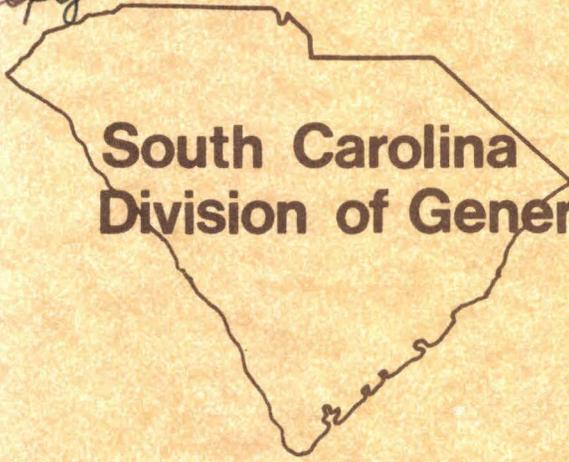


B85956  
2.054  
1990  
Copy 3



# PROCUREMENT AUDIT AND CERTIFICATION

S. C. STATE LIBRARY  
OCT 15 1990  
STATE DOCUMENTS

UNIVERSITY OF SOUTH CAROLINA  

---

AGENCY

MARCH 1, 1987 - DECEMBER 31, 1989  

---

DATE

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



CARROLL A. CAMPBELL, JR., CHAIRMAN  
GOVERNOR

GRADY L. PATTERSON, JR.  
STATE TREASURER

EARLE E. MORRIS, JR.  
COMPTROLLER GENERAL

RICHARD W. KELLY  
DIVISION DIRECTOR

MATERIALS MANAGEMENT OFFICE  
1201 MAIN STREET, SUITE 600  
COLUMBIA, SOUTH CAROLINA 29201  
(803) 737-0600

JAMES J. FORTH, JR.  
ASSISTANT DIVISION DIRECTOR

JAMES M. WADDELL, JR.  
CHAIRMAN, SENATE FINANCE COMMITTEE

WILLIAM D. BOAN  
CHAIRMAN, WAYS AND MEANS COMMITTEE

JESSE A. COLES, JR., Ph.D.  
EXECUTIVE DIRECTOR

September 17, 1990

Mr. Richard W. Kelly  
Director  
Division of General Services  
1201 Main Street, Suite 420  
Columbia, South Carolina 29201

Dear Rick:

I have enclosed the procurement audit report of the University of South Carolina as prepared by the Office of Audit and Certification. I concur with their recommendation that the Budget and Control Board grant the University procurement certification and request that you submit the report to them.

Sincerely,

A handwritten signature in cursive script, appearing to read "James J. Forth, Jr.".

James J. Forth, Jr.  
Assistant Division Director

JJF/jm

Attachment

UNIVERSITY OF SOUTH CAROLINA  
PROCUREMENT AUDIT REPORT

MARCH 1, 1987 - DECEMBER 31, 1989

TABLE OF CONTENTS

	<u>PAGE</u>
Transmittal Letter.....	1
Introduction.....	4
Background.....	5
Scope.....	6
Summary of Audit Findings.....	7
Results of Examination.....	8
Certification Recommendations.....	13
Attachments.....	14
Follow-up Review.....	16

Note: Each University response has been inserted into the report immediately following the audit point it addresses.

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



CARROLL A. CAMPBELL, JR., CHAIRMAN  
GOVERNOR

GRADY L. PATTERSON, JR.  
STATE TREASURER

EARLE E. MORRIS, JR.  
COMPTROLLER GENERAL

RICHARD W. KELLY  
DIVISION DIRECTOR

MATERIALS MANAGEMENT OFFICE  
1201 MAIN STREET, SUITE 600  
COLUMBIA, SOUTH CAROLINA 29201  
(803) 737-0600

JAMES J. FORTH, JR.  
ASSISTANT DIVISION DIRECTOR

JAMES M. WADDELL, JR.  
CHAIRMAN, SENATE FINANCE COMMITTEE

WILLIAM D. BOAN  
CHAIRMAN, WAYS AND MEANS COMMITTEE

JESSE A. COLES, JR., Ph.D.  
EXECUTIVE DIRECTOR

September 12, 1990

Mr. James J. Forth, Jr.  
Assistant Division Director  
Division of General Services  
1201 Main Street, Suite 600  
Columbia, South Carolina 29201

Dear Jim:

We have examined the procurement policies and procedures of the University of South Carolina for the period March 1, 1987 through December 31, 1989. As a part of our examination, we made a study and evaluation of the system of internal control over procurement transactions to the extent we considered necessary.

