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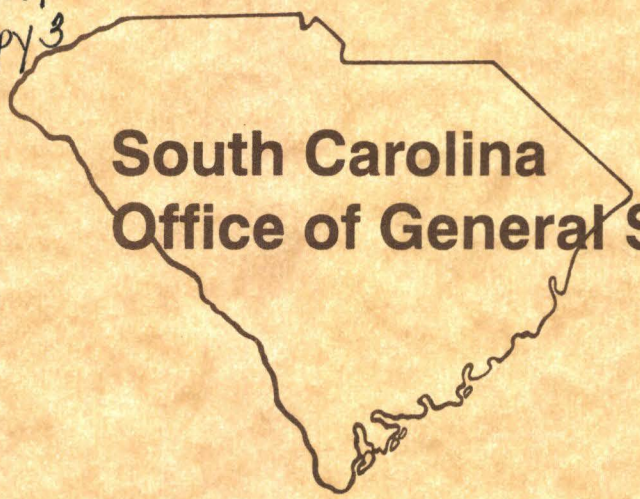

South Carolina
Office of General Services

# PROCUREMENT AUDIT AND CERTIFICATION

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SOUTH CAROLINA STATE UNIVERSITY

AGENCY

JULY 1, 1997 – JUNE 30, 2000

DATE

STATE OF SOUTH CAROLINA

**State Budget and Control Board**

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DIRECTOR

MATERIALS MANAGEMENT OFFICE
1201 MAIN STREET, SUITE 600
COLUMBIA, SOUTH CAROLINA 29201
(803) 737-0600
Fax (803) 737-0639

R. VOIGHT SHEALY
MATERIALS MANAGEMENT OFFICER

January 24, 2001

Mr. George N. Dorn, Jr., Director
Office of General Services
1201 Main Street, Suite 420
Columbia, South Carolina 29201

Dear George:

I have attached South Carolina State University'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 Department a one-year certification as noted in the audit report.

Sincerely,

R. Voight Shealy
Materials Management Officer

/jl

# SOUTH CAROLINA STATE UNIVERSITY

# PROCUREMENT AUDIT REPORT

# JULY 1, 1997 - JUNE 30, 2000

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

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

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EXECUTIVE DIRECTOR

ROBERT W. MCCLAM
DIRECTOR

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1201 MAIN STREET, SUITE 600
COLUMBIA, SOUTH CAROLINA 29201
(803) 737-0600
Fax (803) 737-0639

R. VOIGHT SHEALY
ASSISTANT DIRECTOR

November 6, 2000

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 South Carolina State University for the period July 1, 1997 through June 30, 2000. 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, State regulations and the University's procurement policy. Additionally, the evaluation was used in determining the nature, timing and extent of other auditing procedures necessary for developing an opinion on the adequacy, efficiency and effectiveness of the procurement system.

The administration of South Carolina State University 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 South Carolina State University 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 South Carolina State University. Our on-site review was conducted August 24, through September 22, 2000, and was made under Section 11-35-1230(1) of the South Carolina Consolidated Procurement Code and Section 19-445.2020 of the accompanying regulations.

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 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 contract. 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 February 10, 1998 the Budget and Control Board granted South Carolina State University the following procurement certifications:

| PROCUREMENT AREAS | CERTIFICATION LIMTS |
|---|---|
| Goods and Services | $25,000 |
| Information Technology | $25,000 |
| Consultant Services | $25,000 |

Our audit was performed primarily to determine if re-certification is warranted. The University 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 South Carolina State University and its related policies and procedures manual to the extent we deemed necessary to formulate an opinion on the adequacy of the system to properly handle procurement transactions.

We selected systematic samples for the period July 1, 1997 through June 30, 2000 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 July 1, 1997 through June 30, 2000

(2) Procurement transactions for the period July 1, 1997 through June 30, 2000 as follows:

   a) One hundred twenty payment transactions greater than $1,500 each reviewed for competition and compliance to the Code.
   b) A block sample of five hundred ninety seven purchase orders issued to all vendors with names beginning with M through O for the fiscal year ending June 2000 reviewed for order splitting and favored vendors

(3) Seven professional service contracts related to construction and four construction service 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 plan for the audit period

