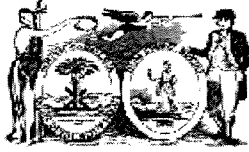


STATE OF SOUTH CAROLINA
State Budget and Control Board
PROCUREMENT SERVICES DIVISION

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STATE TREASURER

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MATERIALS MANAGEMENT OFFICE
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COLUMBIA, SOUTH CAROLINA 29201
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R. VOIGHT SHEALY
MATERIALS MANAGEMENT OFFICER

June 2, 2006

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

Dear Delbert:

I have attached the 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 the Medical University a three-year certification as noted in the audit report.

Sincerely,

A handwritten signature in cursive script that reads "Voight Shealy".

R. Voight Shealy
Materials Management Officer

/gs

MEDICAL UNIVERSITY OF SOUTH CAROLINA

PROCUREMENT AUDIT REPORT

JANUARY 1, 2003 – SEPTEMBER 30, 2005

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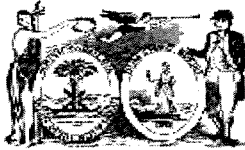
NOTE: The University’s responses to issues noted in this report have been inserted immediately following the items they refer to.

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R. VOIGHT SHEALY
MATERIALS MANAGEMENT OFFICER

May 26, 2006

Mr. R. Voight Shealy
Materials Management Officer
Office of Procurement Services
1201 Main Street, Suite 600
Columbia, South Carolina 29201

Dear Voight:

We have examined the procurement policies and procedures of the Medical University of South Carolina for the period January 1, 2003 through September 30, 2005. 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 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 the Medical University of South Carolina 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 the Medical University of South Carolina. Corrective action based on the recommendations described in these findings will in all material respects place the Medical University of South Carolina 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 Medical University of South Carolina. 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 procurement system's internal controls 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 its ensuing regulations.

On August 8, 2003 the Budget and Control Board granted the Medical University of South Carolina the following procurement certifications:

<u>PROCUREMENT AREAS</u>	<u>CERTIFICATION LIMITS</u>
Goods and Services	\$ 100,000 per annual commitment
Consultant Services	\$ 25,000 per annual commitment
Information Technology	\$ 100,000 per annual commitment
Construction Contract Award	\$ 100,000 per commitment
Construction Contract Change Order	\$ 50,000 per change order
Architect/Engineer Contract Amendment	\$ 15,000 per change order

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

<u>PROCUREMENT AREAS</u>	<u>CERTIFICATION LIMITS</u>
Goods and Services	\$ 500,000 per total commitment
Consultant Services	\$ 125,000 per total commitment
Information Technology	\$ 500,000 per total commitment
Construction Contract Award	\$ 500,000 per commitment
Construction Contract Change Order	\$ 250,000 per change order
Architect/Engineer Contract Amendment	\$ 25,000 per change order

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 Medical University of South Carolina 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, 2003 through September 30, 2005 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, 2003 through September 30, 2005
- (2) Procurement transactions for the period July 1, 2003 through September 30, 2005 as follows:
 - a) Ninety-six payments each exceeding \$1,500
 - b) A block sample of three-hundred one sequential purchase orders
 - c) Procurement card transactions for March, April and May of 2005
 - d) Three revenue generating contracts
- (3) Five construction contracts and six professional service contracts for compliance with the Manual for Planning and Execution of State Permanent Improvements
- (4) Minority Business Enterprise Plans and reports for the audit period
- (5) Approval of most recent Information Technology Plans
- (6) Internal procurement procedures manual
- (7) Surplus property disposition
- (8) File documentation and evidence of competition\
- (9) Blanket purchase agreements

RESULTS OF EXAMINATION

Procurements Without Competition

Four procurements were not supported by evidence of solicitations of competition, sole source or emergency determinations, or justified as exempt.

<u>Item</u>	<u>PO</u>	<u>Description</u>	<u>Amount</u>
1	634273	Panel system	\$ 11,465
2	651027	Catering for reception	1,800
3	638780	Consultant	7,000
4	638601	Bond rating	5,000

For item 1, the University identified the panel system procurement as being made from the state contract 03-S5383 for new metal office furniture. The state contract did not include panel system. The documentations for items 2 and 3 indicated the University intended to procure as sole source but did not. The University procured item 4 under the exemption for investment counselors which does not apply.

We recommend competition be solicited for these types of procurements.

UNIVERSITY RESPONSE

For item 1, the state contract vendor offered the items under the state contract terms and conditions as a "percentage discount for balance off catalog items". We agree with the recommendation that the University comply with the requirements of the Code in procuring panel systems. All staff members will be re-trained on the proper procedures.

For items 2, 3, and 4, we concur with the recommendation that the University comply with the competition requirements of the Code. The buyer of record retired and all other staff members will be re-trained on the proper procedures.

Procurement Card Transactions

We reviewed the procurement card transactions for March, April, and May of 2005. Our review revealed the following transactions that were split to avoid the \$1,500 transaction limit thus rendering the procurements unauthorized.

