South Carolina Division of General Services

PROCUREMENT
AUDIT AND
CERTIFICATION

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MEDICAL UNIVERSITY OF SOUTH CAROLINA

AGENCY
OCTOBER 1, 1988 - MAY 31, 1991

DATE
September 17, 1991

Mr. Richard W. Kelly
Director
Division of General Services
1201 Main Street, Suite 600
Columbia, South Carolina 29201

Dear Rick:

I have attached the procurement audit report of the Medical University of South Carolina (MUSC) as prepared by the Office of Audit and Certification. This report is a compilation of a special examination of procurements of construction services covering July 1, 1985 - June 30, 1989, two interim reviews of sole source and emergency procurements covering October 1, 1988 - March 31, 1990, this regularly scheduled audit covering October 1, 1988 - June 30, 1990 and an extensive follow-up review covering July 1, 1990 - May 31, 1991.

As the report indicates, the auditors noted numerous problems with MUSC's procurements of construction services. However, MUSC has worked with us to correct the problems noted in this report. Based on this corrective action, I concur with the recommendation that MUSC be recertified at the current levels listed in the report, but that additional certifications not be recommended at this time.

Sincerely,

James J. Forth, Jr.
Assistant Division Director
MEDICAL UNIVERSITY OF SOUTH CAROLINA

PROCUREMENT AUDIT REPORT

OCTOBER 1, 1988 - JUNE 30, 1990

FOLLOW-UP AUDIT PERIOD

JULY 1, 1990 - MAY 31, 1991
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**NOTE:** The MUSC's responses to specific issues noted in this report have been inserted immediately following the items they refer to.
September 4, 1991

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 Medical University of South Carolina for the period October 1, 1988 through June 30, 1990. 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 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 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 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 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 South Carolina Consolidated Procurement Code and ensuing regulations.

R. Voight Shealy, CFE, Manager
Audit and Certification
INTRODUCTION

The Office of Audit and Certification conducted an examination of the internal procurement operating procedures and policies of the Medical University of South Carolina. Our on-site review was conducted August 7 - September 28, 1990 and was made under authority as described in Section 11-35-1230(1) of the South Carolina Consolidated Procurement Code and Section 19-445.2020 of the accompanying regulations.

The examination was directed principally to determine whether, in all material respects, the procurement system's internal controls were adequate and the procurement procedures, as outlined in the Internal Procurement Operating Procedures Manual, were in compliance with the South Carolina Consolidated Procurement Code and its ensuing regulations.

Additionally, our work was directed toward assisting the University in promoting the underlying purposes and policies of the Code as outlined in Section 11-35-20, which includes:

1. to ensure the fair and equitable treatment of all persons who deal with the procurement system of this State

2. to provide increased economy in state procurement activities and to maximize to the fullest extent practicable the purchasing values of funds of the State

3. to provide safeguards for the maintenance of a procurement system of quality and integrity with clearly defined rules for ethical behavior on the part of all persons engaged in the public procurement process
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.

Most recently, on June 16, 1989, the Board granted the Medical University of South Carolina procurement certification as follows:

<table>
<thead>
<tr>
<th>PROCUREMENT AREA/COMMODITY CLASS</th>
<th>AMOUNT PER COMMITMENT/CONTRACT</th>
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<tbody>
<tr>
<td>Chemical/Reagents, Injectables, Prescription Drugs, Intravenous Solutions and Sets and all other Commodities Defined in the Materials Management Office (MMO) Commodity Code Manual under #115-Biochemical Research and #270-Drugs, Pharmaceuticals, Biologicals-Human Use, Initially Approved by MUSC's Products Evaluation Committee</td>
<td>$6,000,000 per commitment</td>
</tr>
<tr>
<td>Medical Supply Items and all other Commodities in the MMO Commodity Code Manual under #475-Hospital Sundries, including Linens, Gas Cylinders and Liquid Oxygen for Patient Use, Initially Approved by MUSC's Products Evaluation Committee</td>
<td>$3,000,000 per commitment</td>
</tr>
<tr>
<td>Hospital, Laboratory and Research Equipment</td>
<td>$100,000 per commitment</td>
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</table>
All other Goods and Services  $ 25,000 per commitment
Consultants  $ 10,000 per commitment
Construction Services  $ 25,000 per commitment

The audit was performed primarily to determine if recertification is warranted. Additionally, during the audit the Medical University of South Carolina requested the following increases in certification:

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</tr>
<tr>
<td>Construction Services</td>
<td>$ 25,000 per commitment</td>
</tr>
<tr>
<td>Information Technology in accordance with the approved Information Technology Plans</td>
<td>$ 25,000 per commitment</td>
</tr>
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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 Medical 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 up to the requested certification limits.

We selected systematic samples for the period October 1, 1988 - June 30, 1990 of procurement transactions for compliance testing and performed other audit procedures that we considered necessary to formulate this opinion. As specified in the Consolidated Procurement Code and related regulations, our review of the system included, but was not limited to, the following areas:

1) All sole source and emergency procurements and trade-in sales for the period October 1, 1988 through June 30, 1990

2) Property management and fixed asset procedures

3) Purchase transactions for the period October 1, 1988 through June 30, 1990
   a) two hundred-forty systematically selected procurement transactions, each exceeding $500.00
   b) a block sample of two and a half months of physical plant purchases for three major accounts and two hundred purchase orders in the information technology area.

4) Minority Business Enterprise Plan and reports

5) Procurement staff and training

6) Procurement procedures
7) Information Technology Plan
8) Permanent Improvement Projects

FOLLOW-UP SCOPE

We performed an extensive follow-up audit May 22-31 during which we verified the Medical University of South Carolina's corrective action for each recommendation that we made in this report. Also, we tested the following additional transactions:

1) All emergency procurements for the period 7/1/90 - 3/31/91
2) All sole source procurements and trade-in sales for the period 7/1/90 - 12/31/90
3) All procurements of goods and services made by the Physical Plant buyers to vendors with names beginning A-C and R-T for the period 7/1/90 - 5/31/91
4) All construction and construction related contracts entered into for the period 12/6/90 - 5/6/91
SUMMARY OF AUDIT FINDINGS

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

I. Compliance - Construction Services
   A. Construction Planning
      During our audit, we noted numerous incidences where MUSC's planning for construction projects was inadequate, or once plans were established, they were altered repeatedly resulting in numerous change orders, work delays, work stoppages and cost overruns.
   B. Hurricane Hugo Emergencies
      From September 22, 1989 to May 8, 1990, MUSC made emergency procurements for Hugo repairs. We take exception with ten of these totalling $1,290,649.
   C. Other Emergency Construction Procurements
      Five procurements that did not meet the criteria of the Code were declared emergencies.
   D. Construction Procurement Exceptions
      1. A procurement for air monitoring service was handled incorrectly.
2. An incorrect change order resulted in a $22,864 overpayment.

E. Physical Plant Procurements of Supplies and Materials

Forty-two percent of these procurements over $500 made July 1 - September 25, 1990, did not meet the minimum competition requirements of the Code.

II. Compliance - Procurements

A. Procurements Made Without Competition

Five procurements had no evidence of competition.

B. Unauthorized Procurements

Five procurements were unauthorized and must be ratified.

C. Procurements With Inadequate Competition

Seven procurements did not meet the minimum competition requirements.

D. Procurements Were Inappropriately Determined Exempt

Three procurements which were subject to the Code were classified as exempt.

E. Change Order Improperly Issued

A change order was issued causing the award to be made to the wrong vendor.
F. Disposal of Silver/Film

MUSC disposed of $11,782.94 worth of silver from x-ray film without authority.

III. Compliance - Sole Source and Emergency Procurements and Trade-in Sales

A. Sole Source Procurement

Four procurements were inappropriate as sole sources.

B. Emergency Procurements

Three emergencies did not have evidence of competition.

C. Reporting Error

One sole source was reported as an emergency.

D. Trade-in Sales

One procurement was neither approved by nor reported to the Division of General Services.

IV. Compliance - General

A. MBE Plan Not Filed Timely

One Minority Business Enterprise Plan was filed late.

B. Procurement Procedures Manual

Changes and updates need to be added to the manual.
RESULTS OF EXAMINATION

I. Construction Services

Overview

The Office of Planning and Administrative Services has responsibility for facilities planning at MUSC. As part of that responsibility, the office establishes permanent improvement projects and seeks required approvals from the Budget and Control Board and the Joint Bond Review Committee. The Physical Plant is responsible for procurements of construction services, coordination with the State Engineer's Office and management of projects.

UNIVERSITY RESPONSE

We agree with your understanding of the roles of our departments as they relate to construction services at MUSC. We now have a monthly meeting to insure better cooperation.

A. Construction Planning

During our audit, we noted numerous incidences where MUSC's planning for construction projects was inadequate, or once plans were established, they were altered repeatedly resulting in numerous change orders, work delays, work stoppages and cost overruns. In our opinion, this is caused by the following:

(1) Physical Plant personnel are not included in facilities planning. At times, the facilities planning staff commits to unrealistic completion dates.

(2) Construction plans change constantly, resulting in numerous change orders to construction contracts.
(3) Many times, when the Physical Plant is notified of work to be accomplished and the directed completion targets, they know the deadlines are unrealistic. In attempting to meet these deadlines, they must make emergency procurements. However, many times plans change, meaning after a procurement is made it is no longer an emergency.

MUSC, like all other State agencies, must develop five year plans for permanent improvements, then refine those into annual plans as each fiscal year approaches. To say that planning does not occur would be wrong. However, since the Physical Plant construction officials have no voice in this planning process, the plans may not be practicable.

We recommend that future facilities planning include Physical Plant personnel. Once established, these plans should be pursued in accordance with State requirements for permanent improvements and the Consolidated Procurement Code.

UNIVERSITY RESPONSE

We do not agree that a lack of planning is the cause of numerous change orders, work delays, work stoppages and cost overruns. Most change orders are caused by needs that are identified after construction starts or by conditions that could not be determined during the design and building phases. Most of our work is renovating old buildings.

1. Physical Plant personnel will from now on be involved in establishing completion dates for construction projects.

2. Construction plans change which result in change orders will be carefully documented. We will put more emphasis in our planning stages to avoid changes after construction starts.
3. This is true. Efforts will be made to avoid emergency procurements that result from lack of planning. We agree that emergency procurement should not be made unless they meet the requirement of the Procurement Code.