(6) Internal procurement procedures manual

(7) Procurement file documentation and evidence of competition

(8) Surplus property procedures

## SUMMARY OF AUDIT FINDINGS

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


| | | PAGE |
|---|---|---|
| I. | Sole Source and Emergency Procurements | |
| | A. Unauthorized Sole Source Procurements | 8 |
| | Eleven contracts had services rendered prior to the sole source justifications being approved. | |
| | B. Inadequate Justification for Emergency Procurement | 9 |
| | One emergency procurement was not adequately justified. | |
| | C. Emergency Procurements Not Reported | 9 |
| | We noted two emergency procurements that were not reported. | |
| | D. Drug Free Workplace | 10 |
| | Five procurements greater than $50,000 were not supported by the drug-free work place certification. | |
| II. | General Procurement Code Exceptions | |
| | A. Procurements With Inadequate Competition | 11 |
| | We noted six procurements that did not have adequate levels of competition. | |
| | B. Blanket Purchase Agreements | |
| | 1. Splitting of Calls | 12 |
| | Seven invoices appear to have been split to avoid the per call limit of $499 imposed by the University causing the transactions to be unauthorized. | |

PAGE

2. Call Limitation Exceeded 13

Eight invoices charged against BPAs exceeded the maximum per call limits established by the University thereby causing them to be unauthorized.

C. Preferences Not Included in Solicitations 14

The University does not include bidder's preferences in its quotations.

D. Freight Terms Not Listed on Purchase Orders 15

Two purchase orders did not include freight terms that were included in the quotations submitted by the vendors.

III. Accounts Payable

A. Overpayments 15

Eight checks in our samples contained $2,173 in overpayments.

B. Payment Tolerance Needs Revising 16

The total amount paid on a contract exceeded the total amount authorized by $3,307 by using the University's payment tolerance policy.

C. Duplicate Procurement Records Maintained by Accounts Payable 17

Some payment files contain an entire set of procurement documents even though the Procurement Office maintains these records.

## RESULTS OF EXAMINATION

I. Sole Source and Emergency Procurements

A. Unauthorized Sole Source Procurements

The following contracts began prior to the sole source justifications being approved.

| PO | Service Began | Sole Source Authorized | Amount | Description |
|---|---|---|---|---|
| P802540 | 07/01/97 | 09/15/97 | $ 2,759 | OEM maintenance agreement |
| P904505 | 08/01/98 | 01/20/99 | 6,000 | Service contract |
| P904799 | 07/01/98 | 02/03/99 | 43,047 | OEM maintenance agreement |
| P902242 | 09/25/98 | 10/14/98 | 2,100 | Performing artist |
| P902394 | 07/01/98 | 10 /14/98 | 50,000 | On site programming |
| P903661 | 11/12/98 | 11/25/98 | 2,328 | Performing artist |
| P903752 | 11/04/98 | 11/25/98 | 5,600 | Performing artist |
| P002842 | 07/01/99 | 11/30/99 | 2,297 | Service contract |
| P001529 | 06/01/99 | 08/05/99 | 7,446 | OEM maintenance agreement |
| P007651 | 06/20/00 | 07/06/00 | 3,000 | Performing artist |
| P007208 | 12/01/99 | 05/08/00 | 2,052 | Test scoring services |

Section 11-35-1560 of the Code states in part that a procurement without competition may be done if the head of a governmental body or a designee above the level of the procurement officer determines in writing that only one source exists for a needed supply or service. Since the Code is so specific about sole source authority, determinations must be authorized prior to each commitment being made. Regulation 19-445.2015 defines an unauthorized procurement as an act obligating the State in a contract by any person without requisite authority. Since these procurements were made without proper sole source authorization, they were unauthorized.

We recommend that the University request ratification in accordance with Regulation 19-445.2015. Since purchase orders P904799 and P902394 exceeded the University's procurement

authority, ratification must be requested from the Materials Management Office on these two procurements.

**UNIVERSITY RESPONSE**

The University will ensure that all sole source procurements adequately meet the requirements as stated and in accordance with the Procurement Code. Ratification has been requested from the Director of the Office of General Services on sole sources exceeding certification limit. Revised procedures require that the Director of Procurement Services review all sole sources prior to signature of approving authority.

B. Inadequate Justification for Emergency Procurement

Purchase order P807473 was issued on May 8, 1998 for $31,448 as an emergency procurement for the installation of sixty-six actuator valves in Bethea Hall. The written justification and the supporting documentation supporting the emergency procurement did not explain the emergency.

We recommend the University adequately justify each emergency procurement.

**UNIVERSITY RESPONSE**

The University will ensure that adequate justification is annotated on emergency procurements.

C. Emergency Procurements Not Reported

We noted the following two emergency procurements that were not reported

| PO | Date | Amount | Voucher | Description |
|---|---|---|---|---|
| C900106 | 10/7/98 | $16,450 | 9903431 | Repairs to boiler #2 |
| C900130 | 04/7/99 | 14,090 | 9912999 | Moving services Hodge Hall |

Section 11-35-2440 of the Code requires that governmental bodies submit a quarterly record of all sole source and emergency procurements. The Materials Management Office combines the quarterly reports and prepares an annual report to the State Budget and Control Board.

