



**South Carolina State University**

**INDEPENDENT PROCUREMENT AUDIT REPORT**

**For the Audit Period:  
February 1, 2020 to January 31, 2021**

**Office of Audit & Certification  
Division of Procurement Services  
June 23, 2021**

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## INTRODUCTION

The Division of Procurement Services (DPS) audited South Carolina State University's (SCSU) 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 our audit was to determine whether the internal controls of SCSU's procurement system were adequate to ensure compliance with the Code and ensuing regulations.

The management of SCSU is responsible for the university's compliance with the Code. Those responsibilities include:

- Identifying the university's procurement activities and understanding and complying with the Code
- Establishing and maintaining effective controls over procurement activities that provide reasonable assurance that the university administers its procurement programs in compliance with the Code
- Evaluating and monitoring the university's compliance with the SC Consolidated Procurement 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.

### Total Expenditures

During the audit period, the university made expenditures as follows:

	<u>\$ Amount</u>
PO's	21,909,000
DEV's	<u>5,013,000</u>
Total Spend	26,922,000

## 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 SCSU's compliance with the Code for the period February 1, 2020 through January 31, 2021, 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. SCSU reported the following sole source and emergency procurement activity during the audit period:
  - Seven sole source procurements totaling approximately \$834,000, and
  - Twelve emergency procurements totaling approximately \$342,000.
- (3) Procurement transactions for the audit period as follows:
  - a) Seventy payments each exceeding \$10,000 totaling \$9.8M.
  - b) Ten direct expenditure vouchers (DEVs) totaling \$26 thousand.
  - c) A block of sequential expenditures over a two-month period reviewed for order splitting or the use of or favored vendors
  - d) Thirty-seven P-Card transactions.
- (4) Three construction contracts and one Architect/Engineer and Related Professional Service Contracts for compliance with the Manual for Planning and Execution of State Permanent Improvements, Part II.
- (5) Disposition of unauthorized procurements. During the audit period, three unauthorized procurements totaling \$175,854 were reported to the DPS.
- (6) Surplus property dispositions, and approval of trade-ins in excess of \$5,000.
- (7) 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>\$</u>	<u>Goal</u>	<u>\$ Actual Reported</u>
2020	2,565,900		-0-
2021	2,565,900		-0-

**SUMMARY OF FINDINGS**

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**Note:** SCSU’s responses to the findings in this report have been inserted after each recommendation and a copy of the response cover is attached after the report.

## RESULTS OF AUDIT

### I. Procurement Manual

SCSU's procurement manual was last updated on October 3, 2013 and is not in compliance with the Code and regulations in key areas. For example:

- The small purchase procedures have not been updated to reflect Code § 11-35-1550.
- There is no reference to commercially available off-the-shelf (COTS) products per Regulation 19-445.2141.
- There are no requirements for advertising all sole source and emergency procurements greater than \$50,000 as required by SC Code Ann. § 11-35-1560.

Per SC Code Ann. § 11-35-540 (3) Approval of Operational Procedures, "Governmental bodies shall develop internal operational procedures consistent with this code; except, that the operational procedures must be approved in writing by the appropriate CPO."

**Recommendation:** We recommend SCSU develop an internal procurement procedures manual as required by SC Code Ann. § 11-35-540 and Reg. 19-445.2005, and that SCSU submit the manual to DPS for approval.

#### **University Response**

Since the completion of the audit report, South Carolina State University hired a new Procurement Director who is currently seeking to identify changes that are needed in the manual to make it current as of 2022. Such changes shall be in accordance with the Procurement Manual Checklist (Revised 03/29/2021) provided by SFAA DPS; and shall also ensure that all office forms offered on SFAA DPS's website are used for SCSU's operations. SCSU will have a current (2022 version) submitted to DPS for approval by the end of the Fiscal Year (June 30, 2022).

### II. Sole Source Procurements

We tested all seven sole source written determinations for compliance with the code.

