
HORRY-GEORGETOWN TECHNICAL COLLEGE

PROCUREMENT AUDIT REPORT

JANUARY 1, 2005 – DECEMBER 31, 2007

TABLE OF CONTENTS

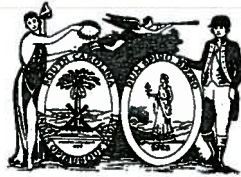
| | <u>PAGE</u> |
|-------------------------------------|--------------------|
| Transmittal Letter | 1 |
| Introduction | 3 |
| Scope..... | 4 |
| Summary of Results..... | 5 |
| Results of Examination | 7 |
| Certification Recommendations | 11 |
| Department Response | 12 |
| Follow-up Letter | 13 |

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R. VOIGHT SHEALY
MATERIALS MANAGEMENT OFFICER

April 21, 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 of Horry-Georgetown Technical College 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 was used to establish a basis for reliance upon the system of internal control 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 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 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,



Larry G. Sorrell, 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 January 22, 2008 through February 13, 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 March 3, 2005 the Budget and Control Board granted Horry-Georgetown Technical College the following procurement certifications:

| <u>PROCUREMENT AREAS</u> | <u>CERTIFICATION LIMITS</u> |
|--------------------------|-----------------------------|
| Goods and Services | \$ 75,000 per commitment |
| Consultant Services | \$ 75,000 per commitment |
| Information Technology | \$ 30,000 per commitment |

Our audit was performed primarily to determine if recertification is warranted. On June 13, 2006, Senate bill S 572 was signed into law raising all governmental bodies' procurement authority levels to \$50,000. As a result, Horry-Georgetown Technical College requested the following procurement certifications.

| <u>PROCUREMENT AREAS</u> | <u>CERTIFICATION LIMITS</u> |
|--------------------------|-----------------------------|
| Goods and Services | \$ 100,000 per commitment |
| Consultant Services | \$ 100,000 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 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 July 1, 2005 through October 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 and emergency procurements and trade-in sales for the period January 1, 2005 through December 31, 2007
- (2) Procurement transactions for the period July 1, 2005 through October 31, 2007 as follows:
 - a) One hundred payments exceeding \$2,500
 - b) Four hundred eighty-three numerical purchase orders reviewed against the use of order splitting and favored vendors
 - c) Procurement card transactions for July and August of 2006
- (3) Construction contracts for compliance with the Manual for Planning and Execution of State Permanent Improvements as follows:
 - a) Six major construction contracts
 - b) Fourteen indefinite delivery orders issued from two indefinite delivery construction contracts
 - c) Two Architect/Engineering contracts
- (4) Minority Business Enterprise Plans and reports for the audit period
- (5) Approval of most recent Information Technology Plan
- (6) Internal procurement procedures manuals
- (7) Surplus property disposition procedures
- (8) File documentation and evidence of competition

SUMMARY OF RESULTS

| | <u>PAGE</u> |
|---|-------------|
| I. <u>Unauthorized Procurement of Software License</u> | |
| The College procured a software license from an expired contract. | 7 |
| II. <u>Construction Services</u> | |
| A. <u>Retention Exceeded Maximum Limits</u> | 7 |
| The College withheld 10% retention on a construction contract exceeding the maximum amount of 3.5% allowed by the Code. | |
| B. <u>Overpayment on IDC Contract</u> | 7 |
| The College paid the percentages of markup on one IDC contract of 17.7% and 13.3% that exceeded the allowable percentages of 17% and 13%. | |
| C. <u>Quarterly Reports of IDC Activity Not Submitted</u> | 8 |
| The College did not report indefinite delivery contracts to the Office of the State Engineer. | |
| D. <u>Notice to Proceed Issued Prior to Contract Approval</u> | 8 |
| The College issued a notice to proceed prior to the contract being approved by the Office of the State Engineer. | |
| III. <u>General Procurement Exceptions</u> | |
| A. <u>Multi-term Determination Not Prepared</u> | 9 |
| The College did not prepare written determinations for two multi-term contracts. | |
| B. <u>Request for Proposal Deficiencies</u> | 9 |
| The College did not 1) prepare a written determination for a request for proposal, 2) require evaluation panel members to sign confidentiality statements, 3) prepare conflict of interest statements, and 4) require evaluators to sign evaluation sheets. | |

SUMMARY OF RESULTS

PAGE

C. Resident Vendor Preference Not Applied

9

The College did not apply the resident vendor preference that was claimed by a vendor resulting in the award not being made to the correct vendor.

