



UNIVERSITY OF SOUTH CAROLINA
PROCUREMENT EXAMINATION REPORT
OCTOBER 1, 2012 to DECEMBER 31, 2016

Office of Audit & Certification
Division of Procurement Services
June 19, 2017

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June 1, 2018

Mr. John St. C. White
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Subject: University of South Carolina (University)
Procurement Examination
Transmittal Letter

John:

We have examined the internal procurement operating policies and procedures of the University for the period October 1, 2012 through December 31, 2016 to determine whether, in all material respects, the internal controls of the University's procurement system were adequate to ensure compliance with the South Carolina Consolidated Procurement Code and ensuing regulations.

The examination disclosed conditions described in this report which we believe need correction or improvement. Corrective action based on the recommendations contained in this report will place the University in compliance with the South Carolina Consolidated Procurement Code and ensuing regulations, in all material respects.

Sincerely,

A handwritten signature in blue ink, appearing to read "D. Crawford Milling".

D. Crawford Milling, CPA, CGMA
Director of Audit & Certification

INTRODUCTION

We conducted an examination of the internal procurement operating policies and procedures of the University of South Carolina (University), as outlined in the University's internal procurement operating procedures manual, under Section 11-35-1230(1) of the South Carolina Consolidated Procurement Code (Procurement Code) and Reg. 19-445.2020.

The primary objective of our examination was to determine whether the internal controls of the University's procurement system were adequate to ensure compliance with the Procurement Code and ensuing regulations, in all material respects.

The management of the 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 internal control relate to (1) financial reporting, (2) operations, and (3) compliance. Safeguarding of assets is a subset of these objectives. Management designs internal control to provide reasonable assurance that unauthorized acquisition, use, or disposition of assets will be prevented or timely detected and corrected.

Because of inherent limitations in any system of internal controls, errors or irregularities may occur and not be detected. 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 review 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.

Our examination was also performed to determine if recertification is warranted.

INTRODUCTION

On December 10, 2013 the State Budget and Control Board granted the University of South Carolina the following procurement certifications:

<u>PROCUREMENT AREAS</u>	<u>CERTIFICATION LIMITS</u>
Supplies and Services	*\$ 2,000,000 per commitment
Information Technology	*\$ 1,000,000 per commitment
Consultant Services	*\$ 2,000,000 per commitment
Revenue Generating Contracts	*\$ 15,000,000 per commitment
Construction Contracts	*\$ 3,000,000 per commitment
Construction Contract Change Order	\$ 500,000 per change order
Architect/Engineer Contract Amendment	\$ 100,000 per amendment

On July 21, 2017, the University requested the following certifications.

<u>PROCUREMENT AREAS</u>	<u>REQUESTED CERTIFICATION LIMITS</u>
Supplies and Services	*\$ 3,000,000 per commitment
Information Technology	*\$ 3,000,000 per commitment
Consultant Services	*\$ 3,000,000 per commitment
Revenue Generating Contracts	*\$ 30,000,000 per commitment
Construction Contracts	*\$ 5,000,000 per commitment
Construction Contract Change Order	\$ 500,000 per change order
Architect/Engineer Contract Amendment	\$ 100,000 per amendment

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

SCOPE

We conducted our examination to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our objectives. Our examination included testing, on a sample basis, evidence about the University's compliance with the Procurement Code for the period October 1, 2012 through December 30, 2016, the examination period, and performing other procedures that we considered necessary in the circumstances. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our objectives.

The scope of our examination included, but was not limited to, a review of the following:

- (1) All sole source, emergency and trade-in sale procurements completed during the examination period, with no exceptions
- (2) Procurement transactions completed during the examination period as follows:
 - a) Five hundred and ninety four payments each exceeding \$10,000, with exceptions noted in Sections I and II of the report
 - b) A block sample of 350 sequentially filed purchase orders reviewed for the use of order splitting and favoring vendors, with no exceptions
 - c) Procurement card transactions for October, November, and December 2016, with no exceptions
- (3) Four Construction Contracts with three being indefinite delivery contracts, and three Architect/Engineer and Related Professional Service Contracts with three being indefinite delivery contracts, for compliance with the Manual for Planning and Execution of State Permanent Improvements, Part II, with no exceptions
- (4) Minority Business Enterprise plans and reports, with no exceptions. 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>
FY13-14	\$5,484,518	\$2,236,000
FY14-15	\$3,741,223	\$2,531,508
FY15-16	\$4,857,614	\$8,832,750
FY16-17*	\$4,738,270	\$3,437,995

*FY 2016-2017 represents first two quarters only

- (5) The most recent Information Technology Plan in effect during the examination period, with no exceptions
- (6) Internal procurement procedures manual, with no exceptions

SCOPE

- (7) Surplus property disposition procedures, with no exceptions
- (8) Ratification of unauthorized procurements, with no exceptions

SUMMARY OF FINDINGS

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I. No Competition on Payment Request 7

Procurements made from six different vendors totaled \$186,403, and each anticipated expenditures in excess of the Higher Ed competition threshold. These purchases, referred to in state agencies as Direct Expenditure Vouchers (DEV's), were in violation of the University's Payment Request Policy.