#### A. Unauthorized Sole Source Procurements

The justifications for two sole source procurements totaling \$302,430 were dated after the purchase order (PO) date. These two procurements are unauthorized and must be either ratified or acknowledged and declared null and void.

Regulation 19-445.2015 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 Code or these regulations, the appropriate official 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 maybe continued or terminated. The contract may be ratified only if ratification is in the interest of the State."

## RESULTS OF AUDIT

**Recommendation:** We recommend the appropriate official ratify and continue or terminate, or acknowledge and declare null and void, all unauthorized contracts still in effect, and prepare the appropriate written determinations as required by Regulation 19-445.2015 (A) and (G).

### **University Response**

SCSU acknowledges this recommendation as an appropriate resolution. Since the completion of the audit report, SC State University hired a new Procurement Director who is currently collaborating with Accounts Payable Staff to identify the unauthorized purchases described in the recommendation and move forward to continue or terminate, or acknowledge and declare null and void, all unauthorized contracts still in effect, and prepare the appropriate written determinations as required by Regulation 19-445.2015 (A) and (G).

#### **B. Sole Source Determinations Inadequate**

Four sole source justifications totaling \$251,941 are inadequate. The justifications were for software annual subscriptions. The same justification was used for each year of the contract.

SC Code Ann. § 11-35-1560 requires governmental bodies to determine in writing that there is only one source for the required supply, service, information technology, or construction item. SC Regulation 19-445.2105 further specifies that “the determination must contain sufficient factual grounds and reasoning to provide an informed, objective explanation for the decision.” An adequate justification would define the university’s need, describe the methods used to determine suitable products available in the market, and weigh the advantages/disadvantages of the identified options.

**Recommendation:** We recommend that SCSU review and revise its procedures for sole source procurements to require that written determinations first document the university’s need, then explain the basis for its determination that only one source was available or no other was suitable or acceptable to meet the need. Written determinations must contain sufficient factual grounds and reasoning to provide an informed, objective explanation for the decision, and to ensure that in cases of reasonable doubt, competition is obtained as required by SC Code Ann. § 11-35-1560 and Regulation 19-445.2015 (C).

### **University Response**

Since the completion of the audit report, SCSU hired a new Procurement Director, who created a Sole Source Procurement Guideline effective December 15, 2021. The language from the guideline will be added to 2022 version of the Procurement Manual; and includes SFAA DPS’s recently revised Sole Source Form (MMO#102) issued 08/09/2021. By using the new form, SCSU has a foundation, which ensures that written determinations provide sufficient information and



## RESULTS OF AUDIT

documentation to justify a purchase as a sole source. Also, the new Procurement Director is preparing a virtual professional development series for faculty and staff as a Procurement Month event, which will include training on Sole Source procurements by March 30, 2022.

### C. Sole Source Procurements Not Advertised in SCBO

Public notice of intent to award three sole source procurements totaling \$471,544 were not posted in South Carolina Business Opportunities (SCBO) as required for sole source procurements greater than \$50,000.

SC Code Ann. § 11-35-1560 states: "Except for contracts with a total potential value of fifty thousand or less, adequate public notice of the intent to award without competition must be posted in SCBO, except that public notice is not required if the appropriate [CPO], after consultation with the head of the purchasing agency, determines in writing that award without such notice is in the interest of the State. Notice must contain a right to protest under § 11-35-4210(1) and must be posted at least five business days before entering a contract. For contracts with at total potential value greater than two hundred fifty thousand dollars, such notice must be posted at least ten business days before entering a contract."

**Recommendation:** We recommend SCSU review and revise its procedures to ensure that any sole source procurements greater than \$50,000 provide adequate public notice as required by SC Code Ann. §11-35-1560.

### **University Response**

Since the completion of the audit report, SCSU hired a new Procurement Director, who created a Sole Source Procurement Guideline effective December 15, 2021. The language from the guideline will be added to 2022 version of the Procurement Manual; and includes the compliance to the 2019 statutory requirement to advertise sole sources in SCBO.