The purpose of such evaluation was to establish a basis for reliance upon the system of internal control to assure adherence to the Consolidated Procurement Code and State and internal procurement policy. Additionally, the evaluation was used in determining the nature, timing and extent of other auditing procedures that were 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

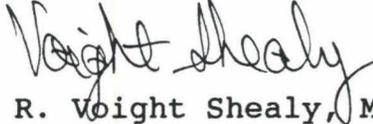
this responsibility, estimates and judgements by management are required to assess the expected benefits and related costs of control procedures. The objectives of a system are to provide management with reasonable, but not absolute, assurance of the integrity of the procurement process, that affected 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 due professional care. They would not, however, because of the nature of audit testing, necessarily disclose all weaknesses in the system.

The examination did, however, disclose conditions enumerated in this report which we believe to be subject to 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.

A handwritten signature in cursive script that reads "Voight Shealy".

R. Voight Shealy, Manager  
Audit and Certification

## INTRODUCTION

The Office of Audit and Certification conducted an examination of the internal procurement operating procedures and policies and related manual of the University of South Carolina (USC) for the period March 1, 1987 through December 31, 1989. Our on-site review was conducted December 4, 1989 through February 7, 1990, and was made under the authority as described in Section 11-35-1230(1) of the South Carolina Consolidated Procurement Code. The audit was primarily instituted because the three year certification granted the University by the Budget and Control Board is to expire on September 22, 1990. Additionally, the university requested increased certification limits as follows:

Goods and Services	\$100,000
Construction	25,000
Consultants	100,000
Information Technology	100,000

Since our previous audit in 1987, the University of South Carolina has maintained what we consider to be a professional, efficient procurement system. We did note, however, items which should be addressed by management.

BACKGROUND

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 Division 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.

Section 11-35-1230(1) of the South Carolina Consolidated Procurement Code states:

In procurement audits of governmental bodies thereafter, the auditors from the Division of General Services shall review the adequacy of the system's internal controls in order to ensure compliance with the requirements of this code and the ensuing regulations.

On September 22, 1987, the Budget and Control Board granted the University of South Carolina procurement certification as follows:

<u>Category</u>	<u>Limit</u>
1. Goods and Services	\$50,000
2. Construction Services	25,000
3. Consultant Services	50,000
4. Information Technology	50,000

Our audit was performed primarily to determine if recertification for expenditures is warranted.

## SCOPE

Our examination was performed in accordance with Generally Accepted Auditing Standards as they apply to compliance audits. It encompassed a detailed analysis of the internal procurement operating procedures of the University of South Carolina and the 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 a random sample of 240 procurement transactions for compliance testing for the period March 1, 1987 through December 31, 1989, and performed other audit procedures that we considered necessary in the circumstances to formulate this opinion. Specifically, our examination included was was not limited to:

- (1) adherence to provisions of the South Carolina Consolidated Procurement Code and accompanying regulations
- (2) procurement staff and training
- (3) adequate audit trails and purchase order registers
- (4) evidences of competition
- (5) small purchase provisions and purchase order confirmations
- (6) emergency and sole source procurements
- (7) source selections
- (8) file documentation of procurements
- (9) disposition of surplus property

## SUMMARY OF AUDIT FINDINGS

Our audit of the procurement system at the University of South Carolina, hereinafter referred to as the University, produced findings and recommendations in the following areas:

	<u>PAGE</u>
I. <u>Sole Source and Emergency Procurements and Trade-ins</u>	
A. <u>Sole Source Procurements</u>	8
<p>We noted twenty-three instances of the determination prepared after the obligation was incurred.</p>	
B. <u>Emergency Procurements</u>	9
<p>We noted seven instances of air charters that were inappropriately procured by emergencies. Once University officials reviewed the transactions, they corrected the funding source on all of them to funds exempt from the Consolidated Procurement Code.</p>	
C. <u>Trade-ins</u>	10
<p>We noted three instances where the necessary approvals for trade-ins were not obtained.</p>	
II. <u>Aircraft Lease</u>	11
<p>We noted the unauthorized lease of the Carolina Research and Development Foundation aircraft.</p>	

## RESULTS OF EXAMINATION

### I. Sole Source and Emergency Procurements and Trade-ins

We examined the quarterly reports of sole source and emergency procurements and trade-in sales for the period April 1, 1988 through September 30, 1989. This review was performed to determine the appropriateness of the procurement actions taken and the accuracy of the reports submitted to the Division of General Services as required by Section 11-35-2440 of the Consolidated Procurement Code. The following problems were noted.

