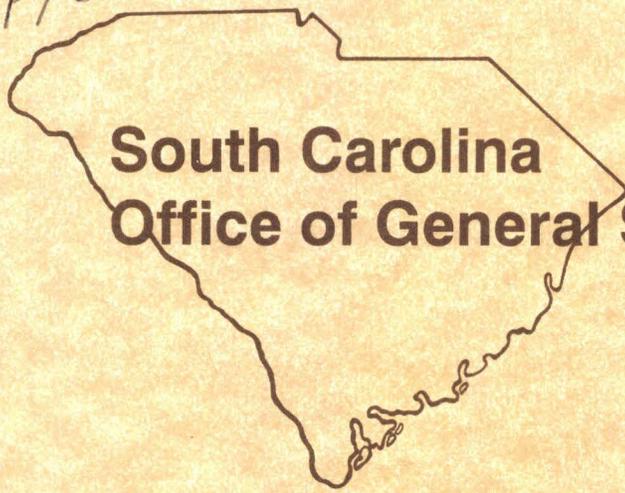


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**South Carolina  
Office of General Services**

# PROCUREMENT AUDIT AND CERTIFICATION

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SOUTH CAROLINA DEPARTMENT  
OF COMMERCE  
AGENCY

JULY 1, 1995 - JUNE 30, 1997  
DATE

STATE OF SOUTH CAROLINA  
**State Budget and Control Board**  
OFFICE OF GENERAL SERVICES

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GOVERNOR

RICHARD A. ECKSTROM  
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VOIGHT SHEALY  
ASSISTANT DIRECTOR

April 1, 1998

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HENRY E. BROWN, JR.  
CHAIRMAN, WAYS AND MEANS COMMITTEE

LUTHER F. CARTER  
EXECUTIVE DIRECTOR

Ms. Helen T. Zeigler, Director  
Office of General Services  
1201 Main Street, Suite 420  
Columbia, South Carolina 29201

Dear Helen:

I have attached the audit report for the South Carolina Department of Commerce. Since we are not recommending any certification above the basic \$5,000 allowed by the Code, no action is required by the Budget and Control Board. Therefore, I recommend that the report be presented to the Budget and Control Board as information.

Sincerely,

  
R. Voight Shealy  
Materials Management Officer

/tl

**SOUTH CAROLINA DEPARTMENT OF COMMERCE**  
**PROCUREMENT AUDIT REPORT**  
**JULY 1, 1995 - JUNE 30, 1997**

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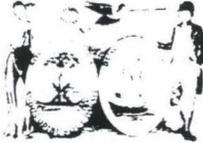
**NOTE:** The Department's responses to issues noted in this report have been inserted immediately following the items they refer to.

STATE OF SOUTH CAROLINA  
*State Budget and Control Board*  
OFFICE OF GENERAL SERVICES

DAVID M. BEASLEY, CHAIRMAN  
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VOIGHT SHEALY  
ASSISTANT DIRECTOR

December 23, 1997

JOHN DRUMMOND  
CHAIRMAN, SENATE FINANCE COMMITTEE

HENRY E. BROWN, JR.  
CHAIRMAN, WAYS AND MEANS COMMITTEE

LUTHER F. CARTER  
EXECUTIVE DIRECTOR

Mr. R. Voight Shealy  
Materials Management Officer  
Office of General Services  
1201 Main Street, Suite 600  
Columbia, South Carolina 29201

Dear Voight:

We have examined the procurement policies and procedures of the South Carolina Department of Commerce for the period July 1, 1995 through June 30, 1997. As part of our examination, we studied and evaluated the system of internal control over procurement transactions to the extent we considered necessary.

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

The administration of the South Carolina Department of Commerce is responsible for establishing and maintaining a system of internal control over procurement transactions. In fulfilling this responsibility, estimates and judgments 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 professional care. However, because of the nature of audit testing, they would not necessarily disclose all weaknesses in the system.

