South Carolina
Division of General Services

PROCUREMENT
AUDIT AND
CERTIFICATION

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THE MEDICAL UNIVERSITY OF
SOUTH CAROLINA
AGENCY
APRIL 1, 1993 - MARCH 31, 1997
DATE
Ms. Helen T. Zeigler, Director
Office of General Services
1201 Main Street, Suite 420
Columbia, South Carolina 29201

Dear Helen:

I have attached the Medical University of South Carolina’s procurement audit report and recommendations made by the Office of Audit and Certification. I concur and recommend the Budget and Control Board grant the University a three year certification as noted in the audit report.

Sincerely,

[Signature]
R. Voight Shealy
Materials Management Officer

July 25, 1997
MEDICAL UNIVERSITY OF SOUTH CAROLINA
PROCUREMENT AUDIT REPORT
APRIL 1, 1993 - MARCH 31, 1997
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Mr. R. Voight Shealy  
Materials Management Officer  
Office of General Services  
1201 Main Street, Suite 600  
Columbia, South Carolina 29201

Dear Voight:

We have examined the procurement policies and procedures of the Medical University of South Carolina for the period April 1, 1993 through March 31, 1997. 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 University procurement policy. Additionally, the evaluation was used in determining the nature, timing and extent of other auditing procedures necessary for developing an opinion on the adequacy, efficiency and effectiveness of the procurement system.

The administration of the Medical University of South Carolina is responsible for establishing and maintaining a system of internal control over procurement transactions. In fulfilling this responsibility, estimates, and judgments by management are required to assess the expected benefits and related costs of control procedures. The objectives of a system are to provide management with reasonable, but not absolute, assurance of the integrity of the
procurement process, that affected assets are safeguarded against loss from unauthorized use or disposition and that transactions are executed in accordance with management's authorization and are recorded properly.

Because of inherent limitations in any system of internal control, errors or irregularities may occur and not be detected. Also, projection of any evaluation of the system to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or that the degree of compliance with the procedures may deteriorate.

Our study and evaluation of the system of internal control over procurement transactions, as well as our overall examination of procurement policies and procedures, were conducted with professional care. However, because of the nature of audit testing, they would not necessarily disclose all weaknesses in the system.

The examination did, however, disclose conditions enumerated in this report which we believe need correction or improvement.

Corrective action based on the recommendations described in these findings will in all material respects place the Medical University of South Carolina in compliance with the South Carolina Consolidated Procurement Code and ensuing regulations.

Sincerely,

Larry G. Sorrell, Manager
Audit and Certification
INTRODUCTION

We conducted an examination of the internal procurement operating policies and procedures of the Medical University of South Carolina. Our review began on May 12, 1997 and ended on June 5, 1997. We also conducted two interim reviews, one in 1995 and the other in February of this year. The review was made under 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 Medical University of South Carolina in promoting the underlying purposes and policies of the Code as outlined in Section 11-35-20 which include:

(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 Office of General Services shall review the respective governmental body's internal procurement operation, shall verify in writing that it is consistent with the provisions of this code and the ensuing regulations, and recommend to the Board those dollar limits for the respective governmental body's procurement not under term contract.

On September 15, 1993, the Budget and Control Board granted the Medical University of South Carolina the following procurement certifications:

<table>
<thead>
<tr>
<th>Category</th>
<th>Limit</th>
</tr>
</thead>
<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>
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</tr>
<tr>
<td>Information Technology in accordance with the approved Information Technology Plan</td>
<td>$50,000 per commitment</td>
</tr>
</tbody>
</table>

Our audit was performed primarily to determine if recertification is warranted. The Medical University of South Carolina did not request increased certification limits.
SCOPE

We conducted our examination in accordance with Generally Accepted Auditing Standards as they apply to compliance audits. Our examination encompassed a detailed analysis of the internal procurement operating procedures of the Medical University of South Carolina and its related policies and procedures manual to the extent we deemed necessary to formulate an opinion on the adequacy of the system to properly handle procurement transactions.