B. Hurricane Hugo Related Emergencies

Hurricane Hugo hit Charleston on September 21, 1989, causing extensive damage to MUSC. In consideration of the monumental task of repairing the damage, we believe we allowed MUSC every benefit of doubt during our audit of Hurricane Hugo related emergencies.

MUSC prepared one standard emergency procurement justification and used it to support a variety of procurement transactions from September 22, 1989 through May 8, 1990. They prepared individual determinations for each procurement but the blanket justification did not explain how each procurement related to the Hugo emergency. We reviewed all of these.

Our review produced findings and comments as follows:

1) MUSC entered into a contract to renovate 170 Ashley Avenue in the amount of $68,947. State law requires that agencies set up all construction projects exceeding $25,000 as permanent improvement projects. Then, they must seek approval for all activity on these projects from the Office of the State Engineer. MUSC did not seek the required approvals from the Budget and Control Board and the Joint Bond Review Committee for the permanent improvement project and did not report this procurement to the State Engineer's Office.
UNIVERSITY RESPONSE

This permanent improvement project has been reported.

2) Under an emergency determination, MUSC issued a contract in the amount of $179,889 on February 2, 1990 for repairs to the first floor of Building "E".

Then, MUSC prepared drawings dated February 23, 1990 for renovation and repair of this same facility. On April 12, 1990, MUSC issued a second contract to the same contractor for $494,519 for this work.

Both contracts were issued based on single proposals. MUSC did not set up the work as a permanent improvement project nor seek the required approvals for these procurements from the Office of the State Engineer.

UNIVERSITY RESPONSE

Your findings regarding the renovations to First Floor Quadrangle Building "E" are essentially correct, except as follows:

Regarding the Contract for $179,880.00, dated February 2, 1991, we did request quotation from the following contractors:

1. W.A. Hunt Construction Company
2. Boines Construction Company
3. J.R. Adams, General Contractor
4. H.A. Decota

J.R. Adams was the only contractor that submitted a quotation. Procedures for keeping records of bid solicitation/no bids have been implemented to avoid any reoccurrence of this type.

Regarding the contract for $494,519.00 dated April 12, 1990, our original intent was to have this work performed by J.R. Adams, General Contractor as a Change Order to the $179,889.00 contract. However, after consultation with the State Engineer's Office, we issued another emergency contract. This project was complex, it
was difficult to accomplish with one contractor. This permanent improvement project has been reported. We clearly understand that MUSC does not have the authority to waive this requirement and new procedures have been established to avoid any reoccurrence.

3) In January 1990, MUSC issued a contract in the amount of $64,341 for repairs on the first floors of Buildings "E" & "F".

They did seek informal competition, but they did not prepare an emergency determination or report the emergency to the Office of the State Engineer or the Division of General Services.

UNIVERSITY RESPONSE
This Permanent Improvement Project has been reported.

4) On October 26, 1989, the physical plant was informed that three trailers demolished by Hurricane Hugo needed to be moved. On March 21, 1990, the physical plant sent a memo to the Director of Planning and Administrative Services providing a schedule for the project. His reply stated, "No! Just hire someone and get them out of here."

On April 6, 1990, MUSC issued a contract for $6,850 to remove and dispose of the trailers after they solicited and received two written quotations.

They did not solicit sealed bids or prepare an emergency determination. Since the contract was awarded six months after the problem was known and seven months after Hurricane Hugo, we believe they had ample time to compete the procurement through normal channels.
UNIVERSITY RESPONSE

We agree that there was ample time to procure this work through normal channels. Physical Plant personnel unwisely yielded to pressure.

5) Under an emergency determination, MUSC entered into a contract for $63,840 on February 12, 1990 to do concrete paving in the crawl space on the East side of the Teaching Hospital Building. They solicited bids from three vendors and awarded the contract to the low bidder.

However, they did not establish a permanent improvement project or seek the required approval for the procurement from the Office of the State Engineer.

UNIVERSITY RESPONSE

This Permanent Improvement Project has been reported.

6) Based on a single proposal, MUSC awarded a contract in the amount of $356,477 on March 26, 1990 for restoration of the Psychiatric Institute and Business Service Building. They did not solicit competition.

Additionally, they did not establish a permanent improvement project nor seek the required approval for the procurement from the Office of the State Engineer.
UNIVERSITY RESPONSE

Quotes were solicited and received by the buildings original A/E Firm one week after Hugo. We could not award until after we received funding approval. We should have resolicited quotes since funding from insurers took so long. The Permanent Improvement Project has been reported.

7) On March 26, 1990, MUSC made an emergency procurement totalling $27,860 on purchase order number 804886 for a 350KW diesel generator. They did not solicit competition or provide the circumstances surrounding the emergency to show why competition was not solicited.

UNIVERSITY RESPONSE

This was a bonified emergency.

8) On May 8, 1990, MUSC issued purchase order number 805199, in the amount of $7,926 for miscellaneous roof repairs. They did not solicit competition.

The emergency determination is not acceptable seven months after Hurricane Hugo. Competition should have been solicited.

UNIVERSITY RESPONSE

We agree with this exception. This was Hugo damage.
9) MUSC issued purchase order number 805020 on March 19, 1990 to eradicate microbial growth in the Ehrhardt Street Apartments. This $20,000 procurement was made without competition.

The emergency determination provided does not justify or explain the emergency.

UNIVERSITY RESPONSE

This emergency was directly related to Hugo damage.

C. Other Emergency Construction Procurements

During the audit period, MUSC also declared emergencies which were not directly related to Hurricane Hugo. Our review of these emergencies produced findings and comments as follows:

1) On June 22, 1990, MUSC accepted a single bid of $55,980 for removal of asbestos in three rooms on the second floor of the Basic Science Building. The emergency stated "Considerable loss to the Medical University will occur if this space is not usable by July 1". Based on the time constraints faced by the Physical Plant, emergency procurement was the only possible way to handle this transaction.

However, we toured the Basic Science Building on October 1, 1990, and during our visit, we observed the rooms relating to this procurement. The asbestos removal was complete, but no further construction had been started. Three months after their stated critical completion date, the space was still not usable.
UNIVERSITY RESPONSE

We agree with the exception taken, however on June 1990, this project had to be finished by July 1, 1990. Physical Plant Personnel were victims of uncoordinated planning.

2) Because the existing system was beyond repair, MUSC issued a contract on May 9, 1990 in the amount of $55,832 to replace the air conditioning system in the Teaching Hospital Amphitheater. A work order request dated January 15, 1990 indicates that MUSC knew about the problem more than three months before the project was declared an emergency. We do not believe the emergency determination meets the required criteria. This procurement should have been bid in accordance with the Code.

UNIVERSITY RESPONSE

Our intent in January was to patch repair the air conditioning unit until funds could be identified. The unit failed in April.

3) MUSC executed an emergency determination on July 18, 1990 for asbestos removal in two rooms of the Teaching Hospital Building. The determination stated, "this new condition is now delaying construction in all phases of the Hospital Renovation Phase IX project and must be resolved immediately." Bids were dated September 6 and 7, 1990 and a contract was executed September 10, 1990 in the amount of $6,700.

The contract was issued fifty-three days after the determination was approved. Because of the time delay, we question the validity of the emergency.
UNIVERSITY RESPONSE

The time delay noted is correct, however it took longer to determine a scope of work and get DHEC's approval for the method to be used.

4) MUSC entered into a contract for the removal of an asbestos wall between rooms 743 and 744 of the Basic Science Building in the amount of $5,600. The emergency determination states, "After construction/remodeling work began in rooms 743 and 744 of the Basic Science Building it was determined that asbestos was in the ceilings and wall between the two rooms. When asbestos is discovered in this manner it is an immediate requirement to remove the asbestos per established laws/regulations".

We were auditing MUSC at the time of award and requested to see the rooms. We were shown the rooms by physical plant personnel and found that no construction/remodeling work had been started. Since the asbestos was contained inside the wall and above the ceiling tile, there was no immediate danger. Therefore, the emergency procurement was not warranted.

MUSC cancelled the contract and solicited sealed bids through normal procedures after we challenged it.

UNIVERSITY RESPONSE

We agree with the exceptions taken.
5) Based on a single proposal, MUSC entered into a $47,922 contract to provide labor and materials to install sixteen fan coil units in the fifth floor west wing of the Teaching Hospital Building. The emergency justification stated, "The patient rooms had to be fully operational by June 1, 1990 to provide the required swing space..."

In our opinion, poor planning caused the emergency. Furthermore, in their haste, MUSC made the award to a contractor which had filed for bankruptcy and could not provide the required payment and performance bonds. However, since MUSC did not request these required bonds when they made these procurements, they did not discover this fact until the project was complete.

Awarding the contract in this manner not only violated the Procurement Code, it provided MUSC no protection from suits from subcontractors and suppliers.

UNIVERSITY RESPONSE

We agree with the exception taken. This contractor was the only one with sufficient man power available to start immediately. Additionally this contractor has provided proper Payment and Performance Bonds to MUSC for fifteen (15) years. We did get a release of Liens. This will not happen again.

D. Construction Procurement Exceptions

1) Using the exception procedures authorized in Section 11-35-3230, MUSC awarded a contract for air monitoring services for $12,000. Later, they amended this contract by adding an additional $12,000. Both of these were approved by the State Engineer's Office.
Then, MUSC issued a change order for $23,730 to increase the total contract to $47,730. They did not submit this change order to the State Engineer for approval.

We noted the following exceptions with this contract:

a) Section 11-35-3230 and its supporting regulation, 19-445.2145F, limit the use of this procedure to procurements of architect-engineer and land surveying contracts which are estimated not to exceed $12,000. Further, this procedure may not be used to award contracts for more than $36,000 to the same firm over a two year period. MUSC exceeded both of these limitations.

b) MUSC violated the Manual for Planning and Execution of State Permanent Improvements by proceeding with the $23,730 change order without approval from the State Engineer's Office. Thus, the $23,730 change order was unauthorized. Ratification must be requested from the State Materials Management officer.

UNIVERSITY RESPONSE

Ratification has been requested.

2) MUSC accepted bids and issued a contract for $298,776 to replace two boilers and tie into the existing fuel tanks for the North Tower. Subsequently, they issued change order number
one for $43,108, which included removal of a leaking fuel oil tank. Then, they issued change order number two for $91,174 for additional work required to complete removal of the underground tank.

In calculating the additional charges, MUSC included $22,864 in both change orders overstating the cost of the tank removal by that amount. The contractor billed and MUSC paid the full amount for both change orders.

