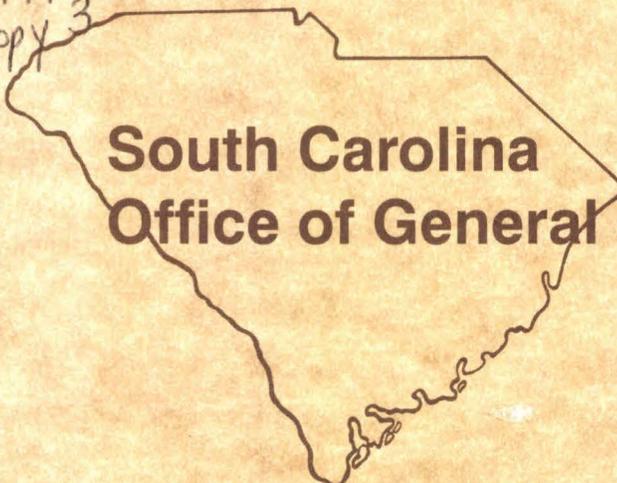


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**South Carolina
Office of General Services**

PROCUREMENT AUDIT AND CERTIFICATION

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**PATRIOTS POINT DEVELOPMENT
AUTHORITY**

AGENCY

JULY 1, 1998 – MAY 31, 1999

DATE

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

JIM HODGES, CHAIRMAN
GOVERNOR

GRADY L. PATTERSON, JR.
STATE TREASURER

JAMES A. LANDER
COMPTROLLER GENERAL



ROBERT W. McCLAM
DIRECTOR

MATERIALS MANAGEMENT OFFICE
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COLUMBIA, SOUTH CAROLINA 29201
(803) 737-0600
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R. VOIGHT SHEALY
ASSISTANT DIRECTOR

October 25, 1999

JOHN DRUMMOND
CHAIRMAN, SENATE FINANCE COMMITTEE

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

RICHARD W. KELLY
EXECUTIVE DIRECTOR

Mr. Robert W. McClam, Director
Office of General Services
1201 Main Street, Suite 420
Columbia, South Carolina 29201

Dear Robbie:

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

Sincerely,

A handwritten signature in cursive script that reads "Voight Shealy".

R. Voight Shealy
Materials Management Officer

/jl

**PATRIOTS POINT DEVELOPMENT AUTHORITY
PROCUREMENT AUDIT REPORT**

JULY 1, 1998 - MAY 31, 1999

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Note: The Authority's response to issues noted in the 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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R. VOIGHT SHEALY
ASSISTANT DIRECTOR

October 22, 1999

JOHN DRUMMOND
CHAIRMAN, SENATE FINANCE COMMITTEE

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

RICHARD W. KELLY
EXECUTIVE DIRECTOR

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

Dear Voight:

We have examined the procurement policies and procedures of Patriots Point Development Authority for the period July 1, 1998 through May 31, 1999. 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 the Authority's 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 Patriots Point Development Authority 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 Patriots Point Development Authority in compliance with the South Carolina Consolidated Procurement Code and ensuing regulations.

Sincerely,



Larry G Sorrell, Manager
Audit and Certification

INTRODUCTION

We conducted an examination of the internal procurement operating policies and procedures of Patriots Point Development Authority. Our on-site review was conducted June 7 through 9, 1999, 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 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 Authority 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 the funds of the State
- (3) to provide safeguards for the maintenance of a procurement system of quality and integrity with clearly defined rules for ethical behavior on the part of all persons engaged in the public procurement process

SCOPE

We conducted our examination with Generally Accepted Auditing Standards as they apply to compliance audits. Our examination encompassed a detailed analysis of the internal procurement operating procedures of Patriots Point Development Authority 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 a judgmental sample for the period July 1, 1998 through May 31, 1999 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 July 1, 1998 through May 31, 1999
2. Procurement transactions for the period July 1, 1998 through May 31, 1999 as follows;
 - a) Twenty-two payments each exceeding \$1,500
 - b) A block sample of sequentially numbered purchase orders from December 1, 1998 to May 31, 1999
3. Minority Business Enterprise Plan and reports for the audit period
4. Internal procurement procedures manual
5. Information technology plans and approvals
6. Surplus property disposal procedures
7. Blanket purchase agreement files
8. File documentation and evidence of competition

