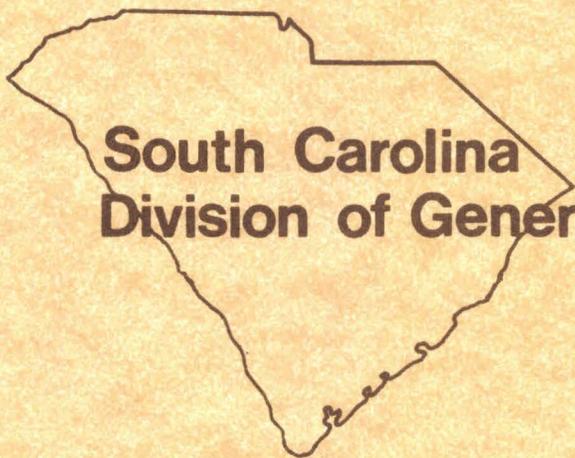


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**South Carolina  
Division of General Services**

# PROCUREMENT AUDIT AND CERTIFICATION

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SOUTH CAROLINA  
OFFICE OF THE ADJUTANT GENERAL

---

AGENCY

JANUARY 1, 1985 - MARCH 31, 1989

---

DATE

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



CARROLL A. CAMPBELL, JR., CHAIRMAN  
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GRADY L. PATTERSON, JR.  
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EARLE E. MORRIS, JR.  
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RICHARD W. KELLY  
DIVISION DIRECTOR

MATERIALS MANAGEMENT OFFICE  
1201 MAIN STREET, SUITE 600  
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(803) 737-0600

JAMES J. FORTH, JR.  
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JAMES M. WADDELL, JR.  
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ROBERT N. McLELLAN  
CHAIRMAN, WAYS AND MEANS COMMITTEE

JESSE A. COLES, JR., Ph.D.  
EXECUTIVE DIRECTOR

January 23, 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 Office of the Adjutant General audit report and recommendations made by the Office of Audit and Certification. Since no certification above the \$2,500.00 limit allowed by law was requested, and no action is necessary 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, appearing to read "James J. Forth, Jr.".

James J. Forth, Jr.  
Assistant Division Director

/jlj

Attachment

SOUTH CAROLINA  
OFFICE OF THE ADJUTANT GENERAL  
AUDIT REPORT

JANUARY 1, 1985 - MARCH 31, 1989

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



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JESSE A. COLES, JR., Ph.D.  
EXECUTIVE DIRECTOR

January 19, 1990

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 Office of the Adjutant General, hereinafter referred to as the Adjutant General, for the period January 1, 1985 through March 31, 1989. 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 agency 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 Adjutant General is responsible for establishing and maintaining a system of internal control over procurement transactions. In fulfilling this

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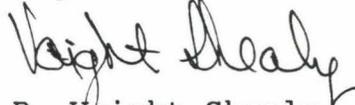
responsibility, estimates and judgements by management are required to assess the expected benefits and related costs of control procedures. The objectives of a system are to provide management with reasonable, but not absolute, assurance of the integrity of the procurement process, that affected assets 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 Adjutant General 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 of the Adjutant General.

Our on-site review was conducted April 20 - May 17, 1989 and was made under 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, 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.

## SCOPE

Our examination encompassed a detailed analysis of the internal procurement operating procedures of the Adjutant General 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.

We selected random samples from the period July 1, 1987 - March 31, 1989 of procurement transactions for compliance testing and performed other audit procedures for the period of January 1, 1985 - March 31, 1989 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) disposition of surplus property;
- (10) economy and efficiency of the procurement process; and,
- (11) approval of the Minority Business Enterprise Plan.

SUMMARY OF AUDIT FINDINGS

Our audit of the procurement system of the Adjutant General produced findings and recommendations in the following areas:

	<u>PAGE</u>
I. <u>Compliance - Procurements</u>	9
Two procurements were not made in accordance with the Consolidated Procurement Code, the Code.	
II. <u>Compliance - Sole Source and Emergency Procurements</u>	
A. <u>Emergency Procurement</u>	10
One emergency procurement of a telephone system was inappropriate.	
B. <u>Unnecessary Sole Source Procurements</u>	10
Three procurements were reported as sole sources even though the competition requirements of the Code had been met. Reporting them as sole source was unnecessary and overstates the sole source procurements of the agency.	
III. <u>Compliance - Minor Construction</u>	12
In five cases, orders were artificially divided to keep them within the purchasing authority of the agency.	

