![SFAA State Fiscal Accountability Authority]

Clemson University

INDEPENDENT PROCUREMENT AUDIT REPORT

for the Audit Period:
January 1, 2020 to December 31, 2022

Office of Audit & Certification
Division of Procurement Services
May 8, 2024

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ABBREVIATIONS

AI   – Artificial Intelligence
BOA   – Bank of America
Cardholder – Purchasing Card Holder
Code   – SC Consolidated Procurement Code and ensuing Regulations
CPO   – Chief Procurement Officer
DPS   – Division of Procurement Services
GL   – General Ledger
PI Manual – Manual for Planning and Execution of State Permanent Improvements
MCC   – Merchant Category Codes
MBE   – Minority Owned Business Enterprise
MMO   – Materials Management Office
OCG   – Office of the Comptroller General
OSE   – Office of State Engineer
PCA   – Purchasing Card Administrator
P-Card   – Purchasing Card
PO   – Purchase Order
SAP   – Systems, Applications & Products in Data Processing
SFAA   – State Fiscal Accountability Authority
SFTP   – Secure File Transfer Protocol
SMBCC   – Small and Minority Business Contracting and Certification
SPO   – Surplus Property Office
State P-Card Policy – SC Purchasing Card Policy and Procedures
STL   – Single Transaction Limit
Works   – Payment Management System by BOA

INTRODUCTION

DPS audited Clemson University's (the University) internal procurement operating policies and procedures, as outlined in their internal Procurement Operating Procedures Manual, under § 11-35-1230 of the Code and Regulation 19-445.2020.

The primary objective of our audit was to determine whether, in all material respects, the internal controls of the University's procurement system were adequate to ensure compliance with the Code.

The management of the University is responsible for the University's compliance with the Code. Those responsibilities include the following:

- Identifying the University's procurement activities and understanding and complying with the Code.
- Establishing and maintaining an effective organization structure and system of internal control over procurement activities that provide reasonable assurance that the University administers its procurement programs in compliance with the Code.
- Establishing clear lines of authority and responsibility for making and approving procurements.
- Documenting the University's system of internal control over its procurement activities in an internal procurement procedure manual.
- Taking corrective action when instances of noncompliance are identified, including corrective action for the findings of this audit.

Because of inherent limitations in any system of internal controls, errors or irregularities may occur and not be detected. 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 review and evaluation of the system of internal control over procurement transactions, as well as our overall audit of procurement policies and procedures, was conducted with professional care. However, because of the nature of audit testing, they would not necessarily disclose all weaknesses in the system.

INTRODUCTION

Our audit was also performed to determine if recertification under SC Code Ann. § 11-35-1210 is warranted.

On October 23, 2018, SFAA granted the University the following procurement certifications:

PROCUREMENT AREA	CURRENT CERTIFICATION $ LIMITS
Supplies and Services	3,000,000 per commitment*
Consultant Services	3,000,000 per commitment*
Information Technology	3,000,000 per commitment*
Revenue Generating Contracts	15,000,000 per commitment*
Construction Contract Award	4,000,000 per commitment*
Construction Contract Change Order	500,000 per change order
Architect/Engineer Contract Amendment	100,000 per amendment

During the audit the University requested the following increases in its certification limits.

PROCUREMENT AREA	REQUESTED CERTIFICATION $ LIMITS
Supplies and Services	5,000,000 per commitment*
Information Technology	5,000,000 per commitment*
Revenue Generating Contracts	20,000,000 per commitment*
Construction Contract Award	5,000,000 per commitment*
Construction Contract Change Order	500,000 per change order
Architect/Engineer Contract Amendment	100,000 per amendment

* Total potential purchase commitment whether for a single year or multi-term contract.