We statistically selected a sample for the period July 1, 1993 through February 28, 1997 of procurement transactions for compliance testing and performed other audit procedures that we considered necessary to formulate this opinion. Specifically, the scope of our audit included, but was not limited to, a review of the following:

(1) All sole source, emergency and trade-in sale procurements for the period April 1, 1993 through March 31, 1997

(2) Procurement transactions for the period July 1, 1993 through February 28, 1997 as follows:
   a) One hundred eighty three payments greater than $1,500
   b) A block sample of four hundred twenty eight numerical purchase orders
   c) An additional test of twenty three sealed bids
   d) One revenue generating contract

(3) Eight professional service contracts and sixteen construction contracts for compliance with the Manual for Planning and Execution of State Permanent Improvements

(4) Minority Business Enterprise Plans and reports for the audit period

(5) Information technology plans for fiscal years 93/94, 94/95 and 95/98

(6) Internal procurement procedures manual

(7) Surplus property procedures
SUMMARY OF AUDIT FINDINGS

Our audit of the procurement system of the Medical University of South Carolina, hereinafter referred to as the University, produced findings and recommendations as follows.

I. Sole Source, Emergency and Trade In Sale Procurements
   A. Physical Plant Sole Source and Emergency Procurements Not Reported
      The sole source and emergency procurements processed from the Physical Plant were not properly coded by the Procurement Office which allows the automated system to identify and report these procurements to the Materials Management Office.
   B. Sole Sources and Emergencies With Trade In Sales Not Accurately Reported
      Due to a limitation of the automated reporting system, when trade-in sales occur on sole source or emergency procurements, the University has been reporting the net expenditures rather than the total value of the procurement.
   C. Other Reporting Errors
      Three other reporting errors were found during our testing that need correcting.
   D. Emergency Caused By Poor Planning
      One procurement was done as an emergency due to the untimely submission of the requisition from the department to the Procurement Office.

II. Procurement Procedures
   A. Vendor’s Right To Protest Statement Not Recorded
      The vendor’s right to protest statement was not always recorded on the Statement of Award or the Notice of Intent to Award.
B. **Bids and Quotes Not Always Date Stamped**

We noticed that not all bids and quotes had been date and time stamped showing that they had been received prior to the openings.

C. **Unauthorized Purchase Modification**

A change was done without obtaining prior approval from the Procurement Office.

D. **Vendor's Bid Opened Prior to Bid Opening**

One vendor’s bid was opened three days before bid opening.

III. **Other Audit Findings**

A. **Blanket Purchase Agreements (BPA)**

On one blanket purchase agreement the release exceeded the authorized level making it unauthorized. Further, competition was required yet it was not obtained. On four other BPA releases, we were unable to verify that an authorized user had placed the orders.

B. **Late Payments**

Three payments were not made in a timely manner.
RESULTS OF EXAMINATION

I. Sole Source, Emergency and Trade In Sale Procurements

We examined the quarterly reports of sole source, emergency and trade-in sale procurements for the period July 1, 1993 through June 30, 1996. The review was performed to determine the appropriateness of the procurement actions taken and the accuracy of the reports submitted to the Office of General Services as required by Section 11-35-2440 of the Code. During this review, we did not question many of the sole source purchases made because of physicians' preferences and the highly technical medical requirements due to the limited medical expertise available to this office. We did note, however, the following exceptions.

A. Physical Plant Sole Source and Emergency Procurements Not Reported

From our sample of construction procurements, we noted that sole source and emergency procurements processed from the Physical Plant were not properly coded by the Procurement Office. Consequently, the automated system did not identify and report these procurements to the Materials Management Office. The University uses a transaction code 7 to identify emergency procurements and a transaction code 8 to identify sole source procurements. The code is recorded through electronic means on the purchase orders prepared by the Procurement Office. However, the following four purchase orders had a transaction code 1 instead of the code 7 or 8.