#### A. Sole Source Procurements

During our audit, we noted twenty-three instances of untimely preparation of sole source determinations. Although we accept the sole sources as appropriate, the determinations were prepared after the services had been rendered or after the contracts were signed. Since the University has an official designee for sole source procurements, these purchases must be considered unauthorized purchases. Ten of the twenty-three procurements were for artist services which may have been exempt if procured through the South Carolina Arts Commission which are shown in Attachment 2. The other thirteen purchases are detailed in Attachment 1.

Section 11-35-1560 of the Procurement Code indicates that a procurement may be made as a sole source if the chief procurement officer, the head of a purchasing agency, or a designee of either officer, above the level of the procurement officer, determines in writing that the item or service is only available from a single source. Since the Code is so specific about who may make sole

source determinations, the determinations must be made by someone with the authority prior to incurring the obligation.

Therefore, the purchases, as shown in Attachment 1 and Attachment 2, are all unauthorized and must be ratified in accordance with Regulation 19-445.2015. These requests should be addressed to the University President except for 53641E and 53640E which exceed the University's certification. These items should be submitted to the Director of the Division of General Services.

#### UNIVERSITY RESPONSE

It was noted that 23 of 1,459 sole source procurements during the audit period appeared to have been prepared in an untimely manner. Although the sole source procurements were appropriate as noted by the report, the procedure followed by the University will be amended in order to process sole source procurements for contracts when they are agreed to in lieu of the time payment is due. The University is complying with the ratification of these procurements as required.

---

#### B. Emergency Procurements

We noted exceptions with seven vouchers for the emergency procurement of aircraft charters. In each case, the justification cited the Procurement Code Regulation 19-445.2110, Subsection B which states in part, "... conditions must create an immediate and serious need for supplies, services, or construction that cannot be met through normal procurement methods and the lack of which would seriously threaten...the functioning of state government...". In all of the cases, we failed to see how the functioning of State government was threatened.

In addition to the Procurement Code requirements, State Travel Policy, STARS Manual Part 4, Chapter 2, Section 21.1, states that "Transportation to and from points of arrival and

departure will be accomplished by the most economical method." In all cases, we saw no evidence of why the travel could not have been accomplished by commercial aircraft or by a more economical method of travel. The following procurements are in question.

<u>Date</u>	<u>DEV Number</u>	<u>Amount</u>
4/21/89	159059	\$13,556.00
7/10/89	018288	3,974.40
7/10/89	018287	4,532.40
7/27/89	015566	1,538.01
6/21/89	193360	640.66
4/25/89	164811	3,056.40
3/30/89	158963	5,509.94
Total		<u>\$32,807.81</u>

In all of the above cases, the purchases were originally made from appropriated funds. University officials re-examined each of these procurements and corrected the funding source in all seven cases to either the Carolina Research and Development Foundation or the President's Designated Funds account. These funds are exempt from the South Carolina Consolidated Procurement Code and State Travel Policy.

#### UNIVERSITY RESPONSE

The University will be more specific and detailed in the justification of emergency procurements. Due to the lapse of time in the noted procurements, it was not conducive to appropriately reconstruct the determinations, therefore these procurements were changed to exempt funds.

#### C. Trade-ins

The University reported three trade-ins on purchase order numbers 83408E, 37968E, and 76136E for \$750.00, \$600.00 and \$750.00 respectively. In each case, more than one item was traded in. Individually, the items were less than \$500.00. In all cases, approval as defined in Regulation 19-445.2150, Subsection

G, of the Procurement Code was not obtained. We recommend that the University review the requirements and exercise more caution in this area in the future.