### D. Sole Source Procurements Not Reported Timely to DPS

Six sole source procurements totaling \$554,371 were reported late. SC Code Ann. § 11-35-2440 requires that governmental bodies submit quarterly, a record listing of all contracts made pursuant to § 11-35-1560 to the CPO.

**Recommendation:** We recommend that SCSU develop a documented process, to include management review and approval, to ensure that an accurate and complete list of all sole source procurements is reported quarterly in a timely manner.

### **University Response**

Since the completion of the audit report, SCSU hired a new Procurement Director, and commits to developing written procedures for Sole Source reporting. The Director shall have

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responsibility for review and approval prior to submission. SCSU will develop a database by March 1, 2022, to collect records of Sole Source Procurements to make reporting preparation more efficient and automated.

### **III. Emergency Procurements Not Reported Timely to DPS**

We tested written determinations for all 12 emergency procurements totaling \$341,991 for compliance with the code. They were all reported late.

SC Code Ann. § 11-35-2440 requires that governmental bodies submit quarterly, a record listing of all contracts made pursuant to § 11-35-1570 to the CPO.

**Recommendation:** We recommend that SCSU develop a documented process, to include management review and approval, to ensure that an accurate and complete list of all emergency source procurements is reported quarterly in a timely manner.

#### **University Response**

Since the completion of the audit report, SCSU hired a new Procurement Director, and commits to developing written procedures for Emergency reporting; The Director shall have responsibility for review and approval prior to submission. SCSU will develop a database by March 1, 2022, to collect records of Emergency Procurements to make reporting preparation more efficient and automated.

### **IV. Purchasing Card Program Administration**

SCSU had 52 cardholders who spent \$384,927 in 906 transactions during the audit period. Due to the volume of usage, there is increased risk of misuse or abuse of the P-Card without adequate management oversight.

#### **A. Insufficient Purchasing Card Manual**

We reviewed SCSU's P-Card manual for compliance with the South Carolina Purchasing Card Policy and Procedures (State P-Card Policy) and identified areas of non-compliance. SCSU does not have a separate P-Card manual. Their P-Card policies and procedures are included in their Procurement Manual which was last updated on November 3, 2013 and did not address critical elements of the State P-Card Policy as follows:

- Inadequate roles and responsibilities for the documentation of manager/supervisor approval.
- Inadequate procedures for addressing prohibited transactions.
- No procedures for department liaisons to review transactions to ensure transactions are for legitimate public expenditures.

## RESULTS OF AUDIT

- No procedures for the use BOA Works.
- No procedures for establishing and administering a documented Level 1 and Level 11 training program.

**Recommendation:** We recommend SCSU revise its internal P-Card Manual to cover the key requirements of the State P-Card Policy. A P-Card Manual checklist is available on the Procurement Services website that may aid in addressing critical elements. We further recommend that SCSU's P-Card manual be separate from the Procurement manual.

### **University Response**

Since the completion of the audit report, SCSU hired a new Procurement Director, who was the State Procurement Card Administrator for SFAA DPS and contributed to many of the January 1, 2020, revisions of the State's P-Card Manual. SCSU will utilize the P-Card Manual Checklist to revise the Purchasing Card Manual for alignment with standards of use provided in the September 9, 2021 updated version of the State's P-Card Policy and Procedures manual. The revised P-Card manual shall be completed and effective by the commencement of the next Fiscal Year (July 1, 2022).

#### B. Bank Statements Lacked Management and Cardholder Approval

SCSU managers did not date their approval of P-Card statements in 13 instances. There were 12 instances where the manager's signature was dated after the audit began. State P-Card Policy section III (B)(8), Supervisors/Approving Officials, requires managers to, "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."

There were four instances where the cardholder did not sign the bank statement, and six instances where the cardholder did not date the bank statement approval. There were eight instances in which the cardholder signed the bank statements after the audit began. State P-Card Policy III (D)(4) Cardholders, Sign Monthly Bank Statements, requires cardholders to, "Sign the cardholder monthly bank statements attesting to the accuracy and completeness of the statement. All signatures must be original signatures. Signatures made with rubber stamps are prohibited."