MUSC overpaid the contractor $22,864. We recommend that MUSC request repayment from the vendor.

UNIVERSITY RESPONSE

We have received the repayment from the vendor.

CONCLUSION - CONSTRUCTION SERVICES

The Manual for Planning and Execution of State Permanent Improvements (SPIRS) states the requirements for construction emergency procurements.

12.4 Report of Emergency Procurement

B. Regardless of agency certification, all emergency procurements for construction contracts shall be submitted to the State Engineer's Office on form SE-560 in duplicate.

12.6 Types of Emergency Procurements

C. In order to qualify for an emergency procurement a true emergency must exist. Use of emergency procurement procedures to circumvent normal procurement procedures will not be tolerated.
12.7 Not Emergency Conditions

A. Installing or replacing equipment to meet schedules is not normally an emergency condition. An agency should not declare an emergency in order to install a new air conditioning system prior to the start of a new semester or some other event.

B. Poor scheduling or planning should not be an excuse for an emergency condition. If emergency conditions exist after an unsuccessful attempt to use competitive sealed bidding, then an emergency procurement may be made.

Our findings are recapped as follows:

We take exception with contracts listed above totalling $1,462,683 which MUSC declared emergencies.

Only $103,902 was approved by the State Engineer's Office. MUSC proceeded with contracts totalling $1,368,533 without the required approvals.

Sealed bids were not solicited, and in most cases, award was made based on a single proposal from a contractor. The emergency procurement method is not to be used when time is available to solicit sealed bids.

Several projects were declared emergencies in order to meet time deadlines. Proper planning in all cases would have prevented this from occurring. These were not emergency conditions.

When a project is declared an emergency, only the bid process is shortened. Construction procurements for services always require payment and performance bonds and contractor's certificate of insurance. MUSC did not provide these documents to us during the audit. In two cases, we learned that the contractors had not provided them at all. In one case, the contractor had filed for bankruptcy and could not furnish the
bonds. In the other, we were told the contractor said he would furnish the bonds for an additional $14,000. Work was complete on both contracts.

MUSC does not have the authority to waive these requirements.

Shortly before Hurricane Hugo, we performed a follow-up review to our previous audit of MUSC to determine its corrective action in construction services for which the Budget and Control Board had granted a ninety day extension of the existing construction certification.

During the special review, we noted exceptions and concerns over MUSC's handling of permanent improvement projects H51-9180, Campus Asbestos Removal and project H51-9484, Hospital Asbestos Removal. This special examination of procurements of construction services is located at Attachment A.

The special review revealed weaknesses in construction procurements. This audit revealed that the previous exceptions had been corrected, but we noted additional exceptions.

UNIVERSITY RESPONSE

The findings of the Audit Report regarding construction procurement are essentially correct. Most of the exceptions taken by auditors are directly related to MUSC Hurricane Hugo Recovery efforts. We admit our short comings during this once in a lifetime occurrence. Hopefully we will never experience such a natural disaster again. We had sincere hopes that actions taken during this difficult recovery period would not be audited and that our emergency determinations and establishment of permanent improvement projects would be handled and justified under Hurricane Hugo Recovery Project. We now clearly recognize the unforgiving nature of the Procurement Code and we will implement policies and procedures to insure that all its provisions are compiled with, unless authorized by the proper authority.
We offer the following new procedures to assist with our compliance.

A. Deans and Department Heads must provide written justification to the Vice President for administration or his designee and receive his approval prior to making contact with construction officials.

B. Construction officials upon being properly informed, will contract the SEO and a SE560 and make a written request to establish a PIP if the amount exceeds $25,000.00.

C. Construction officials will prepare a Project Manual which requires the required bonds. This manual will be issued to all bidders regardless of the scope of work.

E. Compliance - Physical Plant Procurements

We reviewed 116 procurements over $500 each made for the physical plant for the period July 1, 1990 - September 25, 1990. These procurements were made by two procurement officers who purchase materials, services, and supplies for construction projects and physical plant maintenance and repairs. These buyers are located at the physical plant, but report to the Director of Procurement.

Twenty-five of these procurements were handled correctly. Forty-two of these procurements from $500 to $1,499.99 met the technical solicitation requirements of the Code, but we believe MUSC could have obtained additional competition. However, we make the following comments on the remaining forty-nine procurements (See Attachment B):
1) Fifteen procurements between $500 and $2,499.99 were not supported by evidence of solicitations of competition or sole source determinations.

2) Eighteen procurements between $1,500.00 and $2,499.99 were supported by one verbal quote and two "no quotes". The Code requires solicitation of written quotations from at least three responsible and responsive vendors. These files contained no written quotations.

3) Out of twelve other procurements between $1,500 and $2,499.99, five were supported by two verbal quotes and a "no quote". The other seven procurements were supported by three verbal quotes. None of the twelve files contained any written quotations as required by the Code.

4) Four procurements between $1,500.00 and $2,499.99 lacked the proper amount of competition. Each were supported by two verbal quotes; whereas the Code requires three written quotations.

5) Three procurements appear to have been split in order to circumvent the bid requirements of the Code.

Forty-two percent of these procurements tested did not meet the minimum solicitation requirements of the Code.

We must state our concern over the error rate here. We recommend that MUSC immediately reevaluate its purchasing practices at the Physical Plant.

UNIVERSITY RESPONSE

1) Procurements not supported by evidence of competition:
The volume of the findings in this area was reported incorrectly. They should have been reported as sole source or emergency procurements. Out of the fifteen findings eight should have been reported as sole source and two as emergency purchases. Part of the reason for several of the "no quotes" was because the procurement officers attempted to cross reference manufacturers' numbers to quote and or equal.

2) Procurements from $1500 to $2500 supported by one verbal quote and two "no quotes":

These eighteen procurements were processed incorrectly. These deficiencies have been corrected. The procurement officers processing these purchases have been re instructed on the proper procedures to observe.

3) Same as above for the five which were supported by two verbal quotes and a "no quote". As for the twelve files not containing written quotations as required by the Code, MUSC made changes to correct this deficiency the day the deficiency was discovered. The two procurement officers have been reeducated on the correct procedures to follow and those procedures are an actuality.

4) The four procurements between $1500 and $2500 were processed improperly. These deficiencies were corrected the day they were discovered. These procurement officers have been instructed on the proper procedures to follow.

5) The appearance does lead one to conclude these orders were split, but they were not. With the manner in which the Physical Plant operation is organized, it is somewhat difficult to have all requests processed in the manner procurement officers would desire. MUSC is now in the process of trying to establish contracts and blanket purchase agreements for repetitive type of orders where possible. These contracts and agreements will reduce this type of obstacle from occurring.

II. Compliance - Procurements

We tested 180 randomly selected procurements from the areas of goods and services, consultants and information technology for Code compliance and found the following exceptions.

A. Procurements Made Without Competition

In our opinion, five procurements were not supported by credible solicitations of competition. They were as follows:
<table>
<thead>
<tr>
<th>PO#</th>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>1) FA806435</td>
<td>Typewriter</td>
<td>$930.00</td>
</tr>
<tr>
<td>2) FA815049</td>
<td>High resolution camera</td>
<td>975.00</td>
</tr>
<tr>
<td>3) FA814606</td>
<td>Video cassette recorder</td>
<td>1,379.94</td>
</tr>
<tr>
<td>4) FA834054</td>
<td>Bronchoscopic system</td>
<td>16,999.50</td>
</tr>
<tr>
<td>5) MF900092</td>
<td>Service agreement for paging system</td>
<td>7,455.48</td>
</tr>
</tbody>
</table>

Items 1 and 2 were supported by solicitations from non-qualified sources. On the typewriter the procurement officer solicited a quotation from a typewriter repair service. The vendor gave a "no quote" and the procurement officer used this as a second quote. For the high resolution camera the buyer used a quote from a vendor for a camera which had been evaluated and determined not acceptable.

Items 3-5 were not supported by solicitations of competition. Items 4 and 5 may have been sole sources, but the transactions were not declared as such.

We recommend on future transactions that competition be solicited from qualified sources in accordance to the Procurement Code or that sole source or emergency procurement determinations be prepared if appropriate.

UNIVERSITY RESPONSE

1) FA806435 - The IBM Wheelwriter 30 Typewriters: at that time, IBM was not selling direct to customers. Ms. Vertelle Seabrook, was informed by IBM that Atlantic Business Systems, Inc. was an authorized dealer. MUSC does agree the other vendor solicited was not qualified. MUSC has informed and instructed all procurement officers on proper procedures to follow.

2) FA815049 - This was processed incorrectly and corrections have been incorporated to remedy this mistake.
3) FA814606 - Regarding the "unsupported solicitation" of quotes on the JVC video recorder, the procurement officer confirmed the sources provided by the requester, but perhaps did not check outside of the Charleston area for the equipment. The following sources were verified:

1. Circuit City - Written quote provided
2. Brendles - (Ashley Plaza Mall) no quote
3. Brendles - (Rivers Avenue) no quote
4. Service Merchandise - no quote

Please note that VCR's are on state contract; however, the item requested by the professor of Anatomy is for the study of Cellular activity under Electron and other high-magnifying microscopes. The VCR purchase was for an item with extreme high definition, technical slow speed/freeze frames etc... and professional editing capabilities. This was not a solicitation for an "average" video recorder.

The procurement officer may not have documented the fact very clearly that the researchers "source quoter" was "double-checked", but the procurement officer did insist on a written quotation to support the purchase. The researcher needed the item immediately, and stated this on the purchase requisition. Given the time frame and the availability of equipment as needed by the researcher, the procurement officer did the job as required on the purchase.

4) FA834054 - The procurement officer made an error in not coding the transaction as a sole source item. Also, the purchase order was not signed by the official designated to sign sole source procurements.

5) MF900092 - This purchase should have been reported as a sole source procurement.

B. Unauthorized Procurements

Five procurements were unauthorized. They were as follows:

<table>
<thead>
<tr>
<th>PO#</th>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>1) PO852892</td>
<td>Consultant service</td>
<td>6,000.00</td>
</tr>
<tr>
<td>2) PO814420</td>
<td>Laboratory service</td>
<td>1,612.64</td>
</tr>
<tr>
<td>3) PO814577</td>
<td>Repair services</td>
<td>527.10</td>
</tr>
<tr>
<td>4) PO830082</td>
<td>Accounting service</td>
<td>734.00</td>
</tr>
<tr>
<td>5) IDTS062</td>
<td>Modem</td>
<td>2,407.13</td>
</tr>
</tbody>
</table>

On items 1-3, the invoices preceded the purchase orders. On item 4, the work had already been performed before the
requisition was sent to the procurement office. For items 4 and 5 the contract periods had already begun before procurement received the requisitions. On item 4, accounting services, the State Auditor's approval is necessary prior to entering into a contract. His approval was not obtained until after the services were rendered. Finally, on item 5, the procurement office was completely circumvented through the use of an interdepartmental transfer (IDT).