<table>
<thead>
<tr>
<th>PO</th>
<th>Description</th>
<th>Unreported Amount</th>
<th>Procurement Type</th>
</tr>
</thead>
<tbody>
<tr>
<td>PP562014</td>
<td>Pneumatic tube system expansion</td>
<td>$116,114</td>
<td>Sole source</td>
</tr>
<tr>
<td>PP879391</td>
<td>Interior signage</td>
<td>49,385</td>
<td>Sole source</td>
</tr>
<tr>
<td>PP562186</td>
<td>Expand existing tube system</td>
<td>31,394</td>
<td>Sole source</td>
</tr>
<tr>
<td>PP562297</td>
<td>HVAC repairs and expansion</td>
<td>100,886</td>
<td>Emergency</td>
</tr>
</tbody>
</table>

We believe the improper coding of purchase orders that resulted in these procurements not being reported occurred on all sole source and emergency procurements originating from the Physical Plant. We have no mechanism of determining how many sole source and emergency transactions were not reported as required by Section 11-35-2440 of the Code or when the
problem began. As a result we have no way of determining if the quarterly reports for the audit period are materially correct.

We recommend the Procurement Office properly record transaction codes on Physical Plant sole source and emergency procurements thus allowing the automated system to identify and report these procurements. The Procurement Office should attempt to identify those transactions not reported for the audit period and file amended reports adding these procurements.

B. Sole Sources and Emergencies With Trade In Sales Not Accurately Reported

Due to a limitation of the automated reporting system, when trade in sales occur on sole source or emergency procurements, the University has been reporting the net expenditures and not reporting the total value of items traded as part of the total procurement. The automated system does not recognize the value of the traded items as part of the expenditure.

We recommend that manual reconciliations be performed every quarter and the value of traded items be added to reported amounts of sole source and emergency procurements.

C. Other Reporting Errors

Three other reporting errors were noted.

<table>
<thead>
<tr>
<th>PO</th>
<th>Description</th>
<th>Amount Reported</th>
<th>Reporting Error</th>
</tr>
</thead>
<tbody>
<tr>
<td>BF953169</td>
<td>Debt collection service</td>
<td>$275,000</td>
<td>MMO bid contract</td>
</tr>
<tr>
<td>FA505300</td>
<td>uninterruptible power system</td>
<td>0</td>
<td>$2,000 Trade in not reported</td>
</tr>
<tr>
<td>FA875832</td>
<td>Monitors</td>
<td>1</td>
<td>110,000 Trade in not reported</td>
</tr>
</tbody>
</table>

The first item had been bid by the Materials Management Office. The University incorrectly coded the purchase order causing the automated system to report the expenditures as sole source. The other two items were both trade in sales which were not reported on the quarterly reports.

We recommend amended reports be prepared correcting the errors noted above.

D. Emergency Caused By Poor Planning

One procurement in the amount of $65,000 for accommodations for cold study participants was done as an emergency due to the untimely submission of the requisition from the department to the Procurement Office. By the time the Procurement Office received the requisition,
sufficient time was not available to solicit sealed bids as required by the Code. The Procurement Office, in order to meet the need of the department, had no choice but to declare the procurement an emergency, solicit informal competition and award the contract.

We recommend departments submit requisitions allowing sufficient time for the procurements to be competed in accordance to the bidding requirements of the Code.

II. Procurement Procedures

From our random samples we noted some procurement practices that either need correction or improvement.

A. Vendor’s Right To Protest Statement Not Recorded

Our testing revealed that the vendor’s right to protest statement was not always recorded on the Statement of Award or the Notice of Intent to Award. Section 11-35-1520 (10) of the Code requires that posted notices of award and notices of an intended award must contain a statement of a bidder’s right to protest under Section 11-35-4210(1) of the Code.

