

MEDICAL UNIVERSITY OF SOUTH CAROLINA

PROCUREMENT AUDIT REPORT

JULY 1, 2009 – DECEMBER 31, 2014

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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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March 22, 2016

Mr. John St. C. White
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Dear John:

We have examined the procurement policies and procedures of the Medical University of South Carolina for the period July 1, 2009 through December 31, 2014. 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 the Medical University of South Carolina 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 the Medical University of South Carolina 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 long horizontal stroke extending to the right.

Robert J. Aycock, IV, 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 performed 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 June 30, 2010 the State Budget and Control Board granted the Medical University of South Carolina the following procurement certifications:

<u>PROCUREMENT AREAS</u>	<u>CERTIFICATION LIMITS</u>
Supplies and Services	\$ 500,000 per commitment
Information Technology	\$ 500,000 per commitment
Consultant Services	\$ 125,000 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 amendment

Our audit was performed primarily to determine if recertification was warranted. Additionally, the Medical University of South Carolina requested the following increased certifications.

<u>PROCUREMENT AREAS</u>	<u>REQUESTED CERTIFICATION LIMITS</u>
Supplies and Services	\$ 1,000,000 per commitment
Information Technology	\$ 1,000,000 per commitment
Consultant Services	\$ 500,000 per commitment
Construction Contract Award	\$ 1,000,000 per commitment
Construction Contract Change Order	\$ 500,000 per change order
Architect/Engineer Contract Amendment	\$ 100,000 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 the Medical University of South Carolina, 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 July 1, 2009 through September 30, 2014 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 July 1, 2009 through September 30, 2014 with exceptions noted in Section I
- (2) Procurement transactions for the period July 1, 2011 through September 30, 2014 as follows:
 - a) One hundred and thirteen payments each exceeding \$2,500 with exceptions noted in Section II of the report
 - b) A block sample of five hundred and ninety six sequential purchase orders from FY 2015 reviewed against the use of order splitting and favored vendors with no exceptions
 - c) Procurement card purchases for December 2013 through February 2014 with exceptions noted in Section III of the report
- (3) Twelve Construction Contracts with six being indefinite delivery contracts and twelve Architect/Engineer and Related Professional Service Contracts with six being indefinite delivery contracts for compliance with the Manual for Planning and Execution of State Permanent Improvements, Part II with no exceptions noted
- (4) Minority Business Enterprise Plans and reports with exceptions noted in Section IV 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	\$1,313,976	\$2,503,184
FY12-13	\$1,313,976	\$2,153,364
FY13-14	\$1,313,946	\$1,260,596
FY14-15	\$1,220,690	\$ 793,096*

*represents first and second quarters of FY15 only

- (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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I. <u>Non-Compliance with Drug-Free Workplace Act</u>	7
Sole source procurements with values greater than fifty thousand dollars were entered into without drug-free workplace certifications.	
II. <u>Missing Documentation</u>	7
No supporting documentation was provided for two sole source procurements. No ratification documents were provided for two unauthorized procurements.	
III. <u>No Proof of Competition</u>	9
No proof of competition could be provided for two procurements.	
IV. <u>Artificially Divided Procurement Card Transactions</u>	9
Artificially divided procurements circumventing internal control single transaction limits were identified for procurement cards assigned to three cardholders.	
V. <u>Untimely Minority Business Enterprise Annual Plans and Quarterly Reports</u>	10
While the University did well in its minority business enterprise (MBE) participation, annual MBE plans and quarterly reports were not submitted to the Governor's Office in a timely manner.	

RESULTS OF EXAMINATION

I. Non-Compliance with Drug-Free Workplace Act

Our review of sole source procurements valued at \$50,000 or more identified thirty procurements totaling \$4,728,440 in which the Drug-Free Workplace Act Certifications were either missing, undated or dated subsequent to the issuance of the purchase order. Section 44-107-30 of the Drug-Free Workplace Act states, “No person, other than an individual, may receive a domestic grant or be awarded a domestic contract for the procurement of any goods, construction, or services for a stated or estimated value of fifty thousand dollars or more from any state agency unless the person has certified to the using agency that it will provide a drug-free workplace...”