The procurement office should better identify procurements which have been made without their authority. Also, MUSC should ensure that procurements which are subject to the Procurement Code are not processed through IDT's without approval from the procurement office. We further recommend that since these procurements are unauthorized, that they be ratified in accordance to Regulation 19-445.2015 by the University President.

UNIVERSITY RESPONSE

1) PO852892 - This purchase was processed incorrectly.

2) PO814420 - This purchase should have been reported as a sole source. Again, MUSC has reconfirmed the correct procedures to follow.

3) PO814577 - This purchase was processed incorrectly.

4) PO830082 - MUSC will request approvals for Accounting services prior to the award of contract or purchase order in relationship to the SCCPC. This purchase is exempt from MUSC regulations since this service was paid for by the use of discretionary funds.

5) IDTS062 - This IDT was processed without the knowledge of the Purchasing Office. Mr. Worth Roberts will now review and approve all of these types of purchases prior to the expenditure of funds. Retification has been requested and received (attached) in accordance with Regulation 19.445.2015.
C. Procurements With Inadequate Competition

Seven procurements were supported by inadequate solicitations of competition. They were as follows:

<table>
<thead>
<tr>
<th>PO#</th>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>1) FA802419</td>
<td>Computer equipment</td>
<td>$2,499.00</td>
</tr>
<tr>
<td>2) FA815091</td>
<td>Color monitors</td>
<td>1,700.00</td>
</tr>
<tr>
<td>3) FA815301</td>
<td>Printer</td>
<td>1,650.00</td>
</tr>
<tr>
<td>4) PO832552</td>
<td>Hemoclips</td>
<td>2,029.90</td>
</tr>
<tr>
<td>5) PR16430</td>
<td>Door lock supplies</td>
<td>1,710.00</td>
</tr>
<tr>
<td>6) PP804061</td>
<td>Re-carpet classroom</td>
<td>2,450.00</td>
</tr>
<tr>
<td>7) PP804016</td>
<td>Repair slate roof</td>
<td>1,575.00</td>
</tr>
</tbody>
</table>

Item 2 was supported by only two quotes, one verbal, one written. Items 1, 6 and 7 were supported by only two written quotes each. Items 3-5 were supported by only three verbal quotes each. Regulation 19-445.2100(B)(3) requires solicitations of written quotations from three qualified sources of supply for procurements from $1,500.00 to $2,499.99.

We recommend MUSC adhere to this regulation. Furthermore, if the University is having problems obtaining written quotations from vendors, we recommend the use of "Request for Quotation" forms. Under this procedure, bid specifications are prepared on these forms and mailed to vendors. The vendors are then asked to respond on these forms.

UNIVERSITY RESPONSE

MUSC acknowledges all seven of the procurements related to this section of the report were processed incorrectly. All procurement officers have been educated on the correct procedures. MUSC will no longer enter a document into the DBS system for payment to any vendor until the written quotation is received for all purchase orders from $1500.00 to $2499.99.
D. Procurements Which MUSC Inappropriately Determined Exempt

MUSC inappropriately classified three procurements as exempt from the Procurement Code. They were as follows:

<table>
<thead>
<tr>
<th>PO#</th>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>1) P0814469</td>
<td>Psychological evaluations</td>
<td>2,200.00</td>
</tr>
<tr>
<td>2) P0852892</td>
<td>Consultation on patient classification system</td>
<td>6,000.00</td>
</tr>
<tr>
<td>3) P0814420</td>
<td>Laboratory services</td>
<td>1,612.64</td>
</tr>
</tbody>
</table>

The psychological evaluations, item 1, were conducted by a Ph.D. The University classified this person as a medical doctor. Psychologists are not exempt from the Procurement Code nor are Ph.D.'s classified as medical doctors.

MUSC classified items 2 and 3 as hospital and medical clinic services. These two items do not fit into this category.

We recommend that MUSC apply the exemptions in a more prudent manner. Those items not exempt from the Procurement Code must be procured in accordance with it.

UNIVERSITY RESPONSE

1) P0814469 - MUSC acknowledges this purchase was exempted inappropriately. The procurement officer who processed this transaction is no longer employed by MUSC, but all procurement officers have been educated on the correct procedure to follow.

2) P0852892 - The services for the First Consulting Group was processed inappropriately. Again, the procurement officer who processed this transaction is no longer employed by MUSC, but all procurement officers have been educated to the correct procedures to follow when considering any purchase exempt from the SCCPC.

3) P0814420 - Regarding "Roche Biomedical Laboratories", the procurement officer processed the purchase of services under exemption for Hospital and Medical Clinical Services. The exemption is dated 7/13/82.
Roche Biomedical Laboratories, in this case, was viewed as a clinical medical laboratory that processed medical results for human subjects tested on a "Quinidine Bioavailability Drug Study" performed by the College of Pharmacy. "Roche" provided diagnostic and clinical testing and studies to the College of Pharmacy.

E. Change Order Improperly Issued

A change order issued improperly caused an award to be made to the wrong vendor. This transaction occurred on P0832171 for oscillating saw blades in the amount of $988.60.

MUSC obtained two verbal quotes for this procurement in the amounts of $678.80 and $865.00, and made the award to the vendor who quoted $678.80. However, the vendor called MUSC and stated he made a mistake and his quote should have been $988.60. MUSC processed a change order and paid the vendor $988.60. This purchase order should not have been changed but cancelled and awarded to the other vendor. This cost MUSC an additional $123.60.

We recommend that change orders be more closely scrutinized.

UNIVERSITY RESPONSE

The procurement officer on this purchase received a verbal quote from the firm (sales rep) as stated on the requisition. When the invoice subsequently followed with a higher price, the procurement officer contacted the firm and asked why we were charged a higher price.

The firm stated that they had misquoted MUSC. The procurement officer prepared to ship the order back to the firm, but the item had already been used. The firm was adamant about the price. MUSC has curtailed future business with this firm and we now buy only accessories from this firm for existing equipment which involves a sole source purchase. We will insist on written quotes from this vendor for any item above $500.00 to prevent this from occurring again.
F. Disposal of Silver/Film

MUSC uses a silver recovery process to remove silver from used x-ray film. The silver and stripped film is then sold to vendors. However, since this arrangement was not approved by the State Materials Management Office, it violates Section 11-35-3820 of the Procurement Code. Sole authority to dispose of State property rests with the Division of General Services. From April 22, 1988 to July 30, 1990, MUSC sold silver and film amounting to $11,782.94.

We recommend MUSC seek approval from General Services to dispose of this silver and film. MUSC should solicit a contract for this service on the basis of how much a vendor will pay MUSC for the silver and film. A multi-term contract may be considered since the contract will require a vendor to install his equipment for the silver recovery process.

Because disposals have been made without approval from the Division of General Services, they are unauthorized. The MUSC President must request ratification from the Materials Management Officer in accordance with Regulation 19-445.2150(I).

UNIVERSITY RESPONSE

Specifications are in the process of being developed for this service. The Procurement Department was not aware of this process until notified by MMO. MUSC will seek approval from General Services to dispose of this silver and film and formulate a contract for this service on the basis of how much a vendor will pay MUSC for the silver and film.

MUSC will seek ratification for this transaction from the Materials Management Officer in accordance with Regulation 19-445.2150(I).
III. Compliance - Sole Source and Emergency Procurements and Trade-in Sales

We examined the quarterly reports of sole source and emergency procurements and trade-in sales for the period October 1, 1988 through June 30, 1990. We tested all of these procurements. However, we have limited medical expertise to question physicians' preference items and the highly technical medical requirements for many of the sole source procurements.

We had performed much of this work through interim reviews that covered October 1, 1988 – June 30, 1989 and July 1, 1989 – March 31, 1990. The results of these interim reviews are listed as Attachments C and D to this report. The results contained herewith pertain to the last quarter reviewed.

We performed the review of these transactions 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. We noted the following problems.

UNIVERSITY RESPONSE

Attachment C

BF893143 – When this issue was addressed in the last audit held, MUSC made changes for the services of this individual. The purchase order referenced is an old purchase order number which happened to have a few remaining payments related to the contract. MUSC no longer procures the services of any individual in this manner.

BF893144 – Same as above.

PO812145 – MUSC felt, at the time the services were required, this was a sole source. This has been discussed to the point where it requires no further explanation.
Attachment D

Ms. Betty Perdue has submitted an amended report to clear these items. (Amended report is enclosed.)

A. Sole Source Procurement

One procurement made as a sole source for the quarter ending June 30, 1990 was inappropriate. The written determination stated the Insurance Reserve Fund of the Budget and Control Board directed MUSC to use this vendor for repairs to microfiche readers. While the Insurance Reserve Fund did direct MUSC to use another vendor for a different repair, they did not direct the University to use the vendor in question. The transaction occurred on purchase order number PO802426 in the amount of $2,400.00.

This transaction should have been competitively bid.

UNIVERSITY RESPONSE

Although there is no written evidence to support the reason this vendor was selected to perform the services requested, MUSC will still stand by and defend its justification for sole source.

B. Emergency Procurements

The following three emergency procurements were not supported by evidence of solicitations of competition. They were as follows:
<table>
<thead>
<tr>
<th>PO#</th>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>1) PO804885</td>
<td>Repairs to radiator</td>
<td>$6,620.71</td>
</tr>
<tr>
<td>2) PO804904</td>
<td>Engine parts</td>
<td>3,786.95</td>
</tr>
<tr>
<td>3) PO805254</td>
<td>Preventive maintenance</td>
<td>2,466.00</td>
</tr>
</tbody>
</table>

Section 11-35-1570 states, "...emergency procurements shall be made with as much competition as is practicable under the circumstances." We believe time was available to solicit informal quotations on all of these transactions.

We recommend that as much competition as is practicable under the circumstance be solicited for emergency procurements.

UNIVERSITY RESPONSE

The three emergency procurements referenced were processed incorrectly. MUSC will seek as much competition as is practicable under the circumstances for emergency procurements.

