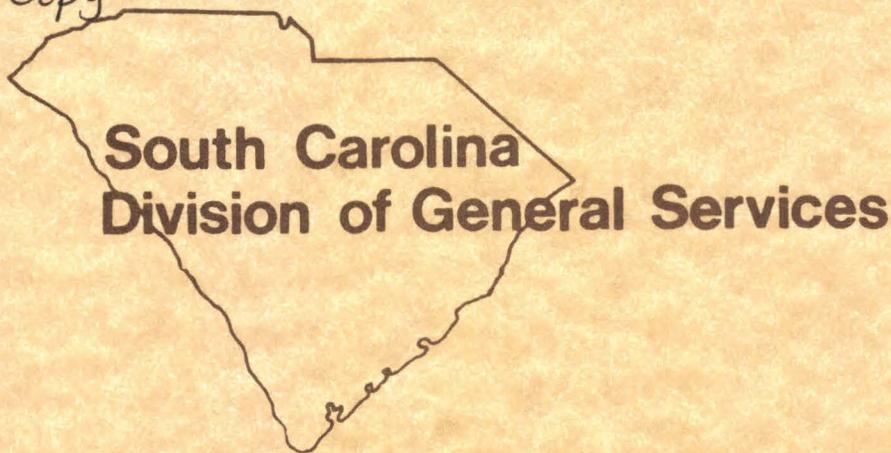


B8595G  
2. H43  
1989  
Copy 3



# PROCUREMENT AUDIT AND CERTIFICATION

S. C. STATE LIBRARY

AUG 22 1989

STATE DOCUMENTS

SOUTH CAROLINA DEPARTMENT OF  
HIGHWAYS AND PUBLIC TRANSPORTATION  
AGENCY

JANUARY 1, 1986 - SEPTEMBER 30, 1988  
DATE

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



CARROLL A. CAMPBELL, JR., CHAIRMAN  
GOVERNOR

GRADY L. PATTERSON, JR.  
STATE TREASURER

EARLE E. MORRIS, JR.  
COMPTROLLER GENERAL

RICHARD W. KELLY  
DIVISION DIRECTOR

MATERIALS MANAGEMENT OFFICE  
1201 MAIN STREET, SUITE 600  
COLUMBIA, SOUTH CAROLINA 29201  
(803) 737-0600

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

July 6, 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 Department of Highways and Public Transportation procurement audit report and recommendations made by the Office of Audit and Certification. I concur and recommend the Budget and Control Board grant the Department a three (3) year certification as outlined in the audit report.

Sincerely,

A handwritten signature in dark ink, appearing to read "James J. Forth, Jr." with a stylized flourish at the end.

James J. Forth, Jr.  
Assistant Division Director

Attachment

STATE  
PROCUREMENT

INFORMATION  
TECHNOLOGY  
MANAGEMENT

STATE & FEDERAL  
SURPLUS  
PROPERTY

CENTRAL SUPPLY  
& INTERAGENCY  
MAIL SERVICE

OFFICE OF AUDIT  
& CERTIFICATION

INSTALLMENT  
PURCHASE  
PROGRAM

DEPARTMENT OF HIGHWAYS AND PUBLIC TRANSPORTATION  
AUDIT REPORT

JANUARY 1, 1986 - SEPTEMBER 30, 1988

TABLE OF CONTENTS

	<u>PAGE</u>
Transmittal Letter.....	1
Introduction.....	4
Background.....	5
Scope.....	7
Summary of Audit Findings.....	8
Results of Examination.....	10
Conclusion.....	17
Follow-up Review.....	19

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



CARROLL A. CAMPBELL, JR., CHAIRMAN  
GOVERNOR

GRADY L. PATTERSON, JR.  
STATE TREASURER

EARLE E. MORRIS, JR.  
COMPTROLLER GENERAL

RICHARD W. KELLY  
DIVISION DIRECTOR

MATERIALS MANAGEMENT OFFICE  
1201 MAIN STREET, SUITE 600  
COLUMBIA, SOUTH CAROLINA 29201  
(803) 737-0600

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

June 28, 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 Department of Highways and Public Transportation for the period January 1, 1986 through September 30, 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 Department of Highways and Public Transportation 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 Department of Highways and Public Transportation in compliance with the South Carolina Consolidated Procurement Code and ensuing regulations.



