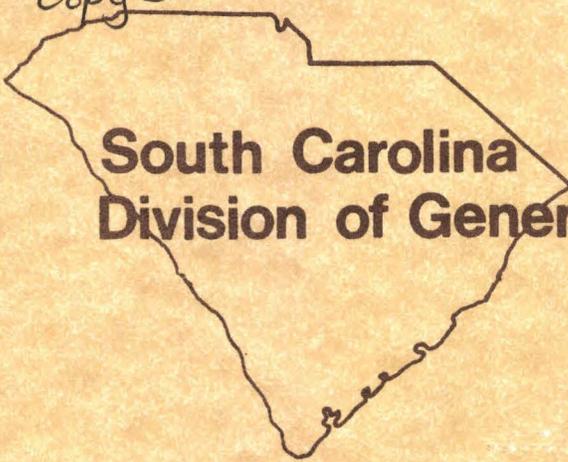


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**South Carolina
Division of General Services**

PROCUREMENT AUDIT AND CERTIFICATION

SOUTH CAROLINA TAX COMMISSION
AGENCY

JANUARY 1, 1986 - NOVEMBER 30, 1988
DATE

STATE OF SOUTH CAROLINA
BUDGET AND CONTROL BOARD
DIVISION OF GENERAL SERVICES
1201 MAIN STREET, SUITE 600
COLUMBIA, SOUTH CAROLINA 29201
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HOUSE WAYS AND MEANS COMMITTEE

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

JAMES J. FORTH, JR.
ASSISTANT DIVISION DIRECTOR

May 31, 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 South Carolina Tax Commission audit report and recommendations made by the Office of Audit and Certification. I concur and recommend the Budget and Control Board grant the Tax Commission a three (3) year certification as outlined in the audit report.

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AUG 22 1989

STATE DOCUMENTS

Sincerely,

James J. Forth, Jr.
Assistant Division Director

Attachment

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Surplus Property Supply, Warehousing & IMS
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SOUTH CAROLINA TAX COMMISSION

AUDIT REPORT

JANUARY 1, 1986 - NOVEMBER 30, 1988

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ASSISTANT DIVISION DIRECTOR

May 31, 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 South Carolina Tax Commission for the period January 1, 1986 through November 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 a recommendation for recertification above the \$2,500 limit

The administration of the South Carolina Tax Commission is responsible for establishing and maintaining a system of internal control over procurement transactions. In fulfilling

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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 South Carolina Tax Commission in compliance with the South Carolina Consolidated Procurement Code and ensuing regulations.

R. Voight Shealy
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 South Carolina Tax Commission.

Our on-site review was conducted December 8-21, 1988, 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.

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.

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

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

Our audit was performed primarily to determine if recertification above the \$2,500 limit is warranted. The Tax Commission has requested recertification to make procurements in the following category and designated amount:

<u>Category</u>	<u>Requested Limit</u>
Printing Services	\$ 10,000

SCOPE

Our examination encompassed a detailed analysis of the internal procurement operating procedures of 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 up to the requested certification limits.

We selected random samples for the period July 1, 1987 through November 30, 1988, of procurement transactions for compliance testing and performed other audit procedures that we considered necessary in the circumstances to formulate this opinion. As specified in the Consolidated Procurement Code and related regulations, 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 Minority Business Enterprise Plan.

SUMMARY OF AUDIT FINDINGS

Our audit of the procurement system of the South Carolina Tax Commission produced findings and recommendations in the following areas:

	<u>PAGE</u>
I. <u>Compliance - Printing Services</u>	8
<p>We noted five printing contracts greater than \$2,500 which were not awarded by the competitive sealed bid procedure. Each procurement is a violation of Section 11-35-1520 of the Consolidated Procurement code.</p>	
II. <u>Review of the Procurement Procedures Manual</u>	9
<p>The Commission needs to add several procedures, including the competitive sealed bid procedures for procurement above \$2,500.</p>	

RESULTS OF EXAMINATION

I. Compliance - Printing Services

Five contracts for printing services were awarded based on informal requests for quotations instead of formal invitations for bids in violation of Section 11-35-1520 of the Consolidated Procurement Code. This section states in part..."Contracts amounting to two thousand, five hundred dollars or more shall be awarded by competitive sealed bidding..."

The exceptions were as follows:

<u>P.O.#</u>	<u>Amount</u>	<u>Item Description</u>
0134	\$2,866.90	Continuous forms
0464	6,100.81	Continuous forms
0523	2,544.00	Continuous forms
0721	2,573.50	Printed envelopes
1079	3,905.50	Printed envelopes

Purchase order 0464 was quoted as several small independent lots less than \$2,500.00 each. However, they were combined on one purchase order.

We must consider the total procurement being made when determining the appropriate procurement source selection method.

We recommend that all procurements above \$2,500.00 be competitively sealed bid and all printing contracts be advertised in the South Carolina Business Opportunities as required by the Code. We further recommend that the Administrative Division Director review and sign off on all printing contracts greater than \$2,500.00 to ensure Code compliance.

COMMISSION RESPONSE

Effective upon receipt of the draft report of the procurement audit, we implemented the policy that the Administrative Director review and sign off on all printing contracts greater than \$2,500.00, to ensure code compliance.

We fully understand the errors noted, and feel that the problems have been resolved.

II. Review of Procurement Procedures Manual

As part of our examination, we reviewed the Purchasing Policies and Procedures Manual. We found the following topics that need to be added to the procedures manual:

- 1 - Term contract procurements
- 2 - The official state government publications
- 3 - Competitive sealed bid procedures to include the following areas:
 - a - Bidders list
 - b - Receipt of safeguarding of bids
 - c - Unidentified bids
 - d - Bid opening procedures
 - e - Postponement of bid opening
 - f - Disclosure of bid information
 - g - Bid acceptance and evaluation
 - h - Rejection of bids
 - i - Alternate bids
 - j - Nonresponsive bids
 - k - Unsigned bids
 - l - Correction which creates low bid
 - m - Award

COMMISSION RESPONSE

The Procurement Procedures Manual has been updated to reflect the recommendations in the audit report.

CERTIFICATION RECOMMENDATION

The current procurement certification expires July 14, 1989. The Commission must take corrective action in the procurement areas noted in this report. Prior to expiration of the current certification, the Office of Audit and Certification will perform a follow-up audit to determine progress.

If, at that time, improvement is noted, we will recommend recertification at the current level of \$10,000.00 for printing services for a period of three (3) years.



James M. Stiles
Audit Manager



R. Voight Shealy, Manager
Audit and Certification

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JAMES J. FORTH, JR.
ASSISTANT DIVISION DIRECTOR

May 29, 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 South Carolina Tax Commission to determine the progress made toward implementing the recommendations in our audit report covering the period January 1, 1986 through November 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.

We, therefore, recommend that the certification limits for the Tax Commission outlined in the audit report be granted for a period of three (3) years.

Sincerely,

R. Voight Shealy
R. Voight Shealy, Manager
Audit and Certification

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