- A. Expenditures Anticipated to Exceed Higher Ed Competition Threshold
- B. Acquisition of Conference Facilities Did Not Comply with Requirements of Exemption

II. Documentation for Transactions Not Provided 9

Invoices for 16 procurements totaling \$109,889 could not be provided.

Note: The University's responses to issues raised in this report have been inserted immediately following the recommendations in the body of the report.

RESULTS OF EXAMINATION

I. No Competition on Payment Requests

We tested payments made by Payment Request. The Payment Request process allows for procurements to be made without a PO, using the small purchase procedures of the Procurement Code, designed to accommodate procurements up to \$10,000, the Higher Ed competition threshold, and encourages awards be made to different vendors in different parts of the state. University policy restricts the types of transactions allowed by the Payment Request process to small purchases between \$5,000 and \$10,000.

A. Expenditures Anticipated to Exceed Higher Ed Competition Threshold

Purchases made from six different vendors had memos and emails attached demonstrating in advance that the expenditures were anticipated to exceed the Higher Ed competition threshold. These purchases, referred to in state agencies as Direct Expenditure Vouchers (DEV's), were in violation of the University's Payment Request Policy. Those expenditures totaled \$186,403 (Appendix A) and were made without competition, thereby circumventing certain internal controls in USC's procurement system.

- Vendor 1 – \$25,414 for sound system and production service via twelve invoices for various campus events. These services are routinely incurred for various events.
- Vendor 2 – Invoices for transportation services totaled \$10,150 in our sample. USC anticipated spending \$34,999 over a one year period with the vendor .
- Vendor 3 – invoices for conducting survey services totaled \$22,949 and demonstrated an ongoing relationship.
- Vendor 6 – \$29,367 for printing of "summer letter", business cards, exams and quizzes, and "welcome packets". The need over a six month period (June to December 2016) was anticipated.

Per Code §11-35-1550(2)(c), "Written solicitation of written quotes, bids, or proposals must be made for a small purchase over \$10,000 but not in excess of \$50,000." Per §11-35-1520(1), "Contracts greater than \$50,000 must be awarded by competitive sealed bidding except as otherwise provided in §11-35-1510". The procurements must be advertised at least once in the South Carolina Business Opportunities and copies of the written solicitations and quotes must be attached to the purchase requisition. Section 11-35-1550(1) of the Procurement Code states in part, "procurement requirements

RESULTS OF EXAMINATION

must not be artificially divided by governmental bodies so as to constitute a small purchase....”. Section 1(D)(4) of the University Acquisition and Payment of Goods and Services Policy states that “Splitting of orders to avoid competitive methodologies is NOT permissible and may be an unauthorized procurement”.

We recommend the University seek competition for routinely purchased supplies and services and establish contracts that generate efficiencies and facilitate compliance with the University’s procurement policies and procedures. We also recommend the University review its system of internal controls related to the use of Payment Requests in order to ensure compliance with the South Carolina Consolidated Procurement Code and ensuing regulations.

UNIVERSITY RESPONSE

We concur with the recommendation.

The University’s published Purchasing policy BUSA 7.00 includes the following language:

Please remember that splitting of orders to avoid the above required competitive methodologies is NOT permissible. If a department has a requirement at a certain dollar level, the above appropriate actions are required initially. Splitting orders to avoid these levels causes audit problems and less than cost effective procurement activity.

We will also stress this requirement during our annual Purchasing for Business Managers Conference training and with the training offered in our Business Manager Certificate program. We have determined that the best way to prevent instances of the nature cited in this finding is to create a program in the PeopleSoft accounting system that will create a “hard stop” when purchases to one vendor exceed a pre-defined threshold within an established period. The payment request can then be routed to Purchasing where we can work with the department(s) and notify them of our requirements to seek competition in accordance with the requirements of the SC Consolidated Procurement Code and University Policy.

B. Acquisition of Conference Facilities Did Not Comply with Exemption Requirements

- Vendor 4 – offsite events including food. Our sample contained ten invoices totaling \$61,027 over six months.
- Vendor 5 – \$37,496 for various off-campus events over a six month period from June to December 2016 via 26 invoices.