We conducted our audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. Our audit included testing, on a sample basis, evidence about the University's compliance with the Code for the period January 1, 2020 through December 31, 2022, the audit period, and performing other procedures that we considered necessary in the circumstances. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

Total Expenditures

During the audit period, the University made expenditures as follows:

	$ Amount (000s)				
	Q3, 4 FY2020	FY2021	FY2022	Q1 FY2023	Total
POs[1]	148,436	209,643	283,479	207,447	849,005
Direct Pay[2]	22,871	30,451	53,970	33,053	140,345
Total Spend	**171,307**	**240,094**	**337,449**	**240,500**	**989,350**

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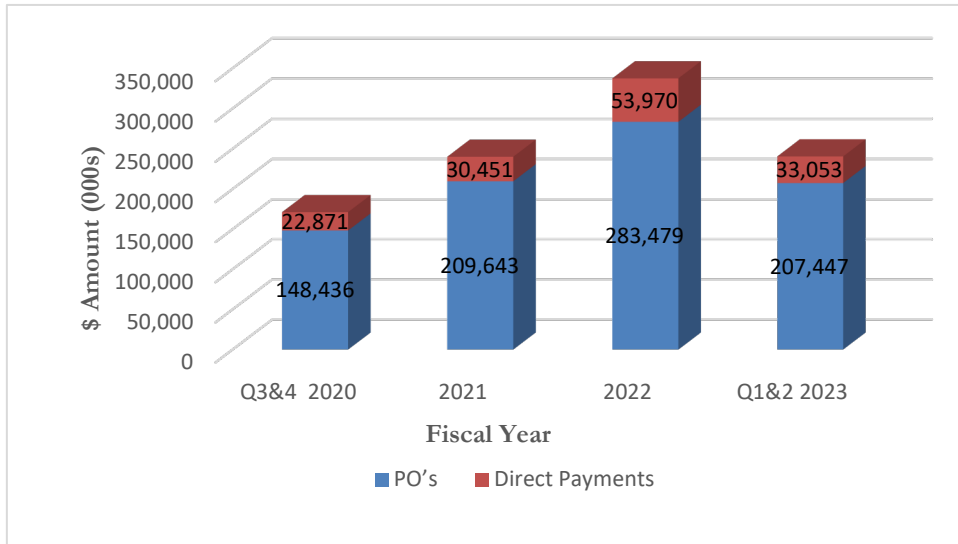
[1] **PO**s represents all expenditures made with a Purchase Order. These are required for most contract purchases by the terms of the contract and is the preferred procurement instrument when a government unit orders or procures supplies or services from a vendor.

[2] **Direct Pays** are made without purchase order based on the State PO Policy. These may occur with purchases of supplies or services that are exempt from the Code or for such things as payment for P-Card purchases or purchases less than $2,500.

SUMMARY OF RESULTS

Note: The University's responses to issues raised in this report have been inserted immediately following the recommendations in the body of the report.

RESULTS OF AUDIT

I. Supplies, Services, and IT

We audited expenditures exceeding $10,000 made with POs, and expenditures made without a PO to determine compliance with the Code and did not identify any compliance issues.

II. Sole Source Procurements

Written determinations for all sole source procurements pursuant to SC Code Ann. § 11-35-1560, were evaluated to assess the appropriateness of the procurement actions and the accuracy of the quarterly reports required by § 11-35-2440. During the audit period the University reported 845 sole source procurements totaling approximately $56M to DPS.

Sole Source Procurements Lacked Public Notice

The University did not provide public notice of intent to award without competition for 15 sole source procurements totaling approximately $1.8M in SCBO as required by § 11-35-1560.

Recommendation: We recommend the University develop and implement procedures, including management review and approval, to ensure that all sole source procurements greater than $50k are advertised as required.

University Response

Clemson agrees with the findings and recommendations. The majority of procurements that were identified as not being advertised were done during times when we were simply extremely short staffed due to COVID and other personnel challenges – our team was down to 2 of 6 buyers. However, we recognize that is not an excuse and have already taken steps to ensure we have procedures and processes in place to ensure all sole source procurements are properly advertised in SCBO.

