August 30, 1985

Mr. Tony Ellis
Division Director
Division of General Services
300 Gervais Street
Columbia, South Carolina 29201

Dear Tony:

Attached is the final University of South Carolina audit report and recommendations made by the Office of Audit and Certification. I concur and recommend the Budget and Control Board grant the University of South Carolina two years certification as outlined in the audit report.

Sincerely,

Richard W. Kelly, Director
Agency Certification and Engineering Management

/db
Attachment
UNIVERSITY OF SOUTH CAROLINA

Audit Report

February 25, 1985
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Mr. Richard W. Kelly
Director of Agency Certification
and Engineering Management
Division of General Services
Columbia, South Carolina 29201

We have examined the procurement policies and procedures of the University of South Carolina for the period January 1, 1982 - January 31, 1985. As part of our examination, we made a study and evaluation of the system of internal control over procurement transactions to the extent we considered necessary.

The purpose of such evaluation was to establish a basis for reliance upon the system of internal control to assure adherence to the Consolidated Procurement Code and State and university procurement policy. Additionally, the evaluation was used in determining the nature, timing and extent of other auditing procedures that were necessary for developing a recommendation for certification above the $2,500 limit.

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

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

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

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

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

R. Voight Shealy
Director of Audit and Certification
INTRODUCTION

The Audit and Certification Section conducted an examination of the internal procurement operating procedures and policies and related manual of the University of South Carolina.

Our on-site review was conducted January 7, 1985 through February 22, 1985, and was made under the 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 agency 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 materials management office shall review the respective governmental body's internal procurement operation, shall verify in writing that it is consistent with the provisions of this code and the ensuing regulations, and recommend to the board those dollar limits for the respective governmental body's procurement not under term contract.

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

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

The current certification limit of $20,000 in the categories of goods and services and consultant services expires March 22, 1985. Our audit was performed primarily to determine if recertification is warranted. Additionally, the University requested increased certification to $50,000 for five years.
SCOPE

Our examination encompassed a detailed analysis of the internal procurement operating procedures of the University of South Carolina and the related policies and procedures manual to the extent we deemed necessary to formulate an opinion on the adequacy of the system to properly handle procurement transactions up to the requested certification limits.

The Office of Audit and Certification of the Division of General Services statistically selected random samples for the period July 1, 1982 - January 31, 1985, of procurement transactions for compliance testing and performed other auditing procedures that we considered necessary in the circumstances 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. adherence to provisions of the South Carolina Consolidated Procurement Code and accompanying regulations;
2. procurement staff and training;
3. adequate audit trails and purchase order register;
4. evidences of competition;
5. small purchase provisions and purchase order confirmations;
6. emergency and sole source procurements;
7. source selections;
8. file documentation of procurements;
(9) reporting of Fiscal Accountability Act;
(10) warehousing, inventory and disposition of surplus property;
(11) economy and efficiency of the procurement process; and
(12) approval of Minority Business Enterprise Plan.
SUMMARY OF AUDIT FINDINGS

Our audit of the procurement system of the University of South Carolina produced findings and recommendations in the following areas:

I. SOLE SOURCE PROCUREMENTS

We examined the quarterly reports of sole source and emergency procurements for the period July 1, 1983 through December 31, 1984, which included over eighteen hundred transactions. We found the majority of these transactions to be proper and accurately reported. However, we did find eight problems.

II. COMPLIANCE - INFORMATION TECHNOLOGY

A. Review of Procurements

In our review of sixty transactions randomly selected in the information technology area we found two exceptions.

B. Information Technology Plan

The University's plan for the management and use of information technology has not received approval from the Division of
Information Resources Management of the Budget and Control Board.

C. Information Technology Procurement Officer

Currently, the Computer Services Center handles the procurement of information technology with the Purchasing Office preparing purchase orders and finalizing the commitment. It is our opinion, that the University would be better served and procurement of information technology would be better controlled if the Purchasing Office had a qualified information technology buyer.

