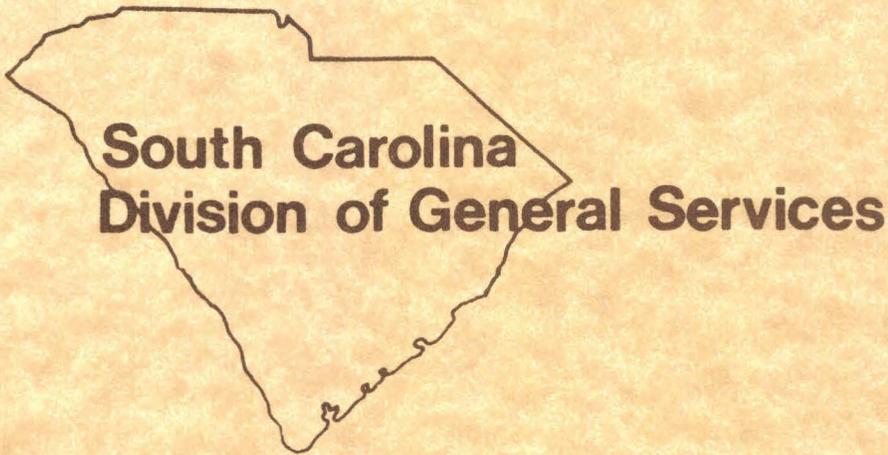


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PROCUREMENT AUDIT AND CERTIFICATION

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SOUTH CAROLINA
STATE DEVELOPMENT BOARD

AGENCY

JULY 1, 1987 - JUNE 30, 1989

DATE

STATE OF SOUTH CAROLINA
State Budget and Control Board
DIVISION OF GENERAL SERVICES



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GOVERNOR

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DIVISION DIRECTOR

MATERIALS MANAGEMENT OFFICE
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JAMES J. FORTH, JR.
ASSISTANT DIVISION DIRECTOR

JAMES M. WADDELL, JR.
CHAIRMAN, SENATE FINANCE COMMITTEE

ROBERT N. McLELLAN
CHAIRMAN, WAYS AND MEANS COMMITTEE

JESSE A. COLES, JR., Ph.D.
EXECUTIVE DIRECTOR

January 2, 1989

Mr. Richard W. Kelly
Director
Division of General Services
1201 Main Street, Suite 400
Columbia, South Carolina 29201

Dear Rick:

Attached is the final South Carolina State Development Board procurement audit report and recommendations made by the Office of Audit and Certification. Since no certification above the \$2,500.00 limit allowed by law was requested, and no action is necessary by the Budget and Control Board, I recommend that this report be presented to them for their information.

Sincerely,

A handwritten signature in cursive script that reads "James J. Forth, Jr.".

James J. Forth, Jr.
Assistant Division Director

/j1j

Attachment

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STATE OF SOUTH CAROLINA
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ROBERT N. McLELLAN
CHAIRMAN, WAYS AND MEANS COMMITTEE

JESSE A. COLES, JR., Ph.D.
EXECUTIVE DIRECTOR

December 18, 1989

Mr. James J. Forth, Jr.
Assistant Division Director
Division of General Services
1201 Main Street, Suite 600
Columbia, South Carolina 29201

We have examined the procurement policies and procedures of the South Carolina State Development Board for the period July 1, 1987 - June 30, 1989. As a part of our examination, we made a study and evaluation of the system of internal control over procurement transactions to the extent we considered necessary.

The purpose of such evaluation was to establish a basis for reliance upon the system of internal control to assure adherence to the Consolidated Procurement Code and State and procurement policy. Additionally, the evaluation was used in determining the nature, timing and extent of other auditing procedures that were necessary for developing an opinion on the adequacy, efficiency and effectiveness of the procurement system.

The administration of the South Carolina State Development Board is responsible for establishing and maintaining a system of internal control over procurement transactions. In fulfilling this responsibility, estimates and judgements by management are

required to assess the expected benefits and related costs of control procedures. The objectives of a system are to provide management with reasonable, but not absolute, assurance of the integrity of the procurement process, that affected assets are safeguarded against loss from unauthorized use or disposition and that transactions are executed in accordance with management's authorization and are recorded properly.

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

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

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

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



R. Voight Shealy, Manager
Audit and Certification

SCOPE

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

We reviewed all procurement transactions for the period July 1, 1987 - June 30, 1989, for compliance testing and performed other audit procedures that we considered necessary in the circumstances to formulate this opinion. Our review of the system included, but was not limited to, the following areas:

- (1) adherence to applicable laws, regulations and internal policy;
- (2) procurement staff and training;
- (3) adequate audit trails and purchase order registers;
- (4) evidences of competition;
- (5) small purchase provisions and purchase order confirmations;
- (6) emergency and sole source procurements;
- (7) file documentation of procurements;
- (8) disposition of surplus property;
- (9) approval of the Minority Business Enterprise Plan.

