

**THE CITADEL**  
**PROCUREMENT AUDIT REPORT**  
**JANUARY 1, 2005 – DECEMBER 31, 2007**

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

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EXECUTIVE DIRECTOR

DELBERT H. SINGLETON, JR.  
DIVISION DIRECTOR  
(803) 734-2320

MATERIALS MANAGEMENT OFFICE  
1201 MAIN STREET, SUITE 600  
COLUMBIA, SOUTH CAROLINA 29201  
(803) 737-0600  
Fax (803) 737-0639

R. VOIGHT SHEALY  
MATERIALS MANAGEMENT OFFICER

May 27, 2008

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 for The Citadel for the period January 1, 2005 through December 31, 2007. 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 established a basis for reliance upon the system of internal control to assure adherence to the Consolidated Procurement Code, State regulations and procurement policy of The Citadel. 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 The Citadel 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, assurance of the integrity of the procurement process, that affected assets are safeguarded against loss from unauthorized use or disposition and those 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 which we believe need correction or improvement. Corrective action based on the recommendations described in these findings will in all material respects place The Citadel 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 The Citadel. Our review, conducted February 21, 2008 through May 15, 2008, was made under Section 11-35-1230(1) of the South Carolina Consolidated Procurement Code and Section 19-445.2020 of the accompanying regulations.

On June 14, 2005, the State Budget and Control Board granted The Citadel the following procurement certifications:

<u>PROCUREMENT AREAS</u>	<u>CERTIFICATION LIMITS</u>
Goods and Services	\$ 250,000 per commitment
Consultant Services	\$ 250,000 per commitment
Information Technology	\$ 100,000 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

Our audit was performed primarily to determine if recertification is warranted. The Citadel requested to remain at its current certification levels.

## 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 Citadel 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 samples for the period July 1, 2005 through December 31, 2007 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, 2005 through December 31, 2007
- (2) Procurement transactions for the period July 1, 2005 through December 31, 2007 as follows:
  - a) Ninety eight payments each exceeding \$1,500
  - b) Five hundred sequentially numbered purchase orders with the prefix "a" for goods and services reviewed against the use of order splitting and favored vendors
  - c) Four hundred sequentially numbered purchase orders with the prefix "p" for the physical plant reviewed against the use of order splitting and favored vendors
- (3) Construction contracts for compliance with the Manual for Planning and Execution of State Permanent Improvements as follows:
  - a) Five major construction projects
  - b) Two indefinite delivery orders issued from four indefinite delivery construction contracts
  - c) One Architect/Engineering contract
  - d) One indefinite delivery order from one Architect/Engineering contract
- (4) Procurement card transactions for October and November of 2007
- (5) Minority Business Enterprise Plans and reports for the audit period
- (6) Approval of the most recent Information Technology Plan
- (7) Internal procurement procedures manual

(8) File documentation and evidence of competition

(9) Surplus property disposal procedures

## RESULTS OF EXAMINATION

### Indefinite Delivery Contracts

We noted the following deficiencies with Indefinite Delivery Contracts (IDCs) on projects H09-D013-PG and H09-D020-PG, for construction services and H09-D019-PG for professional services as noted below.

- i. Delivery orders of \$6,027 and \$25,207 on H09-D020-PG and \$142,546 on H09-D013-PG not priced in accordance with vendor multipliers
- ii. Performance bond and labor and material payment bond not obtained on a delivery of \$142,426 on IDC H09-D013-PG
- iii. Quarterly reports of IDC activity not submitted to the Office of the State Engineer for construction services and professional services

Chapter 6 and Appendix E of the Manual for Planning and Execution of State Permanent Improvements contain the requirements for Indefinite Delivery Contracts.

We recommend The Citadel comply with these sections of the Manual for Indefinite Delivery Contracts.

### THE CITADEL RESPONSE

The Citadel agrees with these findings and has begun to implement the requirements set forth in the new manual.

### Purchase Orders Not Reconcilable to Invoices

The following purchase orders could not be reconciled to the invoices.

<u>PO</u>	<u>Date</u>	<u>Description</u>	<u>Voucher</u>	<u>Amount</u>
502832	09/05/05	Camper transportation	327108	\$ 1,925
600207	12/01/05	Student search fees	330798	3,829
702158	02/14/07	Mailing services	348755	7,446



The purchase orders did not have sufficient detail to allow for reconciliation with the invoices.

We recommend purchase orders include sufficient information to allow reconciliation with invoices. Any discrepancies should be reconciled and adequately documented prior to payment.

### THE CITADEL RESPONSE

The Citadel agrees with the identified findings and has addressed, with the procurement staff, how to make sure sufficient information is loaded on each purchase order to assure proper reconciliation.

