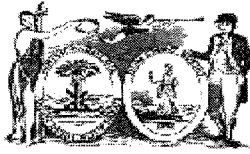


STATE OF SOUTH CAROLINA
State Budget and Control Board
PROCUREMENT SERVICES DIVISION

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R. VOIGHT SHEALY
MATERIALS MANAGEMENT OFFICER

April 23, 2002

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

Dear Delbert:

I have attached the Clemson 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 College a three-year certification as noted in the audit report.

Sincerely,

A handwritten signature in cursive script, appearing to read 'R. Voight Shealy'.

R. Voight Shealy
Materials Management Officer

/jl

CLEMSON UNIVERSITY
PROCUREMENT AUDIT REPORT
JANUARY 1, 1999 - DECEMBER 31, 2001

TABLE OF CONTENTS

	PAGE
Transmittal letter	1
Introduction	3
Scope	5
Results of Examination	6
Certification Recommendations	10
Follow-up Letter	11

NOTE: The University's response 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

February 14, 2002

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

Dear Voight:

We have examined the procurement policies and procedures of Clemson University for the period January 1, 1999 through December 31, 2001. 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 Department'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 Clemson 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 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 Clemson University 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 Clemson University. Our review was conducted December 17, 2001 through January 25, 2002 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.

Section 11-35-1210 of the South Carolina Consolidated Procurement Code states:

The (Budget and Control) Board may assign differential dollar limits below which individual governmental bodies may make direct procurements not under term contracts. The Office of General Services shall review the respective governmental body's internal procurement operation, shall verify in writing that it is consistent with the provisions of this code and the ensuing regulations, and recommend to the Board those dollar limits for the respective governmental body's procurement not under term contract.

On May 11, 1999, the Budget and Control Board granted Clemson University the following procurement certifications.

<u>PROCUREMENT AREAS</u>	<u>RECOMMENDED CERTIFICATION LIMITS</u>
Goods and Services	\$ 200,000 per commitment
Information Technology	\$ 200,000 per commitment
Consultant Services	\$ 200,000 per commitment
Revenue Generating Management Services	\$10,000,000 per commitment
Construction Contract Award	\$ 500,000 per commitment
Construction Contract Change Order	\$ 100,000 per change order
Architect/Engineer Contract Amendment	\$ 50,000 per amendment

Our audit was performed primarily to determine if re-certification is warranted. Additionally, the University requested the following certification increases.

PROCUREMENT AREAS

RECOMMENDED CERTIFICATION LIMITS

Goods and Services	\$ 225,000 per commitment
Information Technology	\$ 225,000 per commitment
Consultant Services	\$ 225,000 per commitment
Revenue Generating Management Services	\$10,000,000 per commitment
Construction Contract Award	\$ 500,000 per commitment
Construction Contract Change Order	\$ 500,000 per change order
Architect/Engineer Contract Amendment	\$ 50,000 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 Clemson 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, 1999 through December 31, 2001, 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, 1999 through September 30, 2001
- (2) Procurement transactions for the period July 1, 1999 through December 31, 2001 as follows:
 - a) Sixty-seven payments each exceeding \$1,500
 - b) A block sample of three hundred forty purchase orders reviewed for order splitting and use of favored vendors
 - c) Additional sample of five formal bids
 - d) Five formal revenue generating bids
 - e) All procurement card transactions for the month of October 2001
- (3) Nine construction contracts and eight professional service contracts for compliance with the Manual for Planning and Execution of State Permanent Improvements
- (4) Minority Business Enterprise Plans and reports
- (5) Information Technology Plan
- (6) Internal procurement procedures manual
- (7) Surplus property procedures
- (8) Blanket purchase agreements
- (9) File documentation and evidence of competition

RESULTS OF EXAMINATION

I. Purchasing Card Transactions

A. Purchasing Card Transactions Artificially Divided

The following transactions were artificially divided to circumvent the \$1,500 per purchase limit on the card.

<u>Posting Date</u>	<u>Description</u>	<u>Amount</u>
10/23/01	Computer	\$1,393
10/23/01	Computer	<u>1,481</u>
	Total Purchase	<u>\$2,874</u>
10/9/01	Training class	\$ 995
10/9/01	Training class	<u>795</u>
	Total Purchase	<u>\$1,790</u>
10/23/01	Scientific supplies	\$ 552
10/23/01	Scientific supplies	<u>1,000</u>
	Total Purchase	<u>\$1,552</u>
10/17/01	Electronic module	\$1,175
10/17/01	Electronic module	1,175
10/17/01	Electronic module	1,175
10/17/01	Electronic module	<u>1,175</u>
	Total Purchase	<u>\$ 4,700</u>

These procurements came from different individuals in different departments. Since the procurements exceeded the purchase limit of \$1,500 established for the card, each procurement was unauthorized as defined in Regulation 19-445.2015. On the last item for the electronic module, a credit was issued on the purchasing card the subsequent month and a purchase order issued. However, since the module was received before the procurement was authorized, the transaction was still considered unauthorized.