We recommend the University revise its current procedure to include the timely reporting of emergency procurements. We also recommend amended reports be submitted to reflect the two emergency procurements.

**UNIVERSITY RESPONSE**

The University has implemented a revised procedure to ensure all quarterly reports are submitted in a timely manner. The University has submitted amended reports to reflect the two emergency procurements.

D. Drug Free Workplace

We noted the following procurements that were $50,000 or more were not supported by the drug-free work place certification.

| PO | Amount |
|---|---|
| P005669 | $ 126,427 |
| P002122 | 50,000 |
| C000130 | 54,000 |
| P003943 | 208,960 |
| P000387 | 200,889 |

Section 44-107-30 of the South Carolina Code of Laws states, "No person, other than an individual, may receive a domestic grant or be awarded a domestic contract for the procurement of any goods, construction, or services for a stated or estimated value of fifty thousand dollars or more from any state agency unless the person has certified to the using agency that it will provide a drug-free workplace." All contracts, including sole source and emergency contracts, are subject to this law.

We recommend the University obtain the drug-free workplace certification on all future contracts of $50,000 or more.

**UNIVERSITY RESPONSE**

The University has provided the drug free work place certification on the five procurements. Procedures has been implemented to ensure supporting documents are part of procurement file requiring drug free certificates.

II. General Procurement Code Exceptions

A. Procurements With Inadequate Competition

We noted the following procurements that did not have adequate levels of competition.

| Item | PO | Description | Amount |
|---|---|---|---|
| 1 | P900182 | Sound & lighting service for homecoming | $32,380 |
| 2 | P807127 | Conference facility | 23,847 |
| 3 | P003640 | Replacement & repair of fire pump controller | $17,679 |
| 4 | P905832 | Student graduation supplies | 11,000 |
| 5 | P903906 | Clinical hearing test equipment | 10,950 |
| 6 | P800270 | Hardware maintenance | 7,187 |

Item 1 was for lighting and sound subcontractor which was added to another contract procured through a sole source. No evidence was in the file indicating compliance with the Code for the subcontract other than the reference to the original contractor. Item 2 for conference facilities had verbal quotes for room rates only, but the final payment exceeded $20,000. The procurement should have been advertised in the South Carolina Business Opportunities (SCBO) and written solicitation of written quotes made or the conference facilities exemption procedure could have been used. For the replacement and repair of the fire pump controller on item 3, the contract had been bid twice and advertised in SCBO without response. The University then awarded the contract without competition. Graduation caps and gowns paid through student fees were bought as exempt on item 4. The exemption states "Expenditure of funds at State institutions of higher learning derived wholly from athletic or other student contests, from the activities of student organizations and from the operation of canteens and bookstore." The fees were imposed on graduating students by the University and therefore, do not meet the exemption. Item 5 was for hearing test equipment procured as exempt as copyrighted educational items. This exemption does not cover equipment. On item 6, the University procured a hardware

maintenance agreement and referenced the exemption for software license renewals. This exemption does not apply to hardware.

We recommend the University review source selection methods closely to ensure compliance with the Code.

**UNIVERSITY RESPONSE**

The University will review source selection methods on future procurements more closely to determine proper methodology.

B. Blanket Purchase Agreements

A blanket purchase agreement (BPA) is a simplified method of filling anticipated repetitive needs for small quantities of supplies or services by establishing "charge accounts" with qualified sources of supply. BPAs are designed to reduce administrative costs in accomplishing small purchases by eliminating the need for issuing individual purchase orders. We noted the following exceptions on BPAs at the University.

1. Splitting of Calls

The following invoices charged to a BPA authorized on purchase order A201406 appear to have been split to avoid the per call limit of $499 imposed by the University.

| Check Number | Invoice Number | Invoice Date | Invoice Time | Amount |
|---|---|---|---|---|
| 01-071958 | 33031 | 3/16/99 | 10:05 am | $ 498 |
| 01-071958 | 33032 | 3/16/99 | 10:06 am | 499 |
| 01-071958 | 33033 | 3/16/99 | 10:06 am | 456 |
| 01-071958 | 33034 | 3/16/99 | 10:06 am | 95 |
| | | | Total | $ 1,548 |
| 01-064544 | 31166 | 8/19/98 | 4:16 pm | $ 494 |
| 01-064544 | 31168 | 8/19/98 | 4:18 pm | 484 |

| Check Number | Invoice Number | Invoice Date | Invoice Time | Amount |
|---|---|---|---|---|
| 01-064544 | 31169 | 8/19/98 | 4:19 pm | 144 |
| | | | Total | $ 1,122 |

The blanket purchase agreement set up on PO A201406 states, "No individual call under this agreement shall exceed $499.00." The University established this constraint but failed to enforce it. Regulation 19-445.2015 defines an unauthorized procurement as an act obligating the State in a contract by any person without the requisite authority to do so by an appointment or delegation. Since these calls exceeded the per call limit established, they are unauthorized.

