

FRANCIS MARION UNIVERSITY
PROCUREMENT AUDIT REPORT
JANUARY 1, 2011 – JUNE 30, 2015

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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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September 30, 2016

Mr. John St. C. White
Materials Management Officer
Division of Procurement Services
1201 Main Street, Suite 600
Columbia, South Carolina 29201

Dear John:

We have examined the procurement policies and procedures of Francis Marion University for the period January 1, 2011 through June 30, 2015. 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 controls to assure adherence to the South Carolina Consolidated Procurement Code, State regulations, and the University's procurement policies. 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 Francis Marion University 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

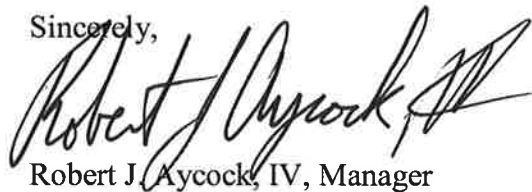
reasonable, but not absolute, assurance of the integrity of the procurement process, that affected assets are safeguarded against loss from unauthorized use or disposition and that transactions are executed in accordance with management's authorization and recorded properly.

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 which we believe need correction or improvement. Corrective action based on the recommendations described in these findings will in all material respects place Francis Marion University in compliance with the South Carolina Consolidated Procurement Code and ensuing regulations.

Sincerely,

A handwritten signature in black ink, appearing to read "Robert J. Aycock, IV". The signature is fluid and cursive, with a large initial "R" and "A".

Robert J. Aycock, IV, Manager
Audit and Certification

INTRODUCTION

We conducted an examination of the internal procurement operating policies and procedures of Francis Marion University. Our review 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 internal controls of the procurement system 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 ensuing regulations.

On December 15, 2011 the State Budget and Control Board granted Francis Marion University the following procurement certifications:

<u>PROCUREMENT AREAS</u>	<u>CERTIFICATION LIMITS</u>
Supplies and Services	*\$ 250,000 per commitment
Information Technology	*\$ 150,000 per commitment
Consultant Services	*\$ 150,000 per commitment
Construction Services	\$ 150,000 per commitment
Construction Contract Change Order	\$ 75,000 per change order
Architect/Engineer Contract Amendment	\$ 50,000 per amendment

Our audit was performed primarily to determine if recertification was warranted. Additionally, Francis Marion University requested the following certifications.

<u>PROCUREMENT AREAS</u>	<u>REQUESTED CERTIFICATION LIMITS</u>
Supplies and Services	*\$ 275,000 per commitment
Information Technology	*\$ 175,000 per commitment
Consultant Services	*\$ 150,000 per commitment
Construction Services	\$ 175,000 per commitment
Construction Contract Change Order	\$ 75,000 per change order
Architect/Engineer Contract Amendment	\$ 50,000 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 Francis Marion University, hereinafter referred to as 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 judgmental samples for the period January 1, 2011 through June 30, 2015 of procurement transactions for compliance testing and performed other audit procedures that we considered necessary to formulate this opinion. 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, 2011 through June 30, 2015 with no exceptions
- (2) Procurement transactions for the period July 1, 2012 through June 30, 2015 as follows:
 - a) One hundred and five payments each exceeding \$10,000 with an exception noted in Section II of the report
 - b) A block sample of two hundred and fifty sequential purchase orders from FY15 reviewed against the use of order splitting and favored vendors with no exceptions
 - c) Procurement card purchases for February through April 2015 with no exceptions
- (3) Eight Construction Contracts with six being indefinite delivery contracts and six Architect/Engineer and Related Professional Service Contracts (all being indefinite delivery contracts) for compliance with the Manual for Planning and Execution of State Permanent Improvements, Part II with exceptions noted in Section I of the report
- (4) Minority Business Enterprise Plans and reports with exceptions noted in Section III of the report. The following activity was reported to the Governor's Office Division of Small and Minority Business Contracting and Certification:

<u>Fiscal Year</u>	<u>Goal</u>	<u>Actual</u>
FY11-12	\$126,763	\$282,933
FY12-13	\$128,884	\$217,098
FY13-14	\$125,781	\$140,148
FY14-15	\$128,599	\$205,801

- (5) Approval of the most recent Information Technology Plan with no exceptions
- (6) Internal procurement procedures manual with no exceptions
- (7) Surplus property disposition procedures with no exceptions
- (8) Ratification of unauthorized procurements with no exceptions
- (9) File documentation and evidence of competition with no exceptions
- (10) Other tests performed as deemed necessary with no exceptions

