



Medical University of South Carolina
INDEPENDENT PROCUREMENT AUDIT REPORT
For the Audit Period:
January 1, 2015 to September 30, 2019

Office of Audit & Certification
Division of Procurement Services
May 18, 2021

TABLE OF CONTENTS

	<u>PAGE</u>
Introduction.....	1
Scope.....	3
Summary of Findings.....	5
Results of Audit	8
Certification Recommendation	28

INTRODUCTION

The Division of Procurement Services (DPS) audited the Medical University of South Carolina's (MUSC) internal procurement operating policies and procedures, as outlined in their Internal Procurement Operating Procedures Manual, under § 11-35-1230(1) of the South Carolina Consolidated Procurement Code (Code) and Reg. 19-445.2020 of the ensuing regulations.

The primary objective of the audit was to determine whether, in all material respects, the internal controls of MUSC's procurement system were adequate to ensure compliance with the Code and ensuing regulations.

The management of MUSC is responsible for the agency's compliance with the Code. Those responsibilities include the following:

- Identifying the agency's procurement activities and understanding and complying with the Code
- Establishing and maintaining effective controls over procurement activities that provide reasonable assurance that the agency administers its procurement programs in compliance with the Code
- Evaluating and monitoring the agency's compliance with the Code
- Taking corrective action when instances of noncompliance are identified, including corrective action on audit findings of this audit

Because of inherent limitations in any system of internal controls, errors or irregularities may occur and not be detected. 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 review and evaluation of the system of internal control over procurement transactions, as well as our overall audit of procurement policies and procedures, was conducted with professional care. However, because of the nature of audit testing, they would not necessarily disclose all weaknesses in the system.

INTRODUCTION

Our audit was also performed to determine if recertification under § 11-35-1210 is warranted.

On June 22, 2016, the State Fiscal Accountability Authority granted MUSC the following procurement certifications:

<u>PROCUREMENT AREAS</u>	<u>CERTIFICATION LIMITS</u>
Supplies and Services	*\$ 1,000,000 per commitment
Consultant Services	*\$ 500,000 per commitment
Information Technology	*\$ 1,000,000 per commitment
Construction Contract Award	*\$ 1,000,000 per commitment
Construction Contract Change Order	\$ 500,000 per change order
Architect/Engineer Contract Amendment	\$ 100,000 per amendment

During the audit MUSC requested an increase in its certification limits as follows:

<u>PROCUREMENT AREAS</u>	<u>CERTIFICATION LIMITS</u>
Supplies and Services	*\$ 2,000,000 per commitment
Consultant Services	*\$ 1,000,000 per commitment
Information Technology	*\$ 2,000,000 per commitment
Construction Contract Award	*\$ 1,000,000 per commitment
Construction Contract Change Order	\$ 500,000 per change order
Architect/Engineer Contract Amendment	\$ 100,000 per amendment

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

SCOPE

We conducted our audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. Our audit included testing, on a sample basis, evidence about MUSC's compliance with the Code for the period January 1, 2015 through September 30, 2019, the audit period, and performing other procedures that we considered necessary in the circumstances. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

The scope of our audit included, but was not limited to, a review of the following:

- (1) Internal procurement and purchasing card (P-Card) procedure manuals
- (2) All sole source and emergency procurement justifications for the audit period. MUSC reported the following sole source procurement activity to DPS during the audit period:

<u>Fiscal Year</u>	<u>Count</u>	<u>\$ Amount</u>
Q3&4 2015	108	6,156,522
2016	166	44,928,632
2017	201	48,981,850
2018	183	43,323,639
2019	220	91,695,660
Q1 2020	32	2,599,167

- (3) Procurement transactions for the audit period as follows:
 - a) Seventy-one payments each exceeding \$10,000
 - b) A block of sequential expenditures over a two-month period reviewed for order splitting or the use of favored vendors
 - c) Fifty-eight P-Card transactions for the months of June and September, 2019 as well as testing for Single Transaction Limit (STL), split transactions and blocked MCC codes
- (4) Three construction contracts and two Architect/Engineer and Related Professional Service Contracts for compliance with the Manual for Planning and Execution of State Permanent Improvements
- (5) Small and Minority Business utilization plans and reports. The following activity was reported to the Division of Small and Minority Business Contracting and Certification (SMBCC):

<u>Fiscal Year</u>	<u>\$ Goal</u>	<u>\$ Actual</u>
Q3&4 2015	1,220,690	858,182
2016	1,220,690	1,730,509
2017	2,334,581	3,229,292
2018	2,498,483	4,583,143
2019	3,390,029	1,515,679
Q1 2020	3,390,029	1,163,087

- (6) Reporting of surplus property dispositions, and approval of trade-ins in excess of \$5,000

SCOPE

(7) Disposition of unauthorized procurements. The following unauthorized procurement activity was reported to DPS:

<u>Fiscal Year</u>	<u>Count</u>	<u>\$ Amount</u>
2015	10	70,999
2016	24	258,761
2017	27	215,770
2018	20	235,525
2019	34	345,821
Q1 <u>2020</u>	7	<u>63,202</u>
Total		\$1,190,078

SUMMARY OF FINDINGS

	<u>PAGE</u>
<u>I. Sole Source and Emergency Procurements</u>	
A. <u>Required Written Determinations Not Provided or Lacked Authorization</u>	8
Seven emergency determinations were not provided. Additionally, eight emergency procurements included paid invoices that did not pertain to the declared emergency per the written justifications.	
B. <u>Inadequate Written Determinations for Sole Source and Emergency Procurements</u>	9
Written determinations for seven sole source and 50 emergency procurements did not adequately explain the basis for the sole source or emergency.	
C. <u>Sole Source Procurements Not Reported to DPS</u>	11
Two sole source procurements were not reported to DPS.	
<u>II. Unauthorized Procurements</u>	
A. <u>Missing Approval Documentation or Documentation Lacked Authorization</u>	11
Five unauthorized procurements were missing required written determinations. One unauthorized procurement lacked authorization of disposition.	
B. <u>Inadequate Explanation in Written Determination</u>	13
Three written determinations were inadequate; they did not include the facts and circumstances surrounding the act, what corrective action was taken to prevent recurrence, or the action taken against the individual committing the act. One unauthorized procurement lacked authorization of disposition or ratification.	
C. <u>Not Reported to DPS</u>	13
Seven unauthorized procurements were not reported to DPS.	
<u>III. Purchasing Cards (Pcards)</u>	
1. <u>Program Administration</u>	14
We identified weaknesses in management oversight of the P-Card program that resulted in inappropriate use of P-Cards.	
A. <u>Roles and Responsibilities</u>	14
A separation of duties is not clearly defined between the cardholder, the liaison, and the Departmental Administrator. Cardholders who were assigned liaison roles were also the liaison for their own card.	
B. <u>Missing or Late Management or Cardholder Signature on P-Card Statements</u>	15
Management approval of P-Card statements was inconsistent. Cardholder signatures were also inconsistent.	