**Recommendation:** We recommend that SCSU follow the State P-Card Policy that both management and the cardholder sign the activity statements. We also recommend that SCSU'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.

## RESULTS OF AUDIT

### **University Response**

Bank statements received since the audit report require manager and cardholder signatures. The P-card manual will be revised to address this requirement. The Procurement Department is planning mandatory refresher training events for cardholders, liaisons, and approvers to include (1) a virtual session about mitigating p-card fraud, abuse, and misuse by March 30, 2022. As is the case with new cardholders, existing cardholders will receive individual training each time a new card is issued because of fraud or expiration. Also, once the revised p-card manual is complete, a corresponding training and test will be required for all cardholders, liaisons, and approvers who are tied to the pcard program. Training records will be retained collectively in a training file and in the corresponding Cardholder's p-card file.

#### C. Required Liaison Reviews Not Performed

There were no documented liaison reviews of any P-Card transactions. SCSU's procurement/p-card manual did not address liaison reviews.

State P-Card Policy section III(C) Liaison Responsibilities 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(s), no blocked MCC codes, etc."

**Recommendation:** We recommend that SCSU's P-Card manual be revised to describe the review process and require P-Card Liaisons to document their review. We recommend checklist be developed to ensure consistency in Liaison reviews.

### **University Response**

The P-Card manual will be revised to provide a liaison review process and checklist to be included with monthly statements.

#### D. CPO Approval for STLs Greater Than \$10,000

Four employees had STLs of \$15,000; however, board and CPO approvals for these STLs had not been obtained.

State P-Card Policy section II D. Single Transaction Limits states: "To raise the Single Transaction Limit above the "no competition" limit set forth in Section 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."

## **RESULTS OF AUDIT**

**Recommendation:** We recommend that SCSU comply with the State P-Card policy and their internal policy pertaining to approvals for purchases in excess of the STL. We further recommend liaison reviews include verification that purchases do not exceed approved STLs.

### **University Response**

SCSU will remain in compliance with Section II.B.2 of the State's P-Card manual and shall not allow purchases in excess \$2,500.00 per card unless there is prior approval by the President or Board of Trustees. Purchases in excess of \$10,000.00 will require approval by the President or Board of Trustees and the State Chief Procurement Officer. Any permanent changes in a cardholder's single transaction limit will require a revised cardholder agreement signed by the cardholder, supervisor and other appropriate stakeholders.

#### **E. Cardholder Exceeded Transaction Limit and Credit Limit**

One cardholder exceeded their STL four times in the month of May 2020 and four times in the month of June 2020. The cardholder exceeded their credit card limit in both May of 2020 and June of 2020. Management indicated that the cardholder was given the authority to exceed both limits due to the COVID-19 emergency, but no documentation of approval to move the card to emergency status could be provided.

State P-Card Policy section II E. Emergency Procedures states: "The governing board of Group A and B agencies or the agency head or the designee of either may authorize the agency to designate certain cards to be moved to Emergency Status in the event of a disaster affecting that agency or a declared emergency. This approval should designate the maximum STL that can be assigned to such cards."

**Recommendation:** We recommend that SCSU's P-Card procedures be revised to ensure that before any P-Card is moved to an emergency status that documented approval be obtained from the University's governing board or designee as required.

### **University Response**

SCSU will revise the P-Card procedures to ensure that SCSU's P-Card administrator receives documented approval from the governing board or designee before any P-Card is moved to an emergency status.

#### **F. Independent Audit of Purchasing Cards Not Performed**

SCSU had not performed independent audits of P-Card activity as required. Per the State P-Card Policy, Section III(A)(1)(a)(ix), agencies must "Create a provision for audit or other independent review of all areas of program administration and transactions at least annually."

