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State Budget and Control Board
PROCUREMENT SERVICES DIVISION

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R. VOIGHT SHEALY
MATERIALS MANAGEMENT OFFICER

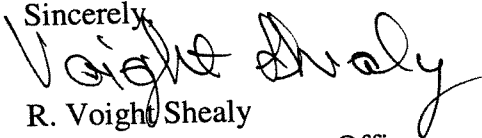
November 11, 2004

Mr. Delbert H. Singleton Jr.
Director
Procurement Services Division
6th Floor-Wade Hampton Building
Columbia, South Carolina 29201

Dear Delbert:

I have attached Coastal Carolina University's procurement audit report and recommendations made by the Office of Audit and Certification. I concur and recommend the Budget and Control Board grant Coastal Carolina University a three-year certification as noted in the audit report.

Sincerely,


R. Voight Shealy
Materials Management Officer

/jl

**COASTAL CAROLINA UNIVERSITY
PROCUREMENT AUDIT REPORT
OCTOBER 1, 2001 - JUNE 30, 2004**

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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.

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R. VOIGHT SHEALY
MATERIALS MANAGEMENT OFFICER

November 4, 2004

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 Coastal Carolina University for the period October 1, 2001, through June 30, 2004. 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 to establish a basis for reliance upon the system of internal control to assure adherence to the South Carolina Consolidated Procurement Code, State regulations and the University'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 Coastal Carolina University is responsible for establishing and maintaining a system of internal control 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, assurances 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 control, 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 control 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.

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,



Larry G. Sorrell, Manager
Audit and Certification

INTRODUCTION

We conducted an examination of the internal procurement operating policies and procedures of Coastal Carolina University. Our review was conducted June 8, 2004 to July 16, 2004 and was under the authority as described in Section 11-35-1230(1) of the South Carolina Consolidated Procurement Code and Section 19-445.2020 of the accompanying regulations.

On February 14, 2002, the State Budget and Control Board granted the Coastal Carolina University, hereinafter referred to as the University, the following procurement certifications.

<u>PROCUREMENT AREAS</u>	<u>CERTIFICATION LIMITS</u>
Goods and Services	\$100,000 per commitment
Consultant Services	\$ 25,000 per commitment
Information Technology	\$ 50,000 per commitment
Construction Contract Award	\$ 25,000 per commitment
Construction Contract Change Order	\$ 25,000 per change order
Architect/Engineer Contract Amendment	\$ 5,000 per amendment

The audit was performed primarily to determine if recertification is warranted. Additionally, the University requested the following increased certification limits.

<u>PROCUREMENT AREAS</u>	<u>CERTIFICATION LIMITS</u>
Goods and Services	\$ 200,000 per commitment
Consultant Services	\$ 100,000 per commitment
Information Technology	\$ 50,000 per commitment
Construction Contract Award	\$ 100,000 per commitment
Construction Contract Change Order	\$ 100,000 per change order
Architect/Engineer Contract Amendment	\$ 15,000 per amendment
Revenue Generating Management Services	\$1,000,000 per commitment

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 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 a judgmental sample for the period July 1, 2002 through May 31, 2004 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 October 1, 2001 through June 30, 2004
- (2) Procurement transactions for the period July 1, 2002 through May 31, 2004 as follows:
 - a) Eighty payments each exceeding \$1,500
 - b) A block sample of two hundred fifty numerical purchase orders
- (3) Five construction contracts and three professional service contracts for compliance with the Manual for Planning and Execution of State Permanent Improvements
- (4) Minority Business Enterprise Plans and reports
- (5) Information technology plans for the audit period
- (6) Internal procurement procedures manual
- (7) Surplus property disposition procedures
- (8) File documentation and evidence of competition

RESULTS OF EXAMINATION

Unauthorized Procurements

We noted six unauthorized procurements.

<u>Item</u>	<u>PO</u>	<u>Amount</u>	<u>Description</u>
1	P022504	\$ 49,498	Modular building
2	DEV	476,700	Scoreboards
3	DEV	2,500	Sole source for web page consulting
4	DEV	9,000	Sole source for writing consultant per grant
5	DEV	3,566	Sole source for repairs
6	B4941	100,000	Sole source for consulting services per grant

Items 1 and 2 were construction contracts considered exempt paid with funds as defined in Section 11-35-710 (6) which states as follows.

