

THE UNIVERSITY OF SOUTH CAROLINA

PROCUREMENT AUDIT REPORT

APRIL 1, 2008 – SEPTEMBER 30, 2012

TABLE OF CONTENTS

	<u>PAGE</u>
Transmittal Letter.....	1
Introduction.....	3
Scope.....	4
Summary of Audit Findings.....	6
Results of Examination.....	7
Certification Recommendations.....	10
Follow-up Letter	11

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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July 12, 2013

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 April 1, 2008 through September 30, 2012. 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 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 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 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 The University of South Carolina. Our review was performed December 3, 2012 through February 7, 2013 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 June 29, 2009 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	\$ 1,500,000 per commitment
Information Technology	\$ 1,000,000 per commitment
Consultant Services	\$ 1,500,000 per commitment
Revenue Generating Management Services	\$15,000,000 per commitment
Construction Contract Award	\$ 2,000,000 per commitment
Construction Contract Change Order	\$ 500,000 per change order
Architect/Engineer Contract Amendment	\$ 100,000 per amendment

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

<u>PROCUREMENT AREAS</u>	<u>REQUESTED CERTIFICATION LIMITS</u>
Supplies and Services	\$ 2,000,000 per commitment
Information Technology	\$ 2,000,000 per commitment
Consultant Services	\$ 2,000,000 per commitment
Revenue Generating Management Services	\$15,000,000 per commitment
Construction Contract Award	\$ 3,000,000 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 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, 2012 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 April 1, 2008 through September 30, 2012 with no exceptions
- (2) Procurement transactions for the period July 1, 2009 through September 30, 2012 as follows:
 - a) One hundred and twenty-two payments each exceeding \$2,500 with an exception noted in Section III of the report
 - b) A block sample of three hundred sequential purchase orders from FY 2010 reviewed against the use of order splitting and favored vendors with no exceptions
 - c) Procurement card purchases for February, March, and April 2012 with exceptions noted in Section II of the report
- (3) Thirteen Construction Contracts with five being indefinite delivery contracts and eight Architect/Engineer and Related Professional Service Contracts with four 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 the following activity reported to the Governor's Office of Small and Minority Business Assistance:

<u>Fiscal Year</u>	<u>Goal</u>	<u>Actual</u>
FY09-10	\$2,940,563	\$ 511,566
FY10-11	\$4,215,664	\$6,093,676
FY11-12	\$3,570,353	\$9,421,493

- (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

	<u>PAGE</u>
I. <u>Construction and Architectural-Engineering Services</u>	
A. <u>Scope of Work Exceeded for a Construction IDC</u>	7
<p style="margin-left: 40px;">A modification was made without competition to an IDC delivery order that substantially exceeded the initial scope of work.</p>	
B. <u>IDC Activity Not Reported to the State Engineer</u>	8
<p style="margin-left: 40px;">No IDC activity for construction and professional services contracts was reported to the State Engineer's Office for the audit period.</p>	
II. <u>Procurement Card with No Single Transaction Limit</u>	8
<p style="margin-left: 40px;">No approval was issued by the Materials Management Officer for a procurement card with no single transaction limit and a monthly limit of \$950,000 to buy computer equipment from a State contract vendor.</p>	
III. <u>No Proof of Competition</u>	9
<p style="margin-left: 40px;">No proof of competition could be provided for a procurement at the USC Spartanburg campus.</p>	

RESULTS OF EXAMINATION

I. Construction and Architectural-Engineering Services

Our audit of the University included a sampled review of construction and Architectural/Engineering (A/E) services including Indefinite Delivery Contracts (IDC) procured during the period under review. We noted the following exceptions.

A. Scope of Work Exceeded for a Construction IDC

The University issued a delivery order through construction IDC H27-D131 for window remediation in Woodrow College at a cost of \$58,337. This delivery order was competed among IDC contractors. However, a delivery order modification was subsequently issued adding another \$91,662 for interior painting within the College increasing the total amount of this delivery order to \$149,999. No competition was obtained on the modification. The original scope was for repairing and repainting of exterior windows. The modification was for interior wall painting. Regulation 19-445.2065 of the Code states in part, "Every effort should be made to anticipate changes in a requirement prior to the date of opening and to notify all prospective bidders of any resulting modifications or cancellation thereby permitting bidders to change their bids and preventing the unnecessary exposure of bid prices. As a general rule after opening, an invitation for bids should not be cancelled and re-advertised due solely to increased quantities of the items being procured; award should be made on the initial invitation for bids and the additional quantity required should be treated as a new procurement." The impact of this modification resulted in an increased value of \$91,662 or a 157% increase that was not competed. A new solicitation should have been issued to provide all IDC vendors the opportunity to bid on this additional work.

