PROCUREMENT AUDIT AND CERTIFICATION

S.C. WATER RESOURCES COMMISSION

AGENCY

FEBRUARY 20, 1987

DATE
February 19, 1987

Mr. Richard W. Kelly
Division Director
Division of General Services
300 Gervais Street
Columbia, South Carolina 29201

Dear Rick:

Attached is the final South Carolina Water Resources Commission audit report and recommendations made by the Office of Audit and Certification. Since no certification request above the $2,500 allowed by law was requested, and no action is necessary by the Budget and Control Board, I recommend that this report be presented to Dr. Coles for his information.

Sincerely,

William J. Clement
Assistant Division Director

Attachment
SOUTH CAROLINA WATER RESOURCES COMMISSION
AUDIT REPORT

June 3, 1986
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June 3, 1986

William J. Clement  
Assistant Division Director  
Division of General Services  
300 Gervais Street  
Columbia, South Carolina 29201

We have examined the procurement policies and procedures of the South Carolina Water Resources Commission for the period July 30, 1981 through December 31, 1985. As 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 South Carolina Water Resources 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 South Carolina Water Resources Commission in compliance with the South Carolina Consolidated Procurement Code and ensuing regulations.

R. Voight Shealy, Manager
Audit and Certification
INTRODUCTION

The Audit and Certification Section conducted an examination of the internal procurement operating procedures and polices and related manual of the South Carolina Water Resources Commission.

Our on-site review was conducted April 7, 1986 through April 25, 1986 and was made under the authority as described in 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 agency 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.
SCOPE

Our examination encompassed a detailed analysis of the internal procurement operating procedures of the South Carolina Water Resources 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.

The Audit and Certification team of the Division of General Services selected a sample for the period July 1, 1984 through December 31, 1985, of procurement transactions for compliance testing and performed other auditing 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 register;
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) 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 at the South Carolina Water Resources Commission produced findings and recommendations in the following areas:

I. Compliance - Goods and Services, Consultants and Information Technology

Our examination of goods and services, consultant services and information technology procurement activity revealed numerous compliance exceptions to the Code and to the Commission's internal procurement procedures. These exceptions are in the following categories:

A. Lack of Competition
B. Failure to Consolidate Orders
C. Blanket Purchase Agreements
D. Unauthorized procurements
II. Compliance-Sole Source Procurements

We noted two sole source procurement contracts which should have been competitively bid through State Procurements. Another contract lacked a written sole source justification and two contracts were approved after the fact.

III. Professional Development

Professional development of the procurement officer needs to be a goal of the Commission.
RESULTS OF EXAMINATION

I. Compliance - Goods and Services, Consultants, and Information Technology

Our test sample consisted of one hundred and twenty (120) randomly selected procurement transactions for goods and services, consultants and information technology from the period July 1, 1984 - December 31, 1985. Thirty-three percent (33%) of these transactions were not in compliance with the Procurement Code and/or internal procurement policy. The exception areas noted are as follows:

A. Lack of Competition

1. Sixteen procurements were made without competition. These are direct violations of Section 19-445.2100 of the Procurement Code regulations, which requires competition for purchases greater than $500.00. See Appendix Schedule 1.

   All future procurements greater than $500.00 should be supported by evidence of competition or, if appropriate, justified as sole source or emergency procurements. Since purchase order 000416 for $2,648.73 exceeds the Commission's procurement authority of $2,500.00 it is an unauthorized procurement. As such, it must be ratified by the Materials Management Officer in accordance with Section 19-445.2015 of the regulations.
2. In six instances, competition was not solicited for the procurement of printing services. These services must be procured competitively as indicated above. See Appendix Schedule 2.

3. Maintenance of typewriters was not competed for at least two consecutive years. See the recommendation above. These services are now on State contract. Conversations with vendors and the new state contract indicate that competitive procurement would have yielded savings to the Commission. See Appendix Schedule 3.

4. Five procurements that exceeded $1,499.99 were only supported by verbal phone quotes. Section 19-445.2100, Subsection B, Item 3, requires solicitation of written quotations from three qualified sources of supply for purchases from $1,500.00 to $2,499.99. See Appendix Schedule 4.