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

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

Sincerely,



Larry G. Sorrell, Manager  
Audit and Certification

## INTRODUCTION

We conducted an examination of the internal procurement operating policies and procedures of the South Carolina Department of Commerce. Our on-site review was conducted August 18 - 26, 1997 and was made under Section 11-35-1230(1) of the South Carolina Consolidated Procurement Code and Section 19-445.2020 of the accompanying regulations.

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 Operating Procedures Manual, were in compliance with the South Carolina Consolidated Procurement Code and its ensuing regulations.

Additionally, our work was directed toward assisting the Department in promoting the underlying purposes and policies of the Code as outlined in Section 11-35-20, which include:

- (1) to ensure the fair and equitable treatment of all persons who deal with the procurement system of this State
- (2) to provide increased economy in state procurement activities and to maximize to the fullest extent practicable the purchasing values of funds of the State
- (3) to provide safeguards for the maintenance of a procurement system of quality and integrity with clearly defined rules for ethical behavior on the part of all persons engaged in the public procurement process

## SCOPE

We conducted our examination in accordance with Generally Accepted Auditing Standards as they apply to compliance audits. Our examination encompassed a detailed analysis of the internal procurement operating procedures of the South Carolina Department of Commerce and its 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 judgmental samples for the period July 1, 1995 through June 30, 1997 of procurement transactions for compliance testing and performed other audit procedures that we considered necessary to formulate this opinion. Specifically, the scope of our audit included, but was not limited to, a review of the following:

- (1) All sole source, emergency and trade-in sale procurements reported for the period July 1, 1995 through June 30, 1997
- (2) Procurement transactions for the period July 1, 1995 through June 30, 1997 as follows:
  - a) Sixty payments each exceeding \$1,500
  - b) A block sample of two hundred sequential purchase orders
- (3) Minority Business Enterprise Plans and reports for the audit period
- (4) Information technology plans for audit period
- (5) Internal procurement procedures manual
- (6) Surplus property procedures

## SUMMARY OF AUDIT FINDINGS

Our audit of the procurement system of the South Carolina Department of Commerce, hereinafter referred to as the Department, produced findings and recommendations as follows:

	<u>PAGE</u>
I. <u>Sole Source Authority and Reporting</u>	6
<p>The Department has not delegated sole source authority. Three sole source procurements were not approved by the Secretary of the Department nor were the procurements reported.</p>	
II. <u>Compliance-General</u>	
A. <u>Unauthorized Procurements</u>	7
<p>Fourteen procurements which were done prior to Procurement's involvement.</p>	
B. <u>No Evidence of Compliance</u>	8
<p>Seven procurements were not supported by evidence of competition, sole source or emergency determination and were not exempt from the Code.</p>	
C. <u>Combining Needs</u>	9
<p>We noted three instances where the items should have been combined and competition solicited.</p>	
D. <u>Inadequate Competition</u>	11
<p>The Department did not solicit the minimum requirements on five procurements.</p>	
III. <u>Blanket Purchase Agreements</u>	11
<p>The blanket purchase agreements do not address all the terms and conditions required by the Regulations.</p>	
IV. <u>Internal Procedures Manual</u>	12
<p>The Department does not have an Internal Procedures Manual.</p>	

## RESULTS OF EXAMINATION

### I. Sole Source Authority and Reporting

The Department prepared the sole source justifications on three procurements. However, the justifications were not approved by the Secretary of the Department and were not reported on the quarterly reports to the Materials Management Office.

<u>Voucher</u>	<u>PO</u>	<u>Amount</u>	<u>Description</u>
971387	348	\$ 5,467	Airplane parts
973897	1181	2,844	Promotional products
974256	1152	3,140	Equipment maintenance

Section 11-35-1560 of the Code states, "A contract may be awarded for a supply, service, or construction item without competition when, under regulations promulgated by the board, the chief procurement officer, the head of a purchasing agency, or a designee of either officer, above the level of the procurement officer, determines in writing that there is only one source for the required supply, service, or construction item.... Any delegation of authority by either the chief procurement officer or the head of a governmental body with respect to sole source determinations must be submitted in writing to the materials management officer." The Department has no written delegation of sole source authority. Therefore, sole source authority is vested with the Secretary of the Department. Since the sole source determinations were not approved by the Secretary, each is unauthorized as defined in Regulation 19-445.2015. Additionally, the sole source procurements were not reported to the Materials Management Office. Section 11-35-2440 of the Code requires the quarterly reporting of sole source procurements.