We recommend the University advise the departments against dividing orders artificially. The University should review payments more closely to ensure compliance with the blanket purchase agreements. Additionally, ratification should be requested from the University President or his designee in accordance with 19-445.2015.

**UNIVERSITY RESPONSE**

The University has implemented procedures to ensure compliance of BPAs with departments identified. Ratification has been obtained in accordance with Regulation 19-445.2015. Further steps were taken with the cancellation of blanket purchase agreements by departments identified.

2. Call Limitation Exceeded

The following invoices charged that exceeded the BPA maximum per call limits established by the University thereby causing them to be unauthorized.

| Check Number | PO | Description | Call Amount | Limit Per Call |
|---|---|---|---|---|
| 01-079219 | A001480 | Lawn equipment repair parts | $658 | $499 |
| 01-087849 | P003859 | Moving services | 990 | 499 |
| 01-087849 | P003859 | Moving services | 922 | 499 |
| 01-083541 | P003859 | Moving services | 1,065 | 499 |
| 01-083541 | P003859 | Moving services | 1,098 | 499 |
| 01-083541 | P003859 | Moving services | 1,203 | 499 |

| Check Number | PO | Description | Call Amount | Limit Per Call |
|---|---|---|---|---|
| 01-083541 | P003859 | Moving services | 536 | 499 |
| 01-073090 | A905133 | Telecommunication supplies | 2,830 | 1,500 |

Regulation 19-445.2015 defines an unauthorized procurement as an act obligating the State in a contract by any person without the requisite authority to do so by an appointment or delegation. These items are unauthorized because they exceeded the limit per call established by the University. Once again, the University established this constraint but failed to enforce it. Furthermore, the charge on check 01-073090 should have been competed because it exceeded $1,500.

We also reviewed the appropriateness of the BPAs. The two BPAs issued on purchase orders P003859 and A905133 should have been set up as competed contracts and not as BPAs. The purchase orders were for identifiable items with estimated usage. The moving service in particular has a built in transportation fee of about $144 every time the vendor is called even before any moving services are rendered. With a limit per call of $499, that doesn't leave much room for the moving service. Under a competed contract, the University should receive better pricing and a limit per call would not have to be used which should be more user friendly to the Department. BPAs are authorized to procure miscellaneous items that are hard to identify and compete, not services that are easily estimated.

We recommend the University request ratification from the President or his designee for the items above and compete contracts in accordance with the Code when requirements are identifiable.

**UNIVERSITY RESPONSE**

The University has reviewed the services requested and implemented competed moving services contracts. Ratification has been obtained in accordance with Regulation 19-445.2015.

C. Preferences Not Included in Solicitations

The University does not provide bidder preference information in its written solicitations between $10,000 and $25,000. Section 11-35-1524 of the Code allows preferences for resident

vendors and products made, manufactured, or growth in South Carolina or the United States. However, bidders are not being informed of the availability of these preferences in the solicitations.

We recommend the preferences in Section 11-35-1524 be included in the applicable written solicitations.

**UNIVERSITY RESPONSE**

The University has included in written format on its standard boilerplate the preferences in Section 11-35-1524 in accordance to the Procurement Code.

D. Freight Terms Not Listed on Purchase Orders

Two purchase orders, P901413 and PO01157, failed to include freight terms which were included in the quotations submitted by the vendors. As a result, change orders were necessary to correct the oversight. The University should address freight on all purchase orders to ensure compliance with the contract and proper payment.. Addressing the freight terms would also avoid the additional effort to issue change orders.

We recommend each purchase order address freight terms.

**UNIVERSITY RESPONSE**

The University's standard purchase order format has appropriate fields for freight charges. The quotations submitted by vendors reflected freight charges. Procedures have been implemented to ensure compliance with quotations submitted.