IV. Compliance - Major Construction

A. Construction Procurements Unauthorized

13

Due primarily to dual federal and state construction procurement approval requirements, five contracts for construction services and one contract for architect-engineer services were procured without the required prior approval of the State Engineer. Thus, each of these procurements is unauthorized.

B. Untimely Filing of Form SE-610

15

Forms SE-610, Certification of Availability of Funding, are required to be filed with the State Engineer's Office monthly for each permanent improvement project with procurement activity for that month.

These forms have not been filed for one project since September 1988.

C. Failure to Furnish Bid Tabulation to Bidders

15

Section 11-35-3020 of the Consolidated Procurement Code requires that all bidders who responded to invitations for bids for construction services be sent a copy of the bid tabulation within ten working days following the bid opening. This was not done or at least not documented in one case.

V. Minority Business Progress Reports 16

There have been no minority business progress reports submitted to the Office of Small and Minority Business since 1986.

VI. Procurement Procedures 17

We noted several procurement procedures which need reevaluation.

## RESULTS OF EXAMINATION

### I. Compliance - Procurements

Our examination included a review of sixty (60) transactions selected at random from the procurement areas of goods and services, information technology, consultant services and construction for the period July 1, 1987 through March 31, 1989. We also reviewed a block sample of 200 purchase orders and ten in-house construction project files. The majority of these procurements were handled in compliance with the Code. However, we did note the following exceptions:

The Adjutant General bids out its own janitorial supplies and chemicals for usually a six month supply. The awards are made on individual items. However, the potential contract award is greater than the \$2,500 certification limit of the agency.

All future solicitations which exceed the agency's certification limit must be submitted to the Materials Management Office for processing.

Purchase order 328 totalling \$1,500.00 for consulting services for environmental and sanitation consideration was neither competitively bid nor sole sourced. All procurements that exceed \$500.00 which are not for exempt items or are not made from state term contracts must be either made competitively or justified as sole sources or emergencies.

### ADJUTANT GENERAL'S RESPONSE

The annual budget for janitorial supplies and chemicals could be \$40,000 to \$50,000. The majority of the supplies are bought from state contracts. When a requirement exists for an item that is not under State Contract bids are solicited; however, no award

has been nor will be made greater than \$2,500.00. If at any time an estimation for items exceeds \$2,500.00 the acquisition will be forwarded to the Materials Management Office for processing.

The authority contained in paragraph 2.8 of the Manual for Planning and Execution of State Permanent Improvements and Section 11-35-1270 of the Procurement Code was used for acquiring consulting services. The incorrect interpretation that competitive bids would not apply was derived from the verbiage in Section 11-35-1270, which stated..."Where the person employed is customarily employed on a fee basis rather than competitive bidding...." all individuals involved in the procurement process have been briefed and they understand that the interpretation used was incorrect. This finding should not reoccur.

## II. Compliance - Sole Source and Emergency Procurements

We examined the quarterly reports of sole source and emergency procurements and all available supporting documents for the period January 1, 1985 through March 31, 1989. We attempted to determine the appropriateness of the 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 Consolidated Procurement Code. The following exceptions were noted.

### A. Emergency Procurement

A telephone system consisting of 11 lines and 30 instruments for \$11,495.40 was purchased as an emergency. This is unacceptable as an emergency procurement and should have been competitively sealed bid through the Materials Management Office. The Information Technology Policy and Management Office had advised the agency to procure the system through the bid process. However, this was not done.

### ADJUTANT GENERAL'S RESPONSE

Effort has been made to determine why the telephone system was not procured through the bid process. The request for the system was approved by Mr. Douglas Smith, Chief of Information

Technology Planning. Mr. Smith by letter, dated 22 September 1988 to Mr. Ron Moore of the Materials Management Office, directed that the system be procured through the bid process. It appears the request was also sent to MMO with the letter. Mr. Ron Moore was contracted as to why the system was not bid or if, in fact, approval was granted by MMO for emergency purchase. This agency was unable to get an answer. Mr. Paul Elliott, the former Budget Director, now retired, was contacted for any information he might have. He did remember the purchase and thought he remembered MMO's emergency approval, however, no documentation can be found to support this. If MMO did not approve the emergency procurement, then they system should have been bid. Individuals involved in procurement are fully aware of the \$2,500 dollar threshold, and the necessity for documentation.