SUMMARY OF FINDINGS

C. <u>Disciplinary Actions for Non-compliance Were Not Consistent</u>	17
Cardholders found to be in violation of P-Card policies were not consistently disciplined. Some cardholders' P-Card privileges were reinstated after a period of time, despite numerous violations.	
2. <u>Transaction Testing</u>	17
Transaction testing identified areas of non-compliance.	
A. <u>Supporting Documentation Not Provided</u>	18
Two P-Card statements were not provided along with two document control forms, which are required for all P-Card purchases.	
B. <u>Split Transactions</u>	18
Testing identified four split transactions.	
C. <u>No Chief Procurement Officer (CPO) Approval for Purchase Exceeding the STL ..</u>	19
One purchase exceeded the \$10,000 STL without CPO approval.	
D. <u>Payments Made on Open Accounts</u>	19
There were 18 payments made on open accounts in violation of State P-Card Policy.	
E. <u>Blocked MCC Codes</u>	20
We identified 58 transactions made against MCC Codes that had been blocked by the University.	
F. <u>Unauthorized Purchase</u>	20
A student made a purchase before it was approved by someone with authority to approve it. After Accounts Payable denied approval of payment, a P-Card was used to make the payment.	
G. <u>Cardholder Approved Their Own Purchase</u>	21
There were nine purchases approved by the cardholder.	
H. <u>Purchases Made in Violation of Internal Policies and Procedures</u>	22
Two transactions were identified that did not comply with the agency's internal procedures for use of the P-Card.	
IV. <u>Supplies and Services Contracts</u>	
A. <u>Missing Documentation or Authorization</u>	22
Two solicitations, one Intent-to-Award, eight SCBO ads, and four bid documents were not provided. Additionally, two written determinations for source selection methods and one multi-term contract determination were not dated.	

SUMMARY OF FINDINGS

B. <u>Unauthorized Change Order</u>	23
One contract change order was not allowed per contract terms.	
C. <u>Contract Terms not Followed</u>	24
The contract terms pertaining to invoice itemization requirements for one contract were not followed.	
D. <u>Unauthorized Procurement</u>	25
Several Invoices were paid after the contract expired.	
V. <u>Minority Business Quarterly Reports Filed Late</u>	25
Six quarterly reports were submitted to SMBCC after the required cutoff date.	
VI. <u>Surplus Property and Trade-In Sales</u>	26
There were ten unauthorized disposals of surplus property totaling \$186,058 and trade-in sales totaling \$336,906. Twelve trade-in sales were not reported to MMO. A written determination was not provided for one trade-in sale with an acquisition cost exceeding \$100,000.	
VII. <u>MUSC Does Not Have an Updated Procurement Manual</u>	27
MUSC was not able to provide an updated procurement manual.	

Note: The University’s response(s) to findings have been inserted immediately following the recommendations in the body of the report.

RESULTS OF AUDIT

I. Sole Source and Emergency Procurements

Sole source and emergency procurements made pursuant to SC Code Ann. §§ 11-35-1560 and 1570, were tested to determine the appropriateness of the procurement actions and the accuracy of the quarterly reports submitted to the chief procurement officers as required by § 11-35-2440.

A. Required Written Determinations Were Not Provided or Lacked Authorization

MUSC did not provide required written determinations for seven emergency procurements totaling \$910,000. Without written determinations, we were unable to determine the justification for making these procurements without competition.

Eight emergency procurements totaling \$1,162,136 included paid invoices that did not pertain to the declared emergency per the written determination:

- One invoice was for services dated before the emergency event.
- One was for services dated before the date of the event described in the written determination and another at least a year after.
- Four invoices were for services from six months to a year after the date of the written determination.
- One emergency procurement was declared due to a main breaker that burned up. An invoice dated five months after the declared emergency included work performed by a subcontractor. The invoice stated one piece of equipment needed replacing but that the customer requested the replacement for four pieces of equipment, which was beyond the scope of the initial emergency.

The result is that 15 of these transactions were illegal or unauthorized.

Regulation 19-445.2015 (A) requires that, “[u]pon finding after award that a State employee has made an unauthorized award of a contract or that it is otherwise in violation of law, the appropriate official may ratify or affirm the contract or terminate it in accordance with this section.... If the value of the contract exceeds \$100,000, the CPO must concur in the written determination before any action is taken on the decision.”

Recommendation: We recommend that all fifteen of these procurements be reported as unauthorized or illegal as required by regulation.

We also recommend MUSC develop and implement procedures to ensure that written determinations are prepared and properly authorized for all sole source and emergency procurements as required by the Code, including sufficient review of expenditures by the appropriate level of management to verify they are within the scope of the written determination.

RESULTS OF AUDIT

University Management Response

MUSC takes no exception to the findings related to the emergency written determinations and paid invoices. The cited emergency requisitions were prepared in response to a hurricane and were done remotely as the university was under evacuation orders. The emergency requisitions were appropriately approved by the procurement officer and the required purchase orders issued prior to the services being provided. We were able to approve the requisition via cell phone and iPad; however, could not attach documents at the time the requests were processed. This was an oversight that the written determinations were not prepared once we returned to the office.

Corrective Action: Through MUSC's Process to Procure initiative, the following actions have been taken to ensure compliance, we have developed standardized checklists for our Sole Source and Emergency purchases. These checklists detail the required steps for Shoppers, Approvers, and Buyers, as well as tips to ensure the requisition moves through the process smoothly. Further, we sample monthly and review in detail quarterly all purchases in these categories to validate the required documentation meets the requirements of the Procurement Code.

