failed to report sole source, emergency, and trade-in sale procurements to the chief procurement officers as required by law for seven of the twelve quarters in the audit period. The follow-up confirms that all the missing reports have been submitted to the Materials Management Office. Additionally, all of the quarterly reports for the audit period were filed with MMO in a timely manner.

Our audit revealed that fifteen sole source procurements were not included on quarterly reports, one sole source contract amount was mis-reported, five written sole source determinations were inadequate, six sole sources lacked supporting documentation, and two sole sources with values great than fifty thousand dollars did not have contractor certification of a drug-free workplace. During the follow-up review, no sole sources that were reviewed had been omitted from the quarterly reports, no sole sources had misreported dollar values, all written determinations were deemed to be legally sufficient, no sole source was missing its written determination and support documents, and no contract greater than fifty thousand dollars was missing the drug-free workplace certification.

Minority Business Enterprise Records

During our audit, we discovered that the College failed to submit MBE progress reports to the Governor's Office for the entire audit period. The follow-up confirms that all progress reports have been maintained and filed with the Office of Small and Minority Business Assistance.

Unauthorized Procurements

The College failed to report unauthorized procurements to the chief procurement officers during the original audit period. The follow-up confirms that all instances of unauthorized procurements have been submitted to MMO in accordance with the Regulations.

Payments Exceeded Purchase Order Amounts

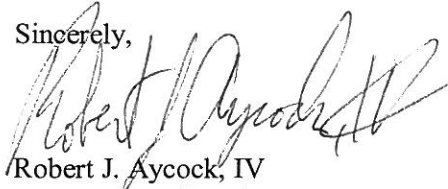
At the time of audit, we discovered two instances where the College issued payments against purchase orders which exceeded the amount of the purchase orders. Our follow-up review revealed no exceptions with regard to payments exceeding the purchase order amounts.

Exemption Misapplied

The audit revealed one procurement that was incorrectly made under an exemption where that exemption did not apply. All exemptions reviewed in our follow-up sample were used appropriately.

The College has exhibited a strong commitment to practicing compliance with the Consolidate Procurement Code since our audit. Following our exit conference with the College, a training session was scheduled for several of employees in the finance and procurement offices, as well as end users from various departments. A noticeable change has occurred in the organization of the procurement office. It is our opinion that the College has paid serious attention to our formal recommendations and will proceed with professional care and diligence in carrying out procurements for the College in the foreseeable future.

Sincerely,



Robert J. Aycock, IV
Manager, Audit and Certification

cc: Marc Tarplee, VP of Business Services, York Technical College