B. Unnecessary Sole Source Procurements

The following transactions were reported as sole source procurements. However, the supporting documents indicated that the appropriate number of solicitations were made from qualified vendors. Sole source determinations should not have been prepared since the competition requirements of the Code had been met.

<u>P.O.#</u>	<u>Amount</u>	<u>Description</u>
1390	\$2,487.98	Grassing material
801	2,050.00	Seed, fertilizer, mulch
1561	819.00	Pump and hose

When the agency solicits prices, this action should be documented in writing even when only one vendor responds.

The Adjutant General should make every effort to report its sole sources accurately and reduce sole source procurements wherever possible by using small purchase procedures.

ADJUTANT GENERAL'S RESPONSE

Conceded. The transactions listed should have not been reported as sole source. Procurement personnel have been cautioned to ensure prices are documented in writing and sole source procurements should be kept to the minimum and reported correctly.

### III. Compliance - Minor Construction

During our review of in-house construction projects, we found five procurements that were divided so that they could be made under the agency's certification limit of \$2,500.00. The split orders, for the same items and to the same vendors, are listed as follows:

<u>Project Site</u>	<u>P.O.#</u>	<u>Amount</u>	<u>Item Description</u>
Leesburg Trng Ctr	600	\$2,134.00	Fabricate 5 toilets
	601	2,373.00	Fabricate 6 toilets
McEntire BOQ	275	2,318.00	Bath room fixtures
	380	2,318.00	Bath room fixtures
	932	2,499.00	Ceramic tile
	1189	2,499.00	Ceramic tile
	1495	1,400.00	Electrical services
	1595	1,400.00	Electrical services
	1638	507.00	Electrical supplies
	433	450.00	Spray ceilings
	771	400.00	Spray ceilings

Section 19-445.2100, Subsection A, of the regulations states in part:

Any procurement under this Regulation not exceeding \$2,499.99 may be made by governmental bodies provided, however, that procurement requirements shall not be artificially divided by governmental bodies so as to constitute a small purchase under this Subsection. Procurements of supplies and services or construction initially estimated to exceed \$2,499.99 shall not be made by the small purchase method, even though resulting awards do not exceed such amounts.

The agency failed to adhere to the above restriction and proceeded with what we believe to be cases of splitting orders. Even though two/three purchase orders were prepared for like items, they must be considered a single order. Thus, with the exception of the last two orders, the procurements above are

unauthorized. Pursuant to Section 19-445.2015, Subsection A, of the regulations, these procurements must be submitted for ratification to the Materials Management Officer.

Future procurements above the certification limit of the agency must be handled as defined in the Code and ensuing regulations. This information must be disseminated to the project officers so they understand what constitutes splitting of orders. Further, it appears that a lack of planning may have contributed to this problem.

#### ADJUTANT GENERAL'S RESPONSE

See enclosures (one) 1, Request to Materials Management Officer for ratification.

#### IV. Compliance - Major Construction

##### A. Construction Procurements Unauthorized

In our review of ten permanent improvement projects, we noted five cases (See Attachment A) where the Adjutant General did not obtain the required prior approval from the State Engineer to execute contracts for construction procurements.

This was due primarily to an unexpected influx of federal funds that were received toward the end of its fiscal year. Contracts had to be in place prior to the end of the federal fiscal year to obligate the use of those funds or they would lapse. The Adjutant General was faced with timing problems created by two sets of permanent improvement project approval requirements - state and federal. In order not to lose the federal funds these contracts were awarded without the State Engineer's prior approval. The State Engineer could not approve

the procurements because the Joint Bond Review Committee had not approved the permanent improvement projects. The required approvals were obtained from the State Engineer once the Joint Bond Review Committee approved the projects.