RESULTS OF EXAMINATION

I. Reporting Requirements

A. Sole Source, Emergency, and Trade-in Sale Procurements

The Authority has not reported sole source, emergency or trade-in sales procurements for the quarters ending 12/31/98 and 3/31/99. Sections 11-35-2440 and 11-35-3830(3) of the Code require the quarterly reporting of these activities to the chief procurement officers. The reports are due even if no activity for sole source, emergency, or trade-in sale procurements occur.

We recommend the Authority file the reports for the quarters listed. Also, the Authority must file the quarterly reports in the future.

AUTHORITY RESPONSE

Due to lack of personnel, the Authority missed several quarters of reporting. However, missing quarters have been submitted and the Authority is in compliance with the quarterly reporting requirements for sole source, emergency, or trade-in sale procurements. In the future, the Authority will continue to file the quarterly reports as required.

B. Minority Business Enterprise Plan and Reports

The Minority Business Enterprise Plan and the quarterly reports have not been submitted to the Small and Minority Business Assistance Office (SMBAO). Section 11-35-5240 (1) of the Code requires that each agency develop a Minority Business Enterprise (MBE) Utilization Plan. Section 11-35-5240(2) requires that progress reports be submitted to SMBAO no later than ten days after the end of each fiscal quarter.

We recommend the Authority develop a utilization plan for Fiscal Year 1999/2000 and begin submitting the quarterly reports as required.

AUTHORITY RESPONSE

The Authority subscribes to and supports the Minority Business Utilization Plan. An annual plan will be developed and submitted for approval. An MBE Liaison Officer will be appointed and will maintain the directory of minority firms who wish to do business with the State. Quarterly reports will be submitted by the Finance Department within 15 days of the last day of each fiscal quarter.

II. Compliance - General

A. State Term Contract Usage

We noted office supplies that were available on state contract were bought from a non-contract vendor on purchase orders 990644, 990629, and 990469. Section 11-35-310 (35) defines a term contract as a contract established by the chief procurement officer for a specific product or service for a specified time and for which it is mandatory that all governmental bodies procure their requirements for the goods and services during its term. The only exception to this rule is if an agency is offered goods and services at a price that is at least ten percent less than the term contract price for the same goods or services, the agency may purchase from the vendor offering the lower price after first offering the vendor holding the term contract the option to meet the lower price. If the vendor holding the term contract meets the lower price, then the agency must purchase from the contract vendor. One of the reasons given for the oversight was the lack of information available on state term contracts. The Authority's procurement system is highly decentralized. While many people handle procurement, only one person has a state contract book and internet access.

We recommend the Authority comply with Section 11-35-310 (35). Additionally, we recommend that the personnel responsible for procurement have access to the state term contract information.

AUTHORITY RESPONSE

The Authority is now in compliance with Section 11-35-310(35) and will adhere to the requirement to use state contracts when at all possible. Further, the responsible personnel for procurement now have access to the state term contract information.

B. Lack of Competition

Purchase order 990671 was issued for \$2,867 to procure wristbands. The procurement was not supported by evidence of competition, sole source or emergency procurement determination or state term contract reference. Section 11-35-1550 (2) (b) of the Code requires that solicitation of verbal quotes from a minimum of 3 qualified sources for procurements from \$1,500.01 to \$5,000. According to Authority personnel, the wristbands were for a boat show sponsored by an outside party and the sponsor would reimburse the Authority for the expenditure. Section 11-35-40 (2) of the Code states in part, "This code shall apply to every expenditure of funds by this State under contract acting through a governmental body as

herein defined irrespective of the source of the funds, including federal assistance monies, except as specified in Section 11-35-40(3) (Compliance with Federal requirements) and except as provided in Article 19 (Intergovernmental Relations)." Therefore, the Code applied to this procurement.