#### Inadequate Written Determinations

The Code requires written determinations to be made when justifying use of certain types of contracts and use of certain types of procurement methods. We reviewed these determinations using criteria established in a declaratory judgment issued against Greenville County School District in *Sloan v. School District of Greenville County*, No. 98-CP-23-2816 (Greenville, S.C., Ct. Common Pleas, July 15, 2003). The Court stated in part in regards to a written emergency determination that:

The Code requires a written determination to afford the District and the public sufficient information to intelligently and objectively review the decision. The decision to use the emergency exception must be sufficiently detailed to satisfy an audit, and it must be made available to the public. The purpose of the determination is to provide the basis of the decision to the school board and to the public. If the determination provides, in sufficient detail, the information necessary for the school board and the public to make an intelligent, objective review of these decisions, then it has accomplished its purpose. The Court is empowered to determine whether the written determination is sufficiently detailed to accomplish this purpose.

The Citadel's written determinations for twelve multi-term contracts failed to adequately justify why those contracts must exceed 12 months. Also, the written determinations for thirty-six sole source procurements failed to adequately explain why those procurement methods should be used over the standard bidding method.

We recommend The Citadel follow the court ruling in preparing its written determinations by providing sufficient, factual details that allow intelligent, objective reviews of the decisions. In May of 2007, the Regulations regarding written determinations were amended to reflect the requirements in the court ruling.

THE CITADEL RESPONSE

The Citadel agrees with the findings identified and has begun training the procurement staff on preparing effective written determinations. The Procurement Director will work closely with the entire staff to assist in developing these skills.

Unauthorized Blanket Purchased Agreement (BPA) Expenditures

The Citadel issued purchase orders 600241, 600718, and 700115 as blanket purchase agreements (BPAs) with a maximum amount per call (purchase) of \$1,450, \$1,000 and \$1,500 respectfully. We noted the following calls that exceeded the specified maximum amount per call.

<u>PO</u>	<u>Date</u>	<u>Description</u>	<u>Voucher</u>	<u>Amount</u>	<u>Limit</u>
600241	02/01/06	Drugs - state contract	333845	\$3,148	\$1,500
600718	05/01/06	Cleaning supplies	337106	\$1,561	\$1,450
700115	03/28/07	Fuel - state contract	350346	\$3,342	\$1,000

A BPA is a simplified method of filling anticipated repetitive needs for small quantities of supplies or services by establishing charge accounts. Regulation 19-445.2100 (B) requires certain terms and conditions included with BPA's, one of which is a dollar limitation per call for each individual authorized to use a BPA. Since the value exceeded the limitation per call, the transactions were unauthorized as defined in Regulation 19-445.2015.

We recommend that BPA limits per call not be exceeded. Accounts Payable should check to ensure payments are in accordance with purchase order terms and conditions. The Citadel must process a ratification request in accordance with Regulation 19-445.2015 for the unauthorized procurements.

THE CITADEL RESPONSE

The Citadel agrees with the findings identified and has begun the ratification process. Also, the procurement staff will assure that all blanket purchase agreements have authorized users and dollar thresholds clearly identified on each purchase order.

## 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 The Citadel in compliance with the Consolidated Procurement Code and ensuing regulations.

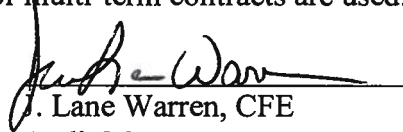
Under the authority described in Section 11-35-1210 of the Procurement Code, subject to this corrective action, we will recommend The Citadel be recertified to make direct agency procurements for three years up to the limits as follows:


### PROCUREMENT AREAS

### RECOMMENDED CERTIFICATION LIMITS

Goods and Services	*\$ 250,000 per commitment
Consultant Services	*\$ 250,000 per commitment
Information Technology	*\$ 100,000 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

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

  
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J. Lane Warren, CFE  
Audit Manager

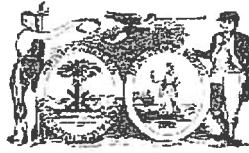
  
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Fax (803) 737-0639

R. VOIGHT SHEALY  
MATERIALS MANAGEMENT OFFICER

June 3, 2008

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 The Citadel to our audit report for the period of January 1, 2005 to December 31, 2007. Also we have followed The Citadel's corrective action during and subsequent to our fieldwork. We are satisfied that The Citadel has corrected the problem areas and the internal controls over the procurement system are adequate.

Therefore, we recommend the Budget and Control Board grant The Citadel the certification limits noted in our report for a period of three years.

Sincerely,

Handwritten signature of Larry G. Sorrell in cursive.

Larry G. Sorrell, Manager  
Audit and Certification

LGS/gs

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