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FRANK W. FUSCO
EXECUTIVE DIRECTOR

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 15, 2003

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

Dear Delbert:

I have attached the Medical 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 Medical University 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

MEDICAL UNIVERSITY OF SOUTH CAROLINA

PROCUREMENT AUDIT REPORT

JANUARY 1, 2000 - JANUARY 31, 2003

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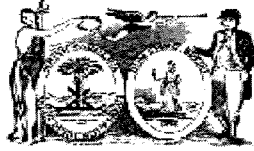
NOTE: The University's responses to issues noted in this report have been inserted immediately following the items they refer to.

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R. VOIGHT SHEALY
MATERIALS MANAGEMENT OFFICER

June 27, 2003

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 Medical University of South Carolina for the period January 1, 2000 through January 31, 2003. 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 Medical 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 Medical University of South Carolina in compliance with the Consolidated Procurement Code and ensuing regulations.

Sincerely,

A handwritten signature in dark ink, appearing to read "Larry G. Sorrell", written in a cursive style.

Larry G. Sorrell, 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 on-site review was conducted May 12 through May 16, 2003 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.

On August 10, 2000, the Budget and Control Board granted the Medical University of South Carolina, hereinafter referred to as the University, the following procurement certifications.

<u>PROCUREMENT AREAS</u>	<u>CERTIFICATION LIMITS</u>
Goods and Services	\$ 100,000 per commitment
Consultant Services	\$ 25,000 per commitment
Information Technology	\$ 100,000 per commitment
Construction Contract Award	\$ 100,000 per commitment
Construction Contract Change Order	\$ 50,000 per change order
Architect/Engineer Contract Amendment	\$ 15,000 per amendment

Our audit was performed primarily to determine if recertification is warranted. The University requested to be re-certified at the current limits.

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 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, 2000 through January 31, 2003 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 January 1, 2000 through December 31, 2002
- (2) Procurement transactions for July 1, 2000 through January 31, 2003 as follows:
 - a) Eighty procurements each exceeding \$1,500
 - b) Five additional sealed bids
 - c) Five hundred twenty-two purchase orders filed by vendor reviewed for order splitting and favored vendors
 - d) All procurement card transactions for September 2002
- (3) Five construction contracts and two professional service contracts for compliance with the Manual for Planning and Execution of State Permanent Improvements
- (4) One hundred forty five procurements managed by the Physical Plant
- (5) Minority Business Enterprise Plans and reports
- (6) Information technology plans for the audit period
- (7) Internal procurement procedures manual
- (8) Surplus property disposal procedures
- (9) File documentation and evidence of competition

SUMMARY OF AUDIT FINDINGS

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RESULTS OF EXAMINATION

I. Procurement Card Purchases

A. Splitting of Orders

We reviewed the procurement card payments for September 2002. Our review revealed the University is not complying with its internal operating procedures for the procurement card. One non-compliance area is splitting of orders to avoid exceeding the \$1,500 transaction limit thus rendering the procurements unauthorized. Our review identified a substantial number of artificially divided transactions. Because the non-compliance is widespread, we believe the cardholders need further training.

We recommend the University review its procurement card procedures and take appropriate action to eliminate splitting of orders and notify our office of the procedural changes. Further training should be implemented. Our Office will perform a follow-up review of procurement card transactions no later than January 31, 2004.

UNIVERSITY RESPONSE

We agree that the splitting of orders to avoid exceeding the \$1,500 transaction limit is not an acceptable practice. We will re-train our end users and enforce the \$1,500 transaction limit for transactions that have not been subject to competitive bidding. However, in cases where a term contract has been established by the state or the agency, we will re-educate our cardholders and allow them to make multiple transactions against the term contracts as long as no equipment is purchased and no single transaction exceeds \$1,500.

B. Contract for Elevator Maintenance

The University routinely procures elevator maintenance on a monthly basis using the procurement card without competition or without considering the potential value of services. A total of 32 transactions amounting to \$10,817 were processed for September of 2002. The value of 30 of the 32 transactions was less than \$500 each with the remaining 2 transactions at \$745 and \$1,257. Considering the frequency of use and the total potential value of services, a term contract should be considered.