D. End Product Preferences Not In Solicitation

10

The College did not include end product preferences in two solicitations.

RESULTS OF EXAMINATION

I. Unauthorized Procurement of Software License

The College issued check 6284 on 6/27/06 in the amount of \$44,630 to procure software licenses. The procurement was supported by a multi-term contract from July 1, 1998 that expired on June 30, 2003. The payment on check 6284 represented the 9th of 12 quarterly installments on project 01-01052. The total value of the contract was \$535,560 (\$44,630 per quarter times 12 quarters). The total procurement of \$535,560 was unauthorized as defined in Regulation 19-445.2015 as the total value of \$535,560 exceeded the College's procurement certification of \$30,000 for Information Technology.

We recommend the College comply with the competitive requirements of the Code for these types of license agreements rather than support procurements with expired contracts. The College must submit a ratification request to the Chief Procurement Officer with the Information Technology Management Office in accordance with Regulation 19-445.2015.

II. Construction Services

A. Retention Exceeded Maximum Limits

The College withheld 10% retention on contract H59-9881-RC for the Allied Health Wing at the Georgetown campus. Section 11-35-3030 (4)(a) states in part, "... the retained amount on each progress payment or installment must be no more than three and one-half percent."

We recommend the College limit the amount of retention to no more than 3.5% allowed by the Code.

B. Overpayment on Indefinite Delivery Contract (IDC)

The College accepted cost proposals from two construction contractors who did not price the work in accordance with the IDC contracts. Section E2.8 (F) of the Manual for Planning and Execution of State Permanent Improvements, (Manual) allows for markup of 17% for contractor labor and a markup of 13% for subcontracted labor. On IDC contract H59-D379MJ, the College issued eleven delivery orders on IDC H59-D379H to one vendor with a markup of 17.7% for contractor labor and a markup of 13.3% for subcontracted labor.

We recommend the College adhere to Section E2.8 (F) of the Manual on the allowable markup provisions.

C. Quarterly Reports of IDC Activity Not Submitted

Section E2-12 of the Manual states, “The agency shall submit to the Office of the State Engineer (OSE) quarterly reports on Indefinite Delivery Contracts (IDC) contracts.” The College did not report the activity for the period January 1, 2005 to June 30, 2007.

We recommend the College adhere to Section E2.12 regarding quarterly reporting requirements of IDCs.

D. Notice to Proceed Issued Prior to Contract Approval

A proposed construction contract and the form SE-380, Authority to Execute a Construction Contract, were submitted to the Office of the State Engineer (OSE) for authorization to executive the contract. The contract was for a boiler replacement in buildings 100 and 200 on the Grand Strand Campus for \$292,150. The SE-380 form was approved by the OSE on December 18, 2006. The College issued the SE-390, Notice to Proceed, to the contractor with the following information.

| <u>Description</u> | <u>Date</u> |
|-----------------------------------|-------------|
| Notice to Proceed Date | 11/28/06 |
| Commencement Date | 12/05/06 |
| Date of Construction Meeting | 12/14/06 |
| Agency Certification Date | 12/14/06 |
| Agency Representative Signed Date | 12/15/06 |
| Approval Date OSE | 12/18/06 |

Section 6.23 (A)(2)(c) of the Manual states, “The agency shall send SE-390 to the contractor only after the SE-380 has been approved by the OSE.”

We recommend the College comply with the Manual for the preparation of the SE-390.