C. Reporting Error

One procurement was reported as an emergency even though it was justified and approved as a sole source. This occurred on PO# 852968 for repair services from the equipment manufacturer in the amount of $929.00.

We recommend that an amended report be filed correcting this error.

UNIVERSITY RESPONSE

MUSC will submit an amended report correcting this error for PO852968.
D. Trade-in Sales

One trade-in sale procurement was neither approved by nor reported to the Division of General Services. It was as follows:

<table>
<thead>
<tr>
<th>PO#</th>
<th>Description</th>
<th>Trade-in Amount</th>
<th>PO Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>FA833184</td>
<td>Aluminum fixed angle rotor</td>
<td>569.10</td>
<td>$1,540.90</td>
</tr>
</tbody>
</table>

Regulation 19-445.2150(G) requires that trade-in values of $500.00 or more be approved in advance by the Materials Management Office. This was not done.

Since MUSC had no authority to trade in this equipment, this procurement was unauthorized. The MUSC President must request ratification of the trade-in from the Materials Management Officer in accordance with Regulation 19-445.2150(I).

UNIVERSITY RESPONSE

FA833184 - This purchase was processed incorrectly and MUSC will request ratification in accordance with the SCCPC. (See attached)

IV. Compliance - General

A. MBE Plan Not Filed Timely

Regulation 19-445.2160(E)(5) requires that Minority Business Enterprise Plans (MBE) be filed by August 1 of each fiscal year. We noted that one plan was filed late as follows:

<table>
<thead>
<tr>
<th>Plan</th>
<th>Approved by President</th>
</tr>
</thead>
<tbody>
<tr>
<td>FY88/89</td>
<td>January 12, 1989</td>
</tr>
</tbody>
</table>

We recommend that the MBE plans be submitted to the Governor's Office in a timely manner.
**UNIVERSITY RESPONSE**

MUSC is now in compliance with this finding. The FY89/90 and FY90/91 have met code requirements.

---

**B. Procurement Procedures Manual Needs Updating**

As part of our audit, we performed a review of the Procurement Procedures Manual for Code compliance. We found the manual to be in compliance with the following exceptions.

A) Page 5.8.40 states, "Whenever written quotations cannot be obtained, solicitations of verbal quotations will be made." This statement applies to purchases less than $2,500.00. Regulation 19-445.2100 states written quotes for procurements from $1,500.00 to $2,499.99 will be solicited. It does allow for telephone quotations on an exception basis if the agency requests the vendors to follow-up with written quotations.

B) Page 5.8.60 states, "No contract greater than $100.00 for the services of attorneys shall be awarded without the approval of the State Attorney General". Regulation 19-445.2025(d) states that all contracts for attorney services must be approved by the Attorney General.

C) Page 5.8.67 addresses the University's procurement certification levels. This section should be updated to reflect the current certification levels.

D) Page 5.8.68 addresses exempt procurements. This section should be updated to reflect the current exemption list.
We recommend that the indicated changes be made.

UNIVERSITY RESPONSE

All updates have been made and procurement is in the process of updating the entire manual.
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 South Carolina Consolidated Procurement Code.

We must state our concern over the audit exceptions listed herein. The University should take immediate action to eliminate the problem areas noted during our review. Primarily, these are procurements of construction services, supplies and materials for the physical plant. The University should complete corrective action by May 31, 1991.

We will perform a follow-up review in accordance with Section 11-35-1230(1) of the procurement Code to determine if the proposed corrective action has been taken.

Based on the follow-up review, and subject to this corrective action, we will recommend that the Medical University of South Carolina be recertified for a period of two (2) years at the following current limits:

<table>
<thead>
<tr>
<th>PROCUREMENT AREA/COMMODITY CLASS</th>
<th>AMOUNT PER COMMITMENT/CONTRACT</th>
</tr>
</thead>
<tbody>
<tr>
<td>Chemical/Reagents, Injectables,</td>
<td>*6,000,000 per commitment</td>
</tr>
<tr>
<td>Prescription Drugs, Intravenous</td>
<td></td>
</tr>
<tr>
<td>Solutions and Sets and all other</td>
<td></td>
</tr>
<tr>
<td>Commodities Defined in the Materials</td>
<td></td>
</tr>
<tr>
<td>Management Office (MMO) Commodity Code Manual under #115-Biochemical Research and #270-Drugs, Pharmaceuticals, Biologicals-Human Use, Initially Approved by MUSC's Products Evaluation Committee</td>
<td></td>
</tr>
</tbody>
</table>
Medical Supply Items and all other Commodities in the MMO Commodity Code Manual under #475-Hospital Sundries, including Linens, Gas Cylinders and Liquid Oxygen for Patient Use, Initially Approved by MUSC's Products Evaluation Committee

Hospital, Laboratory and Research Equipment

All other Goods and Services

Consultants

Construction Services

*$3,000,000 per commitment

*$ 100,000 per commitment

*$ 25,000 per commitment

*$ 10,000 per commitment

*$ 25,000 per commitment

As noted during our follow-up review (page 66), we did find significant improvement in compliance with the Code. However, based primarily on our audit results in construction, we cannot recommend the increases in certification requested by MUSC. Further, to ensure continued compliance, we will perform interim reviews periodically during the certification period.

R. Voight Shealy, Manager
Audit and Certification
MEDICAL UNIVERSITY OF SOUTH CAROLINA

SPECIAL EXAMINATION OF PROCUREMENTS
OF CONSTRUCTION SERVICES

JULY 1, 1985 - JUNE 30, 1989
SCOPE

Our examination consisted of an in-depth review of MUSC's procurements of construction services with a focus on permanent improvement projects for asbestos removal. We selected a sample of ten permanent improvement projects with an emphasis on self-managed projects where contracts were awarded by MUSC without the assistance of an outside architect-engineering firm. For these projects, we tested all procurements of contractor services in excess of $50,000 each for compliance with the Consolidated Procurement Code and the Manual for Planning and Execution of State Permanent Improvements. We avoided selection of permanent improvement projects that we tested during the performance of the audit that was submitted to the Budget and Control Board on June 19, 1989.

Specifically, we tested procurements of contractor services in excess of $50,000 each for the following permanent improvement projects:

<table>
<thead>
<tr>
<th>PIP Project Number</th>
<th>Project Description</th>
<th>Budget</th>
</tr>
</thead>
<tbody>
<tr>
<td>1) H51-9515</td>
<td>Viral Free Animal Surgical Facility</td>
<td>$689,571.92</td>
</tr>
<tr>
<td>2) H51-8288</td>
<td>Psychiatric Hospital 47-Bed</td>
<td>12,373,868.00</td>
</tr>
<tr>
<td>3) H51-9060</td>
<td>Student/Wellness Center</td>
<td>8,700,000.00</td>
</tr>
<tr>
<td>4) H51-8089</td>
<td>Hospital Renovation, Phase VIII</td>
<td>9,549,747.21</td>
</tr>
<tr>
<td>5) H51-8978</td>
<td>Shared Research Facility</td>
<td>654,390.00</td>
</tr>
<tr>
<td>6) H51-9181</td>
<td>Clinical Science-Ambulatory Care Center</td>
<td>2,880,000.00</td>
</tr>
</tbody>
</table>
7) H51-8287 Parking Garage II 9,249,279.94
8) H51-9180 Campus Asbestos Removal 1,100,000.00
9) H51-8316 Hospital Renovations, Phase IX 34,028,000.00
10) H51-9484 Hospital Asbestos Removal 792,000.00

SOURCE: State Budget and Control Board, Annual Permanent Improvement Program, Statewide Permanent Improvements Reporting System, Project Status Report For Fiscal Year 1988-89, OED Sources of Funds and Budget Data as of 5/16/89, STARS Expenditure Data as of 4/30/89.

Additionally, we observed a bid opening at the MUSC Physical Plant under permanent improvement project H51-8316, Hospital Renovations, Phase IX. Bids were opened for four asbestos removal contracts.
RESULTS OF EXAMINATION

I. Permanent Improvement Projects Audited During This Special Examination To Which We Take No Exception

As noted in the scope section of this report, we selected ten permanent improvement projects for testing. We tested all procurements of construction services in excess of $50,000 each for these projects. We take no exception to the procurements of construction services for the eight permanent improvement projects listed at Appendix A.

II. Exceptions

We did note exceptions in three of the ten permanent improvement projects tested during this special examination. The exceptions are listed as follows for these contracts and projects:

A. Permanent Improvement Project H51-9484, Hospital Asbestos Removal

1. Contract For Hospital Asbestos Removal, Fifth and Sixth Floors

On or about December 8, 1987, MUSC awarded a contract for asbestos removal for the fifth and sixth floors of the hospital in the amount of $84,073.00.

On March 2, 1988, MUSC accepted by letter change order proposal number 1 for $195,488, a 233% increase to the contract. The scope of work for the change order was to remove asbestos containing debris in Phase I of this project and complete Phases II and III under controlled conditions.
A memorandum to the record dated February 16, 1988 states that, at the direction of the State Engineer's Office, MUSC sought bids for this work. Bids were received of $98,999 and $114,750. The memorandum further states that the State Engineer advised MUSC verbally to "... write the contractor a letter disapproving the change order and directing the contractor (the low bidder above) to start work within fifteen days, with copy to his bonding company."

However, as noted above, the change order of $195,488 was accepted by MUSC. We noted that the change order was approved by the State Engineer on June 3, 1988, three months after the change order was accepted by MUSC.

**FINDINGS AND EXCEPTIONS**

1) The two bids received for the additional work covered by change order #1 were significantly lower than the original contractor's proposal, one $96,489 lower ($195,488 - $98,999). If bids were received that were this much lower, the change order should not have been accepted.

2) The change order acceptance by MUSC preceded the approval of the State Engineer by three months. This is a violation of the SPIRS manual, Section 90.03, which states in part, "The change order shall not become effective prior to the State Engineer's Office approval."

----------

On June 22, 1988, MUSC accepted the contractor's change order proposal number 2 for removing asbestos on the fourth floor, $201,715.00, and removing asbestos from 40% of the ninth floor, $117,720, for a total of $319,434. This change order alone is a 380% increase to the original contract. Combined with change order number 1, the cumulative increase is 612% of the original contract.
We note that change order number 2 was approved by the State Engineer on August 2, 1988, one month and a half after it was accepted by MUSC.