The following measures have already been implemented:

1. **Documentation Requirement:** All buyers are now required to make detailed notes on requisitions indicating the date the advertisement was sent for public notice and the date the purchase order can be moved forward.

2. **Attachment of Advertisement PDF:** Additionally, buyers are now required to download a PDF copy of the advertisement and attach it as supporting documentation to the requisition.

3. **This requirement has been incorporated in our buyer checklist:** As part of our ongoing process improvement efforts, we have implemented a checklist for buyers to use on any type of procurement they are processing. This checklist includes specific items that must be done dependent on each procurement – i.e., market research, advertisement, cost/price analysis, etc.… This checklist is now being used by all our buyers on each

procurement/solicitation they conduct, and we believe will further ensure we properly advertise any sole source procurement as required.

These corrective actions have already been implemented and are currently in place and being followed.

III. Emergency Procurements

Written determinations for all emergency procurements made pursuant to SC Code Ann. § 11-35-1570 were evaluated to assess the appropriateness of the procurement actions and the accuracy of the quarterly reports required by § 11-35-2440. During the audit period the University reported 37 emergency procurements totaling approximately $16M to DPS.

Our review of emergency procurements for the audit period did not identify any compliance issues.

IV. Construction

We tested construction, and architectural/engineer and related professional service contracts for compliance with the Code and the PI Manual and did not identify any compliance issues.

V. P-Cards

The University had 2,024 P-Cards in use during the audit period and spent approximately $84M in 278,131 transactions. Based on the volume of usage, there is increased risk that misuse, or abuse of P-Cards may not be prevented or detected without adequate management oversight.

Program Administration

We reviewed the University's P-Card Policy and Procedures for compliance with the State P-Card Policy and identified weaknesses in program oversight.

A. Inadequate P-Card Manual

We reviewed the University's internal P-Card Procedure Manual for compliance with State P-Card Policy and identified areas of non-compliance.

The following key areas were omitted from the University's manual:

1) Liaison roles not properly defined. The University's P-Card Manual states that liaisons do not have to review for policy compliance.

2) A description of the roles and responsibilities of the central processor.

3) A description of the roles and responsibilities of the supervisor/approving officials.

4) A description of the process to periodically assess accounts for inactivity and promptly close accounts which are no longer needed after one year.

5) Definition of roles and responsibilities during the transition to AI.

6) A procedure for approving use of blocked MCCs via a form in Concur.

7) A prohibition on the use of split purchases.

Recommendation: We recommend the University revise its internal P-Card Manual to document internal control procedures to ensure compliance with key requirements in the State P-Card Policy. Procurement Services' website has a P-Card Manual Checklist that may be of assistance in revising the manual.

University Response

Clemson agrees with the findings noted and will be updating our P-Card Manual/Procedures to address each of the seven points items. We believe all these points are the result of our implementation to Concur and failure to fully align these items to the State P-Card Policy. The following is how we plan to address each item:

1) Liaison roles – we will create a high-level checklist to identify what liaisons should be checking and will update training and the roles/responsibilities section of our manual to reflect this.

2) Central processor role – we will update and address this new role in Concur appropriately in our manual. This system role is currently being performed by our P-Card Administrator and this should be done by simply aligning terminology and roles.

3) Supervisor/Approving officials' role – we will review and update this role in our manual to ensure full alignment between the State Policy and Concur.

4) Inactive Card Termination – we will document formally in our manual our plans of evaluating cards that have been inactive for 24 months. We plan to stick to the 24-month time period as that reflects a better some of the unique usage of some of our card holders but will also continue to monitor to see if that needs to be adjusted in the future.

5) Role and responsibilities related to the AI functionality – this will be part of the updating of the checklist and roles/responsibilities for Liaisons noted above. We recognize that as the AI function "learns" what we will be asking Liaisons to review or not will evolve over time and having a clear checklist will help us easily update as we reach appropriate levels of comfort in the system being able to check certain areas/items.