R. Voight Shealy, Manager  
Audit and Certification

## INTRODUCTION

The Office of Audit and Certification conducted an examination of the internal procurement operating procedures and policies and related manual of the Department of Highways and Public Transportation. Our on-site review was conducted September 27, 1988 through December 2, 1988 and was made under authority as described in 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, that 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 agency in promoting the underlying purposes and policies of the Code as outlined in Section 11-35-20, which includes:

- (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.

BACKGROUND

Section 11-35-1210 of the South Carolina Consolidated Procurement Code states:

The (Budget and Control) Board may assign differential dollar limits below which individual governmental bodies may make direct procurements not under term contracts. The Division of General Services shall review the respective governmental body's internal procurement operation, shall verify in writing that it is consistent with the provisions of this code and the ensuing regulations, and recommend to the Board those dollar limits for the respective governmental body's procurement not under term contract.

On August 28, 1986, the Budget and Control Board granted the following procurement certifications to the Department of Highways and Public Transportation:

<u>Category</u>	<u>Limit</u>
1. Goods and Services	\$ 30,000
2. Information Technology	30,000
3. Consultant Services	30,000
4. Construction Services	30,000
5. Construction Materials Testing	1,250,000

Our audit was performed primarily to determine if recertification is warranted. Additionally, the Department of Highways and Public Transportation requested the increased certification limits listed below:

<u>Category</u>	<u>Requested Limit</u>
1. Goods and Services	\$ 50,000
2. Consultant Services	50,000

3. Information Technology	50,000
4. Construction	25,000
5. Aggregate	100,000
6. Construction Materials Testing	1,250,000

## SCOPE

Our examination encompassed a detailed analysis of the internal procurement operating procedures of the Department of Highways and Public Transportation 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 up to the requested certification limits.

We selected random samples for the period July 1, 1986 through September 30, 1988 of procurement transactions 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 provisions of the South Carolina Consolidated Procurement Code and accompanying 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 and sole source procurements;
- (7) source selections;
- (8) file documentation of procurements;
- (9) warehousing, inventory and disposition of surplus property;
- (10) economy and efficiency for procurement process;  
and
- (11) approval of Minority Business Enterprise Plan.

SUMMARY OF AUDIT FINDINGS

Our audit of the procurement system of the Department of Highways and Public Transportation (DHPT) produced findings and recommendations in the following areas:

	<u>PAGE</u>
I. <u>Compliance - Sole Source and Emergency Procurements</u>	
A. <u>Unauthorized Sole Source Procurements</u>	10
Sole source determinations were prepared after the procurements were made.	
B. <u>Emergency Procurement Made By An Unauthorized Individual</u>	13
In one case, a person making a procurement lacked the authority.	
C. <u>Emergency Procurement Improperly Reported</u>	13
An emergency procurement was reported in error as a sole source.	
II. <u>Compliance - Procurements</u>	
A. <u>Bid Rejected in Error</u>	14
A low bid was rejected, in error, for a minor informality.	

B. Procurements Not Bid

14

Two procurements were neither bid nor supported by sole source or emergency determinations.

C. Insufficient Solicitation

15

In one case, five bids were solicited for a procurement requiring ten.

## RESULTS OF EXAMINATION

### I. Compliance - Sole Source and Emergency Procurements

We reviewed all sole source and emergency procurements, supporting documents and the resulting reports for the period of January 1, 1986 - June 30, 1988. The review was performed for the purpose of determining the appropriateness of procurement actions taken and the accuracy of the reports submitted to the Division of General Services as required by Section 11-35-2440 of the Code.

We found the majority of the transactions to be proper and correctly reported; however, we did encounter the following problems which affect compliance with the Procurement Code.

#### A. Unauthorized Sole Source Procurements

The below listed sole source procurements were made and later confirmation sole source determinations were prepared. The Consolidated Procurement Code requires that sole source determinations be prepared and approved prior to procurements being made as each determination is the basis for the procurement.