We recommend that, in the future, the University issue a new solicitation when there is such a substantial change in the scope of work within an IDC.

UNIVERSITY RESPONSE

We concur and have counseled the appropriate staff. In the future the University will always issue a new solicitation when there is a substantial change in the scope of work with an IDC.

B. IDC Activity Not Reported to the State Engineer

The University did not report IDC activity to the Office of the State Engineer (OSE) for the audit period. All IDC activity must be reported to the OSE on a quarterly basis. As a result of this finding, the University submitted an amended report to the OSE on February 12, 2013 for all IDC activity covering the period January 7, 2010 through August 21, 2012.

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.

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.

UNIVERSITY RESPONSE

All delinquent reports have been submitted. In addition we have reported all quarterly activity since the audit and the University is now current in all of its reporting.

II. Procurement Card with No Single Transaction Limit

We identified a procurement card that was set up to buy computer related items from one State contract vendor that had no single transaction limit with a monthly limit of \$950,000. No documentation could be provided to reflect approval from the Materials Management Officer (MMO) for this procurement card.

Section II(D)(2) of the South Carolina Purchasing Card Policy and Procedures Manual, states in part, “To raise or lower the single transaction limit, the P-Card administrator must submit the requested change in writing (E-mail or memo) to the MMO Chief Procurement Officer ...”

This card was issued prior to the South Carolina Higher Education Efficiency and Administrative Policies Act (HEEAPA) for colleges and universities which became effective August 1, 2011. The Act authorizes each institution’s governing board to approve increases in single-transaction limits for its cards, up to \$10,000. Single transaction limits over \$10,000 must be approved by the Materials Management Officer provided sufficient justification exists.

We recommend the University comply with the South Carolina Purchasing Card Policy and Procedures Manual by requesting approval from the MMO for cards with single transaction limits exceeding \$10,000.

UNIVERSITY RESPONSE

The account referenced is a virtual account that is used to pay Dell invoices for orders placed on line through the Purchasing Department. No physical card is issued and the account can only be used to pay Dell invoices. The monthly limit has been lowered and the approval has been requested through MMO.

III. No Proof of Competition

No proof of competition was identified for purchase order S7190 dated July 1, 2010 for \$16,950 for MAP-Works, a web-based student success and retention application, procured at the USC Spartanburg campus.

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. The procurement must be advertised at least once in the South Carolina Business Opportunities publication or through a means of central electronic advertising as approved by the designated board office. A copy of the written solicitation and quotes must be attached to the purchase requisition...’

We recommend the University comply with small purchase procedures as required by Section 11-35-1550 of the South Carolina Consolidated Procurement Code.

UNIVERSITY RESPONSE

This procurement has been ratified through the appropriate channels in the University.

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.

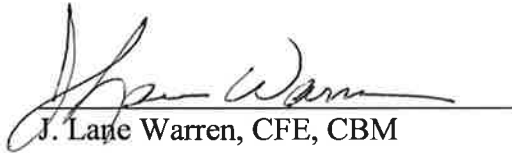
Under the authority described in Section 11-35-1210 of the Procurement Code, subject to this corrective action, we will recommend The University of South Carolina be certified to make direct agency procurements for three years up to the following limits.

PROCUREMENT AREAS

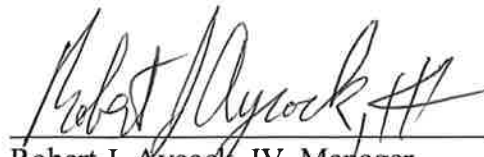
CERTIFICATION LIMITS

Supplies and Services	*\$ 2,000,000 per commitment
Information Technology	*\$ 1,000,000 per commitment
Consultant Services	*\$ 2,000,000 per commitment
Revenue Generating Management Services	*\$15,000,000 per commitment
Construction Contract Award	\$ 3,000,000 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
Audit and Certification

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MARCIA S. ADAMS
EXECUTIVE DIRECTOR

November 19, 2013

Mr. R. Voight Shealy
Materials Management Officer
Division of Procurement Services
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 April 1, 2008 through September 30, 2012. We have followed-up on the University's corrective action during and subsequent to our fieldwork.

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,

Robert J. Aycock, IV, Manager
Audit and Certification

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