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**South Carolina  
Division of General Services**

# PROCUREMENT AUDIT AND CERTIFICATION

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Department of  
Parks, Recreation and Tourism

**AGENCY**

February 15, 1992 - March 31, 1994

**DATE**

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*State Budget and Control Board*  
OFFICE OF GENERAL SERVICES



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LUTHER F. CARTER  
EXECUTIVE DIRECTOR

August 8, 1994

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

Dear Helen:

I have attached the Department of Parks, Recreation and Tourism's 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 noted in the audit report.

Sincerely,

A handwritten signature in cursive script that reads 'Eddie', which is a common nickname for William E. Gunn.

William E. Gunn  
Materials Management Officer

WEG/tsl

attachment

DEPARTMENT OF PARKS, RECREATION AND TOURISM

PROCUREMENT AUDIT REPORT

FEBRUARY 15, 1992 - MARCH 31, 1994

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

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*State Budget and Control Board*  
DIVISION OF GENERAL SERVICES



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WILLIAM D. BOAN  
CHAIRMAN, WAYS AND MEANS COMMITTEE

LUTHER F. CARTER  
EXECUTIVE DIRECTOR

July 15, 1994

Hardy L. Merritt, Ph.D.  
Assistant Division Director  
Division of General Services  
1201 Main Street, Suite 600  
Columbia, South Carolina 29201

Dear Hardy:

We have examined the procurement policies and procedures of the Department of Parks, Recreation and Tourism for the period February 15, 1992 through March 31, 1994. 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 and Department 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 Department of Parks, Recreation and Tourism 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 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 Department of Parks, Recreation and Tourism in compliance with the South Carolina Consolidated Procurement Code and ensuing regulations.

*Larry G Sorrell*

Larry G. Sorrell, Manager  
Audit and Certification

## INTRODUCTION

We conducted an examination of the internal procurement operating policies and procedures of the Department of Parks, Recreation and Tourism. Our on-site review was conducted February 22 through April 28, 1994, 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

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 June 9, 1992, the Budget and Control Board granted the Department the following procurement certifications:

<u>Category</u>	<u>Certified Limit</u>
Goods and Services	\$15,000 per commitment
Construction Services	\$25,000 per commitment

Subsequently, on November 10, 1993, the Budget and Control Board increased the certification limits to run concurrent with the certificate issued June 9, 1992 as follows:

<u>Category</u>	<u>Certified Limit</u>
Goods and Services	\$25,000 per commitment
Construction Services	\$25,000 per commitment
Information Technology in accordance with the approved Information Technology Plan	\$10,000 per commitment

This audit was performed primarily to determine if recertification is warranted. Additionally, the Department requested the following increased certification limits.

<u>Category</u>	<u>Requested Limit</u>
Goods and Services	\$25,000 per commitment
Construction Services	\$50,000 per commitment
Information Technology in accordance with the approved Information Technology Plan	\$25,000 per commitment
Consultant Services	\$10,000 per commitment

## 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 Department of Parks, Recreation and Tourism 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 random judgemental samples for the period February 15, 1992 - February 20, 1994, 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, review of the following.

- (1) All sole source, emergency and trade-in sale procurements for the period January 1, 1992 to March 31, 1994
- (2) Procurement transactions for the period February 15, 1992 to February 20, 1994 as follows:
  - a) One hundred ninety-nine payments, each exceeding \$500
  - b) A block sample of 500 sequential purchase orders
- (3) Six professional service contracts and eleven construction contracts for permanent improvement projects for compliance with the Manual for Planning and Execution of State Permanent Improvements
- (4) Minority Business Enterprise Plans and reports for the audit period
- (5) Information Technology Plans for Fiscal Years 92/93 and 93/94
- (6) Internal procurement procedures manual
- (7) Surplus Property Procedures

SUMMARY OF AUDIT FINDINGS

Our audit of the procurement system of the Department of Parks, Recreation and Tourism, hereinafter referred to as PRT, produced findings and recommendations as follows:

