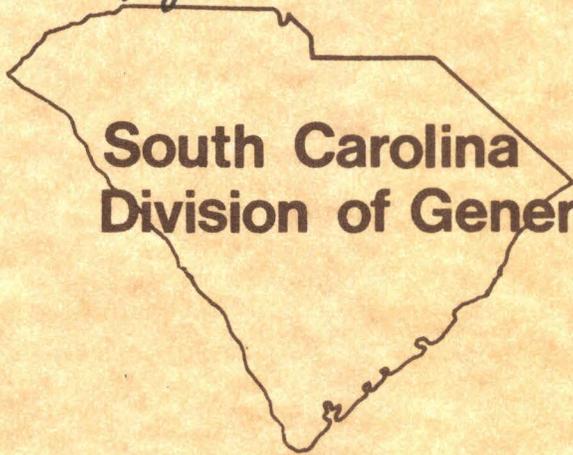


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PROCUREMENT AUDIT AND CERTIFICATION

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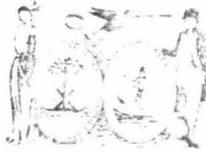
SOUTH CAROLINA COASTAL COUNCIL

AGENCY

JULY 1, 1986 - DECEMBER 31, 1988

DATE

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



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CHAIRMAN, SENATE FINANCE COMMITTEE

ROBERT N. McLELLAN
CHAIRMAN, WAYS AND MEANS COMMITTEE

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

November 3, 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 Coastal Council procurement audit report and recommendations made by the Office of Audit and Certification. Since no certification above the \$2,500.00 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

/jlj

Attachment

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

November 1, 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 Coastal Council for the period July 1, 1986 through December 31, 1988. 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 internal 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 Coastal Council is responsible for establishing and maintaining a system of internal control over procurement transactions. In fulfilling

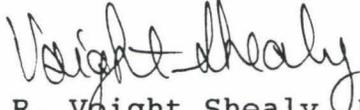
this responsibility, estimates and judgements by management are required to assess the expected benefits and related costs of control procedures. The objectives of a system are to provide management with reasonable, but not absolute, assurance of the integrity of the procurement process, that affected 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 South Carolina Coastal Council 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 Coastal Council 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 selected sixty samples of expenditure transactions from the voucher records for the period July 1, 1986 - December 31, 1988, 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) source selections;
- (8) file documentation of procurements;
- (9) inventory and disposition of surplus property;
- (10) economy and efficiency of the procurement process; and,
- (11) Minority Business Enterprise Utilization Plan.

SUMMARY OF AUDIT FINDINGS

Our audit of the procurement system for the South Carolina Coastal Council (hereinafter referred to as the Council) produced findings and recommendations in the following areas.

	<u>PAGE</u>
I. <u>Compliance - Goods and Services, Consultants, and Information Technology</u>	
A. <u>Procurements Without Competition</u>	8
Two procurements out of a sample of sixty (60) selected for testing were made without evidence of competition.	
B. <u>Unauthorized Lease of Copier</u>	8
The Council entered into a contract to lease a copier without competition or advance approval from the Office of Information Technology Management, Division of Research and Statistical Services.	
C. <u>Interagency Contracts Made Without Soliciting Competition</u>	9
The Council entered into several contracts with other state agencies without competition.	
II. <u>Compliance - Sole Source Procurements</u>	
A. <u>Unauthorized Sole Source Procurement</u>	10
A sole source procurement of computer equipment was supported by a written determination prepared after-the-fact as indicated by the date of the	

signature. This being the case, the transaction is an unauthorized procurement.

B. Inappropriate Sole Sources

11

Two sole source procurements were supported by weak written determinations which did not adequately justify the use of the vendor or product.

C. Unnecessary Reporting of Sole Source Activity

12

Two procurements of architect-engineer services were reported as sole sources. However, the State Engineer's Office of the Division of General Services had already approved the contracts under Section 11-35-3230 of the Code. The procurements were not made as sole sources.

D. Untimely Reporting

12

The Council has been reporting quarterly payments for lease-purchase equipment when the entire procurement should have been reported at the time of commitment.

III. Compliance - Blanket Purchase Agreements

13

Blanket purchase agreements established by the Council were not in compliance with the Consolidated Procurement Code and Regulations.

IV. Surplus Property Sales Reported Unnecessarily 14

Two items were turned in to surplus property for disposal but were incorrectly listed as trade-ins on the quarterly reports submitted to the Division of General Services.

V. Fixed Asset Accountability 14

The Council has not maintained a current inventory of its fixed assets.

VI. Internal Procurement Procedures Manual 15

The Council does not have an approved Internal Procurement Procedures Manual on file with the Division of General Services.

RESULTS OF EXAMINATION

I. Compliance - Goods and Services, Consultant Services, Information Technology

A. Procurements Without Competition

Our examination of procurement activity at the Council included a test of sixty (60) randomly selected transactions from the period July 1, 1986 through December 31, 1988. Two of these procurements were not supported by evidence of competition, or by sole source or emergency determinations.