III. Accounts Payable

A. Overpayments

The following checks contained overpayments.

| Check Number | PO | Check Amount | Amount Overpaid | Reason |
|---|---|---|---|---|
| 01-078709 | P000151 | $44,783 | $1,008 | Paid incorrect price on music furniture |
| 01-049690 | P706332<br>P706667 | 69,571 | 493 | Freight charges should not have been paid |
| 01-070792 | P905547 | 5,333 | 138 | Freight charges should not have been paid |

| Check Number | PO | Check Amount | Amount Overpaid | Reason |
|---|---|---|---|---|
| 01-082016 | P907724 | 7,568 | 172 | Overrun charges exceeded allowance |
| 01-075220 | P901256 | 7,925 | 244 | Freight charges exceeded quoted amount |
| 01-080113 | P000435 | 7,484 | 58 | Missed discount allowed in contract |
| 01-054392 | C800106 | 38 | 38 | Freight charges should not have been paid |
| 01-067165 | P902369 | 4,180 | 22 | Freight charges should not have been paid |
| | | Total | $2,173 | |

In each of these cases, the payments were not in accordance with the contracts.

We recommend that the University request refunds for the recent overpayments and review invoices more carefully to ensure proper payment.

**UNIVERSITY RESPONSE**

The University has implemented procedures to ensure that invoices are reviewed and proper payments applied in accordance with the contracts as stated.

B. Payment Tolerance Needs Revising

The University issued P002122 for $50,000 for landscaping. The total amount paid on this contract exceeded the total amount authorized by $3,307. A change order should have been requested to determine if the overpayment would have been proper. The payment was made under the University's 10% payment tolerance policy.

We recommend the tolerance policy have, in addition to a maximum percentage, a maximum limit not to exceed $50. Therefore any variance of 10% or less and does not exceed $50 can be paid without a change order being issued if the excess is deemed appropriate by Accounts Payable. We also recommend the payment tolerance policy be limited to price fluctuations only. Additional charges on invoices such as freight or items not covered by a purchase order should not be paid under this policy.

**UNIVERSITY RESPONSE**

The University's tolerance policy has been revised to reflect recommended changes.

C. Duplicate Procurement Records Maintained by Accounts Payable

We noticed in quite a number of payment files that Accounts Payable contains an entire set of procurement documents. Since the Procurement Office also maintains this information, we see no reason for Accounts Payable to maintain copies of these same documents.

We recommend Accounts Payable maintain payment documents only with its check files which should include the purchase orders and any change orders, receiving reports and invoices.

**UNIVERSITY RESPONSE**

The University has historically filed supporting documents in Accounts Payable to ensure compliance with state and federal audits in addition to procurement audits. The University will revise its procedures to reflect the recommended changes.

## CERTIFICATION RECOMMENDATIONS

We must express our concern over the variety of exceptions to the Code and established internal controls. We have identified weaknesses of internal controls that must be corrected in order to safeguard against non-compliance to the Code and the operating procedures of the University.

Under the authority described in Section 11-35-1210 of the Procurement Code, we will recommend South Carolina State University be certified to make direct agency procurements for a probationary period of one year up to the limits as follows. We will perform a certification audit for that period of time to determine if the University took significant corrective actions to eliminate the non-compliance issues noted in this report. If significant corrective action has not occurred based on the results of the subsequent audit, we will not recommend certification above the basic level of $5,000 as allowed by the Code for goods and services, consultant services, construction services, and information technology.

| PROCUREMENT AREAS | RECOMMENDED CERTIFICATION LIMITS |
|---|---|
| Goods and Services | *$25,000 per commitment |
| Information Technology | *$25,000 per commitment |
| Consultant Services | *$25,000 per commitment |

*The total potential purchase commitment whether single year or multi-term contracts are used.

Robert J. Aycock, IV
Audit Manager

Larry G. Sorrell, Manager
Audit and Certification

STATE OF SOUTH CAROLINA

**State Budget and Control Board**

OFFICE OF GENERAL SERVICES

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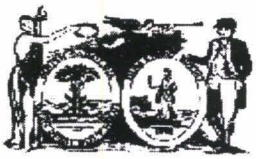

GEORGE N. DORN, JR.
DIRECTOR

MATERIALS MANAGEMENT OFFICE
1201 MAIN STREET, SUITE 600
COLUMBIA, SOUTH CAROLINA 29201
(803) 737-0600
Fax (803) 737-0639

R. VOIGHT SHEALY
MATERIALS MANAGEMENT OFFICER

January 24, 2001

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 South Carolina State University to our audit report for the period of July 1, 1997 – June 30, 2000.

We recommend the Budget and Control Board grant South Carolina State University the certification limits noted in our report for a period of one year.

Sincerely,

Larry G. Sorrell

Larry G. Sorrell, Manager
Audit and Certification

LGS/jl

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