We recommend the University review its elevator maintenance transactions, determine the total value of the need, and solicit competition for a term contract based on the total value.

UNIVERSITY RESPONSE

We concur with this recommendation. The transactions in question actually occurred while a new contract was being bid and negotiated. A five-year contract is now in place and being utilized for these types of purchases.

II. Sole Source, Emergency, and Trade-in Activity

A. Inappropriate Sole Source Procurements

The following sole source procurements did not meet the criteria of a sole source as defined in Section 11-35-1560 and Regulation 19-445.2105.

<u>Document</u>	<u>Amount</u>	<u>Description</u>
PO 611273	\$ 25,000	Consulting services
PO 830631	11,000	Consulting services
PO 830632	24,996	Consulting services
RQ 3901	24,996	Consulting services
RQ 56013	12,000	Consulting services
PO 611069	104,000	Consulting services
PO 611069W	104,000	Consulting services
PO 622640	3,354	Termite service and repair
PO 622348	2,022	Termite treatment
PO 622348A	2,022	Termite treatment
PO 606564	70,000	Dissolve trust fund
PO 611029	12,665	Minor repairs
FA 579382	6,900	Bio safety cabinet

We recommend the University solicit competition for these types of items.

UNIVERSITY RESPONSE

We concur with the recommendation that the University solicit competition for these types of items. We will review our procedures and comply.

B. Reporting of Sole Source, Emergency and Trade-in Activity

The reporting errors on the quarterly reports were extensive. Because the reporting errors were so extensive, we had no confidence in the amounts reported. The reporting errors were as follows.

- Change orders not reported for sole source and emergency procurements
- Freight and transportation charges not reported for sole source and emergency procurements
- Sole source and emergency procurements not reported
- Total value over reported of sole source and emergency procurements
- Total value underreported of sole source and emergency procurements

Duplicate reporting of sole source procurements
Cancelled sole source procurements reported
Historical cost not reported for trade-in sales
Trade-in value not reported

We recommend the University review its operating procedures to identify the deficiencies and notify our office of the appropriate corrective action. Additionally, we will perform interim reviews of several quarterly reports to monitor the effectiveness of the corrective action.

UNIVERSITY RESPONSE

We concur with the findings and will perform a review of our systems and policies to ensure that these types of transactions are properly reported. This will also consist of the re-training of our buyers. In addition, management will review all printed purchase orders for a period of time to monitor compliance.

III. Physical Plant Procurements

A. Procurements Without Competition

The following procurements were not supported by solicitations of competition, sole source or emergency determinations, term contract references, or classified as exempt items.

<u>Req</u>	<u>Amount</u>	<u>Description</u>
PP 22804	\$ 42,290	Diesel tank cleaning
PP 11725	7,250	Air compressor & vacuum pump

We recommend the University comply with the competition requirements of the Code.

UNIVERSITY RESPONSE

We concur with the recommendation that the University comply with the competition requirement of the Code and will comply. This will be accomplished through re-training of our staff.

B. Sole Source Procurements

The sample of procurements in the Physical Plant included 16 sole source procurements. Of the total, the following 5 sole source procurements were not processed internally and reported on the quarterly reports.

<u>Req</u>	<u>Amount</u>	<u>Description</u>
N/A	\$ 10,919	Comp/vac pumps
622233	16,117	Disk relays & switch
622280	14,623	Circuit repair
622306	8,496	Breaker repair
622426	20,950	Exercise equipment

We recommend the University review its procedures to determine why sole source transactions from the Physical Plant were not processed internally as sole source procurements.

UNIVERSITY RESPONSE

We concur with the recommendation that the University review its procedures to ensure that these types of items will be properly reported in the future. We will modify our systems to ensure these items are correctly reported.

IV. Unauthorized Procurements

Two procurements were made by persons who did not have procurement authority causing each to be unauthorized.

<u>PO</u>	<u>Date</u>	<u>Amount</u>	<u>Description</u>
609080	10/16/02	\$ 2,800	Training class
606921	10/04/02	3,230	Transportation of lab mice

Regulation 19-445.2015 defines an unauthorized procurement as “an act obligating the State in a contract by any person without the requisite authority to do so by appointment or delegation.” Since the person obligating the funds did not have the authority to do so, the procurements are unauthorized.