## **RESULTS OF AUDIT**

**Recommendation:** We recommend SCSU develop and implement procedures to ensure independent audits of the P-Card program are conducted, at least annually, to include program administration and transaction testing. We further recommend that these audits be performed by individuals not associated with the P-Card program.

### **University Response**

The Procurement Director will develop a procedure to require an annual audit of the program by an independent auditor. Annual audits shall begin in fall 2022 for fiscal year 2021-2022 records.

#### **G. P-Card Training Program**

SCSU did not have a documented training program for Level I and Level II P-Cardholders. Regarding Level I training, Section III (A)(4) of the State P-Card Policy states "Develop a documented, agency-specific training program that must be completed for all for all Cardholders, Supervisors/Approving Officials and Liaisons prior to issuance of the P-Card." Additionally, the Manual requires Level II training, also referred to as "Procurement Official" training, for those making purchases exceeding the no competition threshold.

**Recommendation:** We recommend that SCSU ensure adequate training is provided to cardholders and supervisors/approving officials providing oversight responsibilities. The training course should be documented, and completion dates recorded in the cardholder's file.

### **University Response**

SCSU is currently planning to implement a training program through the University's Learning Management System (LMS), which will provide and document on-demand training and require successful completion of the training and a subsequent test by the Cardholder, Liaison, and Approver prior to a card being issued to a Cardholder.

#### **H. Inactive P-Cards Not Cancelled**

There were two P-Cards that had not been used in over one year, and four additional cards that had never been used. Per State P-Card Policy Section III(A)(1)(a)(xi), SCSU must "Monitor Cardholder accounts for inactivity and promptly close accounts and cards that are no longer needed."

**Recommendation:** We recommend closing all unused P-Card accounts and developing and implementing procedures to require monitoring and timely closing of inactive cards as required by the State P-Card Policy.

### **University Response**

SCSU closed unused p-card accounts; and will develop a process for continued closing of unused p-card accounts and place it in the P-Card manual. This process shall become effective by

## **RESULTS OF AUDIT**

April 1, 2022, and will address how often the P-Card Administrator or designee reviews cards for inactivity. It will also include a form, which will demonstrate who performed the review and when it occurred.

### **V. Small and Minority Business Plans and Reports Not Filed Timely**

#### **A. Annual Utilization Plans Not Filed Timely**

Two annual utilization plans were not filed in a timely manner. SC Code Ann. 11-35-5240(2) states: “MBE utilization plans must be submitted to the SMBCC for approval no later than July 30th, annually.”

#### **University Response**

SCSU will develop and implement procedures to comply with statutory requirements to submit a Utilization Plan prior to July 30th of each year.

#### **B. Quarterly Progress Reports Not Filed Timely**

Two quarterly progress reports were not filed in a timely manner. SC Code Ann. 11-35-5240(2) states: “Progress reports must be submitted to the [SMBCC] no later than thirty days after the end of each fiscal quarter.”

**Recommendation:** We recommend that SCSU develop and implement procedures, including management review, 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 Response**

SCSU will develop a database to collect records regarding minority outreach and participation to make reporting preparation more efficient and automated. SCSU will develop and implement procedures and milestone dates to comply with statutory requirements which will allow completion of management review and submission of quarterly reports a timely manner. The database and procedures will be effective by June 30, 2022.

### **VI. Delays in Access to Procurement Records**

We experienced unusual delays in response to requests for documentation or explanation during the audit. Required procurement records did not appear to be organized in a consistent manner or location for access by current procurement personnel.

SC Code Ann. § 11-35-2430 states: Retention of procurement records, requires that “All procurement records of governmental bodies shall be retained and disposed of in accordance with records retention guidelines and schedules approved by the Department of Archives and History after consultation with the Attorney General.” Regulation 19-445.2005 (B), Procurement Records,

## **RESULTS OF AUDIT**

states: “Each governmental body must maintain procurement files sufficient to satisfy the requirements of external audit.”

