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**South Carolina
Division of General Services**

PROCUREMENT AUDIT AND CERTIFICATION

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RESIDENTIAL HOME BUILDERS

AGENCY

JULY 1, 1986 - JUNE 30, 1988

DATE

STATE OF SOUTH CAROLINA
BUDGET AND CONTROL BOARD
DIVISION OF GENERAL SERVICES
1201 MAIN STREET, SUITE 420
COLUMBIA, SOUTH CAROLINA 29201
(803) 737-3880

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CHAIRMAN,
HOUSE WAYS AND MEANS COMMITTEE

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

March 1, 1989

Mr. Richard W. Kelly
Division Director
Division of General Services
1201 Main Street, Suite 400
Columbia, South Carolina 29201

Dear Rick:

Attached is the final Residential Home Builders audit report and recommendations made by the Office of Audit and Certification. Since no certification above the \$2,500.00 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 that reads "James J. Forth, Jr.".

James J. Forth, Jr.
Assistant Division Director

Attachment

SOUTH CAROLINA
RESIDENTIAL HOME BUILDERS COMMISSION
AUDIT REPORT

JULY 1, 1986 - JUNE 30, 1988

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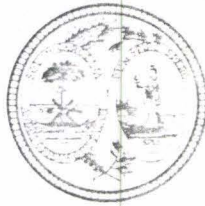
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JESSE A. COLES, JR., Ph.D.
EXECUTIVE DIRECTOR

February 20, 1989

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

We have examined the procurement policies and procedures of the Residential Home Builders Commission for the period July 1, 1986 through June 30, 1988. As a part of our examination, we made a study and evaluation of the system of internal control over procurement transactions to the extent we considered necessary.

The purpose of such evaluation was to establish a basis for reliance upon the system of internal control to assure adherence to the Consolidated Procurement Code and State and internal procurement policy. Additionally, the evaluation was used in determining the nature, timing and extent of other auditing procedures that were necessary for developing an opinion on the adequacy, efficiency and effectiveness of the procurement system.

The administration of the Residential Home Builders Commission is responsible for establishing and maintaining a system of internal control over procurement transactions. In fulfilling this responsibility, estimates and judgements by

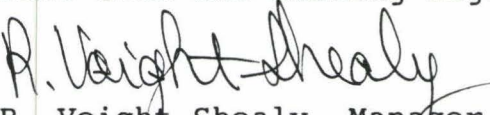
management are required to assess the expected benefits and related costs of control procedures. The objectives of a system are to provide management with reasonable, but not absolute, assurance of the integrity of the procurement process, that affected assets are safeguarded against loss from unauthorized use or disposition and that transactions are executed in accordance with management's authorization and are recorded properly.

Because of inherent limitations in any system of internal control, errors or irregularities may occur and not be detected. Also, projection of any evaluation of the system to future periods is subject to the risk that procedures may become inadequate because of changes in conditions, or that the degree of compliance with the procedures may deteriorate.

Our study and evaluation of the system of internal control over procurement transactions as well as our overall examination of procurement policies and procedures were conducted with due professional care. They would not, however, because of the nature of audit testing, necessarily disclose all weaknesses in the system.

The examination did, however, disclose conditions enumerated in this report which we believe to be subject to correction or improvement.

Corrective action based on the recommendations described in these findings will in all material respects place the Residential Home Builders Commission in compliance with the South Carolina Consolidated Procurement Code and ensuing regulations.


R. Voight Shealy, Manager
Audit and Certification

SCOPE

Our examination encompassed a detailed analysis of the internal procurement operating procedures of the Residential Home Builders Commission 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 reviewed all procurement transactions which exceeded \$500.00 for the period July 1, 1986 - June 30, 1988, for compliance testing and performed other audit procedures that we considered necessary in the circumstances to formulate this opinion. Our review of the system included, but was not limited to, the following areas:

- (1) adherence to applicable laws, regulations and internal policy;
- (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) inventory and disposition of surplus property;
- (10) Minority Business Enterprise Utilization Plan.