The acquisition of conference facilities is exempt from procurement procedures on the condition that the agency completes a written determination of the site selection using the the Justification for Conference Site Selection Form (MMO Form 138).

RESULTS OF EXAMINATION

We recommend the University review and revise its internal procedures for the acquisition of conference facilities to comply with the requirements of the exemption.

UNIVERSITY RESPONSE

We concur with the recommendation and will clarify the policy to specifically identify and allow the use of listed, affiliated sites such as the USC Alumni Center and will provide training on the use of off-site conference facilities.

II. Record Retention/Documentation of Transactions

Documentation for transactions was not provided for 16 Payment Requests totaling \$109,889.

Section 11-35-2430 of the Procurement Code requires all procurement records of governmental bodies to be retained and disposed of in accordance with records retention guidelines and schedules approved by the Department of Archives and History. Additionally, Reg. 19-445.2005(B) requires each governmental body to maintain procurement files sufficient to satisfy the requirements of an external audit. The University did not comply with the Code and regulation in these transactions.

We recommend the University establish procedures to ensure compliance with the South Carolina Consolidated Procurement Code and ensuing regulations, and the document retention guidelines promulgated by the Department of Archives and History.

UNIVERSITY RESPONSE

The University located the invoices in question and they have been provided with this response.

CERTIFICATION RECOMMENDATION

We believe corrective action based on the recommendations described in this report will place the University of South Carolina in compliance with the South Carolina Consolidated Procurement Code, and ensuing regulations, in all material respects.

Under the authority granted in §11-35-1210 of the South Carolina Consolidated Procurement Code, subject to these corrective actions, we recommend the University of South Carolina be certified to make direct agency procurements for three years up to the following limits:

<u>PROCUREMENT AREAS</u>	<u>RECOMMENDED CERTIFICATION LIMITS</u>
Supplies and Services	*\$ 3,000,000 per commitment
Information Technology	*\$ 3,000,000 per commitment
Consultant Services	*\$ 3,000,000 per commitment
Revenue Generating Contracts	*\$ 15,000,000 per commitment
Construction Contracts	\$ 4,000,000 per commitment
Construction Contract Change Order	\$ 500,000 per change order
Architect/Engineer Contract Amendment	\$ 100,000 per amendment

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

Robin Devette Jacobs, CPA, CGMA

Robin D. Jacobs, CPA, CGMA
Audits Manager

D. Crawford Milling

D. Crawford Milling, CPA, CGMA
Director of Audit & Certification

Appendix A – Payment Requests

Reference #	Check Date	Voucher ID	Expenditure Amount	Description
Vendor 1				
D2R5 4/29	9/12/2016	01203947	\$5,500	Removal of the viewing tower on Bluff Road.
D2R5 4/29	9/15/2016	01205897	\$950	Sound system in the Russell House for performance.
D2R5 4/29	9/15/2016	01205899	\$287	Relocating 3 electrical outlets for the recreation center.
D2R5 4/29	10/4/2016	01213983	\$177	Electrical box in the recreation center
D2R5 4/29	11/7/2016	01227944	\$2,450	Production Services for Homecoming
D2R5 4/29	11/7/2016	01227945	\$2,450	Production Services for Homecoming
D2R5 4/29	11/8/2016	01228415	\$2,450	Production Services for Homecoming
D2R5 4/29	11/8/2016	01228416	\$2,450	Production Services for Homecoming
D2R5 4/29	11/28/2016	01235803	\$2,450	Production of Spurs and Struts.
D2R5 4/29	12/5/2016	01238931	\$900	Production Services in the Russell House.
D2R5 4/29	12/5/2016	01238982	\$4,500	Production Services for Tiger Burn.
D2R5 4/29	12/6/2016	01239524	\$850	Production Service for Student Fashion Show
Vendor 1	Subtotal		\$25,414	
Vendor 2				
D2R5 6/29	9/28/2016	01211577	\$1,460	No info provided for this expense. System shows the expense as a recurring voucher.
D2R5 6/29	9/30/2016	01212389	\$200	Invoice states for transportation services for SCCCPN.
D2R5 6/29	10/13/2016	01217590	\$1,458	No info provided for this expense. System shows the expense as a recurring voucher.
D2R5 6/29	10/28/2016	01224656	\$1,458	No info provided for this expense. System shows the expense as a recurring voucher.
D2R5 6/29	11/2/2016	01226121	\$400	Invoice states for transportation services for SCCCPN.
D2R5 6/29	11/15/2016	01231673	\$1,458	No info provided for this expense. System shows the expense as a recurring voucher.
D2R5 6/29	11/22/2016	01234883	\$400	Invoice states for transportation services for SCCCPN.
D2R5 6/29	11/28/2016	01236090	\$1,458	No info provided for this expense. System shows the expense as a recurring voucher.
D2R5 6/29	12/13/2016	01243393	\$1,458	No info provided for this expense. System shows the expense as a recurring voucher.
D2R5 6/29	12/21/2016	01248402	\$400	Invoice states for transportation services for SCCCPN.
Vendor 2	Subtotal		\$10,150	