Findings and Exceptions

1) The scope of the original solicitation and resulting contract was for the removal of asbestos from the fifth and sixth floors of the hospital. A change order to add asbestos removal from the fourth and ninth floors of the hospital is clearly beyond the scope of this contract. Thus, the change order was unacceptable. The additional work should have been bid.

2) Acceptance of the change order proposal on June 22, 1988 by MUSC is a violation of Section 90.03 of the SPIRS Manual which requires the approval of the State Engineer in advance.

----------

On September 22, 1988, MUSC accepted the contractor's change order proposal number 3 "to clean up contaminated water, remove wet ceiling tiles and friable asbestos containing pipe insulation from pipe shafts on the first, second, third and fourth floors east wing, resulting from our water leak, on September 20, 1980" for $20,551.

A note in the file states, "This change due to a flood caused by work on Hospital Renovations - Phase IX being done by (another contractor)."

The change order was approved by the State Engineer on March 24, 1989, six months later.

Findings and Exceptions

1) This additional work was outside the scope of the original contract. Cumulatively, change orders of $535,473 ($195,488 + $319,434 + $20,551) or 637% of the original contract were accepted without competition. The last change order, number 3 for $20,551, may have been an emergency, but it was not declared as such with an emergency determination.
2) If, indeed, the contractor working on another project, Hospital Renovations Phase IX, caused the water problem, change order number 3 of $20,551 should have been back charged to him. We raised that question but never received a definite answer.

3) Acceptance of the change order proposal on September 22, 1988, six months before it was approved by the State Engineer, is a violation of Section 90.03 of the SPIRS Manual which requires his approval in advance.

B. Permanent Improvement Project H51-9180, Campus Asbestos Removal

1. Contract For Asbestos Removal, Various Floors, College of Nursing

On August 5, 1988, MUSC awarded a contract for asbestos removal from various floors of the College of Nursing Building for $99,792. The procurement was determined to be an emergency by an MUSC authorized official on January 9, 1989 due to, "Rains causing ceiling leaks and water damage to asbestos containing material throughout the College of Nursing." The MUSC approval of the emergency determination was dated six months after the contract was awarded.

According to documentation in the file, nine asbestos contractors were invited to attend a mandatory pre-bid conference and bid on the project. Four of these nine contractors attended. Bids were to be opened on August 2 but no bids were received.

MUSC decided to negotiate with one of the original nine asbestos contractors that was working on campus at the time even though file evidence indicated that he did not attend the mandatory pre-bid conference and did not submit a bid.

After not submitting a bid for the solicitation, the contractor submitted a bid on August 4, 1988 that was accepted by MUSC on August 5.
The State Engineer approved this emergency procurement on January 10, 1989, six months after the fact.

Findings and Exceptions

1) The plans and specifications prepared for this project simply listed various rooms on floors 1, 3 and 4 where the asbestos was to be removed. They did not clearly indicate where it was located.

2) The emergency procurement is unauthorized. Section 11-35-1570 of the Consolidated Procurement Code indicates that the chief procurement officer, the head of a purchasing agency or a designee of either officer may authorize others to make emergency procurements. Further, Section 130.07 of the SPIRS manual indicates that the agency shall request in writing to the State Engineer's Office use of the emergency procurement procedure. In an extreme situation the request may be made verbally, then followed up in writing.

However, neither approval, internally from MUSC nor externally from the State Engineer, was obtained until six months after-the-fact.

The contract indicates that the work was to be completed within sixty (60) days after the notice to proceed. Thus, the work was completed months before the approval for the emergency procurement was obtained.

3) In our opinion, if MUSC was to negotiate with a contractor, it should have been with one of the four that attended the mandatory pre-bid conference. The contractor that received the award was asked to attend the mandatory pre-bid conference but evidence indicates he did not.

4) Finally, after the asbestos removal was underway, it was discovered that the material was not asbestos at all. Survey work had been limited to only five samples being taken by the MUSC Safety Officer. He was ordered to only take five samples due to the cost of testing them. Testing of samples is about $25 per sample.

On January 9, 1989, change order number 1 was processed to delete rooms SN110, SN111, SN111A, SN112, SN113 and SN114 from the contract and credit $9,124 to MUSC. According to the original contract blue prints, these rooms were not a part of this contact. Therefore, we are unable to determine exactly what the credit included.
2. Contract For Asbestos Removal, Basic Science Building, Seventh Floor

On September 12, 1986, MUSC awarded a contract for asbestos removal from the seventh floor of the Basic Science Building totalling $295,339 based on a proposal from a single vendor dated August 14, 1986. On September 12, 1986, a request for an emergency procurement was prepared on the basis that Federal funds might be lost if the project did not progress. The determination indicated that, "The advance emergency purchase of these services will result in an October 20, 1986 completion date which will allow the minimum amount of time to complete the work. Should we wait until after the bids are opened and awarded, we will not be completed until February 1, 1987."

The emergency determination was never signed by an authorized official of MUSC or the State Engineer.

This permanent improvement project was approved by the Budget and Control Board on September 9, 1986 for $250,000 and increased to $800,000 on March 24, 1987. So, the award of a contract on September 12, 1986, for $295,339 exceeded the funding authorization of the Budget and Control Board.

Findings and Exceptions

1) We question the appropriateness of the emergency procurement on the basis that Federal funds might be lost. This seems to indicate a lack of planning.

2) The emergency procurement was unauthorized since it was never approved by an authorized official at MUSC or by the State Engineer. Ratification must be requested in accordance with Regulation 19-445.2015.

3) This procurement of $295,339 was made without competition. Section 11-35-1570 of the Consolidated Procurement Code requires that emergency procurements be made with as much competition as is practicable under the circumstances,
4) The procurement is also unauthorized based on the lack of approved funding for the project. This fact should be reported to the Budget and Control Board.

5) The emergency procurement was not reported to the Division of General Services as required by Section 11-35-2440 of the Consolidated Procurement Code.

----------

On December 2, 1987, MUSC accepted the contractor's change order number 1 to remove asbestos from the third floor of the Basic Science Building for $130,689.

On December 23, 1987, the State Engineer returned the change order request to MUSC stating, "It is the opinion of this office that adding by change order removal of asbestos on the 3rd floor in the amount of $130,689 to the original contract... is not within the scope of that project."

On January 13, 1988, MUSC returned the change order to the State Engineer and stated, "The actual work on this change order started in July, 1987 and is now 75% complete."

On January 19, 1988, the State Engineer approved the change order.

Findings and Exceptions

1) The change order for $130,689 was approved by MUSC without competition. This means this procurement is now $426,028 without any competition. ($295,339 + $130,689)

2) MUSC, in its letter of January 13, 1988, stated that the change order was a violation of Section 90.03 of the SPIRS manual since the work was almost complete before the State Engineer's approval was requested.

3) The work to be performed under the change order may have been within the scope of the permanent improvement project. However, it is clearly outside the scope of the contract. An invitation for bids should have been processed towards award of a contract for the additional work. Adding the work by change order was inappropriate.

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3. Contract For Asbestos Removal, College of Nursing, Fifth Floor

On September 23, 1987, MUSC opened quotations from three asbestos contractors for the removal of asbestos from the fifth floor of the College of Nursing. On September 30, MUSC accepted the low quotation and authorized the vendor to proceed with removal and replacement of ceilings, lights, carpet, etc., and to return the space to its original condition for $88,764.

The procurement was declared an emergency due to the fact that the asbestos contamination of the area had been caused by water damage due to heavy rains while a contractor was replacing the roof on the building.

The State Engineer approved the contract and the emergency procurement on November 6, 1987, after a staff member noted, "I recommend that this (SE560 and SE380) be signed even though they (MUSC) have abused the 'E.P.' (Emergency procurement) method. All work has been done."

Findings and Exceptions

1) Notes in the files of the State Engineer indicate that his office did not accept all phases of this project as an emergency procurement. They felt that the asbestos removal (Phase I for $49,323) was appropriate as an emergency procurement, but that the replacement (Phase II for $39,441) was inappropriate as an emergency procurement. Section 130.04 of the SPIRS manual states, "Emergency procurement shall be limited to those supplies, services, or construction items necessary to meet the emergency."

As noted above, the State Engineer approved the procurement only after stating his objections. Further, it is apparent that his approval was given out of frustration since the work was complete.
2) Since the contract was awarded by MUSC and work proceeded without the approval of the State Engineer, the procurement is in violation of Section 130.07 of the SPIRS manual which requires the advance approval of the State Engineer.
SUMMARY AND RECOMMENDATIONS

I. Surveys, Plans and Specifications

As noted herein, plans and specifications for asbestos projects that we have reviewed were at times complete and at other times, too generalized. We believe that this has been caused by four things:

1) There is no comprehensive plan to organize and schedule asbestos removal from various areas of the hospital.

2) The MUSC Physical Plant is faced with unreasonable time constraints by hospital administration to complete projects quickly so that patients can be moved back into the areas of the hospital.

3) MUSC has never contracted with an outside architect-engineer firm to survey, plan and manage an asbestos abatement project.

4) In our opinion, the MUSC Safety Office is very qualified to survey areas for asbestos. However, on one project, the Safety Officer was told that he could only take five samples from a building. He stated that normally he would have taken many more samples. The five samples contained asbestos. However, it was discovered after abatement began that the unsurveyed areas did not contain asbestos.

Recommendations

MUSC should develop a comprehensive plan for removal of asbestos from areas of the hospital. Contracts with outside firms should be let if such assistance is required. The plan
should be organized as to not vacate hospital space for longer periods than are necessary but acknowledge also that this is an unavoidable situation that takes time to correct.

Areas should be carefully and thoroughly surveyed before bids are solicited. Survey results should be made available to potential contractors. Based on the expertise of the MUSC Safety Office, surveys must not be absolutely performed by outside architect-engineer firms; but if they are performed by the Safety Office, they should be given greater authority to question and challenge procedures.

II. Change Orders

Partially due to I. above and partially due to an attitude that additional work may be added to a contract as long as it is within the scope of the permanent improvement project, change orders have been authorized in tremendous amounts without regard to the scope of the contracts and without regard to the competitive requirements of the Consolidated Procurement Code.

Recommendations

As stated in I. above, complete plans and specifications should be developed for each asbestos abatement project and contract. Change orders, if necessary, should only be authorized where the work is within the scope of not only the project, but also within the scope of the contract.