The agency also entered into one small architect-engineer (A&E) contract without the prior approval of the State Engineer (See Attachment A).

The Adjutant General must request ratification of the above unauthorized procurements as per Regulation 19-445.2015. The one procurement less than \$25,000 must be submitted to the Materials Management Officer. The five procurements over \$25,000.00 must be submitted to the Director of the Division of General Services.

This requires that the head of the agency prepare written requests for ratification which outline:

- 1) the facts and circumstances surrounding the acts;
- 2) what corrective action is being taken to prevent recurrence;
- 3) action taken against the individual(s) committing the acts; and
- 4) documentation that the prices paid were fair and reasonable.

We recommend that the Adjutant General contact the Joint Bond Review Committee and the State Engineer to coordinate a workable approval procedure for these situations to avoid the loss of federal funds.

#### ADJUTANT GENERAL'S RESPONSE

See enclosures (two) 2, Request to Division of General Services for ratification.

B. Untimely filing of Form SE-610

We noted one project where Form SE-610's, Certification of Availability of Funding have not been filed with the State Engineer since September 1988. Section 2.18 of the Manual for Planning and Execution of State Permanent Improvements (SPIRS) requires that, "All expenditures for PIP (permanent improvement projects) shall be accumulated and reported monthly on form SE-610."

This project must be brought up to date as it is almost complete (See Attachment A). In the future, this requirement of the SPIRS Manual must be adhered to.

ADJUTANT GENERAL'S RESPONSE

Agreed. This project has been brought up to date and is being closed out. Contract administration check list has been developed that should preclude a finding of this nature.

C. Failure to Furnish Bid Tabulation to Bidders

On one project we could find no documentation showing that all bidders were sent a copy of the bid tabulation within ten (10) days following the bid opening. Section 11-35-3020(2)(b)(iv) of the Consolidated Procurement Code states, "The using agency shall send all responsive bidders a copy of the bid tabulation within ten working days following the bid opening."

We recommend that this requirement of the Code be adhered to in the future.

ADJUTANT GENERAL'S RESPONSE

This Agency is aware of the requirement to furnish all bidders a copy of the bid tabulation within ten (10) days following the bid opening. The Code should be adhered to and will be complied

with. Individuals not only have been cautioned on this requirement, but a check list of contract administration requirements has been developed.

V. Minority Business Progress Reports

The Adjutant General has failed to file its small and minority business progress reports to the Office of Small and Minority Business Assistance (OSMBA) of the Governor's Office in a timely manner. Section 11-35-5240(2) of the Procurement Code states in part, "Progress reports shall be submitted to the OSMBA not later than ten days after the end of each fiscal quarter.

The agency has not filed an annual or quarterly minority business progress report since 1986. We believe this problem is at least partially due to divided responsibilities in this area. The purchasing office maintains all records of purchases from minorities. The Director of Engineering and Planning is responsible for the submission of the Minority Business Enterprise Utilization Plans and quarterly minority business reports to the Office of Small and Minority Business Assistance.

We recommend that policies and procedures be developed to ensure compliance with minority business progress reporting requirements.

ADJUTANT GENERAL'S RESPONSE

The Minority Business Program reports have been brought up-to-date. The Director of Procurement is now responsible for the submission of the Minority Business Enterprise Utilization Plans. A suspense system is in place to ensure that the reports will be submitted and on time. The reports will be submitted to the Director of Procurement for review.

## VI. Procurement Procedures

During the audit we noted several procurement areas for which we offer the following recommendations for improvement.

1. Blanket purchase agreements (BPA's) are cancelled after 30 days whether they have been used or not. The agency should run the BPA's for at least six months or even up to a year if they are monitored by purchasing. This monthly paperwork process is not necessary.
2. An informal quotation form should be implemented to document the solicitation of informal quotations for purchases from \$1,500.00 to \$2,499.99.
3. Some project managers are soliciting phone quotes from \$1,500.00 to \$2,499.99 and submitting them in writing to the purchasing office. This is not the intent of the Code. Written quotations should be solicited from vendors.
4. Presently, if the purchase order does not match the invoice to the penny, accounting requires a written change order from purchasing. The procedures should allow accounting to pay up to a designated difference (i.e. maximum of 10% or \$100.00) without having a written change order from purchasing.
5. The use of direct expenditure vouchers or field purchase orders should be considered for facilities such as the Leesburg training site. These must have a maximum dollar limit assigned and they should be monitored to insure Code compliance.