III. COMPLIANCE - CONSTRUCTION

A. Undeclared Construction Project

The University is in the process of upgrading their communication system. This process has required the construction of rooms to house the new equipment. Further, it has required various expenditures that fall under the definition of construction. The Manual for Planning and Execution of State Permanent Improvements requires that all construction projects of $30,000 or more be approved by the Joint Bond Review Committee and the Budget and Control Board.
B. Construction Procurements

The University on two separate occasions failed to advertise in South Carolina Business Opportunities for the purchase of materials for construction projects. The procurements were competitively bid and awarded properly. However, Section 11-35-3020 of the Procurement Code requires that invitations for bids for construction materials be advertised.

IV. ANNUAL REPORT OF LEASES OF UNIVERSITY OWNED PROPERTY

The University failed to submit annual reports of leases entered into with others for the lease of State owned property to the Real Property Management Office of the Division of General Services, as required by Section 19-445.2120 of the regulations.
RESULTS OF EXAMINATION

I. Sole Source Procurements

We examined the quarterly reports of sole source and emergency procurements and all available supporting documents for the period July 1, 1983 through December 31, 1984, for the purpose of determining 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. This included testing of over eighteen hundred procurements. We found the majority of these transactions to be proper and accurately reported. However, we did encounter the following problems in the information technology procurement area.

Purchase order number 51637C, dated November 15, 1983, for $1,030.00, for a Televideo #970 was declared a sole source. The vendor who received the order is only a dealer for the brand name item procured. Thus, this is not a sole source. Competition should have been obtained.

Purchase orders 51649C for $4,270.98 and 54399C for $4,270.98 were reported as sole source procurements when actually the equipment was covered by the State office automation contract. The State contract should have been utilized.

The University covers information technology equipment with maintenance agreements. Once these contracts are established the Purchasing Office writes annual blanket purchase orders to cover
maintenance costs for the fiscal year. Many of these, due to the nature of information technology maintenance, are declared sole source procurements and determinations and findings are prepared to support the action taken.

We concur with this procedure for controlling maintenance contract activity. However, in some cases, when the original procurements of the equipment were made, maintenance agreements were included for five years. Since annual renewals of maintenance agreements were covered in the original procurements of the equipment items the sole source determinations for the annual renewals are not required. Examples of these are:

<table>
<thead>
<tr>
<th>P.O. Number</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>42614C</td>
<td>$ 738.00</td>
</tr>
<tr>
<td>72284C</td>
<td>1,932.00</td>
</tr>
<tr>
<td>42650C</td>
<td>12,384.00</td>
</tr>
<tr>
<td>42649C</td>
<td>26,484.00</td>
</tr>
</tbody>
</table>

The purchase orders should have referenced the original procurement documents. The above examples are only a sample of this problem which resulted in overstatements of sole source reports to the Division of General Services and the General Assembly of at least $100,000 per year.

Part of blanket purchase order number 72240C for $294,336.00 for equipment maintenance was a similar situation. Included here was $82,824.00 that was already covered in the original purchase.

The remainder of this order, $211,512.00, was for maintenance services that, according to the Information Technology Management Officer, are not a sole source and should have been competitively bid. The maintenance services were on equipment such as tape and disk drives, communication equipment and controllers.
We recommend the information technology buyers meet with the Information Technology Management Officer to determine what equipment is on state contract. More attention should be placed on this area.

Further, the Purchasing Office, with the help of the Computer Services Center, should determine what equipment they currently have that is presently covered for maintenance under the original purchase. Once this is determined, the annual blanket purchase orders should indicate what the original purchase date was and/or what year of the agreement the purchase order covers.

Finally, maintenance on information technology peripheral equipment, that is more than five years old, should be competitively bid with vendors such as Sorbus, Comma, TRW, the original vendors and others determined to be available.

**RESPONSE**

The Purchasing Department has scheduled a meeting with the Information Technology Management Office in order to coordinate items currently on state contract. Also, purchasing has established procedures to determine and track maintenance contracts that are covered under the original purchase so that the sole source procurement report will not be inflated. All maintenance not considered to be sole source shall be competitively bid.
II. Compliance - Information Technology

A. Review of Procurements

In our review of sixty transactions randomly selected in the information technology area we found the majority of the transactions to be in compliance with the Procurement Code. However, we did encounter problems with two transactions.

Purchase order number 41468 for $331,646.28 was for software product services. The University did not prepare the sole source determination as required by Section 11-35-1560 of the Code nor was it reported to the Division of General Services as required by section 19-445.2110 of the regulations.