III. General Procurement Exceptions

A. Multi-term Determinations Not Prepared

The College did not prepare written multi-term determinations on two contracts.

| <u>Solicitation</u> | <u>Award Date</u> | <u>Terms</u> | <u>Description</u> |
|---------------------|-------------------|---|-----------------------------|
| RFP 0001-05 | 06/05/05 | One year with 4 additional one year options | Employee assistance program |
| RFP 0006-05 | 09/28/05 | Three year contract | Janitorial supplies |

Section 11-35-2030 requires that a written determination be prepared for any proposed multi-term contract

We recommend the College comply with Section 11-35-2030 for multi-term contracts.

B. Request for Proposal Deficiencies

Solicitation RFP 0001-05 was issued in May of 2005 for an employee assistance program. A panel was formed to evaluate the responses to the solicitation. The following deficiencies were noted.

Written justification for a request for proposal not prepared
Confidentiality statements not prepared and signed
Conflict of interest statements not prepared and signed
Evaluation sheets not signed by evaluators

We recommend the College prepare and complete these documents for each request for proposal.

C. Resident Vendor Preference Not Applied

Solicitation RFQ 0027-06 was issued on January 8, 2006 for welding benches, ducting, and an exhaust fan. The College received two responses and awarded the contract for \$92,601 to a vendor who did not claim the resident vendor preference. Another vendor who did claim the resident vendor preference submitted a bid for \$97,797. The College failed to apply the resident vendor preference noted in Section 11-35-1524 (A). Had the College applied the claimed preference, the award would have been made to the vendor that responded at \$97,797. The provision in Section 11-35-1524(A) required the vendor whose bid did not claim the preference

to be adjusted upward by 7%. This would have increased the bid to \$99,083 resulting in the bid no longer being low.

We recommend that the College apply the appropriate preferences whenever vendors claim them in their bids.

D. End Product Preference Not In Solicitations

The end product preferences for products made, manufactured, or grown in South Carolina or the United States were not included in two solicitations.

| <u>Solicitation</u> | <u>Date</u> | <u>Description</u> |
|---------------------|-------------|---------------------|
| RFP 006-05 | 09/16/08 | Janitorial supplies |
| RFQ 0038-07 | 07/19/07 | Tables and chairs |

Sections 11-35-1524 (A) (4) and 11-35-1524 (A) (5) state the following:

4. "End-product" means the item sought by the governmental body of the State and described in the solicitation including all component parts and in final form and ready for the use intended by the governmental body.
5. "Unreasonable cost" means:
 - (a) the cost of an item from a resident vendor or an end- product made, manufactured, or grown in South Carolina is unreasonable if the bid exceeds by more than seven percent the lowest qualified bid on the same item or end-product which is made, manufactured, or grown in other states of the United States, or in a foreign country or territory;
 - (b) the cost of an end-product made, manufactured, or grown in other states of the United States is unreasonable if the bid exceeds by more than two percent the lowest qualified bid on the same or similar end-product which is made, manufactured, or grown in a foreign country or territory;

We recommend the College include the provisions for end product preferences in the applicable solicitations.

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 Horry-Georgetown 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, we will recommend Horry-Georgetown Technical College 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 | *\$ 75,000 per commitment |
| Consultant Services | *\$ 75,000 per commitment |

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



Mac Stiles
Senior Auditor



Larry G. Sorrell, Manager
Audit and Certification

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April 28, 2008

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

Dear Mr. Sorrell:

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 will implement appropriate policies, procedures and practices to address any and all of the issues you identified. These measures will be fully in place and functioning as intended by May 31, 2008.

Please accept our sincere appreciation for the thoroughness of your audit, and the professional manor 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

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R. VOIGHT SHEALY
MATERIALS MANAGEMENT OFFICER

April 28, 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 Horry-Georgetown Technical College to our audit report for the period of January 1, 2005 to December 31, 2007. 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,

A handwritten signature in blue ink that reads "Larry G. Sorrell".

Larry G. Sorrell, Manager
Audit and Certification

LGS/gs

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|----------------------|---------------|
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