	<u>PAGE</u>
I. <u>General Code Compliance</u>	
A. <u>Procurements Without Competition</u>	10
Three procurements were made without evidence of solicitations of competition or sole source or emergency procurement determinations.	
B. <u>Procurements With Insufficient Competition</u>	11
Two procurements had insufficient solicitations of competition.	
C. <u>Revenue Generating Contracts</u>	12
PRT uses the percentage of receipts in lieu of the gross contract value to determine the procurement method and authority.	
D. <u>Inappropriate Procurement Methodology</u>	13
One contract was competed using quotations instead of sealed bid solicitations.	
E. <u>South Carolina Made Preference Not Properly Applied</u>	13
PRT was allowing a 2 percent preference instead of the 5 percent allowed by the Regulation creating this preference.	

II. Emergency Procurement

14

One emergency procurement of construction services did not have the required bonding.

III. Internal Controls

A. Purchase Orders

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Several items were noted which we believe will improve internal controls over purchase orders.

B. Accounts Payable

17

Several items were noted which we believe will improve internal controls over the payment of vouchers.

## RESULTS OF EXAMINATION

### I. General Code Compliance

We tested random samples from the four procurement areas of goods and services, consultants, construction and information technology, as well as performed other tests in accordance with our standard audit program. These tests revealed the following exceptions.

#### A. Procurements Without Competition

We noted three procurements which were not supported by evidence of solicitations of competition, sole source or emergency determinations. They were as follows:

<u>Document Number</u>	<u>Description</u>	<u>Amount</u>
Voucher 13185	Coastal Tourism Satellite Enterprise Development	\$3,200.00
Voucher 3826	Supplies	1,119.30
PO 2780	Framed Prints	1,035.40

For voucher 13185 the invoice was properly authorized for payment by an official at the Agency. But, we were not provided with any information as to how the procurement was made.

On voucher 3826 for the supplies, the payment documents were first coded as an item for commercial resale which makes it exempt from the Procurement Code. Thus, the Department did not seek competition nor submit it through the Procurement Office. However, the coding was changed to properly reflect the items as expendable supplies. According to PRT policy, these items should have been routed through the Procurement Department where competition would have been solicited. Consequently, the

procurement was unauthorized and required ratification from the Executive Director in accordance to Regulation 19-443.2015.

For PO2780, PRT attempted to obtain an exemption for artwork from the Arts Commission. However, the Arts Commission informed PRT that because the unit cost of the art work was less than \$500 each, it was not subject to their approval. PRT then processed this procurement as exempt.

Because the Arts Commission did not approve this procurement under its exemption, it was subject to the competition requirements of the Code. At that time two verbal solicitations were required.

We recommend PRT solicit competition where required or sole source or emergency procurement determinations be prepared if appropriate. Ratification should be requested on voucher 3826.

DEPARTMENT RESPONSE

The letter of ratification has been processed and a copy provided to you at the exit audit review. PRT will solicit competition where required or sole source or emergency procurement determinations will be prepared if appropriate.

---

B. Procurements With Insufficient Competition

We noted two procurements where insufficient solicitations of competition were made. They were as follows:

<u>PO#</u>	<u>Description</u>	<u>Amount</u>
1. C33784	Playground equipment	\$9,592.50
2. 48	Charcoal grills	1,773.91

In both instances competition had been solicited previously at the appropriate levels. Because the prices were considered unreasonable on item 1 and no response was received on item 2, second solicitations were made.

On the second solicitation for item 1, three vendors were solicited whereas a minimum of 5 were required. On the second solicitation for item 2, two verbal solicitations were made whereas a minimum of 3 were required.

We recommend the minimum solicitation requirements be adhered to on each solicitation. If PRT is unable to find the required minimum of vendors to solicit, Regulation 19-445.2035 requires a written determination stating all known sources were solicited.

#### DEPARTMENT RESPONSE

When PRT is unable to find the required minimum of vendors a written determination stating all known sources were solicited will be processed in accordance with regulation 19-445.2035.