We recommend the University ensure that the statement of a vendor’s right to protest is consistently recorded on all notices of award and notices of intended awards.

B. Bids and Quotes Not Always Date Stamped

We noticed that not all bids and quotes had been date and time stamped showing that they had been received prior to the openings. The date and time stamp machine is a secure instrument that requires a key to change the settings.

We recommend this procedure be done to show, through an independent means, that all bids and quotes which are tabulated were indeed received prior to the opening. This procedure helps protect the University and the procurement officers conducting the openings.

C. Unauthorized Purchase Modification

A change was done without obtaining prior approval from the Procurement Office. A change ordinarily requires that a change order or purchase modification be issued by the Procurement Office for proper authorization as required in the internal procedures. More importantly the procurement officer must determine if the proposed change is already required in
the bid thus not needing the changes, or if the change is within the scope of the procurement, that
after changes the vendor is still the low bidder. The next low bidder may have already included
the changes in question. The change occurred on the following procurement.

<table>
<thead>
<tr>
<th>PO</th>
<th>Description</th>
<th>Unauthorized Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>BF976313</td>
<td>Test kit</td>
<td>$2,381</td>
</tr>
</tbody>
</table>

We recommend that changes to procurements be authorized in advance. If the changes are
not approved in advance, payments should not be made until the unauthorized changes have been
ratified in accordance to Regulation 19-445.2015. Ratification should be requested on the item
listed above.

D. Vendor’s Bid Opened Prior To Bid Opening

On procurement 4495-03/27/97 8551-I for audio visual equipment awarded in the amount of
$28,490, one of the vendor’s bids was opened three days before bid opening. Regulation 19-
445.2045 states in part:

All bids (including modifications) received prior to the time of opening shall
be kept secure and,... unopened in a locked bid box or safe. .... If a sealed
bid is opened by mistake, the person who opens the bid will immediately
write his signature and position on the envelope and deliver it to the
aforesaid official. This official shall immediately write on the envelope an
explanation of the opening, the date and time opened, the invitation for bids'
number and his signature, and then shall immediately reseal the envelope.

No explanation of why the bid was opened early was documented. We recognize that
sometimes bids are not identified on the outside of the envelopes and they must be opened to
determine the bid number. Other times they may be opened early by mistake.

We recommend, to ensure the integrity of the bid process is maintained, that bids opened
prior to bid opening follow the procedure stipulated by Regulation 19-445.2045.

III. Other Audit Findings

A. Blanket Purchase Agreements (BPA)

On one blanket purchase agreement number BF933016 for services/repairs to x-ray
equipment, the terms of the agreement state that no single purchase/release may exceed $2,500.
Competition was required on amounts from $500 up to $2,499. However, one release in the
amount of $3,882 was not supported by competition. Because the release exceeded the authorized level, it was unauthorized and requires ratification in accordance to Regulation 19-445.2015.

We recommend that maximum levels not be exceeded. If competition is required, then it must be obtained prior to orders being made.

On four other BPA releases tested we were unable to verify that an authorized user had placed the orders.

<table>
<thead>
<tr>
<th>BPA Number</th>
<th>Description</th>
<th>Release Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>BI942300 B8</td>
<td>Carpet and labor</td>
<td>$4,347</td>
</tr>
<tr>
<td>BI942300 E1</td>
<td>Carpet and labor</td>
<td>3,068</td>
</tr>
<tr>
<td>BF963131 B3</td>
<td>Repair of instruments</td>
<td>3,303</td>
</tr>
<tr>
<td>BF953213 A1</td>
<td>Repair of instruments</td>
<td>1,780</td>
</tr>
</tbody>
</table>

The BPA procedures require that specific individuals be authorized to place orders against the agreements. These individuals should sign the releases showing that they did place the orders. We could not locate where any of the authorized persons had signed the releases listed above. Without the proper signatures, accounts payable should not have processed the payments.

We recommend that authorized users of BPA's sign the releases. Accounts payable should not process any releases for payment unless they have the proper signatures.