<u>Voucher</u>	<u>Voucher Amount</u>	<u>Item/Service Description</u>
0513	\$788.00	Airline tickets
0271	717.00	Blanket honesty bond

Regulation 19-445.2100, Subsection E, Item 2, which covers procurements from \$500.01 to \$1,499.99 requires "Solicitations of verbal or written quotes from a minimum of two qualified sources of supply." The items needed only documentation of two (2) telephone quotes to meet this requirement. However, this was not done.

We recommend that the competition requirements of the Code be adhered to for all future procurements.

COUNCIL RESPONSE

The Council will adhere to Regulation 19-445.2100, Subsection E, Item 2 which requires "solicitation of verbal or written quotes from a minimum of two qualified sources of supply" on all purchases from \$500.01 to \$1,499.99.

B. Unauthorized Lease of Copier

The Council made an unauthorized procurement for a five year lease of a copier at \$2,722.16 a month totalling \$163,360 on

September 23, 1986. The procurement was declared a sole source but the required written sole source determination was not approved until December 8, 1986. Since sole source procurements may only be made after a written determination is prepared and approved by someone with requisite authority, this procurement must be considered unauthorized. Ratification must be requested from the Division of General Services in accordance with Regulation 19-445.2015.

Additionally, the request for this acquisition was submitted to the Office of Information Technology Planning for approval but was deferred until April 1987. The Council proceeded with the purchase of the copier without approval.

COUNCIL RESPONSE

The Council has requested ratification from the Division of General Services in accordance with Regulation 19-445.2015 for the lease of the copier. The Council will secure the necessary approval from the Division of General Services and the Office of Information Technology Planning before purchasing equipment in the future.

C. Interagency Contracts Made Without Competition

Two contracts for services were awarded to other state agencies without competition. One contract was for nine thousand, one hundred dollars (\$9,100.00) for "Investigation of the Effect of Ebb Tidal Shoal Mining on Inlet-Adjacent Shoreline System". The second contract for thirty two thousand, eight hundred dollars, (\$32,800) was for "Wetlands Mapping Digitization Services".

Each of these contracts exceeded the Council's procurement authority and should have been bid through the State Materials Management Office. Thus, they are unauthorized procurements which must be ratified in accordance with Regulation 19-445.2015.

COUNCIL RESPONSE

The contractual agreement with the S.C. Land Resources Commission for wetland mapping and digitization did involve a review of competitive or alternate sources for the services, although no approval was sought from the Materials Management Office. A report is attached dated July 24, 1987 from Tracy Tevington of the planning staff to Steve Snyder detailing the technical alternatives of acquiring this service with competitive bids (appendix) from two private firms, two State institutions/agencies and one federal agency. The South Carolina Land Resources Commission was selected based on capabilities and a cost-sharing offer for in-kind services for 1/3 of the project cost.

II. Compliance - Sole Source Procurements

We examined all sole source and emergency procurements, the supporting documents and the quarterly reports of the Council for the period July 1, 1986 - December 31, 1988. Our purpose was to determine the appropriateness of the procurement actions taken and the accuracy of the reports submitted to General Services as required by Section 11-35-2440 of the Consolidated Procurement Code. We found the majority of these transactions to be appropriate, however, we noted the following exceptions.

A. Unauthorized Sole Source Procurement

The Council made a lease payment for some computer equipment on voucher #62 dated August 3, 1987. This expenditure was supported by a written sole source determination prepared November 1, 1987.

Section 11-35-1570 of the Consolidated Procurement Code indicates that a sole source procurement may be made by a chief procurement officer, the head of a governmental body or a designee of either, above the level of the procurement officer, if a written determination is prepared supporting the action. Since

the required written determination was prepared after-the-fact the procurement is unauthorized.

Ratification must be requested for this procurement in accordance with Regulation 19-445.2015. In all future cases, the Council must ensure that sole source procurements are supported by the required written determinations prior to the procurement action being taken.

COUNCIL RESPONSE

The Council has requested ratification in accordance with Regulation 19-445.2015. The Council will ensure that sole source procurements are supported by the required written determinations prior to the procurement.

B. Inappropriate Sole Source Procurements

The following sole source procurements were inappropriate:

<u>Item</u>	<u>PO/Contract</u>	<u>Amount</u>	<u>Item/Service Description</u>
1	87000940	\$ 1,824.00	Transparencies
2	Contract	163,360.00	Copier lease

Section 11-35-1570 of the Consolidated Procurement Code indicates that a procurement may be made as a sole source if there is only a single source of supply. This requires that the procurement be of a unique item available from one supplier. We recommend that only those procurements that meet this criteria be made as a sole source. In cases of reasonable doubt, competition should be solicited.

COUNCIL RESPONSE

The Council will only sole source unique items available from one supplier. When in doubt, competition will be solicited.