5. Freight was not considered when determining the competition requirements for five procurements. The Materials Management Officer has established that in identifying the proper procurement methodology, the procurement officer must take into account the total cost which includes all components of cost known or anticipated at the time of solicitation or award such as freight cost. See Appendix Schedule 5.
6. Competition was not obtained for the rental of a boat for drilling operations. Regulation 19-445.2150, Subsection F, states in part, "Rental of personal property agreements are subject to the procedures of the Procurement Code and regulations." (Reference purchase order 501613, voucher 372 for $1,846.60)

B. Failure to Consolidate Orders

Three orders totaling $4,062.98 were issued to the same vendor on June 28, 1985 for information technology equipment. These items should have been combined on a single requisition and forwarded to State Procurements for formal sealed bidding (Reference purchase order numbers 000088, 000093, and 000094 and voucher numbers 1606, 1677 and 1675).

C. Blanket Purchase Agreements

The Commission established thirty-four blanket agreements for fiscal year 1985/86. The majority of these are for exempt items or one time small pickup items costing less than $500.00. However, we did note two instances where annual contract commitments greater than $500.00 were being processed on blanket agreements. These type commitments are subject to the source selection processes outlined in Section 11-35-1510 of the Code.
One maintenance agreement, P.O. 600021, obligated the Commission to an annual charge of $700.00. The second, P.O. 600025, a lease for a teletype machine, obligated the Commission for an annual amount of $1,134.00. These blanket agreements, which are actually annual, fixed rate contracts, were established without formal purchase orders being issued.

We recommend that competition be sought for these services and annual contracts be established with the low bidders. This is the appropriate procurement methodology.

D. Unauthorized Procurements

We noted three instances where Commission sections bypassed the Procurement Office in the purchase of goods and services. These purchases are unauthorized procurements according to the Procurement Code and internal policy. They are as follows:

<table>
<thead>
<tr>
<th>P.O. Number</th>
<th>Amount</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>501472</td>
<td>$551.25</td>
<td>Printing</td>
</tr>
<tr>
<td>501695</td>
<td>$526.26</td>
<td>Repair</td>
</tr>
<tr>
<td>501796</td>
<td>$610.15</td>
<td>Equipment</td>
</tr>
</tbody>
</table>

The Commission's internal procurement policy manual states in Section E-1. "The Director of Administrative Services is responsible for all aspects of procurement and has been designated as the Commission's Procurement Officer."

Unauthorized procurements must be ratified by the Executive Director, as outlined in Regulation 19-445.2015.
SUMMARY

It is obvious by the number of exceptions stated above, that the Commission must initiate internal controls to ensure compliance with the Procurement Code and internal policy. Immediate action is necessary to mandate that the competitive procurement process, which is the cornerstone of the Procurement Code, is utilized.

AGENCY RESPONSE

We concur with the audit exceptions. We have implemented positive internal controls over our purchasing procedures, namely, by upgrading the training skills of our procurement staff, and conducting training sessions with the Division Directors and other key staff members.

II. Compliance-Sole Source Procurements

We examined the quarterly reports of sole source and emergency procurements and trade-in sales and all available supporting documents for the period July 31, 1981 through December 31, 1985, for purposes of determining 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. We found the majority of these transactions to be proper and accurately reported, but we did note the following sole source exceptions.
1. Purchase order 500922 dated October 18, 1983 was for a consultant contract to develop a "strategy for selection and implementation of a program to ensure adequate fresh water for lower Beaufort and Jasper counties." The original contract was for $30,000 with work to be completed by June 30, 1984. Then, on May 21, 1984 the contract was extended by mutual agreement of the contractor and the Executive Director for another month for an additional $30,000.

Section 19-445.2105, Subsection B, of the regulations states, "In cases of reasonable doubt, competition should be solicited." Based on availability of expertise in this area, this appears to be a procurement where competition might have been available.

2. Purchase order 000340 dated September 9, 1985 totaling $6,994.50 was a sole source procurement for a hydrology monitoring system. The sole source justification stated, "I have received price quotes from three separate companies that manufacture similar products. After reviewing the information, it is my opinion that company (A) system best suited our needs." This is not an appropriate justification for a sole source procurement.

Section 11-35-1560 states in part that "a contract may be awarded for a supply or service without competition when .... the head of a agency .... determines in writing there is only one source for the required supply or service." (Emphasis Added) The justification itself
indicates that this is not the case. This procurement request should have been forwarded, with sufficient specifications, to State Procurements for competitive procurement.

3. Purchase order 501731, dated October 16, 1984, totaling $10,000.00, was for consultation, support and assistance in the establishment of a regional office for Water Resources. We could find no approved sole source justification determination, only a copy of the fixed price agreement contract. We do not believe this is a sole source. If the Commission felt that the contract was a sole source, the specific reasons why the vendor was used should have been clearly documented.