We recommend the departments comply with the approved policies and guidelines of the purchasing card program. We also recommend more oversight be placed on purchasing card transactions. Ratification for these unauthorized procurements must be requested per Regulation 19-445.2015 from the University President or his designee as these procurements were within the University's procurement authority.

UNIVERSITY RESPONSE

The activity in the monitoring process of the procurement card has been increased. As a result, the card holders in the different budget centers placed increased demands on the users, thus correcting these problems. Increase training to these users has provided clarification on areas that may have been confusing and this has lead to a better managed procurement card system. The card activities mentioned in the audit have been corrected through the unauthorized procurement ratification procedure.

B. Inappropriate Purchasing Card Transaction

A department made a number of small, repetitive purchases throughout the month of October 2001 for miscellaneous building supplies and materials totaling \$4,215. Since the purchasing card is limited to \$1,500 per transaction, the department had the vendor divide the month's charges into 3 groups, each less than \$1,500, so payment could be processed on the purchasing card. The University has a procurement procedure in place through blanket purchase agreements to accommodate these type purchases.

We recommend the department either adhere to policies and guidelines of the purchasing card program or use a blanket purchase agreement established through a purchase order.

UNIVERSITY RESPONSE

This will be addressed in future training sessions with departments.

II. Sole Source Procurements

A. Unauthorized Sole Source Procurements

The applicable page of the justifications authorizing three sole source procurements was not provided.

<u>PO</u>	<u>Description</u>	<u>Amount</u>
772	OEM maintenance contract	\$9,315
4002	OEM maintenance contract	4,199
5873	Community assessment program	150,000

Without the completed justifications, we could not determine if the sole source procurements were authorized thus resulting in each sole source procurement being unauthorized.

We recommend the justifications for sole source procurements be completed in their entirety and the files documented to support the procurements. A ratification request for the unauthorized

sole source procurements must be requested per Regulation 19-445.2015 from the President or his designee.

UNIVERSITY RESPONSE

This occurred during a transition period and the missing quarter was lost or misplaced. Every effort will be made in the future to provide adequate security for this information.

B. Exempt Procurements Unnecessarily Reported As Sole Source Procurements

Seven exempt procurements were unnecessarily reported as sole sources.

<u>PO</u>	<u>Description</u>	<u>Amount</u>
612	Software license renewal	\$742,323
1459	Instructional software	45,368
2273	Software license renewal	75,517
3782	Software license renewal	7,950
4972	Software maintenance	201,366
5118	Software maintenance	3,405
6873	Software maintenance	9,639

We recommend that exempt items not be reported. Amended reports should be filed removing these transactions.

UNIVERSITY RESPONSE

Purchase orders 5118 and 6873 were renewals and should not have been reported. Closer review of these type procurements will be done in the future.

III. Reporting Issues

An amended report for eight sole source procurements totaling \$205,092 and one emergency procurement for \$3,863 for the quarter ending June 30, 2000 was not submitted to the Materials Management Office. We also learned that change orders on sole source and emergency procurements are not being reported. The problem is related to the software application, as the change orders are not being identified for reporting.

We recommend the University implement procedures to include the reporting of change orders to sole source and emergency procurements.

UNIVERSITY RESPONSE

Procedure have been implemented to identify the applicable change orders.

IV. Other Audit Exceptions

A. Federal Standard Forms Not Maintained

The University failed to maintain Federal Standard Forms 254 (Architect-Engineer and Related Services Questionnaire) and 255 (Architect-Engineer and Related Services Questionnaire for Specific Project) that resulted in the awarding of five contracts. Section 11-35-3220 (3) of the Code requires submission of these documents in response to an invitation for such professional services. Additionally, Section 4.2(D)(7) of the Manual for Planning and Execution of State Improvements prepared by the Office of the State Engineer requires that the forms of the awarded firm be maintained as part of the procurement file.

We recommend the University maintain these documents.

UNIVERSITY RESPONSE

The documents mentioned were discarded in error. The University will maintain these documents in the future.

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 Clemson University 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 Clemson University 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	*\$ 225,000 per commitment
Information Technology	*\$ 225,000 per commitment
Consultant Services	*\$ 225,000 per commitment
Revenue Generating Management Services	*\$10,000,000 per commitment
Construction Contract Award	\$ 500,000 per commitment
Construction Contract Change Order	\$ 500,000 per change order
Architect/Engineer Contract Amendment	\$ 50,000 per amendment

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



Robert J Aycock, IV
Audit Manager



Larry G. Sorrell, Manager
Audit and Certification

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R. VOIGHT SHEALY
MATERIALS MANAGEMENT OFFICER

April 23, 2002

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 Clemson University to our audit report for the period of January 1, 1999 – December 31, 2001. Also we have followed the University's corrective action during and subsequent to our fieldwork. We are satisfied that the University 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 Clemson University the certification limits noted in our report for a period of three years.

Sincerely,

A handwritten signature in cursive script that reads "Larry G. Sorrell".

Larry G. Sorrell, Manager
Audit and Certification

LGS/jl

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