B. Inadequate Written Determinations for Sole Source and Emergency Procurements

Required written determinations for seven sole sources in the amount of \$6,192,863 and 50 emergency procurements in the amount of \$7,597,410 were inadequate.

Four sole source determinations, totaling \$5.93 million, were to transfer funds to MUSC Foundation for Research Development. There were no contracts that included the scope of work to be done or any conditions. None of the invoices paid against these sole sources specified what research development work was done.

One sole source was established based on acceptance of funds from the MUSC Foundation. The Foundation requested the services be obtained from a specific vendor.

One sole source procurement was for service available from other vendors and one sole source procurement was implemented because the contract expired and was not resolicited in time.

Fifty procurements were declared as emergencies due to the expiration or extension ending of a contract.

RESULTS OF AUDIT

Regulation 19-445.2110 (B) defines an emergency:

An emergency condition which creates a threat to public health, welfare, or safety such as may arise by reason of flood, epidemics, riots, equipment failures, fire loss, or such other reason as may be proclaimed by either the CPO or the head of a purchasing agency or a designee of either office. The existence of such conditions must create an immediate and serious need for supplies, services, information technology, or construction that cannot be met through normal procurement methods and the lack of which would seriously threaten:

- (1) The functioning of State government;
- (2) The preservation or protection of property; or
- (3) The health or safety of any person.

The SC Supreme Court, relying on the above Regulation and the common meaning of the term emergency, held that “[a]n emergency is, by its very nature, a sudden, unexpected onset of a serious condition.”¹ The expiration of a contract in accordance with its terms is not an event that is sudden and unexpected.

Recommendation: We recommend MUSC develop and implement procedures to ensure that emergency procurements are adequately justified and limited to circumstances that meet the definition of an emergency under Reg. 19-445.2110.² We also recommend providing sufficient lead time for the solicitation of replacement contracts when planning for contract expiration.

University Management Response

Four of the sole source determinations, totaling \$5.93 million, were related to payments to the MUSC Foundation for Research Development (FRO). The purpose of the FRO is to be a key collaborator of the MUSC innovation ecosystem that collectively generates recognition and impact from the enterprise's innovations across the domains of scholarly research, education and public health to promote educational, research, clinical and other programs of MUSC. As the FRO was founded for these purposes and the commitment is a MUSC Board of Trustees approved line-item, we believed that the justification which detailed this information is adequate.

MUSC takes no exception to the other stated findings. We agree that better planning is required to ensure we allow enough lead time to solicit renewal contracts; however, we would like to point out that under the circumstances the emergency methodology was the only appropriate method as all of the services were critical to the continued operation of MUSC.

¹ The State of South Carolina, In The Supreme Court, Opinion No. 26534, Heard April 15, 2008 – Filed August 25, 2008.

² SC Code Ann. §§ 11-35-1560 and 1570 require adequate public notice for all sole source and emergency procurements greater than \$50,000, effective May 13, 2020.

RESULTS OF AUDIT

Consequently, we could not allow any of these services under these emergencies to be interrupted as it would have seriously threatened the functioning of MUSC, the preservation and protection of our property and the health or safety of our patients, students and staff.

Corrective Action: To improve this process we have implemented an electronic notification system which informs the contract owner and the procurement buyer that the end date of the contract is approaching. Based on the complexity of the contract, the dates and intervals for notices to generate can be customized.

Further, we have submitted this finding as an action item to the Process to Procure committee requesting development of policies and procedures to include a detailed work plan for the buyer and contract owner to guide them once a notice of contract end date is received. This plan will include engagement not only of the buyer and the contract owner but the departmental leadership as well.

C. Sole Source Procurements Not Reported to DPS

Two Sole Source procurements totaling \$166,562 were not included in quarterly reports to DPS as required by SC Code Ann. § 11-35-2440.

Recommendation: We recommend MUSC develop and implement reporting procedures, including management review and approval, to ensure complete, accurate, and timely reporting of sole source procurements.

University Management Response

MUSC takes no exception to the reporting findings.

Corrective Action: We have developed and implemented reporting procedures that require management review and approval at the requisition phase and prior to the quarterly reports being submitted to DPS. Instituting reviews at these phases will allow management to identify and correct any reporting errors as well as allow for timely reporting. The due dates for this reporting requirement have also been added to our Key Process Indicators that we track monthly.

II. Unauthorized or Illegal Procurements

We reviewed unauthorized or illegal procurements to determine if they were properly ratified or terminated in accordance with Reg. 19-445.2015.

A. Missing Approval Documentation or Documentation Lacked Authorization

Five unauthorized or illegal procurements were missing required written determinations. Without written determinations, we were unable to determine if the agency took appropriate corrective action.

RESULTS OF AUDIT

Regulation 19-445.2015¹(H) states:

“All decisions to ratify or terminate a contract shall be supported by a written determination of appropriateness. In addition, the appropriate official shall prepare a written determination as to the facts and circumstances surrounding the act, what corrective action is being taken to prevent recurrence, and the action taken against the individual committing the act.”

In addition, the disposition of one unauthorized procurement lacked the required approval.

Regulation 19-445-2015(A)(1) states:

Upon discovering after award either (a) that a person lacking actual authority has made an unauthorized award or modification of a contract or (b) that a contract award or modification is otherwise in violation of the Consolidated Procurement Code or these regulations, the appropriate official, as defined in G below, must decide to either ratify the contract in accordance with this regulation or acknowledge and declare the contract null and void. If ratified, the contract may be continued or terminated. The contract may be ratified only if ratification is in the interest of the State.

And per section (G):

Appropriate Official. The appropriate official to make the decisions authorized by sections A...is the chief procurement officer, the head of a purchasing agency, or, for a contract with a total potential value no greater than \$100,000, a designee of either officer, above the level of the person responsible for the person committing or authorizing the act. If a contract award or modification is made in violation of the Consolidated Procurement Code or these regulation, and the value of the contract exceeds the certification of the purchasing agency or one hundred thousand dollars, the chief procurement officer must concur in the written determination before any further action is taken, unless the contract is declared null and void. In all circumstances, the chief procurement officer must concur in any determination finding bad faith.