Expenditure of funds at state institutions of higher learning derived wholly from athletic or other student contests, from the activities of student organizations and from the operation of canteens and bookstores, except as the funds are used for the procurement of construction, architect-engineer, construction-management and land surveying services

As noted in the exemption, construction procurements are not exempt. Additionally, the procurement for the scoreboards exceeded the permanent improvement project threshold of \$100,000 as established by the MANUAL FOR PLANNING AND EXECUTION OF STATE PERMANENT IMPROVEMENTS, PART I. Since each construction procurement exceeded the University's construction procurement authority, each procurement is unauthorized as defined in Regulation 19-445.2015.

Items 3 to 6 were procured as sole sources as defined in Section 11-35-1560. However the written authorization for each procurement was prepared after the effective date of the procurements. Since the procurements were made by someone without sole source authority, the procurements are unauthorized as defined in Regulation 19-445.2015.

We recommend the University comply with the applicable procurement method and authority. The University must submit a ratification request to the Procurement Services Division for items 1, 2 and 6 in accordance with Regulation 19.445-2015 as each procurement exceeded the University's procurement authority. A ratification request must be submitted to the President or his designee for items 3, 4, and 5 in accordance with Regulation 19-445.2015.

UNIVERSITY RESPONSE

1. PO 22504 - Modular building solicitation was done as a regular bid for goods and services. Due to the fact that the building was to be set up, it became a permanent improvement and thus should have been procured as construction. Because the cost exceeded our construction certification of \$25,000, it was unauthorized and ratification has been requested.
2. DEV - We considered the scoreboards to be equipment and the procurement was done with exempt funds. The scoreboards were delivered and installed. Thus, they are permanent improvements and construction. Because the funding source is not exempt for construction, it should have been procured through the State Engineer's Office. We are requesting ratification for this procurement and have changed our internal expenditure policy to state that these funds are not exempt for construction.
3. DEV -The web page consultant was specified in grant but services were received prior to sole source authorization. Grant recipient has been counseled as to proper process and ratification has been requested.
4. DEV - The writing consultant was specified in grant but services were received prior to sole source authorization. Grant recipient has been counseled as to proper process and ratification has been requested.
5. DEV – DEV was received on October 1, 2003 and sole source declaration form was approved on October 2, 2003. Service was provided on September 18, 2003. Due to the service being provided prior to the sole source form, the procurement was unauthorized and ratification has been requested. The Department has been informed that, in the future, approval must be obtained before the goods or services are provided.
6. B4941 – The requisition was received February 4, 2004. Even though the services were provided prior to sole source approval and thus the procurement was unauthorized, this largely happened due to instructions by the grantor. The grantor specified that the contractor and an agreement with the contractor be implemented before the grant would be awarded. A lot of negotiations and agreements took place before any formal document was written. A memorandum of understanding between vendor and the University was signed on December 7, 2003. The memorandum stated the planning process was to begin in November of 2003 with payment for services to be in five installments beginning November 30, 2003. The approval letter from the grantor was prepared December 19, 2003 and received by the University on January 4, 2004. The grant recipient has been counseled as to the proper process and ratification of the procurement has been requested.

Procurements Without Competition

Three procurements were not supported by evidence of competition, sole source or emergency determinations, or exempt.

<u>Check</u>	<u>PO</u>	<u>Amount</u>	<u>Description</u>
162713	DEV	\$ 6,850	Upgrade center to fire and safety building codes
186256	24190	24,208	Furnish and install poles with lights
182068	23951	14,049	Golf carts for orientation

The University used exempt funds for the construction items on checks 162713 and 186256. Section 11-35-710 (6) defines the exemption for the expenditure of funds derived wholly from athletic or other student contests, the activities of student organizations and the operation of canteens and bookstores except when the funds are used for the procurement of construction. The golf carts were procured as an exemption however the exemption did not apply to the procurement.

We recommend the University comply with the competitive requirements of the Code for these types of items.