Appendix A – Payment Requests

Reference #	Check Date	Voucher ID	Expenditure Amount	Description
Vendor 3				
D2R5 17/29	6/1/2016	01154948	\$1,599	Research tool set up for students creating surveys similar to SurveyMonkey
D2R5 17/29	6/28/2016	01167169	\$5,500	Research tool set up for students creating surveys similar to SurveyMonkey
D2R5 17/29	6/30/2016	01170496	\$1,500	Research tool set up for students creating surveys similar to SurveyMonkey
D2R5 17/29	7/21/2016	01177847	\$500	Research tool set up for students creating surveys similar to SurveyMonkey
D2R5 17/29	8/19/2016	01193325	\$3,300	Research tool set up for students creating surveys similar to SurveyMonkey
D2R5 17/29	8/31/2016	01199755	\$500	Research tool set up for students creating surveys similar to SurveyMonkey
D2R5 17/29	9/13/2016	01204625	\$650	Research tool set up for students creating surveys similar to SurveyMonkey
D2R5 17/29	9/20/2016	01207493	\$3,000	Research tool set up for students creating surveys similar to SurveyMonkey
D2R5 17/29	10/13/2016	01217073	\$1,000	Research tool set up for students creating surveys similar to SurveyMonkey
D2R5 17/29	10/28/2016	01224880	\$3,500	Research tool set up for students creating surveys similar to SurveyMonkey
D2R5 17/29	12/7/2016	01240293	\$700	Research tool set up for students creating surveys similar to SurveyMonkey
D2R5 17/29	12/8/2016	01240859	\$1,200	Research tool set up for students creating surveys similar to SurveyMonkey
Vendor3	Subtotal		\$22,949	
Vendor 6				
D2R5 22/29	6/3/2016	01155863	\$3,933	For Upstate-variable data and mailing Alumni giving letters
D2R5 22/29	6/20/2016	01162858	\$13	For Upstate-31 page books spiral bound with clear front and black plastic back
D2R5 22/29	6/21/2016	01163383	\$7,222	For Upstate-Summer 2016 32 page self cover mailing
D2R5 22/29	6/23/2016	01164738	\$2,537	For Upstate--Letterhead and envelopes-
D2R5 22/29	6/23/2016	01164742	\$3,569	For Upstate--"Welcome" 9*12 catalog envelope and "For Life" 9*12 catalog envelope
D2R5 22/29	6/28/2016	01167135	\$75	For Upstate--#10 envelopes
D2R5 22/29	8/9/2016	01184819	\$30	For Upstate--Business cards
D2R5 22/29	9/12/2016	01203984	\$56	For Upstate--Note Sheets (10 pads)
D2R5 22/29	9/12/2016	01203992	\$3	For Upstate--Chem 331 fall safety quiz.