Recommendation: We recommend the appropriate official ratify and affirm, ratify and terminate, declare null and void, or terminate all unauthorized procurements and include the appropriate written determinations as required by R 19-445.2015(A) and (G).

University Management Response

MUSC takes no exception to the reporting findings.

Corrective Action: MUSC has procedures in place that provides for adequate reporting and ratification of our unauthorized purchases; however, we will provide greater scrutiny during the process to ensure all unauthorized procurements are captured. In addition, to test our internal compliance Procurement will request that Internal Audit include this area for annual review when developing its audit plan.

¹ Regulation 19-445.2015 was revised effective April 24, 2020

RESULTS OF AUDIT

B. Inadequate Explanation in Written Determination

Three unauthorized procurements lacked adequate written determination as to the facts and circumstances surrounding the act, what corrective action was taken to prevent recurrence, and the action taken against the individual committing the act, as required by R 19-445.2015 (B).

Regulation 19-445.2015 (B) states, "In addition, the appropriate official shall prepare a written determination as to the facts and circumstances surrounding the act, what corrective action is being taken to prevent recurrence, and the action taken against the individual committing the act."

Recommendation: We recommend development of procedures, forms, and instructions, to ensure written determinations include all of the required elements, and are approved by the appropriate official as required by Regulation 19-445-2015 (B).

University Management Response

MUSC takes no exception to the reporting findings.

Corrective Action: Through our Process to Procure initiative MUSC has developed procedures, forms and instructions that provides for adequate reporting of our unauthorized purchases. We will also provide greater scrutiny of the process through management oversight to ensure all unauthorized procurements are properly documented in accordance with Regulation 19-445-2015 (B). In addition, to test our internal compliance Procurement will request that Internal Audit include this area for annual review when developing its audit plan.

C. Not Reported to DPS

Seven unauthorized or illegal procurements totaling \$8,300 were not reported to DPS. Regulation 19-445.2015 (B) states in part, "Any governmental body shall submit quarterly a record listing all decisions required by subsection A to the CPOs."

Recommendation: We recommend MUSC develop and implement procedures, including management review and approval, to ensure compliance with Reg. 19-445.2015 (A) and (B).

University Management Response

The seven unauthorized procurements represent items that were each under \$2,500.00. Based on MUSC policies, departments are authorized to make procurements at this threshold without University Procurement's approval. The purchases should not have been coded as unauthorized on the requisition. Consequently, they were not included in our quarterly report to DPS.

Corrective Action: Through our Process to Procure initiative MUSC has developed procedures, forms and instructions that provides for adequate reporting of our unauthorized purchases. We will also provide greater scrutiny of the process through management oversight to ensure all unauthorized procurements are properly documented in accordance with Regulation 19-

RESULTS OF AUDIT

445-20 I 5 (8). In addition, to test our internal compliance Procurement will request that Internal Audit include this area for annual review when developing its audit plan.

III. Purchasing Cards

MUSC had 336 cardholders and a total spend of \$55,542,006 for the period 1/1/15 to 9/30/19. Total expenditures for the two-month period tested were \$1,816,324. Due to the volume of usage, there is enhanced risk of misuse without adequate management oversight.

1. Program Administration

We reviewed MUSC's P-Card policies and procedures for compliance with the South Carolina Purchasing Card Policy and Procedures (State P-Card Policy) and identified areas of non-compliance.

A. Roles and Responsibilities

Although a separation of duties is defined between the cardholder, the liaison, and the departmental administrator in MUSC's P-Card Policy, those duties are not clearly defined in accordance with the State P-Card Policy. One example is cardholders who were assigned liaison roles were also the liaison of their own card. MUSC delegated the responsibility for signing P-Card statements to employees other than the supervisors. This is the responsibility of the supervisor/approver in the State P-Card Policy.

Section V. of the State P-Card Policy states:

“Each Agency’s internal P-Card policy must establish an internal control process and structure that ensures compliance with the Code and State P-Card Policy. Internal Controls should include: (1). Appropriate separation of duties between making transactions (Cardholders), review and approval of transactions for payment (approving officials), and payment of the cardholder activity statements (Accounts Payable). (3). Appropriate hierarchical review and approval of purchases by someone with supervisory authority over the Cardholder and/or with authority to question purchases if needed.”

MUSC's P-Card policy defines a Departmental Liaison as follows:

“Departmental Liaison - An employee in each department/college who is responsible for proper use of the P-Card within the department. Each cardholder will be assigned a Departmental Liaison, and the liaison will be responsible for reviewing transactions of individual cardholders to make sure the transactions are classified as an appropriate university expense.”

Section III. C. of the State P-Card Policy states:

“The liaison reviews the transactions for all cardholders assigned to him/her to determine that the cardholder and supervisor/approver are complying with this State P-Card Policy; i.e., no prohibited transactions, no split transactions, purchases are made from contract vendors when available, no deliveries to other than the business address(es), no blocked

RESULTS OF AUDIT

MCC codes, etc”...3. “Perform documented monthly reviews of all transactions for assigned cardholders to verify that there have been no non-allowable transactions.”

Per MUSC’s internal P-Card Policy, “Departmental Administrator - An employee in each department responsible for reviewing the department’s compliance of the P-Card Program Policies and Procedures. A department administrator will ensure adequate segregation of duties between the cardholder/department liaisons.” The use of someone other than the employee’s supervisor to approve a cardholder’s transactions is a violation of the State P-Card Policy.

Section III. B. 8. of the State P-Card Policy states: “Sign the cardholder monthly bank statements signifying review and approval for payment. This responsibility cannot be delegated to another person.

a) All signatures are original signatures. Signatures made with rubber stamps are prohibited;”

Recommendation: We recommend MUSC revise its internal P-Card policy to:

- ensure adequate separation of duties, including a prohibition against any cardholder approving their own transactions,
- clarify roles and responsibilities by position, including documented monthly reviews by the liaison to ensure effective reviews are consistently performed. Liaisons review for unallowable purchases, split transactions, and the use of blocked MCC codes.

University Management Response

MUSC takes no exception to the reported finding. We would like to point out that because of our departmental structure there will be instances where we will have Liaisons that are also cardholders.