<u>P.O.#</u>	<u>DATE</u>	<u>AMOUNT</u>
24360	3-21-88	\$ 1,103.50
23084	2-29-88	2,996.94
22109	2-10-88	556.74
21738	2-16-88	20,250.00
18082	11-19-87	3,835.50
18020	11-19-87	3,083.25
16774	10-29-87	1,923.40
16475	10-23-87	1,109.25
16150	10-20-87	1,265.00
16149	10-20-87	1,303.75
15490	10-08-87	1,245.00
15075	10-01-87	1,499.75
12793	8-14-87	733.75
12794	8-14-87	1,225.25
12795	8-14-87	1,311.25
12796	8-14-87	1,362.75

12797	8-14-87	1,401.25
13867	9-04-87	1,287.00
14095	9-10-87	1,412.75
14175	9-14-87	1,210.00
12477	8-07-87	4,245.25
12510	8-07-87	645.00
10517	6-30-87	756.50
10281	6-26-87	620.75
06900	4-24-87	766.50
03290	2-13-87	593.94
03042	2-09-87	1,198.50
03002	2-09-87	955.00
00412	12-09-86	1,228.50
00413	12-09-86	1,326.40
00414	12-09-86	1,092.00
29715	11-20-86	806.40
28192	10-24-86	907.50

These procurements are unauthorized as the determinations were prepared after the procurements were made. As such, they must be ratified by the Executive Director in accordance with Section 19-445.2015 of the Regulations.

The majority of the procurements were for concrete or asphalt for which the department now has blanket determinations in effect.

#### DEPARTMENT RESPONSE

1. During the hot laid asphalt contract period of July 1, 1987 through December 31, 1987 Saterfield construction Company failed to submit a price list for hot laid asphalt. This was discovered when our office received State Procurement's Statement of Award and we observed there were no locations on contract for hot laid asphalt materials for Greenwood, Edgefield and Laurens counties. After State Procurement refused to enter into a price agreement to cover these counties, a verbal sole source for this period was issued for these counties. Being unaware of blanket sole sources, these purchases were reported after actual use. These purchases have been ratified by the Executive Director as noted on the attached memorandum.

The following purchase orders were ratified for these purchases of hot laid asphalt:

Purchase Order Number	Purchase Order Date
12477	August 7, 1987
12793	August 14, 1987
12794	August 14, 1987
12795	August 14, 1987
12796	August 14, 1987

12797	August 14, 1987
13867	September 4, 1987
14095	September 10, 1987
14175	September 14, 1987
15075	October 1, 1987
15490	October 8, 1987
16149	October 20, 1987
16150	October 20, 1987
16475	October 23, 1987
18020	November 19, 1987
18082	November 19, 1987

2. The following purchase orders were all for small concrete purchases and were approved by the previous administration as the only local approved source of supply. These purchases have been ratified by the Executive Director as shown on the attached memorandum. Corrective action has been taken by our new administration and effective July 1, 1987 all concrete must be bid among the approved suppliers list for the entire district in lieu of the approved suppliers for that local area only.

Purchase Order Number	Purchase Order Date
28192	October 24, 1986
00412	December 9, 1986
00413	December 9, 1986
00414	December 9, 1986
03002	February 9, 1987
03042	February 9, 1987
03290	February 13, 1987
06900	April 24, 1987
10281	June 26, 1987
10517	June 30, 1987

3. Purchase order numbers 24360 dated March 21, 1988, 23089 dated February 29, 1988, 22109 dated February 10, 1988, 29715 dated November 20, 1986, 16774 dated October 29, 1987 and 12510 dated August 7, 1987 were issued for repairs of various types of equipment. These repairs were all approved by the Procurement Office. The sole sources were not prepared until the requisitions were received in the Procurement Office. Requisitions are not submitted until the material is repaired and returned so exact costs are known. These purchases have also been ratified in accordance with the attached memorandum. To correct this situation blanket sole sources have been issued to cover repairs of Department owned equipment.

4. On purchase order 21738 dated February 16, 1988 for special cold mix asphalt the urgency to apply the materials created a need for telephone ordering after a test and evaluation sole source was approved. The actual document was not prepared until the hard copy of the purchase order was issued, ratification is attached. On future purchases of this type, telephone or verbal approval will be noted on sole source documentation. The buying staff has

been advised sole source forms should be prepared on date of approval.

B. Emergency Procurement Made By An Unauthorized Individual

An emergency procurement was made on purchase order number 29874 for promotional items needed for distribution at the South Carolina State Fair. This procurement was not made by the purchasing department and the individual making the purchase lacked the procurement authority.

This unauthorized procurement must be ratified by the Executive Director in accordance with Section 19-445.2015 of the Regulations.

DEPARTMENT RESPONSE

Since the procurement office was not involved in the purchase of the materials on purchase order number 29874 dated November 25, 1986 the Director had the purchase order signed by the Executive Director, but failed to submit ratification. Attached you will find ratification from the Executive Director. Procurement training has been conducted to prevent a recurrence of this type.