#### UNIVERSITY RESPONSE

The three instances noted of failure to obtain proper approval for trade-ins were oversights by the procurement officer. All procurement personnel have been made aware of the requirements for trade-ins.

---

#### II. Aircraft Lease

We examined a payment made for monthly usage fee for the Carolina Research and Development Foundation airplane. This payment was made on DEV 013875 for \$12,974.94. The usage fee was established through an oral agreement with the Foundation which has been in effect since 1982. The original agreement was not competed.

Consolidated Procurement Code, Regulation 19-445.2035, Subsection A, requires a solicitation of a minimum of ten qualified sources for procurements over \$10,000.

However, the payments from an appropriated account for fiscal year 1988 usage were \$111,307.70 and for fiscal year 1989 were \$125,237.91. Therefore, on a yearly basis the lease exceeds the University's certification and should have been bid by the Materials Management Office. As a result, the lease on the Foundation's plane is an unauthorized purchase.

We recommend that the University submit a ratification request for the procurement to the Director of the Division of General Services as required by Regulation 19-445.2015. Also, the

University should submit a requisition for this service to the Materials Management Office for competitive solicitation. The contract must be in the form of a written agreement and the use of oral agreements must be discontinued.

#### UNIVERSITY RESPONSE

The University has been operating and leasing the Carolina Research and Development Foundation aircraft since 1982. Before this time, the University owned and operated its own aircraft.

The hourly rental rate for the use of the aircraft is \$425.22 per hour charged by the Carolina R & D Foundations. The aircraft is at the University's disposal 24 hours a day, seven days a week. The University provides its own two pilots and their related expenses which were \$241.12 per flight hour for FY90 and projected at \$223.43 for FY91. (See Attached)

The University feels this is an excellent arrangement and is cost effective for the University and State. Since learning of the noted exception of this arrangement with the Procurement Code, we have investigated charges by private charter aviation companies. (See Attached) These charges are somewhat higher than the total charged by the Foundation and University related costs once you consider charter expenses not included in the base hourly rate. In addition, private charter aviation companies are not willing nor able to guarantee an aircraft with or without pilots at the University's disposal 24 hours a day. Other advantages include knowledge of the maintenance history of the aircraft and pilots annual certification with Flight Safety School. Pilots are also available to meet passengers as employees of USC and perform special services.

Due to these special circumstances, the University feels it to be in the best interest of all parties for the Budget and Control Board to exempt the usage of the Carolina Research and Development aircraft by the University from the Procurement Code. It would certainly be acceptable to the University that this exemption include annual review by the Budget and Control Board of the hourly rental rate charged by the Foundation.

---

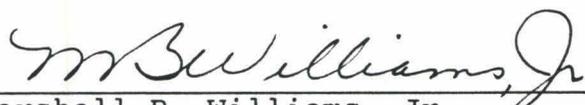
CERTIFICATION RECOMMENDATIONS

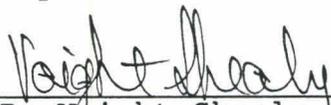
As enumerated in our transmittal letter, corrective action based on the recommendations in the body of this report, we believe, will in all material respects, place the University of South Carolina in compliance with the State Consolidated Procurement Code and ensuing regulations.

Prior to August 31, 1990 the Audit and Certification Section will perform a follow-up review in accordance with Section 11-35-1230(1) of the Procurement Code to determine if any proposed corrective action necessary has been taken by the University and all procedures are in place. Based on the follow-up review, and subject to this corrective action, we will recommend that the University of South Carolina be recertified to make direct agency procurements for a period of three years as follows:

<u>Procurement Areas</u>	<u>Recommended Certification Limits</u>
Good and Services	*\$100,000 per purchase commitment
Construction Services	* 25,000 per purchase commitment
Consultants	* 100,000 per purchase commitment
Information Technology in accordance with the approved Information Technology Plan	* 100,000 per purchase commitment

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

  
\_\_\_\_\_  
Marshall B. Williams, Jr.  
Supervisor, Audit and Certification

  
\_\_\_\_\_  
R. Voight Shealy, Manager  
Audit and Certification

University of South Carolina  
 Schedule of Untimely Sole Sources  
 3/1/87 - 12/31/89