Corrective Action: Through our Process to Procure initiative, MUSC is transitioning its purchasing card approval from paper to the Bank of America WORKS® Electronic Approval Workflow. This change includes updating our Peard manual to clearly document and define the roles in this process. Additionally, by utilizing the approval feature through WORKS®, a liaison may function in the capacity of a card holder with the appropriate levels of segregation in the approval work flow so that self-approvals are prohibited.

We are conducting the transition in three phases as of the date of this report phases I and 2 have been completed. Phase 3 is projected to be completed June 30, 2021. The first draft of the revised manual is complete and is under review by management. The final updated manual is scheduled to be completed no later than September 2021.

B. B.....Missing or Late Management or Cardholder Signature on P-Card Statements

There were six P-Card statements out of 34 tested either missing the manager signature or dated after the five-day close, which is required by State P-Card Policy. In addition, six P-Card

RESULTS OF AUDIT

statements were signed by the manager but not dated. Therefore, compliance with the State P-Card policy could not be determined.

Three cardholder statements were not signed in a timely manner by the cardholder and four statements were signed but not dated.

Per the State P-Card Policy III. B. Supervisors/Approving Officials Responsibilities, one of the supervisor/approver responsibilities is to, 8. “Sign the cardholder activity statements signifying review and approval for payment. This responsibility cannot be delegated to another person.”

Per the state P-Card Policy III. (D) Cardholders. (4) states that the cardholder should “Sign the cardholder activity statements”... 5 “Submit all documentation to the supervisor or Liaison by internally established deadlines...” Per MUSC P-Card Manual, Additional Cardholder Information, “...the cardholder will sign the bank statements and the department administrator must counter sign on the lines provided on the statement...” There is no established time period stated in MUSC’s P-Card Manual as required by the State-P-Card Policy. Management stated they are in the process of implementing management and cardholder electronic signoffs in Works.

Recommendation: We commend MUSC for its planned transition to electronic manager approval of P-Card transactions and encourage implementation as soon as possible as this would alleviate the process of determining whether or not a manager or cardholder had properly signed off on cardholder statements. We also recommend that MUSC’s P-Card Policy be updated to comply with the state P-Card policy. We further recommend that P-Card holders and Departmental Administrators be provided refresher training to reinforce compliance with the State P-Card Policy.

University Management Response

MUSC takes no exception to the reported finding.

Corrective Action: Through our Process to Procure initiative, MUSC is transitioning its purchasing card approval from paper to the Bank of America WORKS® Electronic Approval Workflow. This change includes updating our Peard manual to clearly document and define the roles in this process. Additionally, by utilizing the approval feature through WORKS®, a liaison may function in the capacity of a card holder with the appropriate levels of segregation in the approval work flow so that self-approvals are prohibited.

We are conducting the transition in 3 phases, as of the date of this report phases 1 and 2 have been completed. Phase 3 is projected to be completed June 30, 2021. The draft of our revised Peard

RESULTS OF AUDIT

manual which incorporates the recommendation of this audit is complete and is under review by management. The final revised manual is scheduled to be published no later than July 2021.

C. Disciplinary Actions for Noncompliance Were Not Consistent –

One cardholder repeatedly violated the P-Card policies over several years dating back to 2015. Despite years of noncompliance, management stated the card would be temporarily suspended and subsequently reissued to the cardholder.

Section VII of the State P-Card Policy states, “Cardholders or supervisors/approving officials who knowingly, or through willful neglect, fail to comply with the following may be subject to suspension or termination of card privileges or other disciplinary action, up to and including termination of employment and criminal prosecution to the fullest extent of the law:

1. The Code
2. State P-Card Policy
3. Internal policies and procedures governing procurement and the P-Card Program.

Per MUSC P-Card Manual, there are disciplinary guidelines which allow for written warnings only for first offenses including failure to report lost or stolen cards, unauthorized purchases, and split purchases. The second offense would include temporary suspension of card privileges for three months. First offense for allowing use of card by someone other than the cardholder could have their card reinstated after six months.

Recommendation: We recommend that MUSC clarify its policy regarding disciplinary actions for P-Card violations in line with the State P-Card policy, including permanent loss of card privileges for repeat offenders. MUSC should follow their disciplinary actions for third offenses, which states cardholder privileges will be revoked.

University Management Response

MUSC takes no exception to the reported finding.

Corrective Action: We have completed a draft of our revised P-card manual which incorporates the recommendation of this audit. The draft is under review by management and the final revised manual is scheduled to be published no later than July 2021. In addition, we will reiterate to all P-card holders the policy as it relates to the consequences of repeated violations.

2. Transaction Testing

Transaction testing identified areas of non-compliance, which were not identified by the liaison or supervisor/approver during the monthly review and reconciliation of cardholder statements.

RESULTS OF AUDIT

A. Supporting Documentation Not Provided

Two P-Card statements and one document control form were not provided. The control form is a required internal form used to document prior approval of all P-Card purchases by the Cardholder's supervisor.

Section III D. 1. i) of the State P-Card Policy requires, "Maintain all documentation required by State and internal P-Card policies... Minimum documentation requirements are: ... (a) Monthly acquisition file for audit and/or review..." Per MUSC P-Card Manual, "...Document every purchase made with the P-Card using a document control form..."

Recommendation: We recommend MUSC comply with the State P-Card Policy as well as their internal policy pertaining to maintaining required documentation.

University Management Response

MUSC takes no exception to the reported finding.

Corrective Action: MUSC's transition of its purchasing card approval from paper to the Bank of America WORKS® Electronic Approval system will immediately correct this issue as all documents are required to be uploaded. The Peard administrator as well as the approving officer will have instant visibility prior to approving to the next workflow step to verify that all required documents are attached.

B. Split Transactions

Testing identified four split transactions totaling \$42,257.

According to the SC Code Ann. § 11-35-1550, Small purchase procedures, when competitive bidding required. "Procurement requirements must not be artificially divided by governmental bodies so as to constitute a small purchase pursuant to this section." The State P-Card policy IV(C) further states: "Splitting transactions to avoid the single transaction limit is strictly prohibited and doing so may result in removal of P-Card privileges" MUSC P-Card policy states: ... "Splitting of purchases will be considered a P-Card violation."

Recommendation: We recommend MUSC comply with SC Code Ann. § 11-35-1550, the State P-Card policy, and their internal policy pertaining to split purchases. We further recommend a documented liaison review that includes split purchases.