RESULTS OF EXAMINATION

I. Procurements Made Without Competition

Our examination of procurement activity at the Commission included a test of all transactions greater than \$500.00 each from the period July 1, 1986 through August 30, 1988. Five of these sixteen procurements were either made without evidence of competition, or without a sole source or emergency procurement determination being prepared.

<u>Item</u>	<u>Voucher</u>	<u>Voucher Amount</u>	<u>Item/Service Description</u>
(1)	337	\$ 536.42	Printing regulations
(2)	116	536.42	Printing regulations
(3)	274	553.04	Printing regulations
(4)	287	1,201.01	Desk stand
(5)	61	1,559.00	Personal copier

Regulation 19-445.2100, Subsection E, Item 2, which covers procurements from \$500.01 to \$1,499.99 requires "solicitation of verbal or written quotes from a minimum of two qualified sources of supply." Items 1 through 4 above needed only documentation of two (2) telephone quotes to meet this requirement. However, this was not done.

Regulation 19-445.2100, Subsection B, Item 3, which covers procurements from \$1,500.00 to \$2,499.99 requires "solicitation of written quotations from three qualified sources of supply...." Item 5 above falls into this category.

Competition must always be solicited when the total of the requisition or purchase order is expected to exceed five hundred dollars, except where the procurement is exempt from the Procurement Code or is made from a state term contract.

II. Internal Procurement Procedures Manual

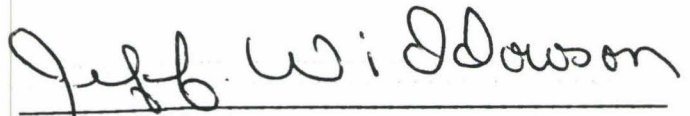
The Commission has not complied with Section 11-35-540(3) of the Consolidated Procurement Code which requires the development of an Internal Procurement Operating Procedures Manual.

We recommend the Commission develop a procurement procedures manual incorporating the most current internal procedures and following the recommended outline which we submitted to the Commission during the audit.

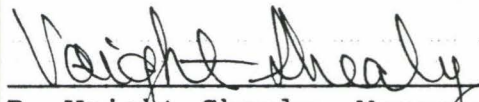
CONCLUSION

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 Residential Home Builders Commission in compliance with the South Carolina Consolidated Procurement Code and ensuing regulations.

In accordance with Code Section 11-35-1230(1) the Commission should take this corrective action prior to January 31, 1989. Subject to this corrective action, and because additional certification was not requested, we recommend that the Commission be allowed to continue procuring all goods and services, consultant services, information technology and construction services up to the basic level as outlined in the Procurement Code.



Jeff Widdowson
Audit and Certification Analyst


R. Voight Shealy, Manager
Audit and Certification

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SOUTH CAROLINA RESIDENTIAL HOME BUILDERS COMMISSION

2221 DEVINE STREET SUITE 530
COLUMBIA, S.C. 29205

TELEPHONE 734-9174

January 23, 1989

Mr. R. Voight Shealy, Manager
Audit and Certification
S C Budget and Control Board
Division of General Services
1201 Main Street, Suite 420
Columbia, SC 29201

Dear Mr. Shealy:

I have reviewed the draft of the Procurement Audit Report and concur with it. All recommendations have been put into place or in process of being completed.

I appreciate you bringing this to my attention.

Sincerely yours,

A handwritten signature in cursive script, which appears to read "John T. Watkins".

John T. Watkins
Director

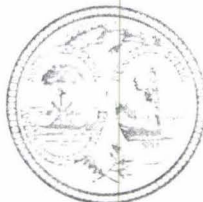
JTW/sb

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RICHARD W. KELLY
DIVISION DIRECTOR

February 23, 1989

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 Residential Home Builders Commission to determine the progress made toward implementing the recommendations in our audit report covering the period July 1, 1986 - June 30, 1988. During this visit, we followed up on each recommendation made in the audit report through inquiry, observation and limited testing.

We observed that the Commission 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 Commission 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,

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

R. Voight Shealy, Manager
Audit and Certification

