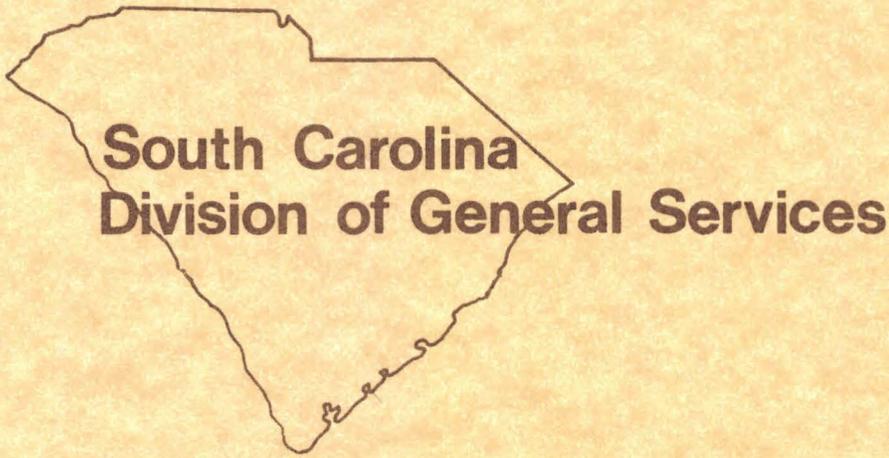


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PROCUREMENT AUDIT AND CERTIFICATION

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S.C. DEPARTMENT OF AGRICULTURE

AGENCY

JANUARY 3, 1986

DATE

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DIVISION OF GENERAL SERVICES
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COLUMBIA, SOUTH CAROLINA 29201
(803) 758-3150

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EXECUTIVE DIRECTOR

RICHARD W. KELLY
ASSISTANT DIVISION DIRECTOR

January 3, 1986

Mr. Tony R. Ellis
Division Director
Division of General Services
300 Gervais Street
Columbia, South Carolina 29201

Dear Tony:

Attached is the final Department of Agriculture audit report and recommendations made by the Audit and Certification Section. Since no certification request above the \$2,500 allowed by law remains to be considered 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 "Richard W. Kelly".

Richard W. Kelly
Assistant Division Director

RWK:kl
Attachment

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WILLIAM T. PUTMAN
EXECUTIVE DIRECTOR

RICHARD W. KELLY
ASSISTANT DIVISION DIRECTOR

January 28, 1985

Mr. Richard W. Kelly
Director of Agency Certification
& Engineering Management
Columbia, South Carolina 29201

We have examined the procurement policies and procedures of the S. C. Department of Agriculture for the period July 31, 1981 - October 31, 1984. 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 Department 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 S. C. Department of Agriculture 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 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 S. C. Department of Agriculture in compliance with the South Carolina Consolidated Procurement Code and ensuing regulations.

R. Voight Shealy
Director of Audit and Certification

INTRODUCTION

The Audit and Certification Section conducted an examination of the internal procurement operating procedures and policies and related manual of S. C. Department of Agriculture.

Our on-site review was conducted November 2, 1984 through November 29, 1984, and was made under the authority as described in Section 11-35-1230(1) of the South Carolina Consolidated Procurement Code and Regulation 19-445.2020.

The examination was directed principally to determine whether, in all material respects, the procurement system's internal controls were adequate and the procurement procedures, as outlined in the Internal Procurement Procedures Manual, were in compliance with the South Carolina Consolidated Procurement Code and its ensuing regulations.

SCOPE

Our examination encompassed a detailed analysis of the internal procurement operating procedures of S. C. Department of Agriculture 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.

The Audit and Certification team statistically selected random samples for the period July 1, 1982 - October 31, 1984, of procurement transactions for compliance testing and performed other auditing procedures that we considered necessary in the circumstances to formulate this opinion. As specified in the Consolidated Procurement Code and related regulations, our review of the system included, but was not limited to, the following areas:

- (1) adherence to provisions of the South Carolina Consolidated Procurement Code and regulations;
- (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 sole source procurements;
- (7) source selections;
- (8) file documentation of procurements;
- (9) reporting of Fiscal Accountability Act;
- (10) disposition of surplus property;

- (11) economy and efficiency of the procurement process;
- (12) Minority Business Enterprises Utilization Plan.