C. Unnecessary Reporting of Sole Source Activity

The Council entered into several contracts with architect-engineer firms for beach monitoring in the amounts of eight thousand dollars (\$8,000.00) and sixty-two thousand and fifty-eight dollars (\$62,058.00). These procurements were processed through the State Engineer's Office and appropriately approved under Section 11-35-3230 of the Code. Then, the contracts were reported unnecessarily as sole sources. By reporting these transactions as sole sources the Council has overstated its sole source activity and should file an amended report to the 1986/87 fiscal year for eight thousand dollars (\$8,000.00) and one in 1987/88 fiscal year for sixty-two thousand dollars (\$62,000.00).

COUNCIL RESPONSE

The Council has filed amended reports to the 1986-87 fiscal year for eight thousand dollars (\$8,000.00) and one in 1987-88 fiscal year for sixty-two thousand dollars (\$62,000.00).

D. Untimely Reporting

The Council does not report its sole source procurement activity to the Division of General Services in a timely manner. Specifically, monthly lease payments for copiers and computer equipment are reported as they are paid instead of the total sole source procurement amounts being reported when commitments are made.

In all cases where there are definable commitment numbers for contracts the sole source quarterly reports should reflect them when the procurement actions are taken. If sole source procurements are made for extended periods of time for estimated amounts and it is impossible to determine the exact commitment it

may be necessary to report expenditures as they occur. However, this should be the exception not the rule.

COUNCIL RESPONSE

The Council will report all sole source procurement when the procurement actions are taken in the future.

III. Compliance - Blanket Purchase Agreements

Our examination of the blanket purchase agreements at the Council revealed that they were not established in accordance with Regulation 19-445.2100, Subsection C, which states in part:

Blanket purchase agreements shall contain the following provisions:

- a) Description of agreement
- b) Extent of obligation
- c) Notice of individuals authorized to place calls
- d) Dollar limitations
- e) Delivery tickets
- f) Invoice disposition

The current agreements for auto repairs, film processing, etc. should be amended to meet the requirements of the regulations. Future agreements and renewals should be established in accordance with the regulations.

COUNCIL RESPONSE

The Council will establish all blanket purchase orders in accordance with Regulation 19-445.2100 effective immediately.

IV. Surplus Property Sales Reported Unnecessarily

The Council disposed of a paging system and a typewriter through the surplus property division of the Division of General Services. The Council considered these as trade-ins and reported them on the quarterly trade-in report ending March 31, 1988 to the Materials Management Office. Surplus property is not required to be reported as a trade-in on these reports. The Division of General Services captures sale proceeds directly.

We recommend the Council file an amended report to the 1987/88 fiscal year to remove these trade-in items.

COUNCIL RESPONSE

The Council has filed an amended report to the 1987/88 fiscal year to remove surplus property reported as trade-in items.

V. Fixed Asset Accountability

The Council has failed to maintain current inventory records and assign identification numbers (decals) since the 1986-87 fiscal year. Each agency is responsible for properly identifying and controlling its fixed assets. Further, this is necessary for establishing adequate insurance coverage.

This weakness in internal controls over the agency's fixed assets must be corrected.

COUNCIL RESPONSE

The Council's fixed assets inventory is now current and will be kept current.

VI. Internal Procurement Procedures Manual

The Council does not have on file with the Materials Management Office of the Division of General Services an Internal Procurement Operating Procedures Manual as required by the Procurement Code Section 11-35-540(3).

As a result of our recent audit of the Council's procurement activity, we have determined that a procedures manual should be developed outlining the current procurement system.

This manual should incorporate the most current internal procedures and follow the recommended outline which we have submitted to the Commission during the time the audit was performed.

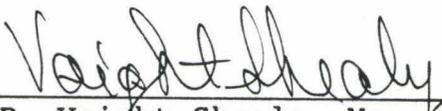
COUNCIL RESPONSE

The Council has a draft copy of an Internal Procurement Operating Manual. The manual will be completed and sent to the Materials Management Office of the Division of General Services for approval.

CONCLUSION

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

In accordance with Code Section 11-35-1230(1) the Council should take this corrective action prior to July 31, 1989. This office will perform a follow-up review to verify this action. Subject to this corrective action and because additional certification was not requested, we recommend that the Council be allowed to continue procuring all goods and services, information technology, consulting services and construction related professional services up to the basic level as outlined in the Consolidated Procurement Code.



R. Voight Shealy, Manager
Audit and Certification

STATE OF SOUTH CAROLINA
State Budget and Control Board
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JESSE A. COLES, JR., Ph.D.
EXECUTIVE DIRECTOR

November 1, 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 returned to the South Carolina Coastal Council to determine the progress made toward implementing the recommendations in our audit report covering the period of July 1, 1986 - December 31, 1988. During this visit, we followed up on each recommendation made in the audit report through inquiry, observation and limited testing.

Subsequently, we have worked with the Council to finalize the corrective action identified in the report. With the changes made, the procurement system's internal controls should be adequate to ensure that transactions are handled in compliance with the Consolidated Procurement Code and ensuing regulations.

Additional certification was not requested, therefore we recommend that the Council be allowed to continue procuring all goods and services, construction, information technology and consulting services up to the basic level as outlined in the Procurement Code.

Sincerely,

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

R. Voight Shealy, Manager
Audit and Certification

/j1j

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