RESULTS OF EXAMINATION

I. Compliance - Procurements

Our examination of the Board's procurements consisted of a review of all purchase orders for the period July 1, 1987 through June 30, 1989. We noted the following two exceptions:

	<u>P.O.#</u>	<u>Date</u>	<u>Amount</u>	<u>Description</u>
1)	126	10/18/88	\$ 2,119.00	Mailing list of Entrepreneur
2)	43	8/12/87	7,340.00	Jaspe Tepaco Marble

Items 1 and 2 were not supported by evidence of competition or sole source or emergency determinations. The procurement officer considered the mailing list in item one above an exempt procurement. Item two was procured based on a recommendation from an interior designer. However, both of these procurements were subject to the requirements of the Consolidated Procurement Code.

Item two above exceeded the Board's procurement authority of \$2,500 meaning it is an unauthorized procurement. As such, it must be submitted to the Materials Management Officer with a request for ratification in accordance with Regulation 19-445.2015.

II. Compliance - Sole Source Procurements

We examined the quarterly reports of sole source procurements for the period January 1, 1985 through June 30, 1989, for the purpose of determining the appropriateness of the procurement actions taken, and the accuracy of the reports submitted to the Division of General Services. We found the majority of these transactions to be appropriate, however, we did

note two sole source consultant contracts which should have been handled differently.

The first was a contract for research in the area of business financing. The Board publicly advertised and interviewed four respondents. The successful consultant was the unanimous choice of the management section team. However, this contract should have been procured through the request for proposal (RFP) process and handled by the Materials Management Office. The second was a contract for the preparation and collection of information on vacant industrial buildings and sites throughout the State. The Board has since attempted to obtain a full-time position to hire this individual as an employee. Although this has not been approved yet, we concur with this decision by management to change this sole source consultant contract to an employee.

III. Procurement Procedures

During our audit, we noted several procedural weaknesses which resulted in the following recommendations for improvement:

1) State Term Contracts: Procurements made from state term contracts should be documented on the purchase order by referencing the contract number.

2) Exempt Items: Procurements of exempt items should be noted as such.

3) Purchase Order: Purchase orders should be completed fully before they are authorized. This should include the unit prices, extensions and total of all line items. The purchase order also must be dated.

4) Informal Written Quotations Forms: The purchasing officer should initiate an informal written quotation form for procurements from \$1,500.00 to \$2,499.99.

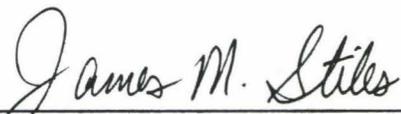
5) Direct Purchase Order (DPO): Written procedures should be included in the Board's procurement procedures manual.

6) Blanket Purchase Agreements: These should be expended to include all the terms and conditions as outlined in the Regulations 19-445.2100(C)(3).

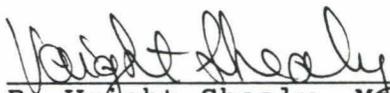
CONCLUSION

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

In accordance with Code Section 11-35-1230(1) the Board should take this corrective action prior to November 30, 1989. We will perform a follow-up review prior to this date to verify completion. Subject to this corrective action and because additional certification was not requested, we recommend that the State Development Board be allowed to continue procuring all goods and services, information technology and consulting services up to the basic level as outlined in the Consolidated Procurement Code.



James M. Stiles, PPB
Audit Manager



R. Voight Shealy, Manager
Audit and Certification



SOUTH CAROLINA
STATE DEVELOPMENT BOARD

November 22, 1989

Mr. R. Voight Shealy
SC Budget and Control Board
Division of General Services
1201 Main Street
Columbia, SC 29201

Dear Voight:

I have reviewed the "Results of Examination" as prepared for the period July 1, 1987 through June 30, 1989. Your recommendations have been reviewed and the South Carolina State Development Board will:

Submit such documentation as required for the two items noted in Item I.

Make such corrections for the areas noted in Item II.

Take such action as necessary to correct the weaknesses in our procedures as noted in Item III.

Sincerely,

A handwritten signature in cursive script, appearing to read "Hankinson".

John C. Hankinson, Jr.
Deputy Director

JCHjr/kh

cc: Richard E. Greer
Wayne L. Sterling
Patrick T. Blackwell
Marshall E. Green

STATE OF SOUTH CAROLINA
State Budget and Control Board
DIVISION OF GENERAL SERVICES



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ROBERT N. McLELLAN
CHAIRMAN, WAYS AND MEANS COMMITTEE

JESSE A. COLES, JR., Ph.D.
EXECUTIVE DIRECTOR

December 14, 1989

Mr. James J. Forth, Jr.
Assistant Division Director
Division of General Services
1201 Main Street, Suite 600
Columbia, South Carolina 29201

Dear Jim:

We have reviewed the response to our audit report of the South Carolina State Development Board covering the period of July 1, 1987 - June 30, 1989. Combined with observations made during our exit conference and subsequent communication with the Board officials, this review has satisfied the Office of Audit and Certification that the agency has corrected the problem areas found and that internal controls over the procurement system are adequate.

Additional certification was not requested. Therefore, we recommend that the State Development Board be allowed to continue procuring all goods and services, consulting services, construction and information technology up to the basic level as outlined in the South Carolina Consolidated Procurement Code.

Sincerely,

A handwritten signature in cursive script that reads "R. Voight Shealy".

R. Voight Shealy, Manager
Audit and Certification

/jlj

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