C. Emergency Procurement Improperly Reported

The emergency procurement of a HVAC unit on purchase order number 21311 was reported as a sole source in error.

The Department should file an amended report for the year ended June 30, 1986.

DEPARTMENT RESPONSE

In response to an emergency procurement being improperly reported we found the emergency documentation was properly attached but it was reported as a sole source through clerical error. Attached are amended copies of the sole source and emergency reports for that period.

## II. Compliance - Procurements

We reviewed procurements in the areas of goods and services, information technology, consultants, and construction. We found the majority of these procurements to be proper and in compliance with the Consolidated Procurement Code, but we did note the following exceptions.

### A. Bid Rejected in Error

The low bidder on sealed bid number 1860 (12-16-87) was rejected because he failed to specify the brand name of equipment he bid. The bid form stated "Approved Brands Only" and specified six models as acceptable.

DHPT should have considered the low bid without brand name specified to be a minor informality and contacted the vendor to determine the brand name. When a list of models that have been approved are on the bid sheet, a vendor not including the brand name is not sufficient reason to reject the bid.

We recommend that DHPT develop a clearer bid sheet to eliminate such omissions by vendors submitting bids.

### DEPARTMENT RESPONSE

After checking the bid package, we concur that the failure to specify the brand name should have been waived since an approved brands list was furnished. All buyers have been given instructions for bid rejection procedures. Also we have revised our bid package to make the requirements for bid information more precise.

### B. Procurements Not Bid

We noted two research project contracts awarded by the Materials Testing Lab to a state supported university which were not competitively sealed bid or supported by a sole source determination.

One contract was a study of "Flexible Pavement Overlay Design by Dynamic Deflection - Phase II" in the amount of \$346,465.00. The other project was a study of "Investigation of Subsurface Exploration Methods for Prevailing Geologic Conditions in S.C., Phase II" in the amount of \$192,133.00.

Both of these contracts should have been bid through the Materials Management Office. Furthermore, as both contracts are above the Department's procurement certification authority, they are unauthorized procurements and must be submitted to the Director of the Division of General Services with a request for ratification in accordance with Regulation 19-445.2015.

#### DEPARTMENT RESPONSE

The materials lab has been advised that all contracts between agencies must be approved prior to contract signing. Also the audit team cleared the terms of the lab's procurement exemption and future contracts will be solicited in accordance with Procurement Regulations. A request for ratification has been submitted as shown on the attached memorandum.

#### C. Insufficient Solicitations

DHPT solicited, on sealed bid number 1541 (7-16-87), bids from five qualified sources for a \$22,353.00 procurement of a twenty ton wrecker.

Section 19-445.2035 of the regulations requires that solicitations be made of a minimum of ten qualified bidders when the procurement exceeds \$10,000.00.

The Department must insure that minimum competition requirements are met.

DEPARTMENT RESPONSE

Upon review of our sealed bid 1541 which had an insufficient number of solicitations, we find the buyer failed to solicit the required number due only to an oversight. The entire buying staff has been advised that, if after all resources available to them are utilized and they are still unable to meet the procurement code solicitation requirements, they are required to document the file and note that the bid is also being advertised in the South Carolina Business Opportunities to insure competition.

CONCLUSION

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

The Office of Audit and Certification will perform a follow-up review in accordance with Section 11-35-1230(1) of the Procurement Code to determine if the proposed corrective action has been taken by the Department. Based on the follow-up review, and subject to this corrective action, we will recommend that the Department of Highways and Public Transportation be recertified to make direct agency procurements for a period of three years as follows:

<u>PROCUREMENT AREA</u>	<u>RECOMMENDED CERTIFICATION LIMITS</u>
I. Goods and Services	\$50,000 *per purchase commitment
II. Information Technology in accordance with the approved Information Technology Plan	\$50,000 *per purchase commitment
III. Consultant Services	\$50,000 *per purchase commitment

- IV. Construction Services \$ 25,000 \*per purchase commitment
- V. Aggregate \$ 100,000 \*per purchase commitment
- VI. Construction Materials \$1,250,000 \*per purchase commitment  
Testing Contracts

\*Total potential purchase commitment to the State whether single year or multi-term contracts are used.

  
\_\_\_\_\_  
Marshall B. Williams, Jr., Supervisor  
Audit and Certification

  
\_\_\_\_\_  
R. Voight Shealy, Manager  
Audit and Certification