We recommend the Department request ratification from the Secretary for purchase orders 1181 and 1152 as each was within the Department's certification of \$5,000. A ratification request for purchase order 348 must be submitted by the Secretary to the Materials Management Officer per Regulation 19-445.2015 as the total exceeded the Department's certification authority of \$5,000. To ensure future compliance, the Secretary should approve each sole source procurement or delegate authority in writing. The Department needs to review its current

procedures for reporting sole source procurements to correct the weaknesses in recapping the sole source activity.

**DEPARTMENT RESPONSE**

In 1990, sole source authority was delegated in writing by the then Executive Director to Bill Floyd, Director of Administration, and since that time he has always been the individual who authorized sole sources and emergency procurements. At this point in time, we cannot find that delegation memo. The delegation authority will be part of the new procurement policies and procedures manual. Previously, sole source reporting was accomplished by keeping copies of the sole sources in a paper file and submitting a manual report which allowed for errors in reporting. We are now flagging sole sources on the accounting system as they are entered which should reduce errors. The reports are now being submitted on disc.

II. Compliance-General

A. Unauthorized Procurements

Fourteen procurements were done prior to being submitted to the procurement department.

	<u>Voucher</u>	<u>PO</u>	<u>PO Date</u>	<u>Date of Obligation</u>	<u>Amount</u>	<u>Description</u>
1.	974831	1432	5/20/97	04/04/97- 04/29/97	\$1,662	Presentation skills training
2.	975701	1650	6/30/97	06/12/97	1,790	Charter for prospect
3.	975332	1559	06/18/97	05/29/97	1,957	Project flight
4.	961786	645	10/20/95	09/21/95- 09/27/95	2,650	Moving offices
5.	960554	175	08/03/95	07/11/95	2,726	Office furniture
6.	975187	1527	06/10/97	05/27/97	2,727	Rental of risers and chairs
7.	971017	450	09/18/96	09/09/96	2,900	Renovating office space
8.	973294	1003	02/12/97	12/01/96- 01/28/97	3,356	Executive training
9.	960406	167	08/03/95	07/01/95- 07/01/96	3,596	Service contract
10.	975683	1649	07/08/97	06/24/97- 06/25/97	4,349	TQM workshop

	<u>Voucher</u>	<u>PO</u>	<u>PO Date</u>	<u>Date of Obligation</u>	<u>Amount</u>	<u>Description</u>
11.	971188	415	09/09/96	---	\$2,690	Printing
12.	963691	1115	01/30/96	11/19/95	5,995	Recycling investment forum
13.	962791	---	---	11/06/95- 11/30/95	13,322	Conference facilities
14.	---	1661	07/17/97	04/01/97- 12/31/97	15,000	Facilitation services

The Department has no written delegation of procurement authority. The only delegation of procurement authority we identified was the position descriptions for the procurement office personnel. Regulation 19-445.2015 defines an unauthorized procurement as an act obligating the State in a contract by any person without the requisite authority to do so by an appointment or delegation. Since the procurements were obligated prior to the authorization from the procurement office, each procurement was unauthorized. Additionally, the increase on purchase order 415 was not authorized by the Procurement Office making the changes unauthorized. The original purchase order was for \$750.

We recommend the Department request ratification for items 1 through 11 from the Secretary as each is within the Department's certification of \$5,000. Ratification requests for items 12 through 14 must be submitted by the Secretary to the Materials Management Officer as each exceeded the Department's certification of \$5,000. We also recommend the Department develop procedures to clearly define procurement authority.