<u>Department</u>	<u>Date</u>	<u>Amount</u>
Comparative Medicine	02/10/05	\$1,499
Comparative Medicine	02/10/05	<u>1,499</u>
	Total	<u>\$2,998</u>

<u>Department</u>	<u>Date</u>	<u>Amount</u>
Comparative Medicine	03/02/05	\$ 1,378
Comparative Medicine	03/02/05	789
Comparative Medicine	03/02/05	<u>1,109</u>
	Total	<u>\$ 3,276</u>
Physical Plant	03/02/05	\$1,397
Physical Plant	03/02/05	<u>889</u>
	Total	<u>\$ 2,286</u>
Physical Plant	04/14/05	\$1,435
Physical Plant	04/14/05	<u>532</u>
	Total	<u>\$ 1,967</u>

We recommend the University comply with its policies and procedures for procurement card transactions. A ratification request must be submitted to the President or his designee for the unauthorized procurements in accordance with Regulation 19-445.2015.

UNIVERSITY RESPONSE

We agree with the recommendation that the University comply with its policies and procedures for procurement card transactions. The procurements will be forwarded to the President of the University for ratification. All parties will be counseled and re-trained on the proper procedures for these transactions. We will audit and enforce the \$1,500 transaction limit per our policies and procedures.

Incorrect Source Selection Method

The University incorrectly processed a request for quotation 4720-03/01/05-1194G rather than a competitive seal bid for the four year rental of golf carts. The annual value of the contract was \$9,000 with the total potential for \$36,000 for the four years. The procurement should have been solicited as a competitive sealed bid as required by Section 11-35-1520 since the value exceeded \$25,000. Additionally, the University did not prepare the written determination to justify the multi-term contract per Section 11-35-2030.

We recommend the University comply with the competitive requirements of the Code based on the total potential value of the award and prepare a multi-term determination if applicable.

UNIVERSITY RESPONSE

We agree with the recommendation that the University comply with the competitive requirements of the Code and multi-term determination. We will notify all parties that this contract must be terminated and the University will issue a solicitation to comply with the

competitive requirements of the Code. The buyer of record retired and all other staff members will be re-trained on proper procedures.

Food Service Contract

We reviewed the subcontract agreement between the Medical University of South Carolina (MUSC), the service provider, and a franchise food vendor that provides a sandwich shop on the first floor at the Harborview location. The Materials Management Office (MMO) issued an award to the service provider for period 3/27/98 to 3/27/03. The solicitation and award to the service provider was to provide the dietetic services at the University and Harborview. In 2000, legislation created the Medical University Hospital Authority (MUHA) that resulted in a separation of the hospital and university with MUHA operating the hospital and MUSC operating the university. A subcontract agreement was entered into on March 28, 2003 between MUHA, the service provider, and a franchise food vendor to provide a sandwich shop at the hospital's cafeteria and the first floor at Harborview. A rider to the subcontract was entered into on March 28, 2003 by the MUSC, the service contractor, and the franchise food vendor to operate a sandwich shop at Harborview with the MUSC receiving a percentage of the revenues earned by the franchise food vendor. MUSC did not consider the rider to MUHA's subcontract an item subject to the Code.

We recommend the University comply with the Code and Regulations for the operations at Harborview at the expiration of the current contract.

UNIVERSITY RESPONSE

We agree with the recommendation that the University comply with the Code and Regulations for the food services operations at the Harborview location at the expiration of the current contract. All parties will be counseled and re-educated on the proper procedures.

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 Medical University of South Carolina in compliance with the Consolidated Procurement Code and ensuing regulations.

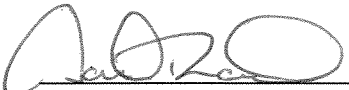
Under the authority described in Section 11-35-1210 of the Procurement Code, subject to this corrective action, we will recommend the Medical University of South Carolina be recertified to make direct agency procurements for three years up to the limits as follows:

PROCUREMENT AREAS

RECOMMENDED CERTIFICATION LIMITS

Goods and Services	*\$ 500,000 per commitment
Consultant Services	*\$ 125,000 per commitment
Information Technology	*\$ 500,000 per commitment
Construction Contract Award	\$ 500,000 per commitment
Construction Contract Change Order	\$ 250,000 per change order
Architect/Engineer Contract Amendment	\$ 25,000 per change order

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



David Rawl, CPPB
Audit Manager



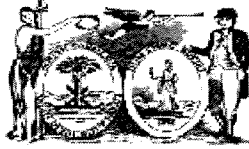
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R. VOIGHT SHEALY
MATERIALS MANAGEMENT OFFICER

June 2, 2006

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 Medical University of South Carolina to our audit report for the period of January 1, 2003 to September 30, 2005. Also we have followed the University's corrective action during and subsequent to our fieldwork. We are satisfied that the Medical University of South Carolina 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 Medical University of South Carolina 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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