Purchase order number 71004 for $14,000.00 for the procurement of on-line library cataloging service was not approved by the Division of Information Resources Management of the State Budget and Control Board. This approval is required for all information technology procurements exceeding $2,500.00 made under this commodity class, 793.

We recommend that the University properly determine and report sole source transactions, as required by the Procurement Code and ensuing regulations. Information technology procurements made under the following commodity code classes must have the prior approval of the Division of Information Resources Management:

- 205 Information Technology Equipment
- 207 Computer Software
- 725 Telecommunications Equipment
- 742 Equipment Rental/Lease (EDP only)
- 790 Consultant (EDP only)
- 793 Maintenance (EDP only)
Since purchase order 41468 exceeded the University's certification limit it must be ratified by the Materials Management Officer in accordance with Section 19-445.2015 of the regulations.

RESPONSE

The above noted exception for purchase order number 41468 was an oversight by the University. The same maintenance agreement the prior year was processed and reported as a sole source procurement. The University will file an amended report with the Materials Management Office.

B. Information Technology Plan

The University's plan for the management and use of information technology has not received approval from the Division of Information Resources Management of the Budget and Control Board. The approval of this plan is required under authority defined in Section 11-35-1580 of the Consolidated Procurement Code.

The University should take the appropriate steps to effect compliance with this requirement. Approval of this plan has been established by the Division of General Services as one of the key criteria for procurement certification in information technology.

RESPONSE

The University has submitted the educational portion of the Information Technology Plan and is reviewing the necessary steps to complete the remaining administrative portion of the plan.
C. Information Technology Procurement Officer

Currently, the Computer Services Center handles the procurement of information technology with the Purchasing Office preparing purchase orders and finalizing the commitment. It is our opinion that the University would be better served and procurement of information technology would be better controlled if the Purchasing Office had a qualified information technology buyer. The exceptions listed above are indications of a breakdown in controls over procurements in this area.

The technical expertise of the Computer Services Center should be utilized in development of requirements and specifications. Further, they should be consulted before awards are made for information technology procurements. However, the Purchasing Office should control the procurement process to ensure compliance with the Procurement Code.

The position of information technology buyer should be established within the Purchasing Office. It should be at a level high enough to attract an individual with sufficient technical expertise in information technology to prepare and review specifications, handle communications with the Division of Information Resources Management and the Information Technology Management Office on procurement matters and generally coordinate and control procurements in this area. A similar institution has been successful in establishing such a position through the Division of Human Resources Management so the precedence has been established within State government.
RESPONSE

The University will evaluate this recommendation and take the necessary action deemed appropriate for proper internal controls.

III. Compliance – Construction

A. Undeclared Construction Project

The University is in the process of upgrading their communication system. This process has required the construction of equipment rooms to house the new communication equipment. Further, it has required various other expenditures that fall under the definition of construction. Currently, the University has spent $112,000 in these types of expenditures. This has been done without declaring the project a permanent improvement.

The Manual for Planning and Execution of State Permanent Improvements requires that all construction projects of $30,000 or more be approved by the Joint Bond Review Committee and the Budget and Control Board.

University construction officials indicated that they considered the communication system upgrades to each building separate projects. Thinking that no individual building would require more than $30,000 in construction related expenditures, a permanent improvement project was not established.

In our opinion, since it was known that the communication system upgrade would be campus-wide, a permanent improvement project should have been established. The University has expended $112,000 with the final cost projected to be $140,000.
The procurements must be ratified by the Director of General Services, in accordance with section 19-445.2015 of the regulations. Further, the Joint Bond Review Committee of the General Assembly and the Budget and Control Board should be informed of the situation.

RESPONSE

The University will coordinate ratification of these procurements with the Director of General Services.

B. Construction Procurements

The University on two separate occasions failed to advertise in South Carolina Business Opportunities for the purchase of materials for construction projects. These were:

<table>
<thead>
<tr>
<th>P.O. Number</th>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>09951C</td>
<td>Electrical fixture</td>
<td>$2,727.80</td>
</tr>
<tr>
<td>35724C</td>
<td>Crusher run stone</td>
<td>3,744.00</td>
</tr>
</tbody>
</table>

These procurements were competitively bid and awarded properly. However, the Procurement Code requires that purchases of construction materials in excess of $2,500.00 be awarded by sealed bid after advertising in South Carolina Business Opportunities in Section 11-35-3020. This should be done in all cases in the future.

