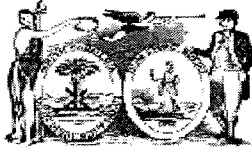


STATE OF SOUTH CAROLINA  
*State Budget and Control Board*  
PROCUREMENT SERVICES DIVISION

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GRADY L. PATTERSON, JR.  
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DELBERT H. SINGLETON, JR.  
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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

June 25, 2002

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

Dear Delbert:

I have attached the University of South Carolina'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 "Voight Shealy".

R. Voight Shealy  
Materials Management Officer

/jl

**UNIVERSITY OF SOUTH CAROLINA  
PROCUREMENT AUDIT REPORT**

**JULY 1, 1999 - DECEMBER 31, 2001**

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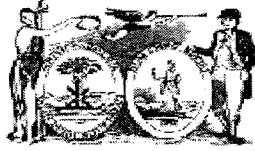
NOTE: The University’s responses to issues noted in this report have been inserted immediately following the items they refer to.

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R. VOIGHT SHEALY  
MATERIALS MANAGEMENT OFFICER

April 18, 2002

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 July 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 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 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, 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 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 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 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 on-site review was conducted March 4-29, 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 November 9, 1999, 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	\$ 200,000 per commitment
Consultants	\$ 200,000 per commitment
Information Technology	\$ 200,000 per commitment
Construction Contract Award	\$ 500,000 per commitment
Construction Contract Change Order	\$ 250,000 per change order
Architect/Engineer Contract Amendment	\$ 100,000 per amendment
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	\$ 225,000 per commitment
Consultants	\$ 225,000 per commitment
Information Technology	\$ 225,000 per commitment
Construction Contract Award	\$ 500,000 per commitment
Construction Contract Change Order	\$ 500,000 per change order
Architect/Engineer Contract Amendment	\$ 100,000 per amendment
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, hereinafter referred to as the University or USC, 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. 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 July 1, 1999 through December 31, 2001
- (2) Procurement transactions for July 1, 1999 through December 31, 2001 as follows:
  - a) One hundred thirty payments each exceeding \$1,500
  - b) Satellite office procurement transactions from USC-Aiken (17) and USC-Spartanburg (15)
  - c) Five hundred sequentially numbered purchase orders from FY 2000 reviewed against order splitting and favored vendors
  - d) Procurement card purchases for the months June and July of 2001
  - e) An additional sample of 14 sealed bids and 15 informal solicitations
  - f) Three-hundred sixty maintenance work orders
  - g) Six revenue generating contracts
  - h) Forty-nine blanket purchase order files
- (3) Twelve construction contracts and five 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 plans
- (6) Internal procurement procedures manual
- (7) Surplus property disposal procedures
- (8) File documentation and evidence of competition



## **RESULTS OF EXAMINATION**

### **Reporting Issues**

The quarterly reports of sole source, emergency, and trade-in sales submitted to the Materials Management Office contained numerous errors. We noted duplicate reporting, change orders not reported, trade-in amounts included in sole source totals, trade-in sales not reported, and several instances of the amounts reported not agreeing with the amounts on the purchase orders. Due to these errors, the University is not accurately reporting sole source, emergency, and trade-In sale activity.

Additionally, the University has been submitting the minority business progress reports late. The reports are required to be submitted to the Small and Minority Business Assistance Office not later than ten days after the end of each fiscal quarter.

We recommend the University review its operating procedures to identify the deficiencies and take the appropriate corrective action. We also recommend the University review each of the quarterly reports for the audit period and submit amended reports.

### **UNIVERSITY RESPONSE**

The Purchasing Department has experienced loss of personnel associated with these functions. The Department is in the process of reorganizing internally to better accommodate report preparation. We have reviewed our operating procedures and have identified ways to assist in insuring more timely submission of these reports.

### **Inappropriate Award**

Purchase order 95247 was issued for \$10,973. A quote was submitted on the vendor's form that stated "Vendor's terms and conditions of sale apply and are available upon request." Regulation 19-445.2070 (D) states in part, "Ordinarily a bid should be rejected when the bidder attempts to impose conditions which would modify requirements of the invitation for bids or limit his liability to the State, since to allow the bidder to impose such conditions would be prejudicial to other bidders. The lowest responsive and responsible bidder may be requested to delete objectionable conditions from his bid provided that these conditions do not go to the substance." However, we could not find where the vendor was asked to delete the terms and conditions. The low quote should have been rejected and the next low quote awarded.

We recommend the University comply with Regulations 19-445.2070 (D).

### **UNIVERSITY RESPONSE**

Quotes were received from two different sales persons at the company. One was received on the University's quote form and the other was on the corporate letterhead. As this was not a formal bid, it was determined that it was not inappropriate to make the award for the lowest quoted price. The purchase order was issued which referenced the University's quote number and contained additional language which protected the University's rights in the event of any conflict.

#### **Direct Expenditure Vouchers**

The University paid for charter buses, tee shirts and a honorarium on vouchers 126383, 42086, and 909653. These items were processed and paid by Direct Expenditure Vouchers (DEVs). However, the University's DEV policy does not list these type items as allowable for DEV payment.

We recommend the University comply with the policy for DEV transactions or revise it to include these items.

### **UNIVERSITY RESPONSE**

The procedures manual has been adjusted to reflect this change.

#### **Modifications to Solicitation Packages**

We noted the following items in the solicitation packages that need to be modified.

- (A) Separate lines for "South Carolina End Product" and "United States End Product" for the bidders to note preferences after each item or lot needs to be added.
- (B) The requirements for "Bidder's Right to Protest" should be explicitly stated in the solicitation rather than referenced under General Contract Clauses.

### **UNIVERSITY RESPONSE**

These changes have been implemented and communicated to the staff of the Purchasing Department.

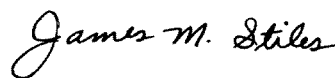
## CERTIFICATION RECOMMENDATIONS

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 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 following levels.

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

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



James M. Stiles, CPPB  
Audit Manager



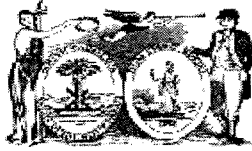
Larry G. Sorrell, Manager  
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R. VOIGHT SHEALY  
MATERIALS MANAGEMENT OFFICER

June 25, 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 University of South Carolina to our audit report for the period of July 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 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 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

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