SUMMARY OF AUDIT FINDINGS

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<p>The University did not report all of its Indefinite Delivery Contract activity to the Office of the State Engineer.</p>	
II. <u>Unauthorized Procurement</u>	7
<p>An unauthorized procurement was made by the University's Library administration for information technology switching equipment.</p>	

RESULTS OF EXAMINATION

I. Indefinite Delivery Contracts

Our audit of the University included a review of construction and Architectural/Engineering services including Indefinite Delivery Contracts (IDC). During this review we noted the University did not report all of its IDC activity to the Office of the State Engineer (OSE). Construction IDC activity not reported totaled \$3,241,200.65. The only IDC activity reported for the audit period was for the July through September 2013 quarter. Professional service IDC activity not reported totaled \$272,222.75. None of the IDC activity for professional services was reported to OSE for the audit period. Section 9.3.8 of the Manual for Planning and Execution of State Permanent Improvements, Part II (2011), requires that quarterly reports of IDC activity be submitted to the OSE. This is a key internal control used to monitor appropriate use of IDCs by OSE.

We recommend the University submit quarterly reports of all IDC activity to the OSE in a timely manner to ensure compliance with the reporting requirement to allow OSE to monitor appropriate use of IDCs.

University Response

The University agrees with the finding regarding Indefinite Delivery Contract (IDC) reporting and will implement procedures to prevent the recurrence of this issue. The University recognizes the importance of submitting quarterly reports of all IDC activity to the Office of State Engineer (OSE) in a timely manner to ensure compliance with the referenced reporting requirement. Ongoing quarterly reports are now being, and will continue to be submitted to the OSE in a timely manner. The FMU Director of Facilities Management, Director of Purchasing, and Vice President for Business Affairs should be copied upon future submission of the quarterly IDC report to OSE to further safeguard compliance with this recommendation.

II. Unauthorized Procurement

An unauthorized procurement was made by the University's Library Administration for information technology switching equipment. On June 27, 2013, the Library processed a direct pay thereby by-passing the Procurement Office in the amount of \$15,201 for the equipment. Page 17 of the University's Procurement Operating Procedures Manual provides limited procurement authority

to the Dean of the Library for the procurement of items that are exempt from the Consolidated Procurement Code such as books, periodicals, and technical pamphlets. All other procurement requests must be forwarded to the Procurement Office. Since direct pays by-pass the Procurement Office, the Accounts Payables Section must be diligent in monitoring its use.

We recommend that the University's Accounts Payables Section be diligent in monitoring the use of direct pays to help prevent unauthorized purchases in the future.

University Response

The University recognizes the importance of preventing unauthorized purchases through direct payments. The University's Purchasing Office will clarify with the Rogers Library staff and the University's Accounting Office correct usage and monitoring of direct payment processes afforded by the exemption cited above to preclude direct payments for items/services which are not exempt from the Consolidated Procurement Code. Procurements for non-exempt Library items/services must follow normal Purchasing protocols.

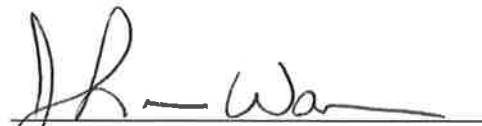
CERTIFICATION RECOMMENDATIONS

As enumerated in our transmittal letter, corrective action based on the recommendations described in this report, we believe, will in all material respects place Francis Marion University in compliance with the Consolidated Procurement Code.

Under the authority described in Section 11-35-1210 of the Procurement Code, subject to this corrective action, we will recommend Francis Marion University be certified to make direct agency procurements for three years up to the following limits.

<u>PROCUREMENT AREAS</u>	<u>CERTIFICATION LIMITS</u>
Supplies and Services	*\$ 275,000 per commitment
Information Technology	*\$ 175,000 per commitment
Consultant Services	*\$ 150,000 per commitment
Construction Services	\$ 175,000 per commitment
Construction Contract Change Order	\$ 75,000 per change order
Architect/Engineer Contract Amendment	\$ 50,000 per amendment

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



J. Lane Warren, CFE, CBM
Audit Manager



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November 17, 2016

Mr. John St. C. White
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1201 Main Street, Suite 600
Columbia, South Carolina 29201

Dear John:

We have reviewed the response from Francis Marion University to our audit report for the period of January 1, 2011 through June 30, 2015. In our opinion, Francis Marion University complies with the South Carolina Consolidated Procurement Code, State regulations, and the University's procurement policies and procedures in all material respects and the internal procurement operating procedures are adequate to properly handle procurement transactions. Therefore, we recommend the State Fiscal Accountability Authority grant Francis Marion University the certification limits noted in our report for a period of three years.

Sincerely,

Robert J. Aycock, IV, Manager
Audit and Certification

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