---

#### C. Revenue Generating Contracts

Our review of revenue generating contracts at PRT revealed that PRT considers the percentage of receipts they obtain from these contracts as the basis for the procurement method and authority. It is the position of the Office of General Services that the gross contract value determines the procurement method and authority and not the percentage of receipts obtained by the agency.

We recommend on all future revenue generating contracts PRT consider the gross value of these contracts in determining the procurement method and authority.

DEPARTMENT RESPONSE

On all future revenue generating contracts PRT will consider the gross value of these contracts in determining the procurement method and authority.

---

D. Inappropriate Procurement Methodology

Purchase order 81 was issued on July 2, 1993 for \$3,520 plus tax. Verbal quotations from four vendors were obtained on May 6, 1993. PRT waited until after July 1, 1993, the effective date of changes to the Code that allows for verbal quotations for procurements between \$1,501 and \$5,000, to make the award. It is our opinion that the solicitation date and not the award date should have been used in determining the method of solicitation. PRT should have used the competitive sealed bidding method for this procurement.

DEPARTMENT RESPONSE

PRT will consider the solicitation date and not the award date to determine the method of solicitation in the future.

---

E. South Carolina Made Preference Not Properly Applied

PRT has been allowing a 2 percent preference for those vendors claiming the South Carolina Made, Manufactured or Grown

Preference. However, Regulation 19-446.1000 which created this preference allows for 5 percent.

We recommend PRT allow the 5 percent preference for vendors claiming the South Carolina Made, Manufactured or Grown Preference in accordance to Regulation 19-446.1000.

#### DEPARTMENT RESPONSE

PRT will use the 5 percent preference for vendors claiming the South Carolina Made, Manufactured or Grown Preference in accordance to Regulation 19-446.1000.

---

#### II. Emergency Procurement

We examined the quarterly reports of sole source, emergency and trade-in sale procurements for the period January 1, 1992 through March 31, 1994. This review was performed to determine the appropriateness of the procurement actions taken and the accuracy of the reports submitted to the Office of General Services as required by Section 11-35-2440 of the Code. We found most of these transactions were appropriate but did note one following exception.

On one emergency procurement which we believe was appropriately classified as such, PRT failed to obtain the appropriate bonding for the contract. This occurred on purchase order 1948 in the amount of \$29,118.26 for the removal of a non-complying underground gasoline tank. This contract fell under the definition of construction. As such the emergency only streamlined the procurement process. The bonding required under the construction procedures of the Code were still required.

We recommend when the emergency procurement method is used under construction services, the appropriate bonding be obtained when required. The procurement method has no effect on this requirement.

#### DEPARTMENT RESPONSE

When an emergency procurement method is used under construction services, the appropriate bonding will be obtained as required.

---

### III. Internal Controls

As part of our audit we performed a study and evaluation of internal controls over the procurement process. We utilized the tools of an internal control questionnaire, inquiry, observation and testing. Our evaluation has resulted in some recommendations over the issuance of purchase orders and the accounts payable function which will strengthen internal controls over the procurement process. We believe these recommendations will result in a cost savings to PRT.

#### A. Purchase Orders

Through our testing we observed that purchase orders were sometimes issued with hourly rates or unit prices recorded but with no maximum limitation. In essence the requesting Department was issued a "blank check" at a given rate per unit. On some purchase orders we observed that no pricing information at all was recorded. The dollar value simply stated "0".

We recommend that all such purchase orders be issued with a maximum amount not to exceed recorded.

DEPARTMENT RESPONSE

When PRT issues a zero "0" price purchase order in the future, we will indicate a maximum amount not to exceed "\_\_\_\_\_" in the description portion of the purchase order.

---

In another matter PRT issued purchase order 1887 for \$1,015,000.00 against a contract issued by the Materials Management Office. We were unable to reconcile the purchase order to the contract because the detailed information on the contract was not listed on the purchase order. We requested PRT to reconcile the purchase order to the contract to no avail. As it turned out PRT relied on the vendor to detail the invoice in accordance to the contract.

We recommend PRT issue purchase orders with sufficient detail so they may be reconciled to contract terms.

