South Carolina
Office of General Services

PROCUREMENT
AUDIT AND
CERTIFICATION

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UNIVERSITY OF SOUTH CAROLINA
AGENCY

JULY 1, 1996 – JUNE 30, 1999
DATE
Mr. Robert W. McClam, Director
Office of General Services
1201 Main Street, Suite 420
Columbia, South Carolina 29201

Dear Robbie:

I have attached the 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,

R. Voight Shealy
Materials Management Officer

October 25, 1999
UNIVERSITY OF SOUTH CAROLINA
PROCUREMENT AUDIT REPORT
JULY 1, 1996 - JUNE 30, 1999
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NOTE: The University’s response to issues noted in the report have been inserted immediately following the issues they refer to.
We have examined the procurement policies and procedures of the University of South Carolina for the period July 1, 1996 through June 30, 1999. 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 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 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 University of South Carolina. Our on-site review was conducted June 14, 1999 through July 13, 1999, 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 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.

On December 10, 1996, the Budget and Control Board granted the University the following procurement certifications:

<table>
<thead>
<tr>
<th>Category</th>
<th>Limits</th>
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</thead>
<tbody>
<tr>
<td>Goods and Services</td>
<td>$200,000 per commitment</td>
</tr>
<tr>
<td>Consultants</td>
<td>200,000 per commitment</td>
</tr>
<tr>
<td>Information Technology</td>
<td>200,000 per commitment</td>
</tr>
<tr>
<td>Construction</td>
<td>500,000 per commitment</td>
</tr>
<tr>
<td>Revenue Generating Management</td>
<td>15,000,000 per commitment</td>
</tr>
<tr>
<td>Services</td>
<td></td>
</tr>
</tbody>
</table>

Our audit was performed primarily to determine if recertification is warranted.
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 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 selected judgmental samples for the period July 1, 1996 through May 31, 1999, 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, 1996 through March 31, 1999

(2) Procurement transactions for the period July 1, 1996 through May 31, 1999 as follows:
   a) Eighty-nine payments exceeding $1,500
   b) Forty-five construction related procurements
   c) A block sample of five-hundred numerical purchase orders
   d) Seven-hundred fifteen work orders
   e) Additional sample of six sealed bids
   f) Three revenue generating contracts
   g) Thirty procurements managed by satellite offices

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

(4) All procurement card transactions in May of 1999 amounting to $850,367

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

(6) Information technology plans for the audit period

(7) Internal procurement procedures manual review

(8) Surplus property procedures

(9) Procurement file documentation and evidence of competition
SUMMARY OF AUDIT FINDINGS

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

I. General Procurement Exceptions
   A. Freight Charges Not Included In Award Determination  
      Two procurements were tested that did not consider freight charges when determining the award.
   B. Artificially Divided Procurement  
      A procurement card appeared to have been used to artificially divide the procurement of furniture.
   C. Posting Location Not Specified  
      The award posting notice included in solicitations did not indicate where the award postings would be made.

II. Construction Services
   A. Change Orders Not Submitted to State Engineer  
      On project number H27-9751 for cooling tower installation, the University failed to submit change orders five through eight to the State Engineer’s Office for acknowledgement.
   B. Bonding Not Obtained  
      The University required in its bid documents that work orders greater than $30,000 be supported by a performance bond and a labor and material payment bond yet did not obtain the bonding on one work order.
   C. Certificate of Insurance Not Provided  
      The University failed to obtain the contractor’s certificate of insurance on one project.
RESULTS OF EXAMINATION

I. General Procurement Exceptions

A. Freight Charges Not Included In Award Determination

Two procurements were tested that did not consider freight charges when determining the award. The following audit exceptions resulted. On purchase order P6061 for air filters in the amount of $4,837, three verbal quotes were solicited but freight costs were not included. The vendor included $416 of freight on the invoice which the University agreed to pay. With the addition of freight, the procurement exceeded $5,000. Section 11-35-1550 of the Procurement Code requires solicitation of written quotes for procurements from $5,000 to $10,000 instead of verbal quotes.

The University prepared purchase order 59614H for software in the amount of $1,480 FOB Destination meaning freight was included in the price. Since the procurement was less than $1,500, the level at which competition begins, no competition was solicited. However, the vendor invoiced and the University agreed to pay $37 in freight. Because $37 was added to the quote of $1,480, the procurement exceeded $1,500 requiring a minimum of three verbal quotes.

We recommend the University always consider freight when determining awards. If vendors quote “freight included”, then freight charges should not be allowed on invoices.

UNIVERSITY RESPONSE

All buyers are aware of the requirement to include freight in the evaluation of contract awards and have been advised to more carefully evaluate all solicitations (oral or written) for the inclusion of all applicable freight costs.

B. Artificially Divided Procurement

We tested all procurement card transactions for the month of May 1999, which amounted to $850,367. Most of the transactions were proper. One of the cards tested did appear to have an artificially divided procurement. On May 13, 1999 a purchase in the amount of $1,450 was made for a dresser, mirror, nightstand, bed and table with chairs for Cliff Apartments, room 607. On May 17, 1999, a second purchase made by the same person in the amount of $1,467 was made for a sofa and 2 chairs also for Cliff Apartments, room 607. No competition was solicited. The total amount of furniture purchased for this room using the procurement card was $2,917. It appears that both of these procurements were planned at the same time,
but split to make each transaction appear to be less than 1,500. Procurement card transactions are limited to $1,500. Procurements which exceed $1,500 must be made through the University’s Procurement Office. Since the total purchase of furniture exceeded $1,500, specifications should have been developed and competition solicited. The procurement card should not have been used.