University Management Response

MUSC takes no exception to the reported finding.

Corrective Action: We have adequate policies that describe what constitutes a split transaction and stipulates that this practice is not allowed. To ensure compliance we will request IA increase their testing for these types of transactions during their annual audit of our Peard program.

RESULTS OF AUDIT

C. No CPO-Approval for Purchase in Excess of the STL

We identified one purchase for \$18,034, which was allowed by MUSC's P-Card Administrator, without CPO approval, as required by the state P-Card Policy.

Per the State P-Card Policy II. D.¹ ...“To raise the STL above the ‘no competition’ limit set forth in § 11-35-1550 (2) (a), the P-Card Administrator must first obtain the written approval of its governing board or if there is no governing board, agency head. The P-Card Administrator must then submit a written request for the change, along with the approval of its governing board or agency head, to the Materials Management Officer for approval.”

Recommendation: We recommend MUSC comply with the State P-Card policy and their internal policy pertaining to approvals for purchases in excess of the STL. We further recommend a documented liaison review that includes reviewing for purchases in excess of the STL.

University Management Response

MUSC takes no exception to the reported finding. We submit this was an isolated occurrence.

Corrective Action: The University Purchasing Card Program is audited annually by MUSC's Internal Audit Department. As part of their annual audit we will request IA test this area to ensure the university's compliance.

In addition, our revised Peard policies and procedures will outline the correct process should we have a need for STL Peard purchases that is above our no compete limit. Our policies will also include the requirement for liaison review during their approval of purchases.

D. Payments Made on Open Accounts

There were 18 payments made on open accounts, with some invoices dated back more than two years. Payments on open accounts are prohibited per the State P-Card Policy IV. E., which states, “The following types of purchases are strictly prohibited by State policy”...12. “To make payment on “open” accounts maintained with vendors. The P-Card shall only be used to pay one transaction at a time and cannot be used to pay the accumulated balance of an account.”

Recommendation: We recommend MUSC clearly define prohibited purchases, including making payments on open accounts, in its P-Card manual that are consistent with State P-Card Policy. We further recommend the P-Card reviews include reviewing for payments on open accounts and that cardholders be retrained accordingly.

¹ Previous versions of the State P-Card Policy required only CPO approval for an STL greater than \$10,000.

RESULTS OF AUDIT

University Management Response

MUSC takes no exception to the reported finding.

Corrective Action: Our revised Peard policies and procedures will be consistent with the State Peard policies as it relates to purchases on open accounts.

We will submit this issue to the Process to Procure committee to lead in the development of a process to ensure compliance by both our end users as well as our vendors.

E. Blocked MCC Codes

MCC blocks do not apply to Group B Agencies unless imposed by that Entity's own P-Card Policy. MUSC's P-Card Policy requires that certain types of vendors be blocked from P-Card purchases and includes a list of blocked MCC Codes. We identified 58 purchases made on blocked MCC codes without prior approval by the P-Card Administrator.

Recommendation: We recommend MUSC develop and implement procedures assigning responsibility for reviewing for blocked MCC code use to monthly liaison reviews.

University Management Response

MUSC takes no exception to the reported finding. We note that a number of the items identified were related to MCC codes 4722 and 4814 which MUSC had removed from its Blocked List. We notified our Internal Audit department of this change; however, we failed to update the list maintained in our policies and procedures, which resulted in the audit findings.

Corrective Action: We have developed policies and procedures for requesting exceptions to purchases that are allowable but under a Blocked MCC code that includes approval by the procurement director. To ensure these policies and procedures are being adhered to and our system is working properly, effective immediately, the Peard Administrator will incorporate in her monthly process a review to test for purchases made under Blocked MCC codes. The Peard Administrator is also required to update the policies and procedures immediately anytime a MCC code is added or removed from the Blocked list.

Further, as part of their annual audit we will request IA increase their testing in this area to ensure the university's compliance.

F. Unauthorized Purchase

A student made an unauthorized purchase without required approval. After accounts payable denied the payment, it was paid for with a P-Card. There was no disciplinary action for this unauthorized purchase, nor was it reported to DPS.

RESULTS OF AUDIT

Recommendation: We recommend MUSC develop and implement procedures for approval and payment that comply with the state P-Card policy.

University Management Response

MUSC takes no exception to the reported finding.

MUSC Corrective Action Planned: Through our Process to Procure initiative, MUSC is transitioning its purchasing card approval from paper to the Bank of America WORKS® Electronic Approval Workflow. This change includes updating our Peard manual to clearly document and define the roles in this process. Additionally, by utilizing the approval feature through WORKS®, a liaison may function in the capacity of a card holder with the appropriate levels of segregation in the approval work flow so that self-approvals are prohibited.

We are conducting the transition in 3 phases, as of the date of this report phases 1 and 2 have been completed. Phase 3 is projected to be completed June 30, 2021. The draft of our revised Peard manual which incorporates the recommendation of this audit is complete and is under review by management. The final revised manual is scheduled to be published no later than July 2021.

G. Cardholders Approved Their Own Purchases

We identified nine purchases where the cardholder approved his/her own purchase. Per the State P-Card Policy V. A.... “Internal Controls shall include (4). No Cardholder can provide approval for payment for his/her transactions or of the P-Card cardholder activity statements. Review and approval responsibilities cannot be delegated to someone else.”

Recommendation: We recommend MUSC revise its P-Card policies to ensure a separation of duties that prevents a cardholder from approving his/her own purchases. Monthly P-Card reviews should include reviewing transactions for proper approval as required by the State P-Card Policy.

University Management Response

MUSC takes no exception to the reported finding.

Corrective Action: Through our Process to Procure initiative, MUSC is transitioning its purchasing card approval from paper to the Bank of America WORKS® Electronic Approval Workflow. This change includes updating our Peard manual to clearly document and define the roles in this process. Additionally, by utilizing the approval feature through WORKS®, a liaison may function in the capacity of a card holder with the appropriate levels of segregation in the approval work flow so that self-approvals are prohibited.

We are conducting the transition in 3 phases, as of the date of this report phases I and 2 have been completed. Phase 3 is projected to be completed June 30, 2021. The draft of our revised Peard

RESULTS OF AUDIT

manual which incorporates the recommendation of this audit is complete and is under review by management. The final revised manual is scheduled to be published no later than July 2021.

