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**South Carolina
Division of General Services**

PROCUREMENT AUDIT AND CERTIFICATION

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SOUTH CAROLINA DEPARTMENT OF
REVENUE AND TAXATION

AGENCY

JANUARY 1, 1992 - JUNE 30, 1994

DATE

SOUTH CAROLINA DEPARTMENT OF REVENUE AND TAXATION

PROCUREMENT AUDIT REPORT

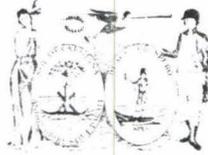
JANUARY 1, 1992 - JUNE 30, 1994

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

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



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WILLIAM E. GUNN
ASSISTANT DIRECTOR

January 30, 1995

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

Dear Eddie:

We have examined the procurement policies and procedures of South Carolina Department of Revenue and Taxation for the period January 1, 1992 through June 30, 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 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 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 that 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 Revenue and Taxation in compliance with the South Carolina Consolidated Procurement Code and ensuing regulations.


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 Revenue and Taxation. Our on-site review was conducted September 12, 1994, through September 23, 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 contract. The Office of General Services shall review the respective government 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.

Section 11-35-1230(1) of the South Carolina Consolidated Procurement Code States:

In procurement audits of governmental bodies thereafter, the auditors from the Office of General Services shall review the adequacy of the system's internal controls in order to insure compliance with the requirements of this code and the ensuing regulations.

Most recently, on May 12, 1992, the Budget and Control Board granted the Department certification as follows:

<u>CATEGORY</u>	<u>REQUESTED LIMIT</u>
Printing	\$10,000 per commitment

Our audit was performed primarily to determine if certification is warranted. Additionally, increased certification was requested as follows:

<u>CATEGORY</u>	<u>REQUESTED LIMIT</u>
Goods and Services	\$10,000 per commitment
Printing Services	\$25,000 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 South Carolina Department of Revenue and Taxation its related policies and procedure's manual to the extent we deemed necessary to formulate an opinion on the adequacy of the system to properly handle procurement transactions..

We selected a judgmental sample for the period January 1, 1992 through June 30, 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, a review of the following:

- (1) All sole source, emergency and trade-in sale procurements for the period
January 1, 1992- June 30, 1994
- (2) Procurement transactions for the period January 1, 1992 to June 30, 1994 as follows:
 - a) One hundred judgmentally selected procurement transaction
 - b) An additional block sample of twelve sealed bids and nine informal quotations
 - c) A block sample of three hundred twenty-six numerical purchase orders from the audit period
- (3) Surplus Property procedures
- (4) Minority Business Enterprise Reports for the audit period
- (5) Information Technology Plans for Fiscal Years 92/93 and 93/94
- (6) Internal procurement procedures manual

SUMMARY OF AUDIT FINDINGS

Our audit of the procurement system of the South Carolina Department of Revenue and Taxation produced findings and recommendations as follows:

	<u>PAGE</u>
I. <u>Sole Source and Emergency Procurements</u>	
A. <u>Drug-Free Workplace Certification</u>	8
Five sole source transactions each exceeding \$50,000 did not have the required Drug-Free Workplace Certification.	
B. <u>Sole Source and Emergency Reporting</u>	9
(1) Four sole source transactions were exempt and should not have been reported	
(2) One emergency transaction was reported twice and one sole source was not reported.	
II. <u>Compliance-General Procurement Code Exceptions</u>	
A. <u>Unauthorized Printing Contracts</u>	10
Two printing contracts exceeded the Department's certification authority.	
B. <u>Printing Overage Exceeded Five Percent</u>	11
One transaction exceeded the maximum overage allowance of five percent.	
C. <u>Bid Tabulation Sheets not Signed or Witnessed</u>	11
Two bid tabulation sheets were not signed or witnessed at the bid opening.	
D. <u>Insufficient Number of Quotations Solicited</u>	12
One procurement lacked the required number of quotations being solicited.	
E. <u>Time and Date Stamping of Late Bids</u>	12
Two sealed bids lacked any documentation reflecting the time and date received.	

III. Procurement Procedures Manual

The Department's procurement procedures manual must be updated to reflect the new Code changes and the Department's higher certification limits.

RESULTS OF THE EXAMINATION

I. Sole Source and Emergency Procurements

We reviewed all sole source and emergency procurements with all available supporting documentation for the period January 1, 1992 through June 30, 1994. We found these procurements to be in compliance with the Code and insuring regulations with the following exceptions.