6) Approving blocked MCCs – pre-Concur, this was simply a process that required emailing the Card Administrator. With Concur, there is a specific form/request that is required to be filled out that will route the request and save the record of the request/change. This process will be documented in our procedures.

7) Prohibition on split purchases – this was left out of our updated manual/procedures as an oversight and will be added back into the procedures.

These items will all be updated in the manual NLT June 30, 2024.

B. Inactive P-Cards Not Cancelled

The University had 25 P-Cards that had not been used in over two years, five of which had never been used. The University's P-Card Policy requires that inactive accounts be closed after two years. The University reviews P-Cards every two years for inactivity, however, these reviews were not documented. State P-Card Policy Section III (A)(1)(a)(xi) requires that cardholder accounts be monitored for inactivity and promptly closed.

Recommendation: We recommend the University perform a documented review for inactive P-Cards annually and promptly close all inactive accounts or document the reason(s) for keeping them open. We further recommend the University update its internal P-Card Manual to include the annual review requirement.

University Response

Clemson agrees with this finding, and we have already closed cards that have not been used in two years. We will also update our procedures to reflect that this will be an annual review to close inactive accounts.

This item will be updated in the manual NLT June 30, 2024.

C. Split Purchases

University cardholders split five purchases totaling approximately $16k which resulted in the $2,500 STL set by the University being exceeded. Part IV(C) of the State P-Card Policy prohibits splitting transactions and further provides that doing so may result in removal of P-Card privileges.

Recommendation: We recommend the University comply with State P-Card Policy Section IV (C), as well as its internal policy, which prohibit split purchases. We further recommend that cardholders receive additional training, and that documented liaisons reviews include checking for split purchases.

University Response

Clemson agrees with the finding and will be updating our procedure to clearly prohibit split purchases. This was another oversight as we updated our procedures for Concur. We will include this as part of the Liaison training/checklist as well as ensure it is part of cardholder training. We do expect the AI function of Concur to help check for split purchases, but it may be some time before we are confident in how well it checks or catches such transactions.

These items will be completed NLT June 30, 2024.

D. Blocked MCCs

We sorted the transactions from Works and found 3,783 purchases totaling approximately $1.7M with blocked MCCs during the audit period. The University is a Group B Agency and MCC blocks do not apply to Group B Agencies unless imposed by the entities own P-Card Policy. Per The University's own internal P-Card Policy cardholders are required to receive prior authorization before using a blocked MCCs.

University procedure requires the cardholder to send a form (provided in Concur) to the PCA requesting temporary removal of the blocked MCC. The PCA can authorize the temporary unblocking of an MCCs on as needed basis. Upon receiving a request from a cardholder, the PCA will review the request and determine if the block can be removed for a particular purchase, ensuring that such a purchase will not be in violation of P-Card policies. After the transaction has been completed, the PCA will reinstate the block to prevent further charges.

We commend the University for implementing the use of blocked MCCs; however, nine of the ten transactions tested for proper approval to unblock the MCCs prior to purchase, did not have documented approval. Not following University policy for unblocking prohibited MCCs reduces the effectiveness of their use.

Recommendation: We recommend the University document the approvals for the use of blocked MCCs and revise its internal P-Card Policy to include this requirement.

University Response

Clemson agrees with the finding and will be updating our procedure to explain the new process in Concur. Currently the only way an MCC can be unblocked is utilizing a request form in Concur which routes the request to the P-Card Administrator for action and approval and then maintains a record of such request and approval.

This item will be updated in the procedures NLT June 30, 2024.

P-Card Transaction Testing

We performed tests of P-Card transactions to ensure compliance with State and University P-Card policies and procedures. Transaction testing identified areas of non-compliance, which were not identified by the PCAs or supervisor/approvers during the monthly review and reconciliation of cardholder statements.

P-Card Liaison Reviews Not Documented

The University did not document liaison reviews for any of the transactions tested as required by Part III (C) of the State P-Card Policy. The University's internal P-Card Policy states that "they (liaisons) do NOT have to review for policy compliance, as Concur (Artificial intelligence Software – see below) will perform this review, but if Concur notes an exception, the liaison should review those transactions". ".