<u>Description</u>	<u>PO or DEV Number</u>	<u>Sole Source Determination</u>	<u>Service Date</u>	<u>Contract Date</u>
Computer Use for Computer Course	186109	6/12/89	Summer Semester 1988 to Spring Semester 1989	No written contract
Research Subcontract	53641E	3/31/89	9/1/88 - 2/28/90	9/22/88
Research Services	53401E	1/05/89	4/1/88 - 3/31/89	8/17/88
70001 Program Service Fee	53620E	3/31/89	7/1/88 - 6/30/89	7/01/88
Research Services	53640E	3/31/89	9/1/88 - 2/28/90	9/22/88
Joint Funding Agreement	065294	10/11/88	8/1/88 - 9/30/88	8/01/88
Project 1992 Conference	197386	6/29/89	5/25/89	5/15/89
SAEOPP Training Grant Conference	183964	5/29/89	2/22/89 - 2/26/89	3/16/88
Research Services for NSF Grant	177436	5/15/89	3/1/88 - 8/31/89	9/09/88
Lecturing Fees for Estate Planning Class	178591	5/19/89	Spring Semester 1989	No written contract
Research Service for NSF Grant	161777	4/24/89	3/1/88 - 8/31/89	9/09/88
Reimbursement for Secretarial Support	143586	3/15/89	7/1/88 - 1/31/89	No written contract

University of South Carolina  
 Schedule of Untimely Sole Sources for Art, Theater and Music Procurements  
 3/1/87 - 12/31/89

Attachment 2

<u>Description</u>	<u>PO or DEV Number</u>	<u>Sole Source Determination</u>	<u>Service Date</u>	<u>Contract Date</u>
Graduate Art Instruction	122344	2/03/89	Fall Semester 1988	6/01/88
Graduate Art Instruction	166150	5/03/89	Spring Semester 1989	6/01/88
Art Course Instruction	158975	4/14/89	Spring Semester 1989	6/01/88
Itinerant Music Program	186981	6/12/89	1/18/89 - 5/10/89	10/18/88
Itinerant Music Program	172735	5/16/89	4/10/89 - 4/28/89	10/18/88
Itinerant Music Program/Symphony Concert	162261	4/27/89	1/17/89 - 4/14/89	10/18/88
Artist in Residence	067841	10/14/88	10/1/88 - 10/14/88	9/15/88
Set Design and Construction	026752	11/18/88	Invoice dated 11/18/88	No written contract
Tokyo String Quartet Concert	143593	3/21/89	3/3/89	12/01/87
Orchestra Services/ Conductors Institute	197387	6/29/89	6/26/89 - 7/7/89	No written contract
Roadside Theater Performance	156472	4/17/89	4/17/89 - 4/18/89	4/15/88

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



CARROLL A. CAMPBELL, JR., CHAIRMAN  
GOVERNOR

GRADY L. PATTERSON, JR.  
STATE TREASURER

EARLE E. MORRIS, JR.  
COMPTROLLER GENERAL

RICHARD W. KELLY  
DIVISION DIRECTOR

MATERIALS MANAGEMENT OFFICE  
1201 MAIN STREET, SUITE 600  
COLUMBIA, SOUTH CAROLINA 29201  
(803) 737-0600

JAMES J. FORTH, JR.  
ASSISTANT DIVISION DIRECTOR

JAMES M. WADDELL, JR.  
CHAIRMAN, SENATE FINANCE COMMITTEE

WILLIAM D. BOAN  
CHAIRMAN, WAYS AND MEANS COMMITTEE

JESSE A. COLES, JR., Ph.D.  
EXECUTIVE DIRECTOR

September 12, 1990

Mr. James J. Forth, Jr.  
Assistant Division Director  
Division of General Services  
1201 Main Street, Suite 600  
Columbia, South Carolina 29201

Dear Jim:

We have returned to the University of South Carolina to follow-up on the recommendations that we made in this report. Through this visit and the telephone conversations and meetings that we have held since the audit, we have confirmed that the University has complied with our recommendations.

Since they have corrected these exceptions, we recommend that the Budget and Control Board grant the procurement certification noted in the report.

Sincerely,

A handwritten signature in cursive script that reads "R. Voight Shealy".

R. Voight Shealy, Manager  
Audit and Certification

RVS/jm