SUMMARY OF AUDIT FINDINGS

Our audit of the procurement system of the Department of Agriculture produced findings and recommendations in the following areas:

	<u>PAGE</u>
I. <u>Compliance - Consolidated Procurement Code</u>	8
A. Procurements Lack Competition	8
Six procurements lack the requisite amount of competition required by the Code.	
B. No Written Determinations & Findings	9
Seven procurements do not have proper documentation for sole source and emergency procurements.	
C. Specifications Vague	10
Two procurements were made without developing clear specifications.	
D. Undeclared Construction Project	11
A construction project was completed without the required approval of the State Engineer.	

II. Minority Business Enterprise Utilization Plan

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The Department of Agriculture does not have an approved plan for fiscal year 1983/84 or 1984/85.

RESULTS OF EXAMINATION

I. Compliance - Consolidated Procurement Code

A. Procurements Lack Competition

Our examination of a randomly selected sample of sixty transactions revealed the following procurements which were not made in compliance with the Consolidated Procurement Code and regulations. The below listed procurements lacked the proper number of quotations.

<u>P.O. #</u>	<u>Amount</u>	<u>Description</u>
7828	1,125.00	Rental of portable toilets
6543	617.76	Envelope printing
7965	1,638.00	Metal storage boxes
585	821.12	Printing plates
7268	2,152.80	Paint stripper
9698	1,718.57	Roof repair

The Consolidated Procurement Code and its ensuing regulations mandate competitive procedures to be followed in making purchases above \$500. Specifically, Regulation 19-445.2100, Subsection B, requires "solicitations of verbal or written quotes from a minimum of two qualified sources of supply", when the purchase ranges from \$500.01 to \$1,499.99. Further, this regulation requires, "solicitation of written quotations from three qualified sources of supply", when the purchase is between \$1,500 and \$2,499.99.

We insist that the proper number of quotes be solicited and documented prior to any commitments being made.

B. No Written Determinations

Purchasing has declared the following procurements as either sole sources or emergencies by the notation on the face of the requisition. However, the required approved written determinations were never prepared. Additionally, these procurements were not reported to General Services on the quarterly reports. Thus, the annual report of sole source activity to the General Assembly was understated.

<u>P.O. #</u>	<u>Amount</u>	<u>Description</u>
6029	602.00	Stamp seals
0309	1,417.10	Scale repairs
9183	1,295.88	Parts
7264	1,234.00	Maintenance agreement
6411	525.00	Service contract
7872	3,657.69	Maintenance contract
8837	10,192.00	Gas chromatograph

The Consolidated Procurement Code in Sections 11-35-1560 and 11-35-1570 requires that approved written justifications be prepared and maintained in the respective files to support the actions taken.

Sole source written determinations must be prepared and approved by the Commissioner of the department prior to commitments being made to vendors or contractors. Emergency written determinations must be prepared and approved by the Commissioner in advance or as soon as is practicable based on the emergency condition.

Failure to prepare written determinations on sole source and emergency procurements in excess of the certification limits of the department constitute unauthorized procurements. Those pro-

curements exceeding \$2,500 listed above must be ratified by the Materials Management Officer, as required by section 19-445.2015 of the regulations. Also, the department should prepare and submit amended quarterly reports of sole source and emergency procurements to the Division of General Services.

C. Specifications Vague

Two procurements were made without developing clear specifications for potential bidders. The procurements stated a particular task to be performed without specifying the quantity or quality of materials to be used.