H. Purchases Made in Violation of Internal Policies and Procedures

We identified four purchases that violated the University's internal procedures for use of the P-Card. One purchase was for meals for employees during a training event; one was for warranties; one was for telecommunication products; and another was for cloud storage.

Recommendation: We recommend MUSC retrain cardholders to comply with internal P-Card policies. We further recommend the monthly liaison review address purchases that violate State and internal P-Card policies and that repeat offenders have their privileges suspended or revoked in accordance with University policy.

University Management Response

MUSC takes no exception to the reported finding.

Corrective Action: Through our Process to Procure committee training material, checklists and forms have been developed that address this audit finding. Further our revised policy will stipulate that the liaison is required as a part of their monthly review to test for violations of this nature.

Additionally, to ensure compliance we will have IA increase their testing of transactions and administer the appropriate disciplinary action when an offense is identified.

IV. Supplies and Services Contracts

Our audit of supplies and services transactions identified the following issues:

A. Missing Documentation or Authorization

MUSC did not provide two solicitations, one Intent to Award, eight SCBO ads, and four bid documents. Two written determinations for source selection methods other than competitive sealed bid lacked authorization. One multi-term contract determination was not dated.

Regulation 19-445-2005 (B) states: "Each governmental body must maintain procurement files sufficient to satisfy the requirements of external audit."

Recommendation: We recommend MUSC review and revise its procedures to ensure documentation is maintained to demonstrate compliance with Regulation 19-445-2005(B) as required.

University Management Response

We take no exception to the reported findings. However, we should mention the extenuating circumstances and how the pandemic affected the accessing of hard copy files. Soon after the audit

RESULTS OF AUDIT

began the COVID pandemic occurred and we were required to work remotely with limited access to our office. In addition, we had recently moved to our current location and had not completely unpacked or located all of our files. These facts contributed to the difficulties in locating our files, since our return to the office we are finding missing files.

As it relates to the four bid documents we misunderstood the request. As the documentation request listed specific items, we provided the specific named items from those files instead of the complete bid files.

Corrective Action: To improve upon our Solicitation process and ensure all required documents are maintained and easily accessible we have made the following changes:

- (i) Created a specialized solicitation team where the average years of the staff exceeds 15 plus years of Procurement experience in the State system
- (ii) Moved to electronic files that is easily accessible by all buyers from any location where there is internet services
- (iii) Began using the State SCEIS system for building our solicitations
- (iv) Developed a standardized checklist outlining the solicitation process for Shoppers, Approvers, and Buyers, as well as tips to ensure the solicitation process flows without interruption
- (v) Management review and approval required at selected points in the process

B. Unauthorized Change Order

The agency awarded a contract for janitorial services on February 3, 2015 with an estimated total value of \$12,260,808. After the first year of the contract, MUSC approved a price increase retroactive to April, 2015. The retroactive bill for services through March 2016 totaled \$146,604. The change order made a material change to the terms of the contract that require new competition.

The solicitation contained a price adjustment clause which stated, “Prices shall not be increased during the initial term. Any request for a price increase must be received by the Procurement Officer at least ninety (90) days prior to the expiration of the applicable term and must be accompanied by sufficient documentation to justify the increase. If approved, a price increase becomes effective starting with the term beginning after approval.” Additionally, change orders or contract modifications cannot materially alter the underlying purpose of the original contract or the determination of the award.

Recommendation: We recommend MUSC implement a change order review process¹ to ensure change orders or contract modifications, including price increases requested by vendors, do

¹ Effective May 13, 2019, § 11-35-2060 prohibits material changes. “A change order or contract modification may not alter a contract in a manner or degree inconsistent with the underlying purposes and policies of this code or the regulations of the board.” See also SC Code of Regulations R. 19-445.2143 (C).

RESULTS OF AUDIT

not materially alter contract terms and do not bypass the competition requirements of the Code or result in unfair competitive advantage.

University Management Response

The change order cited related to a change initiated by MUSC to its janitorial contract. After the contract was awarded, MUSC increased its minimum salary for University employees to \$9.00 per hour. To maintain equity among this group that had recently transitioned from MUSC to the new janitorial vendor, MUSC's Senior Leadership made the decision that this increase would apply to transitioned janitorial staff as well. Accordingly, this was not an increase requested by the vendor but initiated and mandated by MUSC. We maintain this change order was appropriately administered and did not alter the terms of the contract.

Corrective Action: September 2020 we upgraded our change order process within our eProcurement system. This upgrade allows us to make the change directly to the original PO; thereby, giving us easy access to the contract and other pertinent documents required when making a decision regarding a requested change. We also created online training of the new process and made available to end users and the buying staff.

C. Contract Terms not Followed

In addition to the materiality of the change order, the invoicing terms of the Web and Mobile App Design Services agreement were not followed. Conditions of the agreement required; “1. Specifically Identify the project name on the invoice. 2. List of time worked and related expenses must be itemized and attached to or stated on the invoice (this information must clearly define the type of work and detail the purpose of work performed).” None of the invoices included this required information.

Recommendation: We recommend the University develop and implement procedures, including management oversight, for review of invoices to provide accountability and ensure compliance with contract terms.

University Management Response

MUSC takes no exception to the reported finding.

Corrective Action: We will submit this issue to the Process to Procure committee to lead in the development and implementation of a process to address the areas cited in the recommendation. The projected timeline for the implementation of a process is November 2021.

RESULTS OF AUDIT

D. Unauthorized Procurement

Three invoices totaling \$46,354 were paid for work performed after the expiration of a contract. One of the invoices was cancelled under the initial purchase order after we brought the issue to management's attention, however it was subsequently issued another purchase order and paid.

Recommendation: We recommend these purchases be reported as unauthorized procurements. We also recommend MUSC revise their Procurement Procedures to include mandatory training for Procurement Personnel pertaining to compliance with the Procurement Code, including exempt purchases. We also recommend a management review of purchases to verify they do comply with the Procurement Code. The current approval process takes place in MUSC's e-procurement system using workflow functionality.

University Management Response

MUSC takes no exception to the reported finding.

Corrective Action: We will submit this issue to the Process to Procure committee to lead in the reassessment of our current procedures with the goal to identify improvements that will ensure compliance by both our end users as well as our buyers. The projected time line for implementation of recommended actions is November 2021.