A Drug-Free Workplace Certification

We noted five sole source procurements for \$50,000 or more where the Department did not obtain the required certification from vendors stating they are in compliance with the South Carolina Drug-Free Workplace Act. They were as follows:

<u>PO NUMBER</u>	<u>DATE</u>	<u>DESCRIPTION</u>	<u>AMOUNT</u>
72	07-13-93	Printing System	\$54,161.20
123	07-27-92	Printing System	50,170.00
43	07-09-93	Hardware Maintenance	73,041.10
70	07-15-92	Hardware Maintenance	70,420.10
52	07-09-93	Hardware Maintenance	54,170.00

Effective January 1, 1991, Section 44-107-30 of the SC Code of Laws, 1976, required that no state agency may enter into a domestic contract or make a domestic grant with any individual for a stated or estimated value of fifty thousand dollars or more unless the contract or grant includes a certification by the individual that the individual will not engage in the unlawful manufacture, distribution, distribution, possession, or use of a controlled substance in the performance of the contracts. The Department has not complied with the law in these cases.

We recommend the Department should begin obtaining the Drug-Free Workplace certification on all of its contracts of \$50,000 or more.

DEPARTMENT RESPONSE

Concur. We will henceforth obtain Drug-Free Workplace certificates on all contracts of \$50,000 and more.

B. Sole Source and Emergency Reporting

1. Four transactions reported as sole sources were exempt and should not have been reported. They were as follows:

<u>P.O NUMBER</u>	<u>DATE</u>	<u>DESCRIPTION</u>	<u>AMOUNT</u>
39	07-08-92	Software maintenance	\$5,313.07
45	07-09-93	Software maintenance	5,800.20
72	07-15-92	Software maintenance	5,445.00
65	07-12-93	Software maintenance	5,052.89

Software maintenance and licenses are exempt from the Code after such software has been competitively bid. Therefore it does not require a solicitation, emergency, or sole source determination.

We recommend that procurement of maintenance on software not be reported as a sole source and an amended report be filed with the Office of General Services.

2. We noted two other reporting errors during our review. They were as follows:

<u>P.O. NUMBER</u>	<u>DATE</u>	<u>DESCRIPTION</u>	<u>AMOUNT</u>
756	06-3-93	Printing	\$6,025.32
88	07-14-93	Printing	6,025.32
87	07-21-92	Information Services	3,941.00

Emergency purchase order 756 dated 6-3-93 was canceled and be reissued under purchase order number 88 dated 7-14-93. The agency has an internal policy requiring all open purchase

orders to be canceled at the end of the fiscal year and be reissued in the following fiscal year. This resulted in the same emergency being reported two times. Item three was a sole source that was not listed on the quarterly report.

We recommend that an amended report be filed with the Office of General Services deleting item one and adding item three.

DEPARTMENT RESPONSE

1. Concur. Henceforth we will not report software maintenance as sole source. As you directed we have amended our report to the Board.
2. Concur. As you directed we have amended the relevant report.

II. Compliance-General Procurement Code Exceptions

We selected a random sample of one hundred transactions as well as an additional block sample of sealed bids. As a result of this testing we noted the following exceptions.

A. Unauthorized Printing Contracts

We noted two printing contracts that exceeded the Department's procurement authority of \$10,000.

<u>ITEM</u>	<u>BID NUMBER</u>	<u>TOTAL AMOUNT</u>	<u>DESCRIPTION</u>
1	371-94-4-20-94	\$10,732.31	Envelopes
2	351-93-5-14-93	14,749.96	Envelopes

The certification limit of an agency applies to the total potential award of a contract whether awarded by individual lots or awarded to one bidder. Also, the certification limit applies to the total commitment of the contract, whether it is a single year or multi-term contract.

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 appointment or

delegation". Since the Department exceeded the authority delegated through certification, these contracts are unauthorized.

We recommend the Department request ratification for these procurements from the Materials Management Officer in accordance with the above stated Regulation.

DEPARTMENT RESPONSE

Concur. This resulted from our officer's misunderstanding of the related procedure.

B. Printing Overage Exceeded Five Percent

We noted one contract where the printing overage exceeded the maximum allowance of five percent. It was as follows:

<u>P.O.</u>	<u>P.O. AMOUNT</u>	<u>QUANTITY ORDER</u>	<u>QUANTITY RECEIVED</u>	<u>ITEM OVERAGE</u>	<u>% OVERAGE</u>
398	\$2,592.09	100,000	110,000	10,000	10 %

The South Carolina Government Printing Services Manual limits printing overages to a maximum of five percent. The Department's Invitation for Bids form also limits the maximum overage to five percent.