<u>P.O. #</u>	<u>Amount</u>	<u>Description</u>
7411	980.00	Ceiling insulation
5763	1,051.00	Repairs to roof

Section 19-445.2140 states in part:

Subsection B. - Issuance of Specifications

The purpose of a specification is to serve as a basis for obtaining a supply, service, or construction item adequate and suitable for the State's needs in a cost effective manner, taking into account, to the extent practicable, the cost of ownership and operation as well as initial acquisition costs. It is the policy of the State that specifications permit maximum practicable competition consistent with this purpose. Specification shall be drafted with the objective of clearly describing the State's requirements. All specifi-

cations shall be written in a nonrestrictive manner as to describe the requirements to be met.

Subsection C. Use of Functional or Performance Descriptions.

Specifications shall, to the extent practicable, emphasize functional or performance criteria while limiting design or other detailed physical descriptions to those necessary to meet the needs of the State. To facilitate the use of such criteria, using agencies shall endeavor to include as a part of their purchase requisitions the principal functional or performance needs to be met.

We recommend that, in all cases, the department develop specifications which clearly define the nature of work to be performed so all vendors will be bidding on like items. The Materials Management Office and the Office of the State Engineer of the Division of General Services are available for assistance if needed.

D. Undeclared Construction Project

The department contracted with a builder to replace an open shed which was fire damaged. Purchase order number 9739 in the amount of \$17,690 was issued as an emergency procurement without the approval of the State Engineer.

Agriculture failed to prepare the required written emergency procurement determination and finding and also failed to obtain the approval setting up the project from the State Engineer.

Section 130.07 of Manual for Planning and Execution of State Permanent Improvements states:

"If an Agency determines to use the emergency procurement process the Agency shall request in writing to the State Engineer's Office use of the emergency procurement procedure. The Chief Procurement Officer or the Head of the Agency or a designee shall submit a written determination stating the basis for an emergency procurement and if in the case of a sole source procurement shall include reasons for the selection.

If the emergency is of an extreme nature the Agency shall verbally contact the State Engineer's Office in order to expedite the emergency procurement procedure and upon a determination being made the Agency shall file with the State Engineer's Office a written determination as per the above."

All transactions pertaining to this project must be ratified by the State Engineer.

RESPONSE

A. Lacking Proper Number Quotations

1. Ace Port-A-Jon, P.O. 7828, \$1,125.00: This started as an emergency small rental service of portable toilets on the Columbia State Farmers Market, however, was continued and expanded by the Market manager without bidding. This service will be bid effective July 1, 1985.
2. Dependable Printing Co., P.O. 6543, \$617.76: This was purchased without consulting this Department by the S.C. Egg Board manager on instructions from the

Board Chairman. (This is an example of why exemption to the Procurement Act is requested for the Commodity Boards.) We simply performed necessary paper work after the Board had committed itself to this purchase.

3. Department of Corrections, P.O. 7965, \$1,638.00:
Purchase of metal boxes for our laboratory from another State agency. We were following correct information that IDT purchases between State agencies were exempt from the Procurement Code.
4. Unijax, Inc., P.O. 585, \$821.12: Combined order for paper under State contract and printing plates which were not under contract were all assumed to be under State contract. Total order was for \$1,544.09.
5. Walker Bro., Inc., P.O. 7268, \$2,152.80: This order has note that three written quotes were received, however none can be found. Quotes are listed as no-bid, bid of \$1,350.96 for light duty striper which was unacceptable and the accepted bid.
6. Filyaw Roofing Co., P.O. 9698, \$1,718.57: This order has note that proposals are attached, however, none can be found although several people recall discussing this bid and the accepting of low bid from the untried Filyaw Company.

B. No Written Determinations

1. Lake-O Stamp, Seal & Engraving, P.O. 6029, \$602.00:
Marked on P.O. as sole source. Supplies for special federal stamps required by F & V Service, however document not made up nor purchase reported.
2. Carolina Scales, P.O. 0309, \$1,417.60: Marked as sole source, change to emergency purchase of repairs. Document not made nor reported.
3. Public Works Equipment Supply, P.O. 9183, \$1,295.88:
Marked sole source as unique parts to repair street cleaner; however document not made nor reported.
4. AM Multigraphics, P.O. 7264, \$1,234.00: Marked as sole source as maintenance on unique equipment for which desired services is not readily obtainable. However, documents not made nor purchase reported.
5. Harley's, Inc., P.O. 6411, \$525.00: This was maintenance agreement with purchase of copying machine. No documents of sole source were originated since maintenance was requested and part of decision for original purchase. Also, this was advance payment deposit which was reduced by \$210.00 for following year which brings two year total to \$840.00 or \$420.00 per year which is within procurement guidelines.
6. Tractor Instruments Austin, Inc., P.O. 8837, \$10,192.00: This was an emergency purchase with memo attached from Laboratory Division explaining nature of emergency. However, no documents for emergency purchase were made or reported.