6. A number of sole source and emergency determinations were inadequate or poorly written. Each of these should clearly explain the sole source or emergency and justify the procurement methodology in the future.

ADJUTANT GENERAL'S RESPONSE

1. Blanket Purchase Agreements (BPA's) are now being issued on an annual basis and will be monitored by Purchasing.
2. Agreed. A form will be developed for this dollar threshold and put into use.
3. Agreed. Project managers have been notified that phone quotes will not be acceptable. Written quotations will be obtained from vendors.
4. Agreed. The procedure now is to allow accounting to pay up to a maximum of 10% or \$100.00.
5. A procedure will be incorporated in the Procurement regulations that will allow direct expenditure vouchers or field purchase orders.
6. In the future only the Adjutant General or the Deputy Adjutant General will review and approve sole source and emergency procurements. The determinations will be adequate, clearly understood and justified.

CONCLUSION

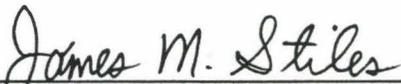
As enumerated in our transmittal letter, corrective action based on the recommendations described in the findings in the body of this report, we believe, will in all material respects place the Adjutant General's Office in compliance with the South Carolina Consolidated Procurement Code and ensuing regulations.

In accordance with Code Section 11-35-1230(1) the Adjutant General's Office should take this corrective action prior to November 30, 1989. This will be verified by this office through the performance of a follow-up review. Subject to this corrective action and because additional certification was not requested, we recommend that the Adjutant General be allowed to continue procuring all goods and services, information technology, construction services and consulting services up to the basic level as outlined in the Procurement Code.

ADJUTANT GENERAL'S RESPONSE

Referring to your conclusion, corrective actions have been taken. New policies and regulations are being rewritten and will be in effect prior to 30 November 1989. Periodic meetings will be conducted with procurement personnel to ensure policies and regulations are being followed.

Should you have any questions concerning this reponse, please let me know.

  
\_\_\_\_\_  
James M. Stiles  
Audit Manager

  
\_\_\_\_\_  
Voight Shealy, Manager  
Audit and Certificati

ATTACHMENT A  
ADJUTANT GENERAL

I. Construction Contracts Not Approved by State Engineer

<u>State Project #</u>	<u>Description</u>	<u>Total Project Amount</u>
Form SE-380		
9558	Leesburg Classroom Bldg	\$213,100.00
9559	Clarks Hill Trgn Site Dining Center	197,900.00
9554	Leesburg Headquarters Bldg	210,700.00
9517	Unit Training Site Reroof	50,000.00
8985	Base Officers Quarters	65,573.00
Form SE-230 (small A & E)		
9558	Leesburg Classroom Bldg	1,290.00

II. Untimely Reporting of SE-610

9543	Greenwood Armory	58,500.00
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III. Failure to Furnish Bid Tabulations

9023	Clemson Armory Sewer Upgrade	52,381.00
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The State of South Carolina  
Military Department



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COLUMBIA, S. C. 29201-4766

November 21, 1989

TAG-DAG

Mr. James J. Forth, Jr.  
Assistant Division Director  
Division of General Services  
1201 Main Street, Suite 600  
Columbia, SC 29201

Dear Mr. Forth:

The Office of the Audit and Certification conducted an examination of the internal procurement operating procedures and policies for this agency during April and May of this year.

During this review the auditor found five procurements that apparently are not in compliance with the State Procurement Code in that orders were split so as to be within our certification limit of \$2,500.00.