The scope of many of the permanent improvement projects is so broad, i.e. Hospital Renovations, Phase IX, Campus Asbestos Removal, that it is not difficult to say that additional work
requirements fall within them. The scope of the solicitations and resulting contracts, however, are what contractors were given the opportunity to bid on.

III. Approvals From the State Engineer

The Manual for Planning and Execution of State Permanent Improvements requires extensive approvals from the State Engineer. We acknowledge that the construction process is such that, at times, verbal approvals must be given with paperwork being processed after-the-fact. However, for the asbestos abatement projects that we have reviewed, the after-the-fact process has been the norm, not the exception. Further, after-the-fact has been stretched beyond reasonable limits, i.e. six months in some cases, after completion of work in many cases.

Recommendation

We recommend that MUSC strictly adhere to the Manual for Planning and Execution of State Permanent Improvements.
### Schedule of Permanent Improvement Projects

#### Contracts Tested Without Exception During This Special Examination

<table>
<thead>
<tr>
<th>PIP Project Number</th>
<th>Project/Contract Description</th>
<th>Contract Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>1) H51-9515</td>
<td>Viral Free/Animal Surgical Facility Renovation</td>
<td>$156,498.57 A</td>
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<tr>
<td>2) H51-8288</td>
<td>Psychiatric Hospital 47-Bed Construction</td>
<td>9,838,530.58 B</td>
</tr>
<tr>
<td>3) H51-9060</td>
<td>Student/Wellness Center Asbestos Flooring Ceilings HVAC Plumbing Building Electrical Painting Piling</td>
<td>84,231.25 C 35,757.00 32,296.00 153,665.00 85,666.50 285,652.65 118,103.00 37,727.00 584,312.48</td>
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<tr>
<td>4) H51-8089</td>
<td>Hospital Renovation, Phase 8 Demolition/Renovations Demolition/Renovations Demolition/Renovations Demolition/Renovations Demolition/Renovations North Tower, Phase I</td>
<td>792,417.74 D 74,252.97 2,223,388.22 225,331.14 53,879.00 2,229,838.50 1,551,678.85</td>
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<td>5) H51-8978</td>
<td>Shared Research Facility Renovations</td>
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<tr>
<td>6) H51-9181</td>
<td>Clinical Science-Ambulatory Care Center Renovations</td>
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<td>H51-8287</td>
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<td>Piling</td>
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<td>Construction</td>
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<td>Insulation</td>
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Footnotes

A Per the SE-610, Certification of Availability of Approved Funding as of 4/6/89
B Per the SE-610, Certification of Availability of Approved Funding as of 3/21/89
C Per the SE-610, Certification of Availability of Approved Funding as of 5/22/89
D Per the SE-610, Certification of Availability of Approved Funding as of 5/11/89
E Per the SE-610, Certification of Availability of Approved Funding as of 11/19/88
F Per the SE-610, Certification of Availability of Approved Funding as of 1/18/89
G Per the SE-610, Certification of Availability of Approved Funding as of 5/18/89.
## 1) PROCUREMENTS NOT SUPPORTED BY EVIDENCE OF COMPETITION

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<tr>
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<td>1. 2739</td>
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<td>1108.80</td>
<td>Strobe/speaker</td>
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<td>3. 23262</td>
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<td>Power supply</td>
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<td>4. 25906</td>
<td>755.00</td>
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<td>5. 25860</td>
<td>885.00</td>
<td>Remove A/C unit</td>
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<td>6. 23640</td>
<td>860.00</td>
<td>Remove cabinets</td>
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<tr>
<td>7. 23277</td>
<td>1223.60</td>
<td>Power supply</td>
</tr>
<tr>
<td>8. 23275</td>
<td>957.60</td>
<td>Module board</td>
</tr>
<tr>
<td>9. 24957</td>
<td>950.80</td>
<td>Repair generator</td>
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<td>10. 25708</td>
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<td>13. 24898</td>
<td>1132.50</td>
<td>Disposal bags</td>
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<td>14. 2779</td>
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<td>15. 24992</td>
<td>3077.12</td>
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2) PROCUREMENTS FROM $1,500.00 TO $2,499.99 SUPPORTED BY ONE VERBAL QUOTE AND TWO "NO QUOTES"

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<td>2798</td>
<td>2442.24 Ceiling tile</td>
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<td>23261</td>
<td>1962.20 Module boards</td>
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<td>18.</td>
<td>24057</td>
<td>1675.00 Heat exchanger</td>
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3) PROCUREMENTS FROM $1,500.00 TO $2,499.99 SUPPORTED BY TWO VERBAL QUOTES AND ONE "NO QUOTE" OR THREE VERBAL QUOTES

a) TWO VERBAL QUOTES, ONE "NO QUOTE"

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<td>1.</td>
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<td>25372</td>
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<td>2310.00 Suction pumps</td>
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<td>4.</td>
<td>23289</td>
<td>1539.20 Modules</td>
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<td>5.</td>
<td>25355</td>
<td>2048.36 A/C repair parts</td>
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b) THREE VERBAL QUOTES

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<td>1.</td>
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<td>2822</td>
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<td>1926.00 50# cylinders - Freon</td>
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4) PROCUREMENTS SUPPORTED BY TWO VERBAL QUOTES

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<td>3. 24744</td>
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5) SPLIT PROCUREMENTS

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<td>6. 2795</td>
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<td>Electrical supplies</td>
</tr>
</tbody>
</table>
February 22, 1991

Mr. Ed. Antoniak
Director of Procurement
Medical University of South Carolina
171 Ashley Avenue
Charleston, South Carolina 29425

Dear Ed:

The Office of Audit and Certification conducted a review of three quarters of sole source, emergencies, and trade-ins since our last audit. This covered the period of October 1, 1988 through June 30, 1989.

Our findings were as follows:

Harris P. Kinder, CPA is not a sole source. Competition should be sought possibly by the RFP method. (BF893143 - Est $54,600)

William G. Kee is not a sole source. Competition should be sought using the RFP procurement method. (BF893144 - Est $36,000)

The CSX contract for patient collections is not a sole source. Competition should have been sought. (812145 - $900,000)

Please contact me if you would like to discuss these items. Otherwise, please reply to the items listed above. Your response will be included in the next audit.

Sincerely,

R. Voight Shealy
Manager
Audit and Certification
June 26, 1990

Mr. Edwin P. Antoniak, Jr., CPPO
Director of Procurement
Medical University of South Carolina
171 Ashley Avenue
Charleston, South Carolina 29425

Dear Ed:

We have returned to MUSC to perform an interim review of all sole source and emergency procurement activity and trade-in sales covering the period July 1, 1989 through March 31, 1990.

During this review we noted several procurements which were improperly reported. These were discussed with Betty Perdue and an amended report is to be filed to clear these items.

Sincerely,

R. Voight Shealy, Manager
Audit and Certification
September 4, 1991

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 Medical University of South Carolina (MUSC) May 22-31 to follow-up on their progress toward implementing the recommendations that we made in this report. Due to our audit findings, we did extensive testing of their procurement transactions for the period July 1, 1990 – May 31, 1991.

During the follow-up period, we noted improving audit results in the areas tested. Further, MUSC implemented our recommendations made both in the audit report and subsequent to it. Based on these improvements, we recommend that MUSC be recertified as indicated in the report.

The following are the results of our follow-up review:

SCOPE

We verified the Medical University of South Carolina's corrective action for each recommendation that we made in this report. Also, we tested the following additional transactions:

1) All emergency procurements for the period 7/1/90 – 3/31/91
2) All sole source procurements and trade-in sales for the period 7/1/90 - 12/31/90

3) All procurements of goods and services made by the Physical Plant buyers to vendors with names beginning A-C and R-T for the period 7/1/90 - 5/31/91

4) All construction and construction related contracts entered into for the period 12/6/90 - 5/6/91

Findings and Comments

I. Emergency Procurements

A. Unjustified Emergencies Made Without Competition

We noted five emergency procurements that we do not believe were justified. All of these were made without any evidence of competition.

<table>
<thead>
<tr>
<th>PO Date</th>
<th>PO Number</th>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>1) 06/27/90</td>
<td>PO805462</td>
<td>Repair seam on metal roof</td>
<td>$4,400.00</td>
</tr>
<tr>
<td>2) 07/19/90</td>
<td>PO805488</td>
<td>Repair, furnish &amp; install vinyl flooring</td>
<td>13,953.00</td>
</tr>
<tr>
<td>3) 07/19/90</td>
<td>PO805470</td>
<td>Eradicate microbial growth</td>
<td>20,000.00</td>
</tr>
<tr>
<td>4) 07/27/90</td>
<td>PO805521</td>
<td>Install lights, receptacles, nurse call system, fire alarm system &amp; smoke detectors</td>
<td>98,615.00</td>
</tr>
<tr>
<td>5) 10/19/90</td>
<td>PP805639</td>
<td>Install new HVAC system</td>
<td>86,782.00</td>
</tr>
</tbody>
</table>

In each instance, we failed to see why MUSC bypassed the competitive sealed bid procedures. Even under emergency determinations informal quotations should have been solicited.

B. Unjustified Emergency Procurements

We noted seven instances where procurements were declared emergencies due to poor planning. MUSC did make attempts to secure informal competition. However, poor planning does not justify an emergency. These transactions were as follows:

<table>
<thead>
<tr>
<th>PO Date</th>
<th>PO Number</th>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>1) 06/26/90</td>
<td>PO805440</td>
<td>Roof repair at Colcock Hall</td>
<td>$13,651.00</td>
</tr>
<tr>
<td>2) 10/02/90</td>
<td>PP805658</td>
<td>Renovations to Immunology Lab</td>
<td>28,584.00</td>
</tr>
<tr>
<td>3) 10/29/90</td>
<td>PP805720</td>
<td>Renovations to Immunology Lab</td>
<td>3,969.00</td>
</tr>
<tr>
<td>4) 10/26/90</td>
<td>PP805719</td>
<td>Renovations to Immunology Lab</td>
<td>3,266.00</td>
</tr>
<tr>
<td>5) 10/19/90</td>
<td>PP805695</td>
<td>Renovations to ground floor of Anderson House</td>
<td>24,616.00</td>
</tr>
<tr>
<td>6) 10/19/90</td>
<td>PP805696</td>
<td>Reroof Anderson House</td>
<td>24,800.00</td>
</tr>
<tr>
<td>7) 03/19/91</td>
<td>LI913011</td>
<td>Equipment Rental</td>
<td>25,000.02</td>
</tr>
</tbody>
</table>
In our opinion, MUSC could have avoided these emergencies by better planning.

