

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

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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

July 26, 2005

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 University of South Carolina a three-year certification as noted in the audit report.

Sincerely,

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

R. Voight Shealy
Materials Management Officer

/jl

**UNIVERSITY OF SOUTH CAROLINA
PROCUREMENT AUDIT REPORT
JANUARY 1, 2002 - DECEMBER 31, 2004**

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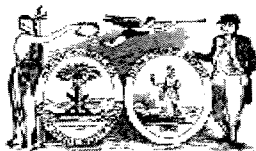
NOTE: The University's response to issue noted in this report has been inserted immediately following the item it refers to.

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Fax (803) 737-0639

R. VOIGHT SHEALY
MATERIALS MANAGEMENT OFFICER

July 6, 2005

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 the University of South Carolina for the period January 1, 2002 through December 31, 2004. 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 South Carolina 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 University 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 that transactions are executed in accordance with management's authorization and 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 one condition 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 University of South Carolina in compliance with the South Carolina 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 University of South Carolina. Our review was conducted March 31, 2005 through May 20, 2005 and 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 August 13, 2002, the Budget and Control Board granted the University of South Carolina the following procurement certifications.

<u>PROCUREMENT AREAS</u>	<u>CERTIFICATION LIMITS</u>
Goods and Services	\$ 225,000 per commitment
Consultant Services	\$ 225,000 per commitment
Information Technology	\$ 225,000 per commitment
Construction Contract Award	\$ 500,000 per commitment
Construction Contract Change Order	\$ 500,000 per commitment
Architect/Engineer Contract Amendment	\$ 100,000 per commitment
Revenue Generating Management Services	\$15,000,000 per commitment

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

PROCUREMENT AREAS

CERTIFICATION LIMITS

Goods and Services	\$ 1,000,000 per commitment
Consultant Services	\$ 1,000,000 per commitment
Information Technology	\$ 1,000,000 per commitment
Construction Contract Award	\$ 2,000,000 per commitment
Construction Contract Change Order	\$ 1,000,000 per commitment
Architect/Engineer Contract Amendment	\$ 200,000 per commitment
Revenue Generating Management Services	\$ 15,000,000 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 the 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 judgmental samples for the period July 1, 2002 through December 31, 2004 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, 2002 through December 31, 2004
- (2) Procurement transactions for July 1, 2002 through December 31, 2004 as follows:
 - a) One hundred and fourteen payments each exceeding \$1,500 including satellite offices
 - b) Five hundred numerical purchase orders from FY 2005 reviewed for order splitting and favored vendors
 - c) Procurement card transactions for September and October of 2004
 - d) An additional review of 16 sealed bids
 - e) Six revenue generating contracts
 - f) Two hundred blanket purchase order files
 - g) Two hundred numerical direct expenditure voucher (DEV) payments reviewed for compliance
 - h) Two hundred numerical purchase orders from USC-Aiken reviewed for compliance
- (3) Nine construction contracts and seven professional service contracts for compliance with the Manual for Planning and Execution of State Permanent Improvements
- (4) Minority Business Enterprise Plans and reports
- (5) Approval of the most recent Information Technology Plan
- (6) Internal procurement procedures manual
- (7) Surplus property disposal procedures
- (8) File documentation and evidence of competition
- (9) Blanket purchase agreements

RESULTS OF EXAMINATION

Unauthorized Procurements

Two procurements were not properly authorized.

<u>Item</u>	<u>PO</u>	<u>Check</u>	<u>Amount</u>	<u>Description</u>
1	21682	137840	\$17,334	Police jackets
2	40364	69405	25,000	Landscaping mulch

The payments included products that were not part of the contracts established by the Procurement Department.

Regulation 19-445.2015 defines an unauthorized purchase as an act obligating the State in a contract by any person without the requisite authority to do so by an appointment or delegation.

We recommend the University comply with the competitive requirements of the Code. A ratification request must be submitted to the President or his designee in accordance with Regulation 19-445.2015 for the unauthorized procurements.

UNIVERSITY RESPONSE

The procurements have been sent for ratification by the President of the University. All parties involved have been counseled on the proper procedures for ordering contract items and measures have been instituted to prevent the occurrence of incidents of this nature.

CERTIFICATION RECOMMENDATIONS

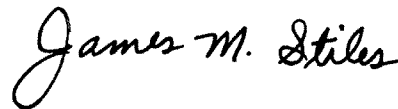
As enumerated in our transmittal letter, corrective action based on the recommendations described in this report, we believe, will in all material respects place the University of South Carolina in compliance with the Consolidated Procurement Code.

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

<u>PROCUREMENT AREAS</u>	<u>CERTIFICATION LIMITS</u>
Goods and Services	*\$ 1,000,000 per commitment
Consultant Services	*\$ 1,000,000 per commitment
Information Technology	*\$ 1,000,000 per commitment
Construction Contract Award	**\$ 2,000,000 per commitment
Construction Contract Change Order	25% of initial construction contract aggregate amount
Architect/Engineer Contract Amendment	25% of initial Architect/Engineer contract aggregate amount
Revenue Generating Management Services	*\$ 15,000,000 per commitment

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

**Construction certification applies only to acquisitions by competitive sealed bidding (IFB), using a design-bid-build project delivery method. Prequalification on a contract with a total potential value above \$100,000 must be approved in writing by the State Engineer. Compliance with the Manual for Planning and Execution of State Permanent Improvement Projects, Part II, is required.



James M. Stiles, CPPB
Audit Manager



Larry G. Sorrell, Manager
Audit and Certification

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R. VOIGHT SHEALY
MATERIALS MANAGEMENT OFFICER

July 26, 2005

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 University of South Carolina to our audit report for the period of January 1, 2002 – December 31, 2004. Also we have followed the University's corrective action during and subsequent to our fieldwork. We are satisfied that the University of South Carolina has corrected the problem area and the internal controls over the procurement system are adequate.

Therefore, we recommend the Budget and Control Board grant the 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/jl

Total Copies Printed	11
Unit Cost	.18
Total Cost	\$1.98