4. Purchase order 501441 for $1,755.00 was for a service agreement effective July 1, 1984. However, the approved determination was dated September 6, 1984, two months after the fact.

A similar situation was purchase order 000416 for $2,648.73 where the approved sole source justification was dated seven days after the signed contract.

The Commission is reminded that the determination for a sole source procurement must be made prior to the initiation of contract; otherwise, it is an unauthorized procurement. As such, the items noted in 4 above must be ratified in accordance with Section 19-445.2015 of the regulations.
Furthermore, the sole source process is not permissible unless there is only a single supplier of the goods or service. This does not include situation statements where the goods or service "best fit our needs" or "vendor has both the expertise and availability needed to carry out the contract." The Commission should take a more conservative approach to sole source procurements.

AGENCY RESPONSE

We concur with the audit exceptions. We have implemented procedures to avoid the reoccurrence, namely, by upgrading the training skills of our procurement staff and conducting training sessions with our Division Directors and other key staff members.

III. Professional Development

We found that professional development of the purchasing officer has been overlooked as a goal of the Commission. It is obvious from the findings of this report that procurement training is a critical need of the Commission. This is one of the most important factors in the successful operation of a procurement system.

The procurement officer has been in this position more than two years without any formal purchasing training. Her past experience does not include any governmental purchasing.

Per Section 11-35-20 (k) of the Procurement Code, one of its primary purposes and policies is "to train procurement officials in the techniques and methods of public procurements." To help
accomplish this, the Research and Training Section of the Division of General Services was established. Other procurement training is available as well.

We are aware of budgetary restrictions placed on State governmental agencies. Many times in a smaller agency, professional development of the staff is not budgeted, or it is one of the first items cut during lean years. However, we find it imperative that the buyer receive training in governmental purchasing.

We recommend the Commission implement a program promoting professional development of procurement personnel through the following:

1. Include a policy statement on professional development goals in the Internal Procurement Operating Procedures Manual.

2. Budget available funds for procurement training such as the basic, intermediate, and advanced purchasing seminars given by the National Institute of Governmental Purchasing. As a minimum, the General Public Purchasing (Basic) course should be taken.

3. Promote the attainment of professional certification of the purchasing staff such as Professional Public Buyer (PPB) or Certified Public Purchasing Officer (CPPO). These certifications are a part of the Universal Certification Requirements for Public Procurement Personnel developed by the National Institute of Governmental Purchasing (NIGP) and the National Association of State Purchasing Officials (NASPO).
(4) Attend Procurement Code updates given by the Materials Management Office.

(5) Pay particular attention to the Materials Management Office publication, "Facts and Figures."

(6) Continue participation and membership in the South Carolina Association of Governmental Purchasing Officers (SCAGPO).

AGENCY RESPONSE

We concur that training is a critical need of the Commission. Our procurement staff has now been certified through training in "General Public Purchasing", "Intermediate Public Purchasing", and "Public Procurement Management - Part I". The Commission will continue to seek means of upgrading the skills of its procurement staff.
CONCLUSION

We must state our concern over the lack of management concern for the procurement function at the Water Resources Commission. It is evident from the results of this audit that management has placed too little importance on the control of procurement activity. Immediate attention should be given to the weaknesses indicated herein. Much work is required to place the Commission in compliance with the South Carolina Consolidated Procurement Code and ensuing regulations. Corrective action should be taken by January 30, 1987. This office will perform a follow-up review at that time.

Subject to this corrective action and because additional certification was not requested, we recommend that the South Carolina Water Resources 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.

James M. Stiles
James M. Stiles, PPB
Audit Supervisor

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

### Schedule 1 - Procurements Without Competition

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### Schedule 2 - Printing Services Procured Without Competition

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### Schedule 4 - Insufficient Competition

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## Schedule 5 - Insufficient Competition Based on Total Procurement Cost

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<td>DV 306</td>
<td>000241</td>
<td>1,592.67</td>
<td>Office furniture</td>
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</tbody>
</table>
February 19, 1987

Mr. William J. Clement
Assistant Division Director
Division of General Services
300 Gervais Street
Columbia, South Carolina 29201

Dear Bill:

We have returned to the South Carolina Water Resources Commission to determine the progress made toward implementing the recommendations in our audit report covering the period July 30, 1981 through December 31, 1985. 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 Water Resources 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 Consolidated Procurement Code regulations.

Sincerely,

R. Voight Shealy, Manager
Audit and Certification