We recommend the Department adhere to the State's policy limiting the maximum overages to a maximum of five percent.

DEPARTMENT RESPONSE

Concur. We will henceforth limit overages to five percent.

C. Bid Tabulation Sheets Not Signed or Witnessed

We noted two bids, 334-93-8/10/92 and 339--93-10/5/92, where the bid tabulation sheets were not signed or witnessed at the time of the bid opening.

Section 11-35-1520(6) states in part: "Bids shall be opened publicly in the presence of one or more witnesses at the time and place designated ... The amount of each bid... with the name of each bidder shall be tabulated. The tabulation shall be open to public inspection at that time."

We recommend that all bid tabulation sheets be signed by the purchasing officer or designee and the witness or witnesses that participated in the bid opening.

DEPARTMENT RESPONSE

Concur. Henceforth all bid tabulation sheets will be authenticated by the proper officer and witnessed as you directed.

D. Insufficient Number of Quotations Solicited

The Department failed to solicit the required competition for the procurement of storage bins and office chairs as noted below.

<u>P.O. #</u>	<u>DATE</u>	<u>AMOUNT</u>	<u>REQUIRED SOLICITATIONS</u>	<u>ACTUAL SOLICITATIONS</u>
742	2-28-94	\$2,732.18	3	2 verbal quotes

We recommend the Department strictly adhere to the minimum competition requirements of the Code.

DEPARTMENT RESPONSE

Concur. Henceforth we will adhere strictly to minimum competition requirements.

E. Time and Date Stamping of Late Bids

While reviewing sealed bids 344-93-12-16-92 and 345-93-12-16-92, we noted an unopened bid in each file that appeared to have been received after the bid opening. The bid envelopes were not stamped as to when received nor initialed by the purchasing office as being received. In the absence of a postmark on the envelopes, the purchasing office could not confirm the timeliness of these bids.

We recommend that all bid envelopes be time and date stamped when received by the Department. If a late bid is received, it should be so indicated on the outside of the envelope. The purchasing officer should write the date, time of receipt and initial the envelope. When timely bids are opened, they should continue to be time and date stamped at the bid opening.

DEPARTMENT RESPONSE

Concur. Our officer will cause all bid envelopes to time and date stamped when received

III Procurement Procedures Manual

We reviewed the Department's procurement procedure's manual. With the new certification limits requested by the Department and changes to the Code, we recommend the manual be updated to include the following:

<u>PAGE</u>	<u>SECTION</u>	<u>CHANGES TO BE MADE</u>
2	Authorized Procurement Officer	Delete "the Department of Revenue does not have a Procurement Division"
4	Bidders List	Change this section to be in accordance with Section 11-35-1550 of the Code regarding the number of bidders and advertising of bids
4	Small Purchasing Procedures	Change the phrase "The above amounts <u>do not</u> include all freight charges" "to <u>does</u> include all freight charges"
5	Bidders List	Change the word "will" to "may" in the first sentence, regarding placing bidders on inactive status
7	Term Contract	Change to the new definition of the Code at section 11-35-310(33)
18	Surplus Property	Move this section to page 23, next to the Disposition of Property
	Appendix	Review all pages for current updated approval authority

DEPARTMENT RESPONSE

Concur. We will correct and update this document in its next published edition.

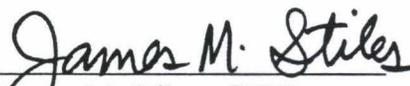
CERTIFICATION RECOMMENDATIONS

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 South Carolina Department of Revenue and Taxation in compliance with the South Carolina Consolidated Procurement Code and ensuing regulations. Corrective action should be accomplished by January 31, 1995.

Under the authority described in Section 11-35-1210 of the Procurement Code, subject to this corrective action, we will recommend recertification for (3) years at the levels indicated below.

<u>PROCUREMENT AREA</u>	<u>RECOMMENDED CERTIFICATION LEVELS</u>
Goods and Services	\$10,000*
Printing Services	\$25,000*

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


James M. Stiles, CPPB
Audit Manager


Larry G. Sorrell, Manager
Audit and Certification

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WILLIAM E. GUNN
ASSISTANT DIRECTOR

January 30, 1995

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

Dear Voight:

We have reviewed the Department of Taxation and Revenue's response to our audit report for January 1, 1992 - June 30, 1994. Also, we have followed 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.

Therefore, we recommend that the Budget and Control Board grant the Department of Taxation and Revenue the certification limits noted in our report 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

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