V. Minority Business Quarterly Reports Filed Late

Six out of 20 of the quarterly reports were not filed with SMBCC in a timely manner. The progress reports are required to be filed no later than 30 days after the end of the quarter.

SC Code Ann. § 11-35-5240(2) requires MBE utilization plans be submitted to the SMBCC for approval no later than July thirtieth, annually, and that progress reports be submitted to the SMBCC no later than 30 days after the end of each fiscal quarter.

Recommendation: We recommend MUSC develop and implement procedures to comply with SC Code Ann. § 11-35-5240 (2) by submitting annual utilization plans and quarterly progress reports to the SMBCC in a timely manner.

University Management Response

MUSC takes no exception to the reported finding.

Corrective Action: We have established procedures outlining the internal due dates for the responsible staff to have the plans prepared and submitted to management for review. The established timelines allow for management review and timely submission of the plans to SMBCC. The due dates are a key process indicator that are reported to and tracked by Senior Leadership and are also an evaluation criteria for the staff member responsible for this function.

RESULTS OF AUDIT

VI. Surplus Property and Trade-In Sales

There were unauthorized disposals of surplus property totaling \$186,058 and trade-in sales totaling \$336,906 during Fiscal Years 2018 and 2019.

Ten capital assets were improperly disposed of during Fiscal Year 2019. Additionally, 12 trade-in sales were not reported to DPS and one trade-in sale was missing a written determination as required for acquisition costs greater than \$100,000. SPO management expressed concern that these unauthorized procurements would continue without any accountability for non-compliance with the Procurement Code.

Recommendation: We recommend MUSC develop and implement procedures to ensure compliance with SC Code Ann. § 11-35-3820 pertaining to the disposal of Surplus Property and SC Code Ann. § 11-35-3830 and Reg. 19-445.2150 (G) regarding trade-in sales.

University Management Response

Of the twelve trade-in sales that were identified as not being reported to MMO, we submit the following:

<u>Asset Number</u>	<u>Purchase Date</u>	<u>Purchase Cost</u>
83028552	06/01/1992	\$5,000 (i)
83028553	06/01/1992	\$5,000 (i)
83028554	06/01/1992	\$5,000 (i)
83028555	06/01/1992	\$5,000 (i)
83050166	05/01/1997	\$131,698 (ii)
83105104	12/21/2007	\$118,250 (iii)

- (i) There were no procurement actions involved with the disposal of these assets. They were swap-outs by the vendor. Accordingly, Fixed Asset Management reported to the State Surplus Office as illegal disposals as required under the code.
- (ii) This asset was involved in a trade in of a purchase made by the Veterans Administration. This was an illegal disposal of the asset and was reported accordingly; however, there was not a purchase by MUSC that would require us to report as a trade in.
- (iii) This asset was involved in a trade in of a purchase made by the Medical University Hospital Authority (MUHA). This was an illegal disposal of the asset and was reported accordingly; however, there was not a purchase by MUSC that would require us to report as a trade in.

Corrective Action: Both University Procurement and Fixed Asset Management have procedures in place regarding the treatment of Trade-Ins and disposal of assets. Through our Process to Procure initiative we will request the procedures from both areas be reviewed to have those policies enhanced to include education and tools for the end users to utilize when a Trade-In of an asset is involved in a purchase regardless if the purchase was made through the university.

RESULTS OF AUDIT

The added procedures will be designed to reduce the chances of Trade-In procurements bypassing University Procurement. The projected timeline for completion is November 2021.

VII. MUSC Does Not Have an Updated Procurement Manual

MUSC management stated they did not have a hard copy of a Procurement manual, nor one that could be electronically forwarded to Audit and Certification. Management stated they shared information with buyers and other procurement personnel on a share drive, such as forms and instructions; however MUSC was unable to provide documentation of such procedures or an updated Procurement Manual as required by SC Code Ann. § 11-35-540 and Regulation 19-445.2005.

Recommendation: We recommend MUSC develop an internal procurement procedure manual as required by SC Code Ann. § 11-35-540 and Reg. 19-445.2005, and that MUSC submit the manual to the Division of Procurement Services for approval as required by SC Code Ann. § 11-35-540 and Reg. 19-445.2005.

University Management Response

In discussions with the Auditor we attempted to explain that MUSC no longer maintains the traditional hard copy policies and procedures, but rather our policies are in an electronic format integrated into the work processes. We offered to provide the links to the procedures but this appeared to be unacceptable to the Auditor. We then copied and sent the documents to the Auditor; however, we were informed that when opened the documents were unreadable.

Using the checklist entitled "Procurement Manual Review Checklist" provided to us by the Auditor we made .pdf copies of the procedures and cross referenced the named file on the checklist. We note that during our previous audit we provided the electronic link to our policies and procedures and it was acceptable; therefore, we had no reason to believe this would not be acceptable in the current audit.

Corrective Action: MUSC procured a policy management system and is in the transition phase of moving all policies to this system. Consequently, our policies will be maintained in one location and with the capability to strategically place links to those areas that are readily accessible to our end users.

We will continue to perform annual review and update of our policies and procedures.

CERTIFICATION RECOMMENDATION

We believe corrective action based on the recommendations in this report will make the Medical University of South Carolina’s internal procurement operations consistent, in all material respects, with the South Carolina Consolidated Procurement Code and ensuing regulations.

As provided in SC Code Ann. § 11-35-1210, we recommend that the Medical University of South Carolina’s procurement authority to make direct agency procurements be certified up to the following limits for three years:

<u>PROCUREMENT AREAS</u>	<u>CERTIFICATION LIMITS</u>
Supplies and Services ¹	*\$2,000,000 per commitment
Information Technology ²	*\$2,000,000 per commitment
Construction Contract Award	*\$ 1,000,000 per commitment
Construction Contract Change Order	\$ 500,000 per change order
Architect/Engineer Contract Amendment	\$ 100,000 per amendment

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


Cherie Egle, CRMA
Audit Manager
Audit & Certification


Crawford Milling, CPA, CGMA
Director of Audit & Certification

¹ Supplies and Services includes non-IT consulting services

² Information Technology includes consulting services for any aspect of information technology, systems and networks