C. Emergency Made Without Competition

We noted one procurement dated 6/27/90 which was properly declared an emergency but was made without solicitations of competition. This occurred on PO 805431 for 34 surge protectors which totalled $16,320.00.

While we agree with the emergency condition, we believe time was available to solicit competition.

II. Sole Source Procurements

A. Procurements Not Adequately Justified As Sole Sources

We believe the following twelve procurements were inappropriately classified as sole sources:

<table>
<thead>
<tr>
<th>PO Date</th>
<th>PO Number</th>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>1)</td>
<td>08/31/90</td>
<td>FA834448 Plastic chambers</td>
<td>$1,428.17</td>
</tr>
<tr>
<td>2)</td>
<td>07/31/90</td>
<td>MF913268 Monthly maintenance on</td>
<td>720.00</td>
</tr>
<tr>
<td></td>
<td></td>
<td>sprinkler system</td>
<td></td>
</tr>
<tr>
<td>3)</td>
<td>07/01/90</td>
<td>MF913050 Maintenance &amp; care of plants</td>
<td>2,820.00</td>
</tr>
<tr>
<td>4)</td>
<td>10/02/90</td>
<td>PO805668 Disposal of hazardous waste</td>
<td>20,000.00</td>
</tr>
<tr>
<td>5)</td>
<td>11/19/90</td>
<td>PO805761 Disposal of hazardous waste</td>
<td>25,000.00</td>
</tr>
<tr>
<td>6)</td>
<td>11/05/90</td>
<td>PO805734 Food waste disposer</td>
<td>2,447.00</td>
</tr>
</tbody>
</table>

We believe competition was available on these items and they should have been competed in accordance to the Procurement Code.

III. Construction

Based on our review of construction procurements, we noted only one exception which we consider to be material. MUSC has not sent copies of certified bid tabulations to responding vendors for contracts less than $50,000.00.

Section 11-35-3020 of the Consolidated Procurement Code requires that copies of certified bid tabulations be sent to all responding vendors on construction procurements.

We recommend MUSC adhere to this requirement.
IV. Physical Plant Procurements of Goods and Services

We noted two exceptions in our review of Physical Plant procurements of goods and services. They were:

A. One procurement was split and consequently was not sealed bid. It was as follows:

<table>
<thead>
<tr>
<th>Date</th>
<th>PO Number</th>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>01/25/91</td>
<td>FA805900</td>
<td>2 each heating/cooling units</td>
<td>$1,074.00</td>
</tr>
<tr>
<td>01/25/91</td>
<td>FA805901</td>
<td>2 each heating/cooling units</td>
<td>1,074.00</td>
</tr>
<tr>
<td>01/25/91</td>
<td>FA805902</td>
<td>1 each heating/cooling unit</td>
<td>537.00</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Total</td>
<td>$2,685.00</td>
</tr>
</tbody>
</table>

MUSC solicited three written quotes. However, the Code requires that three sealed bids be solicited.

We recommend that in the future like procurements be combined and the appropriate amount of competition be solicited.

B. A contract for asbestos air monitoring services was not approved by the State Engineer. This occurred on PR 26924 in the amount of $650.00 dated 1/21/91.

All such contracts regardless of the dollar amount must be approved by the State Engineer. We recommend MUSC adhere to this requirement.

Conclusion

We find that MUSC has completed all required corrective action that we addressed in our recent audit. In the primary area of concern, construction services, we noted marked improvement. In a second area of concern, emergency procurements, we noted progressive improvement over the follow-up period. In the third area of concern, Physical Plant procurements of goods and services, we noted marked improvement.

We will continue to monitor MUSC's progress in these and all other procurement areas. Based on our follow-up results, we recommend that MUSC be recertified at the existing levels. However, due to the number of exceptions that we noted during the audit, we do not recommend the certification increases that MUSC requested.

Sincerely,

R. Voight Shealy, Manager
Audit and Certification

RVS/jjm
June 25, 1991

Mr. R. Voight Shealy, Manager
Audit and Certification
Materials Management Office
1201 Main Street, Suite 600
Columbia, SC 29201

Dear Voight:

Listed below are the responses to the findings and recommendations described in the follow-up audit conducted the last part of May 1991:

I. Emergency Procurements

A. Unjustified Emergencies Made Without Competition

1) PO805462- This was related to damage caused by Hurricane Hugo. MUSC agrees sealed bids should have been solicited. We have implemented policies to avoid future occurrences of this nature.

2) PO805488, PO805521 and PO805639- These contracts are for the same area, Labor and Delivery, 4th Floor Center Wing. MUSC did not seek bids because MUSC assumed the role of General Contractor and hired Professional Carpet Sales, Gregory Electric Company and Cullum Mechanical as subcontractors. These contractors were hired because they are all subcontractors on the Hospital Renovations Phase IX, S.C. Project No H51-8316-BW and had the necessary materials and experienced mechanics on site. Having the required materials and manpower available was critical to completing this project in the time frame allotted. See Exhibit "A", "B", and "C" for additional explanation.

3) PO805470- This purchase was related to damage caused by Hurricane Hugo. MUSC agrees sealed bids should have been solicited. We have implemented policies to avoid future occurrences of this nature.
B. Unjustified Emergency Procurements

MUSC agrees with the findings related to these procurements. Better planning procedures have been implemented in hopes of minimizing future occurrences of this nature.

C. Emergency Made Without Competition

PO805431- The reference folder does not reflect that Mr. Strickland contacted Perry Mann Electric and Moore Electric both of whom did not bid. Only recently has it been determined this is a sole source vendor for these items. A sole source letter has been obtained and is attached as Exhibit "D".

D. Questioned Emergency Audit Trail

PP805482- The flow of paper is misleading. The emergency verbal order to correct the air conditioning problem was issued on 07/12/90. On 09/14/90, the problem creating the emergency was eliminated but the payment for the rental of the chillers was still due the vendor. On 11/26/90, the hard copy of the purchase order was typed and should have been dated 07/12/90 but was dated the day it was typed, not the date the verbal order was given to "Cullum Mechanical". During this entire transaction it was absolutely impossible to predetermine the final and total cost. Only after the project was completed could the final cost be determined. The original order was issued pending at least a partial payment to the vendor based on the outlay they had committed for the repairs to correct the problem plus the rental of the chillers. MUSC thought the total price was received and a change order was processed on 01/07/91. Then Cathy. Hund advised Mr. Holcombe (Cullem) that a bond was due. The amount of the bond was based on the amount of the purchase order; therefore, it could not be processed until a final invoice was received which resulted in the change order for $2007.00 dated 04/04/91.

E. Unnecessary Emergency Procurements

PO805669, PO805737 and PO812700- MUSC agrees these were all processed incorrectly. MUSC will review procedures to eliminate this from occurring in the future.
II. Sole Source Procurements

A. Procurements Not Adequately Justified As Sole Sources

1) FA834448- This purchase should have had competition. This sole source purchase was based on the judgement of the procurement officer working with this purchase. This employee was not performing as required during this time period. The only way to document evidence that the employee was not performing adequately was to allow her to make errors, to allow action to be taken based on job performance. In this case, we were damned. The employee is no longer working at MUSC.

2) MF913268- The monthly maintenance on the sprinkler system was dealt with incorrectly. This transaction should not have been processed as a sole source.

3) MF913050- This purchase was also prepared incorrectly. This purchase (along with the one above) was processed by a procurement officer who was facing progressive disciplinary action for poor quality of work. This procurement officer is now gone.

4) PO853131 and PO853334- In accordance with the Lease Agreement dated February 26, 1988, Charleston Office Associates contracted with Development Properties, Inc., as agent and developer, to perform all renovations and remodeling. This agreement has assured continuity will be maintained while avoiding duplication of effort and protecting the sensitive discipline areas of the building.

5) BF903162 and BJ903146- The Medical University was unable to find another vendor to provide the services required. No other vendor could provide in-house, micro-based edit routines with the ability to cover approximately all of our insurance carriers with the capability of a turnkey electronic claims transfer. We do acknowledge there are other vendors who can do collections but not with electronic claims transfer with the micro-based edit routines.

6) PO850621- At the time of the purchase, the requesting department did not have alternate sources for competition. The procurement officer was not able to find any other paper that would work properly in the EEG machines. Since December 1990, the date of the purchase order, the procurement officer has worked with the department and the paper will be bid. There are now distributors for this paper and the requisitions have been received to cover the needs of the hospital regarding this type of paper.
7) **PO853423-** This transaction was solicited and a determination was made that Palmetto Ford was the only truck shop with the Ford Company within a one hundred mile radius. The repair had to be made by the Ford Company due to a limited warranty that covered $1000.00 of the repair cost.

8) **PO805668** and **PO805761-** Disposal of hazardous waste should have been processed as an emergency versus a sole source procurement. These purchases were processed incorrectly. The procurement officers have been instructed on the proper procedures to follow.

9) **PO805734-** Food waste disposer should have been competed. The procurement officer dealing with this vendor since 1974, was not aware competition was available. Mr. Strickland is now aware other branches of Hobart do sometimes quote against each other and will seek competition on all future purchases related to this vendor.

**B. Product Evaluation Not Performed**

**M0988600-** MUSC agrees the wrong blanket determination number was used for this sole source procurement. This error has caused procedures to change assuring all evaluation documentation is included in the reference file when the blanket determination number 10 is used. In this instance, when materials were to be evaluated, only one vendor could supply a segmented pressure relief overlay system versus a convoluted foam pad. Once the vendors sent in their samples, an evaluation was not necessary and a blanket determination number of 5 (Medical instruments and supplies available only from a single source) should have been utilized.

**III. Construction**

This was a misunderstanding of correct procedures to follow. Mr. George Dawson has assured this will not happen again. Certified bid tabulations will be sent to all bidders on all contracts, regardless of amount.

**IV. Physical Plant Procurements of Goods and Services**

**A. Splitting of Orders**

**FA805900, FA805901 and FA805902-** Consolidation will be adhered to in the future.
B. Approval by the State Engineer

PR26924—All contracts associated with asbestos air monitoring services regardless of the dollar amount will be approved by the State Engineer.

If there are any questions or if additional information is required, pertaining to the corrective action efforts by MUSC associated with this follow-up audit, please contact me.

Sincerely,

[Signature]

Howard G. Lundy, Jr.
Controller and Assistant Treasurer

HGLjr/epa

attachments