UNIVERSITY RESPONSE

Checks 162713 and 186256 – Both procurements were with “19” funds which, according to the University’s expenditure policy, are exempt from the Code. These funds are not exempt from the Code when they are used for the procurement of construction. Additional bids should have been obtained or an emergency declaration made, if warranted. The University’s expenditure policy is being corrected.

The golf carts were purchased with funds derived from orientation fees. The University’s expenditure policy states that procurements with these funds are exempt if they are event specific within the appropriated program activities. The Department stated that the carts were to be used specifically for orientation activities for new students and their families. However the exemption does not apply. We will more closely monitor these procurements to insure compliance.

Purchasing Card Transactions

The University’s PURCHASING CARD PROGRAM CARDHOLDER MANUAL allows the card to be used for athletic recruiting travel expenses, team/group travel on athletics, student activities, and vending funds. The Manual specially states that the corporate travel card, not the purchasing card, should be used for individual travel. The University used the purchasing card rather than the corporate travel card of individual travel. In addition to individual travel expenses being paid on the purchasing card, the University used the purchasing card rather than the fuel card issued by the Division of General Services for gasoline.

We recommend the University discontinue the use of the purchasing card for individual travel and gasoline purchases.

UNIVERSITY RESPONSE

The use of the procurement card for individual travel and the purchase of gasoline have been terminated. Departments have been reminded that they must use the corporate travel card for individual travel and the fuel card issued by the Division of General Services to purchase fuel.

Overpayments

We noted two types of overpayments. The University contracted with a vendor through a construction indefinite delivery contract for general building services. The contract was based on a multiplier of .57. The vendor invoiced the University for the first release with multiplier of .64 rather than .57 that resulted in an overpayment of \$3,310. The University has a contract for automobile rental with a daily, weekly, or monthly rate. We reviewed the invoice dated October 30, 2002. The amounts on the invoice did not agree with the amounts in the contract for the daily rentals for each of three vehicle classes and the weekly rentals on full/mid size vehicles.

We recommend the University reconcile the amounts on the invoices with the contracts. Any discrepancies should be reconciled prior to payment.

UNIVERSITY RESPONSE

Indefinite Delivery Contract for General Building Services – Contract was based on multiplier of .57 and vendor invoiced on multiplier of .64, resulting in an overpayment of \$3,309.99. The Department has received reimbursement for the overpayment and will more closely monitor invoices in the future.

University Contract for Vehicle Rental – Some invoice rates do not agree with contract. The Department is reviewing past invoices and is working with vendor to recoup overpayment. In the future, the Department will more closely monitor invoices before authorizing payment.

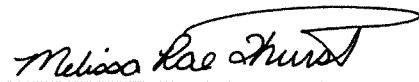
CERTIFICATION RECOMMENDATIONS

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 South Carolina Consolidated Procurement Code and ensuing regulations.


Under the authority described in Section 11-35-1210 of the Procurement Code and subject to this corrective action, we will recommend the University be recertified to make direct agency procurements for three years up to the limits as follows:

<u>PROCUREMENT AREAS</u>	<u>RECOMMENDED CERTIFICATION LIMITS</u>
Goods and Services	*\$ 200,000 per commitment
Consultant Services	*\$ 100,000 per commitment
Information Technology	*\$ 50,000 per commitment
Construction Contract Award	\$ 100,000 per commitment
Construction Contract Change Order	\$ 100,000 per change order
Architect/Engineer Contract Amendment	\$ 15,000 per amendment
Revenue Generating Management Services	*\$1,000,000 per commitment

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



Melissa Rae Thurstin
Senior Auditor



Larry G. Sorrell, Manager
Audit and Certification

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R. VOIGHT SHEALY
MATERIALS MANAGEMENT OFFICER

November 10, 2004

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 Coastal Carolina University to our audit report for the period of October 1, 2001 – June 30, 2004. Also we have followed the University's corrective action during and subsequent to our fieldwork. We are satisfied that Coastal Carolina 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 Coastal Carolina University the certification limits noted in our report for a period of three years.

Sincerely,

A handwritten signature in cursive script, appearing to read "Larry G. Sorrell".

Larry G. Sorrell, Manager
Audit and Certification

LGS/jl

Total Copies Printed	11
Unit Cost	.21
Total Cost	\$2.31