B. Late Payments

Three payments were not made in a timely manner.

<table>
<thead>
<tr>
<th>PO</th>
<th>Description</th>
<th>Amount</th>
<th>Service Dates</th>
<th>Payment Paid</th>
</tr>
</thead>
<tbody>
<tr>
<td>PO813575</td>
<td>Nursing services</td>
<td>$9,116</td>
<td>04/95</td>
<td>11/95</td>
</tr>
<tr>
<td>PO576773</td>
<td>Nursing services</td>
<td>2,344</td>
<td>10/96 &amp; 11/96</td>
<td>02/97</td>
</tr>
<tr>
<td>FA875913</td>
<td>Equipment repairs</td>
<td>2,243</td>
<td>06/95</td>
<td>11/95</td>
</tr>
</tbody>
</table>

Section 11-35-45 of the Code states in part:

... the lump sum institutions of higher education are responsible for the payment of all goods or services within thirty work days after the receipt of the goods or services, whichever is received later, and shall pay an amount
not to exceed fifteen percent per annum on any unpaid balance which exceeds the thirty work-day-period, if the vendor specifies on the statement or the invoice submitted to such institutions that a late penalty is applicable if not paid within thirty work days after the receipt of goods or services.

We recommend payments be made in a timely manner. If a problem exists on an invoice, a note should be added to describe the discrepancy. Otherwise, the University may be subject to interest on late payments.
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 and ensuing regulations.

Under the authority described in Section 11-35-1210 of the Code, subject to this corrective action, we will recommend the Medical University of South Carolina be recertified to make direct agency procurements for three years up to the limits as follows:

<table>
<thead>
<tr>
<th>Category</th>
<th>Limit</th>
</tr>
</thead>
<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>
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<tr>
<td>Information Technology in accordance with the approved Information Technology Plan</td>
<td>*$50,000 per commitment</td>
</tr>
</tbody>
</table>

*This means the total potential purchase commitment to the State whether single year or multi-term contracts are used.

Robert A. Aycock, IV
Audit Manager

Larry G. Sorrell, Manager
Audit and Certification
July 23, 1997

Mr. Larry G. Sorrell, Manager
Audit and Certification
Materials Management Office
1201 Main Street, Suite 600
Columbia, SC 29201

Dear Mr. Sorrell:

It is my understanding, the examination of MUSC's procurement policies and procedures for the period April 1, 1993, through March 31, 1997, 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, met the South Carolina Consolidated Procurement Code and its regulations.

I have reviewed the audit findings and concur with them. The Medical University has taken steps to cure all of the findings and will amended all reports required based on your recommendations. MUSC Procurement Policies and Procedures will be reviewed with all procurement officers and continued education will be provided to all University staff members to assure adherence to the Procurement Code in all aspects not only the flaws exposed by this audit.

As always, MUSC appreciates the assistance, cantor, technical expertise, and professional attitude your staff displays and provides. This association assists MUSC in ensuring the fair and equitable treatment of all persons who deal with the procurement system of this Agency.

Thanks for all of the leadership and support you offer day in and day out.

Sincerely,

Edwin P. Antoniak, Jr.
Procurement Director

EPA/s

cc: Howard Lundy
    Robyn Frampton
Mr. R. Voight Shealy  
Materials Management Officer  
Materials Management Office  
1201 Main Street, Suite 600  
Columbia, South Carolina 29201

Dear Voight:

We have reviewed the response from the Medical University of South Carolina to our audit report for the period of April 1, 1993 - March 31, 1997. Also we have followed the University's corrective action during and subsequent to our field work. We are satisfied that the University has corrected the problem areas and the internal controls over the procurement system are adequate.

Therefore, we recommend the Budget and Control Board grant the Medical University of South Carolina the certification limits noted in our report for period of three years.

Sincerely,

Larry G. Sorrell, Manager  
Audit and Certification

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