We recommend that the University comply with the Drug-Free Workplace Act.

University Response

We agree with the auditors’ findings and comments and the following actions have been taken to ensure future compliance with the applicable requirements of the Procurement Code.

- a. To strengthen our knowledge of the code we have begun periodic departmental training and review sessions.
- b. We have increased management oversight and approval of those purchases \$50,000 or greater.

II. Missing Documentation

No supporting documentation was provided for PO654319CO dated July 9, 2013 for Medicaid Clinical Teaching Services in the amount of \$950,000 and for PO630230CO1 dated January 3, 2014, a change order for additional Project Management Services, in the amount of \$70,000 both reported as sole source procurements. Section 11-35-1560(A) states, “A contract may be awarded for a supply, service, information technology, or construction item without competition if ... the chief procurement officer, the head of a purchasing agency, or a designee of either officer ... determines in writing that there is only one source for the required supply, service, information technology, or

construction item.” The written determination provides the reasoning behind the sole source decision and the authorization to proceed with the procurement.

We recommend that the University comply with the sole source statute by supporting its sole source procurements with the required supporting documentation.

Two procurements reported as unauthorized transactions to the Division of Procurement Services were not supported by written determinations ratifying them. PO134404 dated July 11, 2013 for \$3,600 and PO134405 dated July 11, 2013 for \$3,600 were both for chemotherapy patient message therapy services. Per Regulation 19-445.2015(B) of the South Carolina Consolidated Procurement Code, all decisions to ratify or terminate a contract shall be supported by a written determination of appropriateness.”

We recommend that the University comply with the regulation regarding ratifications by supporting all unauthorized procurements with authorized written determinations.

University Response

We agree with the auditors’ findings and comments and the following actions have been taken to ensure future compliance with the applicable requirements of the Procurement Code.

- a. To strengthen our knowledge of the code we have begun periodic departmental training and review sessions.
- b. We have instituted a more detailed review process to ensure all required supporting documentation are provided prior to issuance of the purchase order and to ensure all unauthorized purchases are ratified accordingly.

III. No Proof of Competition

No proof of competition was identified for PO 128199 dated May 3, 2013 for \$12,636 for waxing kits and for PO129552 dated May 20, 2013 for \$109,508.20 for AD kits. Both kits were used for dental instruction. Per section 11-35-1550(c), ‘Written solicitation of written quotes, bids, or proposals must be made for a small purchase over ten thousand dollars but not in excess of fifty thousand dollars. Per Section 11-35-1520(1), ‘Contracts greater than fifty thousand dollars must be awarded by competitive sealed bidding except as otherwise provided in Section 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.

We recommend that the University comply with the competitive requirements of the Procurement Code as required by the statute.

University Response

We agree with the auditors’ findings and comments and the following actions have been taken to ensure future compliance with the applicable requirements of the Procurement Code.

- a. To strengthen our knowledge of the code we have begun periodic departmental training and review sessions.
- b. We have instituted a more detailed review process to ensure all purchases requiring competition are properly conducted and documented prior to issuance of the purchase order.

IV. Artificially Divided Procurement Card Transactions

We obtained procurement card statements for December 2013 through February 2014 to review procurement card activity for compliance with the University’s Procurement Card Procedures Manual. Our review of procurement card activity identified three artificially divided procurements made into seven transactions to circumvent internal controls on the single transaction limit of \$2,500¹.

¹ State statute allows higher education institutions to have procurement card single transaction limits of up to \$10,000 if approved by the institutions’ boards of trustees. MUSC’s board authorized the Director of Procurement to approved increases above the basic State policy single transaction limit of \$2,500 up to \$10,000. The procurement card single transaction limits in question were not authorized above \$2,500.