Appendix A – Payment Requests

Reference #	Check Date	Voucher ID	Expenditure Amount	Description
D2R5 22/29	9/23/2016	01209174	\$115	For Upstate-Chem U 101 lab material.
D2R5 22/29	10/13/2016	01217039	\$14	For Upstate-Chemistry labs quizzes and worksheets
D2R5 22/29	10/31/2016	01225052	\$272	For Upstate-brochures and poster
D2R5 22/29	11/4/2016	01227503	\$18	For Upstate--Chemistry Mid term exam and lab quizzes.
D2R5 22/29	11/4/2016	01227521	\$129	For Upstate--Graduation postcards
D2R5 22/29	12/8/2016	01240727	\$223	For Upstate--Letterhead and envelope
D2R5 22/29	12/8/2016	01240741	\$136	For Upstate--Scholars Academy brochure
D2R5 22/29	12/19/2016	01245596	\$249	For Upstate--Scholars Academy newsletter
D2R5 22/29	12/19/2016	01245607	\$35	For Upstate-Chemistry quiz; safety final exam; and Honor's list posters
D2R5 22/29	12/19/2016	01245623	\$51	For Upstate- Business cards
D2R5 22/29	12/19/2016	01245663	\$2,801	For Upstate--reprint 1 sig of Magazine
D2R5 22/29	12/19/2016	01245666	\$7,287	For Upstate--Fall 2016 Magazine
D2R5 22/29	12/19/2016	01245667	\$91	For Upstate--New Chancellor Announcement
D2R5 22/29	12/19/2016	01245670	\$341	For Upstate--Holiday cards and envelopes.
D2R5 22/29	12/21/2016	01247216	\$167	For Upstate--Convocation & Platform reception invitations and related insert
Vendor 6	Subtotal		\$61,027	
Vendor 4				
D2R5 23/29	6/28/2016	01166778	\$6,663	USC Student Success Center dinner
D2R5 23/29	6/28/2016	01166779	\$1,992	USC Student Success Center dinner
D2R5 23/29	6/28/2016	01166836	\$1,691	USC Board of Trustees--Board Room lunch menu
D2R5 23/29	6/28/2016	01167155	\$1,066	USC Office of special events--Carolina Scholars dinner menu
D2R5 23/29	6/28/2016	01167175	\$446	No information was provided for this expense.
D2R5 23/29	6/28/2016	01168058	\$2,152	USC Board of Trustees--Good to go lunch menu
D2R5 23/29	6/30/2016	01169924	\$1,000	USC Lieber College--Stone River Venue Rental.
D2R5 23/29	8/5/2016	01183787	\$9,496	Capital City snack menu
D2R5 23/29	8/18/2016	01192569	\$227	USC Lieber College--Café Lunch
D2R5 23/29	8/29/2016	01198037	\$2,505	USC Board of Trustees--Board Room Menu.
D2R5 23/29	8/31/2016	01200397	\$883	My Carolina Alumni Association. Jack's private dinner menu.
D2R5 23/29	8/31/2016	01199758	\$2,184	Coffee/Capital City Continental Breakfast.
D2R5 23/29	8/31/2016	01199759	\$2,184	Coffee/Capital City Continental Breakfast.
D2R5 23/29	9/2/2016	01200850	\$1,775	Board Room lunch menu.

Appendix A – Payment Requests

Reference #	Check Date	Voucher ID	Expenditure Amount	Description
D2R5 23/29	9/2/2016	01200851	\$778	USC Board of Trustees. Bottled Water. Includes Projector & Screen rental--appears to be a meeting.
D2R5 23/29	9/8/2016	01202726	\$6,201	USC School of nursing.
D2R5 23/29	9/8/2016	01202774	\$215	Vegetable tray and Biscuits.
D2R5 23/29	9/12/2016	01204078	\$6,939	Continuing Education & Conferences. Breakfast/lunch menu.
D2R5 23/29	9/12/2016	01204079	\$3,846	Continuing Education & Conferences. Breakfast/lunch menu.
D2R5 23/29	9/19/2016	01206881	\$487	Fruit and turkey tray.
D2R5 23/29	9/30/2016	01212392	\$1,899	USC Board of Trustees. Beverage Service & lunch menu.
D2R5 23/29	10/31/2016	01225382	\$1,604	USC Board of Trustees. Beverage Service & lunch menu.
D2R5 23/29	11/10/2016	01229817	\$827	USC Continuing Education and Conferences. All day beverage service. Continental Breakfast and lunch menu.
D2R5 23/29	11/30/2016	01237641	\$57	USC Board of Trustees. Beverage Service.
D2R5 23/29	11/30/2016	01237642	\$2,049	USC Board of Trustees. Breakfast & lunch menu
D2R5 23/29	12/21/2016	01247316	\$1,861	USC Board of Trustees. Beverage Service & lunch menu.
Vendor 4	Subtotal		\$37,496	
Vendor 5				
D2R5 19/29	6/9/2016	01158497	\$5,926	Food for the college of HRSM
D2R5 19/29	6/9/2016	01158500	\$1,555	Food for the college of HRSM
D2R5 19/29	6/30/2016	01170592	\$1,993	Food for Civil Rights Champions Colloquium.
D2R5 19/29	8/12/2016	01186058	\$9,598	Food for College of Social Work
D2R5 19/29	10/11/2016	01215520	\$1,500	Food for College of Pharmacy
D2R5 19/29	10/24/2016	01221409	\$912	Food for the college of HRSM
D2R5 19/29	10/26/2016	01222527	\$5,926	Food for the college of HRSM
D2R5 19/29	11/21/2016	01234092	\$1,032	Food for Civil Rights Champions Colloquium.
D2R5 19/29	11/21/2016	01234093	\$1,344	Food for the college of HRSM
D2R5 19/29	12/15/2016	01244300	\$7,710	Food for college of Engineering
Vendor 5	Subtotal		\$29,367	
	Overall Total		\$186,403	