We recommend the Authority comply with the Code concerning competitive requirements regardless of the source of funding.

AUTHORITY RESPONSE

The Authority will adhere to Section 11-35-1550(2)(b) of the Code in its competitive requirements.

C. Emergency Procurement

Purchase order 990659 was issued on March 18, 1999 for \$13,532 as an emergency procurement to lease a portable office unit. The emergency justification stated that the emergency was to avoid work stoppage on a critical, ongoing major renovation project as well to protect the safety of the staff, the project could not wait for the normal timeframe required for the competitive bid process, and the price quoted seems to be fair and reasonable. However, the work had been progressing since October of 1998, six months prior to the emergency.

Emergency procurements are defined in Section 11-35-1570 of the Code when there exists an immediate threat to public health, welfare, critical economy and efficiency, or safety under emergency conditions as defined in regulations promulgated by the Budget and Control Board. Additionally, Regulation 19-445.2110 further defines an emergency condition as a situation which creates a threat to public health, welfare, or safety such as may arise by reason of floods, epidemics, riots, equipment failure, fire loss, or such other reason. Since the Authority knew for six months that the work would eventually require offices to be relocated, the emergency was caused by lack of planning.

We recommend the Authority adequately plan for their needs to avoid unnecessary emergency procurements.

AUTHORITY RESPONSE

The Authority accepts and will adhere to the recommendation to adequately plan for its needs to avoid unnecessary emergency procurements.

Combining Items For Procurement Purposes

We noted the following procurements that should have been combined and competition solicited.

<u>Date</u>	<u>PO</u>	<u>Description</u>	<u>Amount</u>
3/11/99	990635	Fill dirt and rock	\$1,160
3/12/99	990636	Rock	<u>\$1,014</u>
		Total	<u>\$2,174</u>

Each purchase order was issued based on a request from the same person on 3/9/99. Section 11-35-1550(1) of the Code states in part, "procurement requirements shall not be artificially divided by governmental bodies so as to constitute a small purchase under this section." Section 11-35-1550(2) defines the solicitation requirement for procurements for \$1,500.01 to \$5,000.

We recommend the Authority review procurements more carefully to ensure that orders are combined and seek competition based on the total value.

AUTHORITY RESPONSE

The Authority will review procurements more carefully to ensure that orders are combined and will seek competition based on the total value.

III. Internal Procurement Procedures Manual

The Authority does not have an internal procurement procedure manual. Regulation 19-445.2015 requires that the internal procurement procedure manual be developed and forwarded to the Materials Management Officer for review. Section 11-35-540(3) authorizes an agency to develop internal operating procedures that must be certified as being consistent with the Code.

We recommend that the Authority prepare a manual and submit it for our review.

AUTHORITY RESPONSE

The Authority has prepared a draft manual and is currently forwarding it for approval by the Materials Management Officer.

CONCLUSION

As enumerated in our transmittal letter, corrective action based on the recommendations described in this report, we believe, will in all material respects place Patriots Point Development Authority in compliance with the Consolidated Procurement Code and ensuing regulations.

The Authority has not requested procurement certification above the basic limit of \$5,000 allowed by the Code. Subject to the corrective action listed in this report, we will recommend the Authority be allowed to continue procuring goods and services, consultant services, construction and information technology up to the basic level of \$5,000 as allowed by the Consolidated Procurement Code and accompanying regulations.



Melissa Rae Thurstin
Senior Auditor



Larry G. Sorrell, Manager
Audit and Certification

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R. VOIGHT SHEALY
ASSISTANT DIRECTOR

October 25, 1999

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

Dear Voight:

We have reviewed the response from the Patriots Point Development Authority to our audit report for the period of July 1, 1998 - May 31, 1999. Also we have followed the Authority's corrective action during and subsequent to our fieldwork. We are satisfied that the Authority has corrected the problem areas and the internal controls over the procurement system are adequate.

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

Sincerely,



Larry G. Sorrell, Manager
Audit and Certification

LGS/jl

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