#### **DEPARTMENT RESPONSE**

For various reasons such as staff being new, forgetting or crisis of the moment, Agency staff have made purchases and submitted requisitions later. Often, the procurement department was consulted but the actual paperwork was not submitted until after the fact. We will institute a new system of educating staff as to the importance of having prior approval for purchases. We believe this system will significantly reduce the number of unauthorized purchases.

#### **B. No Evidence Of Compliance**

The following seven procurements did not have any evidence of competition, sole source or emergency determination and were not exempt from the Code.

	<u>Voucher</u>	<u>PO</u>	<u>Amount</u>	<u>Description</u>
1.	960620	280	\$24,996	Executive assistant
2.	974071	1219	3,150	Booth rental
3.	963271	614	2,391	Software
4.	960951	255	3,814	Mower repairs
5.	964634	1383	2,214	Promotional item
6.	---	1526	2,189	Sheets for laminating machine
7.	---	1527	2,727	Rent and set up of party

Section 11-35-1510 of the Code lists the methods of source selection. Section 11-35-710 lists the exemptions. Through discussion with Department personnel, items 1 through 3 may have been sole source procurements. Items 4 through 7 should have been competed per the requirements in Section 11-35-1550 of the Code. Additionally, item 1 exceeded the Department's certification level of \$5,000 making the procurement unauthorized as defined in Regulation 19-445.2015.

We recommend the Department review the requirements of the Code to ensure compliance in the future. Ratification requests for item 1 must be submitted by the Secretary to the Materials Management Officer as it exceeded the Department's certification level of \$5,000.

#### DEPARTMENT RESPONSE

Seven items were cited. Of these, four should have been sole source or emergency procurements. The others were oversights. Every effort will be made in the future to have all procurements in compliance.

#### C. Combining Needs

We noted three instances where the items should have been combined and competition solicited.

<u>Voucher</u>	<u>PO</u>	<u>Invoice Number</u>	<u>Invoice Amount</u>	<u>Description</u>
960066	96828	17872	\$1,386	Furniture
960066	96829	17835	1,469	Furniture
960066	96830	17871	<u>565</u>	Furniture
			Total <u>\$3,420</u>	

<u>Voucher</u>	<u>PO</u>	<u>Invoice Number</u>	<u>Invoice Amount</u>	<u>Description</u>
973422	536	021897	\$ 629	Printing business cards
973422	536	021897	627	Printing letterhead
973422	536	021897	493	Printing letterhead and envelopes
			Total <u>\$1,749</u>	

<u>PO</u>	<u>Invoice Number</u>	<u>Invoice</u>	<u>Description</u>
1545	2928	\$ 252	Promotional items
1546	2920	404	Promotional items
1547	2921	535	Promotional items
1548	2922	569	Promotional items
1549	2923	1,390	Promotional items
1550	2919	206	Promotional items
1551	2924	311	Promotional items
		Total <u>\$3,667</u>	

The invoices for voucher 960066 were dated 4 days apart and were done on a Departmental Direct Purchase Order (DPO). The DPO stated, "This voucher is authorized for procurement of supplies and services less than \$1,500." A Division separated the procurement on three DPOs to avoid the \$1,500 threshold. The invoices paid on voucher 973422 were for items on a blanket purchase agreement. The total procurement of \$1,749 should have been combined and solicitation of 3 verbal quotes obtained. For the promotional items on purchase orders 1545 to 1551, the Department did not realize that related items should be considered as one procurement. However, all items were bought from one vendor.

Section 11-35-1550 of the Code prohibits artificially dividing procurements in order to avoid competition requirements.

We recommend the Department combine its requirements and solicit competition as applicable.

#### **DEPARTMENT RESPONSE**

Three items were cited. There was not a clear understanding on our part concerning this concept of combining similar, related items and bidding them out as a group. Since this has been clarified by the audit, we will make sure that similar items are combined in the future.

D. Inadequate Competition

The Department solicited two verbal quotes on the following items.