**Recommendation:** We recommend SCSU develop and implement documented procedures that establish a consistent methodology for organization and location of required documentation of procurement activity as required by the Code and Regulations.

### **University Response**

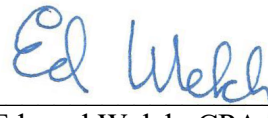
Since the completion of the audit report, SCSU hired a new Procurement Director, who implemented a central cloud-based repository for all procurement files. Use of the indexed repository is required by all Procurement Staff and the procedures for use will be included in the revisions to the Procurement Policy and Procedures Manual.



## CONCLUSION

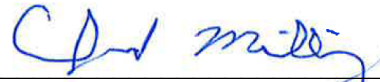
We believe corrective action based on the recommendations described in this report will bring South Carolina State University into compliance with the South Carolina Consolidated Procurement Code.

SCSU did not request increased procurement certification above the statutory limit of \$50,000. Subject to the corrective action listed in this report, we recommend SCSU be allowed to continue procuring supplies and services, information technology, and construction services up to \$50,000 as allowed by the South Carolina Consolidated Procurement Code.



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Edward Welch, CPA  
Audit Manager  
Audit & Certification



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Crawford Milling, CPA, CGMA  
Director, Audit & Certification



# South Carolina State University

300 College Street, NE  
Post Office Box 7071  
Orangeburg, South Carolina 29117

OFFICE OF PROCUREMENT SERVICES

Phone: 803-536-8198  
Fax: 803-533-3621

To: Crawford Milling, CPA, CGMA  
SFAA DPS, Director, Audit and Certification

From: Stacy Gregg, NIGP-CPP, CPPO, CPPB *SS*

Cc: Alexander Conyers  
Ken Davis, CPMM, FMP

Date: February 8, 2022

Re: Response to South Carolina State University's Audit Findings

Attached is South Carolina State University's response to your most recent audit findings.

Since my arrival at SCSU on December 1, 2021, I've worked diligently to identify inefficiencies in procurement processes. In doing so, I have found that much of what I have seen has resulted in the findings found by you and your team. We have addressed some of your findings and made changes accordingly. Likewise, we are currently in the process of elevating the Procurement program at South Carolina State University by taking the following steps:

- Building separate databases to house Sole Source, Emergency, Unauthorized, and SWMBE procurements;
- Revising both the Procurement and P-Card policy and procedure manuals to be current and in compliance with the ones set forth by the State;
- Using a central cloud-based storage filing repository to hold Procurement records;
- Refreshing SCSU's financial management system, Banner, so that it will have many of the same functions as SCEIS such as providing robust reporting and holding SWMBE information in the supplier database and purchase order attachments.
- Developing a full spectrum Disadvantaged Business program to actively seek, train, and document utilization of SWMBE businesses;
- Reinstated professional memberships to SCAGPO, NIGP, and NAEP as resources for procurement staff training. Also, registered for complimentary (self-paced) Procurement U courses through NASPO and setting aside one hour each day to work on the courses.
- Set goals and obtained resources to promote 100% of eligible staff to be tested and certified by the UPPCC by July 2023; and
- Implementing a procurement training program for faculty and staff, which will address procurement and p-card process.

As we move forward following the audit, I humbly offer that as the new Procurement Director, I have the experience and knowledge necessary to cure the deficiencies found in the related audit. I have been employed at the State Fiscal Accountability Authority, in the very same office that processes SCSU's large purchases. My logic is that of someone who is at the Division of Procurement Services because I was trained there and worked as a Procurement Manager and the P-card Administrator for the State and Division programs. I am a nationally recognized procurement instructor, holding 3 national certifications. Also, for more than 23 years, I never worked under a limited Procurement Certification and have extensive experience with large and complex procurements.

South Carolina State University's official responses to audit findings are enclosed.

**Audit Response Affirmed:**

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February 8, 2022

Date

DocuSigned by:

*Alexander Conyers*

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Alexander Conyers  
Interim President  
South Carolina State University