The actual audit finding is:

III. Compliance - Minor Construction

"During our review of in-house construction projects, we found five procurements that were divided so that they could be made under the agency's certification limit of \$2,500.00. The split orders, for the same items and to the same vendors, are listed as follows:

<u>Project Site</u>	<u>P.O.#</u>	<u>Amount</u>	<u>Item Description</u>
Leesburg Trng Ctr	600	\$2,134.00	Fabricate 5 toilets
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<u>Project Site</u>	<u>P.O.#</u>	<u>Amount</u>	<u>Item Description</u>
McEntire BOQ	275	2,318.00	Bath room fixtures
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	1495	1,400.00	Electrical services
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	1638	507.00	Electrical services
	433	450.00	Spray ceilings
	771	400.00	Spray ceilings

"Section 19-445.2100, Subsection A, of the regulations states in part:

Any procurement under this Regulation not exceeding \$2,499.99 may be made by governmental bodies provided, however, that procurement requirements shall not be artificially divided by governmental bodies so as to constitute a small purchase under this Subsection. Procurements of supplies and services or construction initially estimated to exceed \$2,499.99 shall not be made by the small purchase method, even though resulting awards do not exceed such amounts.

"The agency failed to adhere to the above restriction and proceeded with what we believe to be cases of splitting orders. Even though two/three purchase orders were prepared for like items, they must be considered a single order. Thus, with the exception of the last two orders, the procurements above are unauthorized. Pursuant to Section 19-445.2015, Subsection A, of the regulations, these procurements must be submitted for ratification to the Materials Management Officer.

"Future procurements above the Certification limit of the agency must be handled as defined in the Code and ensuing regulations. This information must be disseminated to the project officers so they understand what constitutes splitting of orders. Further, it appears that a lack of planning may have contributed to this problem."

Circumstances surrounding these commitments are as follows:

Purchase order 600 and 601 to fabricate eleven (11) toilets at the Leesburg Training Center was 100% federally funded and as such carried two separate National Guard Bureau project numbers. Additionally, the funding for the projects was not the same. The individual was of the opinion separate purchase orders and invoices

-3-

had to be prepared to satisfy federal requirements. This interpretation is incorrect. This individual, along with other individuals involved in procurement have been instructed that no acquisitions will be handled by this agency that exceed our certification.

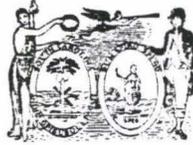
The purchase order issued for the McEntire BOQ involved two separate bathrooms. Purchase orders were issued to renovate an existing bathroom in the BOQ. After this was completed a decision was made by an individual (no longer with this agency) to add an additional bathroom because of some additional funds that were made available. Again, all individuals involved in the procurement process have been instructed on the proper procedures as outlined in the Procurement Code. Additionally, the Director of Procurement will review requests and make the proper direction. While these purchase orders were split, I have determined that the price is fair and reasonable. Therefore, in accordance with the South Carolina Consolidated Procurement Code, Section 19-445.2015, Subsection A, unauthorized procurements, I respectfully request that these purchases be ratified.

Sincerely,



JAMES H. TUTTEN  
Brigadier General, SCANG  
Deputy Adjutant General

The State of South Carolina  
Military Department



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1 NATIONAL GUARD ROAD  
COLUMBIA, S. C. 29201-4766

November 21, 1989

TAG-DAG

Mr. James J. Forth, Jr.  
Assistant Division Director  
Division of General Services  
1201 Main Street, Suite 600  
Columbia, South Carolina 29201

Dear Mr. Forth:

The Office of the Audit and Certification conducted an examination of the internal procurement operating procedures and policies for this agency during April and May of this year.

During this review the auditor noted five cases where the agency failed to obtain prior approval from the State Engineer to execute contracts for construction procurements. The agency also entered into small architect-engineer (A&E) contracts without prior approval.

The actual audit finding is:

V. Compliance - Major Construction

A. Construction Procurements Unauthorized

"In our review of ten permanent improvement projects, we noted five cases (See Attachment A) where the Adjutant General did not obtain the required prior approval from the State Engineer to execute contracts for construction procurements.

"This was due primarily to an unexpected influx of federal funds that were received toward the end of its fiscal year. Contracts had to be in place prior to the end of the federal fiscal year to obligate the use of those funds or they would lapse. The Adjutant General was faced with timing problems created by two sets of permanent improvement project approval requirements - state and

federal. In order not to lose the federal funds these contracts were awarded without the State Engineer's prior approval. The State Engineer could not approve the procurements because the Joint Bond Review Committee had not approved the permanent improvement projects. The required approvals were obtained from the State Engineer once the Joint Bond Review Committee approved the projects.