RESPONSE

The two exceptions noted appear to have been an oversight by the buyer. These purchases were however, procured by sealed bid. All buyers have been advised that sealed bid requirements for
construction projects must be advertised in the South Carolina Business Opportunities publication.

IV. Annual Report of Leases of University Owned Property

The University failed to submit annual reports of leases entered into with others for the lease of State-owned property to the Real Property Management Office of the Division of General Services. Section 19-445.2120, Subsection B, of the Procurement Code regulations states:

No governmental body shall contract with any commercial entity or other governmental body for the lease, rental or use of State owned real property whether it be titled in the name of the State of South Carolina or any governmental body, without the approval of the Division of General Services except as specified in Subsection C.

Subsection C provides for exemption from this requirement provided that annual reports be filed with the Division of General Services, Real Property Management Office, prior to July 1 of each year. In August, 1982 the University received an exemption from the requirement for prior approval, with the stipulation that the required annual reports be filed.

We discussed the reporting process with University officials, who stated that they were unaware of the reporting requirement. We have been assured that the report will be filed. We will follow up to ensure that this is done.

RESPONSE

The University did maintain proper records of this information, however the requested report was not timely filed. These reports have been filed as of 02/25/85.
CERTIFICATION RECOMMENDATION

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

Prior to June 30, 1985 the Audit and Certification Section will perform a follow-up review in accordance with Section 11-35-1230(1) of the Procurement Code to determine if any proposed corrective action necessary has been taken by the University and all procedures are in place. Based on the follow-up review, and subject to this corrective action, we will recommend that the University of South Carolina be re-certified to make direct agency procurements for a period of two years as follows:

<table>
<thead>
<tr>
<th>Procurement Area</th>
<th>Recommended Certification Limit</th>
</tr>
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<tbody>
<tr>
<td>I. Goods and Services exclusive of printing equipment which must be approved by the Division of Information Resource Management.</td>
<td>*$30,000 per purchase commitment</td>
</tr>
<tr>
<td>II. Consultant Services</td>
<td>*$30,000 per purchase commitment</td>
</tr>
</tbody>
</table>

*This limit means the total potential contractual obligation to the State whether single year or multi-year contracts are utilized.

The certification recommendations for construction and related services and information technology are being deferred until completion of statewide procedures in these areas. These procedures should be finalized in the near future. We are
prepared to recommend certification in these procurement area at that time.

RESPONSE

The University is again pleased that the certification audit produced a favorable and acceptable certification. The University is extremely proud of the procurement function of the University which operates at the highest level of competence, efficiency and controls.

When reviewing this audit report it should be noted that the Audit Scope was very broad and includes all aspects of the procurement function and internal control. We are particularly pleased that no exceptions were noted in the areas of Goods and Services and Consultant Services considering these transactions represent the majority of procurement. Furthermore, we are pleased to respond that all other areas of scope (see Page 6) involved no exceptions worthy of comment.

We also would like to thank the Audit and Certification Section staff for the performance of this audit. The audit was conducted not only with professionalism for certification, but with an air of cooperation and assistance to further improve the procurement function of the University.

Marshall B. Williams, Jr.
Audit Manager

R. Voight Shealy, Director
Audit and Certification
July 12, 1985

Mr. Richard W. Kelly  
Director of Agency Certification  
and Engineering Management  
Division of General Services  
300 Gervais Street  
Columbia, South Carolina 29201

Dear Rick:

We have returned to the University of South Carolina to determine the progress made toward implementing the recommendations in our audit report covering the period January 1, 1982, through January 31, 1985. During this visit, we followed up on each recommendation made in the audit report through inquiry, observation and limited testing.

The Audit and Certification Section observed that the University of South Carolina has made substantial progress toward correcting the problem areas found and improving the internal controls over the procurement system. We feel that with the changes made, the system's internal controls should be adequate to ensure that procurements are handled in compliance with the Consolidated Procurement Code and ensuing regulations.

We therefore recommend, that the certification limits as outlined in the audit report be granted for a period of two (2) years.

Sincerely,

R. Voight Shealy, Director  
Audit and Certification

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