<u>Statement Period</u>	<u>Card #</u>	<u>Purchase Date</u>	<u>Description</u>	<u>Amount</u>
Dec. 2013	4202	12/05/13	Cartridge Refills	\$1,312.85
Dec. 2013	4202	12/05/13	Cartridge Refills	<u>\$1,312.85</u>
			Total	\$2,634.65
Dec. 2013	0254	12/09/13	Drug Testing Cups	\$1,940.00
Dec. 2013	0254	12/09/13	Drug Testing Cups	<u>\$1,940.00</u>
			Total	\$3,880.00
Dec. 2013	0254	12/20/13	Drug Testing Cups	\$1,420.50
Dec. 2013	0254	12/20/13	Drug Testing Cups	\$2,328.00
Dec. 2013	0254	12/20/13	Drug Testing Cups	<u>\$2,409.50</u>
			Total	\$6,158.00

Per the University's Purchasing Card Procurement Manual, page 6, "With the exception of purchases from State-awarded contracts, multiple activity of spending more than \$2,500 per day with one vendor may indicate splitting of orders, and may be considered Split Transactions. Any action taken to "work around" or "bypass" the limits set on P-cards is prohibited."

We recommend that the University review procurement card activity more closely to detect artificially divided transactions that circumvent internal controls on the single transaction limit.

University Response

We agree with the auditors' findings and comments and to ensure future compliance with the applicable policy we will publish written communication regarding the approved process to request a single transaction increase.

V. Untimely Minority Business Enterprise Annual Plans and Quarterly Reports

While the University did well in its minority business enterprise (MBE) participation, annual MBE plans and quarterly reports were not submitted to the Governor's Office Division of Small and Minority Business Contracting and Certification in a timely manner for any of the fiscal years reviewed (FY11/12 through FY14/15) as required by Section 11-35-5240 of the Procurement Code. No annual utilization plans were submitted for two of these fiscal years.

Section 11-35-5240(2) of the Procurement Code requires that MBE utilization plans be submitted to the Governor's Office for approval no later than July thirtieth, annually. Progress reports must be submitted to the Governor's Office no later than thirty days after the end of each fiscal quarter..."

We recommend that the University comply with Section 11-35-5240 of the South Carolina Consolidated Procurement Code by submitting annual utilization plans and quarterly progress reports to Governor's Office Division of Small and Minority Business Contracting and Certification in a timely manner.

University Response

We agree with the auditors' findings and comments and the following actions have been taken to ensure future compliance with the applicable requirements of the Procurement Code.

- a. During the period of noncompliance the Director of Purchasing performed this job function. We have changed this and assigned this function to a staff member. This allows for timely preparation of the report and better oversight.
- b. We have instituted a more detailed review process to ensure the information being reported is accurate and complete.


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.

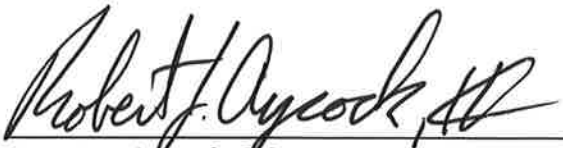
Under the authority described in Section 11-35-1210 of the Procurement Code, subject to this corrective action, we will recommend the Medical University of South Carolina be certified to make direct agency procurements for three years up to the following limits.

<u>PROCUREMENT AREAS</u>	<u>CERTIFICATION LIMITS</u>
Supplies and Services	*\$ 1,000,000 per commitment
Information Technology	*\$ 1,000,000 per commitment
Consultant Services	*\$ 500,000 per commitment
Construction Contract Award	\$ 1,000,000 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.



J. Lane Warren, CFE, CBM
Audit Manager



Robert J. Aycock, IV, Manager
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May 11, 2016

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1201 Main Street, Suite 600
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Dear John:

We have reviewed the response from the Medical University of South Carolina to our audit report for the period of July 1, 2009 through December 31, 2014. In our opinion, the Medical University of South Carolina 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 the Medical University of South Carolina the certification limits noted in our report for a period of three years.

Sincerely,

Robert J. Aycock, IV, Manager
Audit and Certification

Total Copies Printed	11
Unit Cost	<u>\$.56</u>
Total Cost	<u>\$6.16</u>