"The agency also entered into one small architect-engineer (A&E) contract without the prior approval of the State Engineer (See Attachment A).

"The Adjutant General must request ratification of the above unauthorized procurements as per Regulation 19-445.2015. The one procurement less than \$25,000 must be submitted to the Materials Management Officer. The five procurements over \$25,000.00 must be submitted to the Director of the Division of General Services.

"This requires that the head of the agency prepare written requests for ratification which outline:

- 1) the facts and circumstances surrounding the acts;
- 2) what corrective action is being taken to prevent recurrence;
- 3) action taken against the individual(s) committing the acts; and
- 4) documentation that the prices paid were fair and reasonable.

"We recommend that the Adjutant General contact the Joint Bond Review Committee and the State Engineer to coordinate a workable approval procedure for these situations to avoid the loss of federal funds."

ATTACHMENT A

ADJUTANT GENERAL

I. Construction Contracts Not Approved by State Engineer

<u>State Project #</u>	<u>Description</u>	<u>Total Project Amount</u>
Form SE-380	Leesburg Classroom Bldg	\$213,100.00
9959	Clarks Hill Trgn Site Dining Center	197,900.00

<u>State Project #</u>	<u>Description</u>	<u>Total Project Amount</u>
9954	Leesburg Headquarters Bldg	210,700.00
9517	Unit Training Site Reroof	50,000.00
8985	Base Officers Quarters	65,573.00

Form SE-230 (small A & E)

9958	Leesburg Classroom Bldg	1,290.00
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II. Untimely Reporting of SE-610

9543	Greenwood Armory	58,500.00
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III. Failure to Furnish Bid Tabulations

9023	Clemson Armory Sewer Upgrade	52,381.00
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Circumstances surrounding these commitments are as follows:

The five construction contracts in question were 100% federally funded. The National Guard Bureau notified this Agency some year end money was available if we had projects pending and awaiting funds. These five projects were ready for bid. A construction estimation of costs for the projects was provided the National Guard Bureau and funds were received. All required State procedures were adhered to. The bidding was at the end of September and all bids came in over the construction estimate. The National Guard Bureau was notified and the additional funds were provided. Another A23 was prepared that must be approved by the Joint Bond Review Committee. The committee did not meet prior to 30 September, which is the close of the Government Fiscal year. The State Engineer would not sign the SE 380, Request for Authority to Execute a Construction Contract until the A23 is approved. The United States Property and Fiscal Office must have a signed contract prior to 30 September or return the federal funds.

The one small architect-engineer (A&E) contract in the amount of \$1,290.00 should have not been awarded. This agency had an A&E subcontracted to another A&E firm for soil samples and topographic survey. A change order should have been made to the contract and A&E firm increasing the contract for the soil samples and topographic survey. The cost paid is considered fair and reasonable. The individual responsible for this commitment is now well aware of correct procedure and code compliance.