<u>PO</u>	<u>Amount</u>	<u>Description</u>
1479	\$2,084	Printing of booklets
252	1,811	Folders printed
1391	2,521	Software
1595	2,425	Promotional piece
1600	2,323	Promotional shirts

Section 11-35-1530 of the Code requires solicitation of a minimum of three verbal quotes for procurement from \$1,500 to \$5,000. The Department believed two verbal quotes were required.

We recommend the Department solicit a minimum of three verbal quotes for procurements from \$1,500 to \$5,000.

**DEPARTMENT RESPONSE**

Five items were cited. These were items between \$1,500 and \$2,500 which used to required two quotes. The procurements staff did not realized the Code had been changed to extend the three quotes requirement down to this range of procurements. This has now been clarified by the audit.

III. Blanket Purchase Agreements

The Department does not include all the requirements for blanket purchase agreements described in Regulation 19-445.2100. The following items need to be included in each blanket purchase agreement.

- Description of agreement
- Extent of obligation
- Notice of individuals authorized to place calls
- Delivery tickets which must include:
  - name of supplier
  - blanket purchase agreement number
  - date of call
  - call number
  - itemized list of supplies of services furnished

- Invoicing method

We recommend the Department review the requirements of the Regulations and include all items in each blanket purchase agreement.

#### **DEPARTMENT RESPONSE**

The terms and conditions that were not addressed are now being added to our blanket purchase agreements.

#### **IV. Internal Procurement Procedures Manual**

The Department has no written procedures concerning procurement. The Department has used the Code as its procedures manual. Regulation 19-445.2005 requires a manual be developed and submitted to the Materials Management Officer.

We recommend the Department develop a procedures manual and submit the manual to the Materials Management Officer. This procedures manual should address delegation of authority and other items addressed in this report. We gave the Department copies of the manuals from agencies that should assist in the development of its manual.

#### **DEPARTMENT RESPONSE**

Since our Agency is small with only forty-eight FTEs and there is personal contact on a regular basis, we had never written an internal manual for staff, but had answered questions on an as-needed basis citing the Code itself. A policies and procedures manual is now being written and will be issued within a month.

## CONCLUSION

As enumerated in our transmittal letter, corrective action based on the recommendations described in this report, we believe, will in all material respects place the South Carolina Department of Commerce in compliance with the Consolidated Procurement Code. We will perform a follow-up review by April 30, 1998, to ensure that the Department has completed this corrective action.

Under the authority described in Section 11-35-1210 of the Procurement Code, subject to this corrective action and since the South Carolina Department of Commerce has not requested additional procurement certification, we will recommend the Department be allowed to continue procuring all goods and services, consultant services, construction services and information technology up to the basic level of \$5,000 as allowed by the Consolidated Procurement Code and accompanying regulations.



Melissa Rae Thurstin  
Senior Auditor



Larry G. Sorrell, Manager  
Audit and Certification

STATE OF SOUTH CAROLINA  
**State Budget and Control Board**  
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VOIGHT SHEALY  
ASSISTANT DIRECTOR

April 1, 1998

JOHN DRUMMOND  
CHAIRMAN, SENATE FINANCE COMMITTEE

HENRY E. BROWN, JR.  
CHAIRMAN, WAYS AND MEANS COMMITTEE

LUTHER F. CARTER  
EXECUTIVE DIRECTOR

Mr. R. Voight Shealy  
Materials Management Officer  
Materials Management Office  
1201 Main Street, Suite 600  
Columbia, South Carolina 29201

Dear Voight:

We have reviewed the South Carolina Department of Commerce's response to our audit report for July 1, 1995 - June 30, 1997. Also, we have followed the Department's corrective action during and subsequent to our field work. We are satisfied that the Department has corrected the problem areas and the internal controls over the procurement system are adequate.

Additional certification was not requested. Therefore, we recommend the Department be allowed to continue procuring all goods and services, construction, information technology and consulting services up to the basic level of outlined in the Code.

Sincerely,

Handwritten signature of Larry G. Sorrell in cursive.

Larry G. Sorrell, Manager  
Audit and Certification

LGS/tl

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