DEPARTMENT RESPONSE

PRT will issue purchase orders with sufficient detail so they may be reconciled to contract terms.

---

Finally, we observed that PRT issues purchase orders with sales tax calculated after freight charges were added. For the most part sales tax should not be paid on freight charges. There are some exceptions to this rule. We recommend a review of Regulation 117-174.214.

We recommend the sales tax calculation be made before freight charges are included. Only the instances outlined in Regulation 117-174.214 should have sales tax paid on freight charges.

DEPARTMENT RESPONSE

Sales tax calculations are being made before freight charges are included as outlined in regulation 117-174.24.

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B. Accounts Payable

Our review of the vouchers prepared by the Accounts Payable Section of PRT revealed five instances where no signed receiving information was contained with the vouchers. We acknowledge that most vouchers did have signed receiving information. However, the Accounts Payable Section did not require this documentation before payments were made. Instead, Accounts Payable relied on the Divisions' accounting offices to approve the payments. We believe the Accounts Payable Section is the final check at PRT to ensure invoices agree to purchase orders for items procured and the quantities of those items as well as the prices. Also, signed receiving information should be obtained ensuring that all items invoiced were received in good condition. As such Accounts Payable should require this information and match it before payments are made.

We recommend Accounts Payable require signed receiving information before payments are made.

DEPARTMENT RESPONSE

Accounts Payable will insure signed receiving information is obtained before payments are made.

---

We noted two vouchers where freight had been improperly paid. Voucher 5375 paid freight of \$102 and voucher 6960 paid freight of \$49 even though the purchase order stated "FOB Destination." Freight was not owed but because the Division had approved these payments, Accounts Payable did not question these freight charges. A more active review of freight charges by Accounts Payable would have saved \$151.

DEPARTMENT RESPONSE

When the purchase order is "FOB Destination," Accounts Payable will not pay unauthorized freight charges.

---

Finally, on voucher 5553, PRT accepted delivery of and paid for 196 circle solid skirts even though circle print skirts were ordered. Payment should not have been made on this invoice until the difference in the items ordered versus the items received were resolved.

We recommend Accounts Payable have a more active role in the payment process.

DEPARTMENT RESPONSE

Accounts Payable will play a more active role in the payment process to prevent payment of invoices until the difference in the items ordered versus the items received is resolved.

---

CERTIFICATION RECOMMENDATIONS

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 Department of Parks, Recreation and Tourism in compliance with the South Carolina Consolidated Procurement Code.

We will perform a follow-up review by July 1, 1994, 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, we recommend the Department of Parks, Recreation and Tourism be recertified to make direct agency procurements for three (3) years up to the limits as follows:

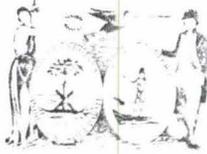
<u>Procurement Areas</u>	<u>Recommended Certification Limits</u>
Goods and Services	*\$25,000 per purchase commitment
Construction Services	*\$50,000 per purchase commitment
Information Technology in accordance with the approved Information Technology Plan	*\$25,000 per purchase commitment
Consultants	*\$10,000 per purchase commitment

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

  
\_\_\_\_\_  
Robert J. Aycock, IV  
Audit Manager

  
\_\_\_\_\_  
Larry G. Sorrell, Manager  
Audit and Certification

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EXECUTIVE DIRECTOR

August 8, 1994

Mr. William E. Gunn  
Materials Management Officer  
Office of General Services  
1201 Main Street, Suite 600  
Columbia, South Carolina 29201

Dear Eddie:

We have reviewed the response to our audit report for the Department of Parks, Recreation and Tourism covering the period February 15, 1992 - March 31, 1994. Combined with our discussions and correspondence with Department officials, we are satisfied that the Department has corrected the problem areas we found.

We, therefore, recommend that the certification limit for the Department of Parks, Recreation and Tourism as outlined in the audit report be granted for a period of three (3) years.

Sincerely,

A handwritten signature in cursive script that reads "Larry G. Sorrell".

Larry G. Sorrell, Manager  
Audit and Certification

LGS/jw

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