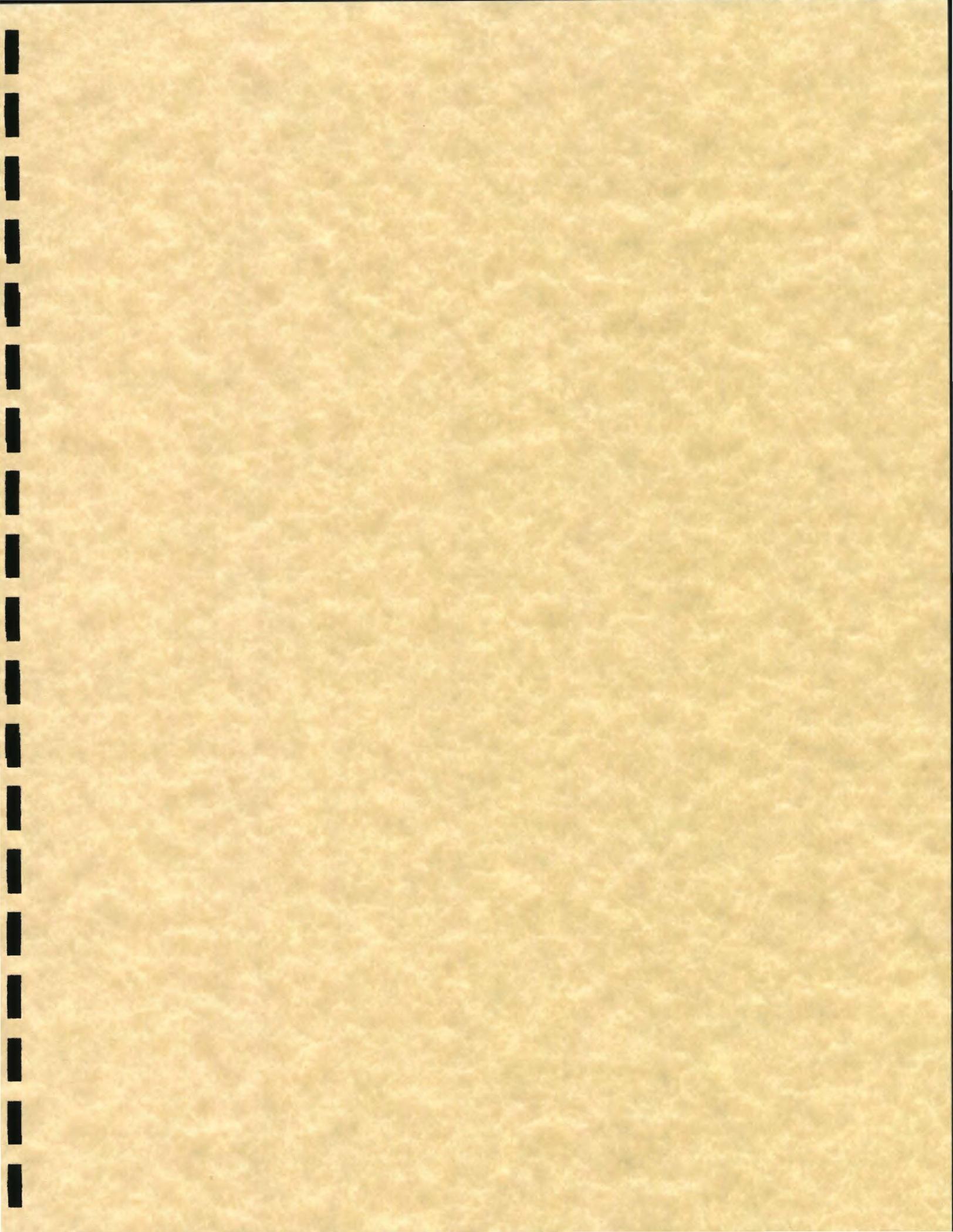
The five construction contracts that were awarded are in violation of the code. As the auditors suggest, action is being taken to work out a solution with the National Guard Bureau, the State Engineer, and the Joint Bond Review Council to preclude this happening again. Since the project was completed by sealed bidding the cost is considered to be fair and reasonable. Therefore, in accordance with the South Carolina Consolidated Procurement Code, Section 19-445.2015, Subsection A, unauthorized procurements, I respectfully request there these purchases be ratified.

Sincerely,

A handwritten signature in cursive script that reads "James H. Tuten". The signature is written in dark ink and has a long horizontal flourish extending to the right.

JAMES H. TUTEN  
Brigadier General, SCANG  
Deputy Adjutant General





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**State Budget and Control Board**  
DIVISION OF GENERAL SERVICES



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EXECUTIVE DIRECTOR

January 18, 1990

Mr. James J. Forth, Jr.  
Assistant Division Director  
Division of General Services  
1201 Main Street, Suite 600  
Columbia, South Carolina 29201

Dear Jim:

We have returned to the Office of the Adjutant General to determine the progress made toward implementing the recommendations in our audit report covering the period of January 1, 1985 - March 31, 1989. During this visit, we followed up on each recommendation made in the audit report through inquiry, observation and limited testing.

We observed that the Adjutant General has made substantial progress toward correcting the problem areas found and improving the internal controls over the procurement system. With the changes made, the system's internal controls should be 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 Adjutant General 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,

Handwritten signature of R. Voight Shealy in cursive.

R. Voight Shealy, Manager  
Audit and Certification

/jlj

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