State P-Card Policy III. C. 3. requires Liaisons to "perform documented monthly reviews of all transactions for assigned Cardholders to verify that there have been no non-allowable transactions." Internal P-Card Procedures, which require Liaisons to "certify that the purchase(s) meet budgetary/accounting requirements and any policy exceptions", are inconsistent with the objective of the liaison reviews required by the State P-Card Policy

Implementation of Artificial Intelligence to Enhance P-Card Oversight

With the goal of improving oversight of the P-Card program, the University implemented SAP Concur in October of 2022, three months before the end of the audit period. Concur is an expense management, travel, and invoice software that uses AI and machine learning to automate approval of low-risk transactions and identify suspicious activity requiring manual review.

Concur is designed, "as with any AI system, to learn based on an initial set of rules and then learning through reviewing actual transactions over time." The University initially identified keywords and items that they wanted the system to flag. According to the University, currently, "both the liaison and a central processor in our procurement office review all the expense reports and confirms the flags the system identifies are accurate."

We commend the University for its efforts to implement AI to aide in managing P-Card compliance. The implementation of Concur represents a significant initiative to streamline and improve oversight of the University's P-Card program.

Recommendation: We recommend that the University develop clear and effective procedures for liaison reviews, consistent with State P-Card Policy, and provide training. Accepted practice is to use a checklist to document and ensure an effective review of each transaction, and, in this case, could serve to minimize omission of review objectives between AI and manual reviews.

Alternatively, we recommend the University develop procedures to document how the AI software will function in lieu of manual reviews and clarify manual roles and responsibilities.

University Response

Clemson agrees with the finding and as part of our update to our procedures/manual, we will specifically address the checklist and requirements for the Liaison review. As noted above, the AI aspect does make this a little tricky. We plan to incorporate into the procedures language that will address the evolution of the AI solution over time – what it is checking for and the accuracy of those checks. At the appropriate time, when it is determined that AI is catching transactions and flagging them for review of certain items, we would plan to remove the 100% review of those specific items by a Liaison to maybe a sampling of transactions outside of those specifically flagged by the system. Ultimately, we want to utilize the system to help us work smarter and focus only on transactions that require review.

This item will be address in the procedures NLT June 30, 2024, although as explained this will be an item that is continually updated as the solution evolves.

VI. Unauthorized or Illegal Procurements

We tested Unauthorized or Illegal Procurements to determine compliance with the Code and Regulations.

All reported unauthorized or illegal procurements were properly resolved.

VII. Surplus Property

We tested asset disposals to determine compliance with the Code and State policies and procedures and did not identify any compliance issues.

VIII. Assistance to MBEs

We requested copies of the University's Annual MBE utilization plans and quarterly progress reports to assess compliance with the Code and did not identify any compliance issues.

CERTIFICATION RECOMMENDATION

We recommend that the University revise its P-Card procedures and submit an updated P-Card Manual to DPS for approval by the date provided in the University's response.

We believe corrective action based on the recommendations in this report will make the University's internal procurement operations consistent with the South Carolina Consolidated Procurement Code and ensuing regulations.

As provided in SC Code Ann. § 11-35-1210, we recommend The University's procurement authority to make direct agency payments be increased up to the following limits for three years.

PROCUREMENT AREA	RECOMMENDED CERTIFICATION $ LIMITS
Supplies and Services[1]	5,000,000 per commitment*
Information Technology[2]	5,000,000 per commitment*
Revenue Generating Contracts	20,000,000 per commitment*
Construction Contract Award	5,000,000 per commitment*
Construction Contract Change Order	500,000 per change order
Architect/Engineer Contract Amendment	100,000 per amendment

* Total potential purchase commitment whether for a single year or multi-term contract.

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[1] Supplies and Services including non-IT consulting services.
[2] Information Technology includes consulting services for any aspect of information technology, systems, and networks.