We recommend the procurement card be limited to procurements less than $1,500.

**UNIVERSITY RESPONSE**

The Housing Department has been advised that needs of this nature are best met by combining the requirements, soliciting in accordance with the procurement code and having a purchase order issued by the Purchasing Department. In addition, the cardholder responsible for this transaction no longer possesses a procurement card. All personnel have also been reminded of the cardholder policy prohibiting the splitting of orders in order to use the procurement card for purchases.

C. Posting Location Not Specified

The award posting notice included in solicitations done by the University did not indicate where the award postings would be made. The award posting notice only informs vendors that the date of award posting will be announced at bid opening. Section 11-35-1520 (10) states in part, "notice of an intended award of a contract to the lowest responsive and responsible bidders whose bid meets the requirements set forth in the invitation for bids shall be given by posting such notice at a location specified in the invitation for bids."

We recommend the University include the location of the award posting in its posting notice in solicitations.

**UNIVERSITY RESPONSE**

The boiler plate language in all applicable solicitation documents has been amended to include the physical address of the award posting at the Purchasing Department at 516 Main Street, Columbia, SC 29208.

II. Construction Services

A. Change Orders Not Submitted to State Engineer’s Office

On project number H27-9751 for cooling tower installation in the amount of $995,565, the University failed to submit change orders five through eight to the State Engineer’s Office for acknowledgement. Section 7.7 of the Manual for Planning and Execution of State Permanent Improvements, Part II, states in part:

When the original contract exceeds agency construction certification, change orders shall be authorized as follows:
A. For a change order that has all items or changes in work within agency construction certification, the agency may authorize the work based on the agency’s approval of the change order. Additional approval by the State Engineer is not required. However, the agency shall send a copy of the change order, along with all substantiating data noted in paragraph 7.5(F), to the OSE for information within 30 days of authorization of the change order by the agency. The State Engineer will acknowledge the change order and return a copy to the agency.

We recommend the University comply with this section of the Manual for Planning and Execution of State Permanent Improvements, Part II.

**UNIVERSITY RESPONSE**

Construction Services will submit all change orders within their certification to the Office of State Engineer for acknowledgment in the future.

B. **Bonding Not Obtained**

On project H27-D026 to establish an indefinite delivery contract (IDC) for miscellaneous construction services, the University required in its bid documents that work orders greater than $30,000 be supported by a performance bond and a labor and material payment bond. On purchase order 44527 in the amount of $89,330 issued against the indefinite delivery contract, the University did not obtain the required bonding.

We recommend the University obtain bonding as prescribed by bid documents.

**UNIVERSITY RESPONSE**

Construction Services has revised its contract documents regarding bonding requirements for IDC construction contracts. The wording now states that on projects over $30,000, the University may require bonds. Construction Services will obtain bonds when required by the work order issued for that particular project.

C. **Certificate of Insurance Not Provided**

On project H27-I387 issued on purchase order M0405 to paint the interior of a dorm in the amount of $45,350, the University failed to obtain the contractor’s Certificate of Insurance. Section 1.14, paragraph C. of the Manual for Planning and Execution of State Permanent Improvements, Part II, states in part, “On all state projects, the contractor is required to provide Liability Insurance on a Commercial basis and shall include all major divisions of coverage.”

We recommend the University insure that contractors’ Certificate of Insurance is obtained prior to proceeding with jobs.

**UNIVERSITY RESPONSE**

The project was to paint the interior of Snowden during the summer. The project manager does not recall eliminating the requirement for the insurance certificate and believes
Construction Services did receive it, but it cannot be located. Construction Services has put into effect a procedure to prevent this from happening in the future. A checklist that includes all requirements has been provided for the contract administration clerk to use on all projects, thus assuring that we have all required documents on each project.
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 University of South Carolina in compliance with the South Carolina Consolidated Procurement Code.

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

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<th>PROCUREMENT AREAS</th>
<th>RECOMMENDED CERTIFICATION LIMITS</th>
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<tr>
<td>Goods and Services</td>
<td>*$200,000 per commitment</td>
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<td>Consultants</td>
<td>*$200,000 per commitment</td>
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<td>Information Technology</td>
<td>*$200,000 per commitment</td>
</tr>
<tr>
<td>Construction Contract Award</td>
<td>$500,000 per change order</td>
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<td>Construction Contract Change Order</td>
<td>$250,000 per change order</td>
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<tr>
<td>Architect/Engineer Contract Amendment</td>
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<tr>
<td>Revenue Generating Management Services</td>
<td>*$15,000,000 per commitment</td>
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</tbody>
</table>

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

Robert J. Aycock, IV  
Audit Manager

Larry G. Sorrell, Manager  
Audit and Certification
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 University of South Carolina to our audit report for the period of July 1, 1996 - June 30, 1999. Also we have followed the University's corrective action during and subsequent to our fieldwork. 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 University of South Carolina the certification limits noted in our report for a period of three years.

Sincerely,

Larry G. Sorrell, Manager  
Audit and Certification

LGS/jl

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