We recommend the University implement adequate internal controls to eliminate unauthorized procurements. The University must request ratification for each unauthorized procurement from the President or his designee, in accordance with Regulation 19-445.2015.

UNIVERSITY RESPONSE

We concur with the recommendation that authorized personnel process all procurements. We will pursue ratification of these purchases from the President or his designee.

V. Exemptions Misapplied

The University misapplied an exemption approved by the Office of General Services. The State Budget and Control Board granted the following exemption on March 22, 1994.

In accordance with Code Section 11-35-710, exempted procurements made by a requesting agency for the purpose of grant-specified and approved major equipment, subcontracts, and consultants the agency determines to be essential to the successful completion of the grant-funded project if those procurements are made in accordance with procedures approved by the Office of General Services on an agency-by-agency basis.

The Office of General Services approved procedures for the University on July 18, 1994. The University made three procurements as exempt procurements; however, the exemption did not apply because the specific vendors were not identified in the grant application. The procurements were made on purchase orders 599258, 816902, and 608928.

Three procurements were deemed exempt as items for commercial resale. They occurred on PO 599277, PO 595049 and BF034019. We failed to see how these procurements fit into this exemption.

We recommend the University comply with the grant-specified procedures approved by the Office of General Services and other exemptions to the Code.

UNIVERSITY RESPONSE

We concur with the recommendation that the University needs to comply with the grant-specified procedures and other exemptions to the Code. Our staff will be re-trained with emphasis on this subject.

VI. Missing Documents

The University did not provide nor could we locate the supporting documentation on 6 procurements for the audit period and 31 procurement card transactions for September of 2002. The documentation included solicitation files for compliance with the competitive requirements of the Code and regulations, purchase orders, invoices, receiving documents, and approval to executive transactions. Without the documentation, we could not determine compliance to the Code, regulations, and internal operating procedures.

We recommend the University review its file documentation procedures and take the appropriate corrective action.

UNIVERSITY RESPONSE

We concur with the recommendation that we review our file documentation procedures to ensure that documents are not misplaced. That process will begin immediately.

VII. Overpayments

We noted the overpayment of freight charges on three procurements and sales tax on one procurement

<u>Item</u>	<u>PO</u>	<u>Date</u>	<u>Overpayment</u>
1	PO 567398	10/03/00	353.03
2	PO 567557	01/10/02	61.67
3	FA 612493	10/20/01	57.67

For items 1 and 2, the vendors quoted FOB destination, which should have included all freight charges. The sales tax paid on item 3 was calculated at 8.25% rather than 6%.

We recommend invoices be reconciled to the purchase orders to avoid overpayments.

UNIVERSITY RESPONSE

We concur with the audit recommendation that invoices be reconciled to the purchase orders to avoid overpayments. We are taking steps to insure such a practice is implemented.

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 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 re-certified to make direct agency procurements for three years up to the following levels.

PROCUREMENT AREAS

Goods and Services

Consultant Services

Information Technology

Construction Contract Award

Construction Contract Change Order

Architect/Engineer Contract Amendment

CERTIFICATION LIMITS

\$ 100,000 per annual commitment

\$ 25,000 per annual commitment

\$ 100,000 per annual commitment

\$ 100,000 per commitment

\$ 50,000 per change order

\$ 15,000 per amendment



Robert J. Aycock, IV
Audit Manager



Larry G. Sorrell, Manager
Audit and Certification

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R. VOIGHT SHEALY
MATERIALS MANAGEMENT OFFICER

July 15, 2003

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 Medical University of South Carolina to our audit report for the period of January 1, 2000 – January 31, 2003. Also we have followed the University's corrective action during and subsequent to our fieldwork. We are satisfied that the Medical 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 Medical University of South Carolina the certification limits noted in our report for a period of three years.

Sincerely,

A handwritten signature in cursive script, appearing to read "Larry G. Sorrell".

Larry G. Sorrell, Manager
Audit and Certification

LGS/jl

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