7. Burroughs Corp., P.O. 7872, \$3,657.69: Marked as sole source as maintenance contract of unique computer bookkeeping machine. However, no sole source document was initiated nor was this reported.

C. Specifications Vague

1. T. J. Harrelson Roofing & Supply Co., P.O. 5763, \$1,051.00: Three bids in writing received. Harrelson bid accepted over low bid of \$1,020.00 as bid was more complete, gave material to be used, complete description of work and was known for quality and dependability. The low bid simply stated repair roof \$1,020.00.
2. Eaddy Insulation Co., P.O. 7411, \$980.00: Four proposals to insulate building at Pee Dee Farmers Market. All proposed different insulations, amounts and finishes. After receiving the proposals the second lowest proposal was accepted. No rebid was requested so all could bid on same material and covering. We felt that we had completed the requirements after the first proposals were received and the construction and planning engineer agreed with our choice of insulation.

D. Undeclared Construction Project

1. Burris Building Systems, P.O. 9739, \$17,690.00: This was for the replacement of sheds burned at the

Columbia State Farmers Market due to accident involving A & P Electric Co. Replacement was mandated by this Department under the understanding that A & P Electric Company's insurance would pay or reimburse for this replacement. Since it was necessary to replace immediately, this Department paid for this construction and has been fully reimbursed by the insurance company. No emergency procurement forms were filed and no reports made; however, at this time, since reimbursement has been received that has been no expense.

II. Minority Business Enterprise Utilization Plan

The Department of Agriculture prepared Minority Business Enterprise Utilization Plans for fiscal years 1983/84 and 1984/85, but they were never submitted to the Small and Minority Business Assistance Office (SMBAO). Section 11-35-5240(2) of the Procurement Code requires that these plans be submitted to the SMBAO for approval not later than July thirtieth annually.

We insist that the Department of Agriculture submit the 1984/85 plan to the SMBAO in order to affect compliance with the Procurement Code.

RESPONSE

The Minority Business Enterprise Utilization Plan has been, since this audit, submitted to the Governor's Office for approval.

CONCLUSION

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

In accordance with Code Section 11-35-1230(1) the Department should take this corrective action prior to June 30, 1985 the end of the next subsequent quarter.

The major procurement area that requires corrective action is the justification of emergency and sole source procurements.

Subject to this corrective action and because additional certification was not requested, we recommend that the S. C. Department of Agriculture 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.



Marshall B. Williams, Jr.
Audit Manager

Voight Shealy
Director, Audit and Certification

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EXECUTIVE DIRECTOR

RICHARD W. KELLY
ASSISTANT DIVISION DIRECTOR

July 12, 1985

Mr. Richard W. Kelly
Director of Agency Certification
and Engineering Management
Division of General Services
300 Gervais Street
Columbia, South Carolina 29201

Dear Rick:

We have returned to the Department of Agriculture to determine the progress made toward implementing the recommendations in our audit report covering the period July 30, 1981, through October 31, 1984. During this visit we followed up on each recommendation made in the audit report through inquiry, observation and limited testing.

The Audit and Certification Section observed that the South Carolina Department of Agriculture has corrected the problem areas found in the audit, thus strengthening the internal controls over the procurement system. We feel that the system's internal controls are adequate to ensure that procurements are handled in compliance with the Consolidated Procurement Code and ensuing regulations.

Additional certification was not requested, therefore we recommend that the South Carolina Department of Agriculture 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,

R. Voight Shealy, Director
Audit and Certification

/db

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