PROCUREMENT AUDIT AND CERTIFICATION

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LEGISLATIVE AUDIT COUNCIL
AGENCY
JULY 1, 1985 - SEPTEMBER 30, 1987
DATE
April 5, 1988

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 Legislative Audit Council 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 information only.

Sincerely,

D.L. McMillin
D.L. McMillin, CPPO
Acting Materials Management Officer

Attachment
LEGISLATIVE AUDIT COUNCIL

AUDIT REPORT

JULY 1, 1985 - SEPTEMBER 30, 1987
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January 4, 1988

Mr. D.L. McMillin
Acting Materials Management Officer
Division of General Services
Columbia, South Carolina  29210

We have examined the procurement policies and procedures of the Legislative Audit Council for the period July 1, 1985 through September 30, 1987. 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 Legislative Audit Council 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 the 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 procedure 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 Legislative Audit Council in compliance with the South Carolina Consolidated Procurement Code and ensuing regulations.

R. Voight Shealy, Manager
Audit and Certification
RESULTS OF EXAMINATION

The Office of Audit and Certification performed an examination of the internal procurement operating procedures and policies and related manual of the Legislative Audit Council (the Council) for the period July 1, 1985 through September 30, 1987. Our on-site review was conducted September 28-30, 1987, and was made under the authority described in Section 11-35-1230 (1) of the South Carolina Consolidated Procurement Code.

Since enactment of the Consolidated Procurement Code, there has been some uncertainty concerning its applicability to the agencies of the Legislative Department as defined in the annual Appropriations Acts. The Legislative Department includes the Legislative Audit Council.

Section 11-35-40 (2) of the Procurement 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...." Section 11-35-310 (18) defines governmental body as "any state government department, commission, council, board, bureau, committee, institution, college, university, technical school, legislative body, agency government corporation, or other establishment or official of the executive, judicial or legislative branches of this State. Governmental body excludes the General Assembly and all political subdivisions such as counties, municipalities, school districts or public service or special purpose districts."
The Division of General Services took the official position in November 1987 that the General Assembly consists of the Senate and the House of Representatives only, not all the agencies of the Legislative Department. Thus, we believe the Legislative Audit Council to be a governmental body as defined by the Procurement Code.

Prior to development of this position, the Director of the Council notified the Division of General Services that as of July 1, 1987 it had elected to be in full compliance with the Procurement Code. Further, he requested that an audit be performed through fiscal year 1986/87.

Due to the limited number of transactions, we extended the audit period to September 30, 1987. For the time period when the Council elected to be in compliance with the Procurement Code (July 1 - September 30, 1987) we found no audit exceptions. However, if the Council had officially been covered by the Procurement Code prior to July 1, 1987, the transactions listed as Attachment 1 would have been exceptions.

I. Review of the Procurement Procedures Manual

We reviewed the Council's policy and procedures manual to determine if their written procedures were consistent with the Consolidated Procurement Code and its regulations.

Our review revealed that the following areas need to be added, changed or expanded.
In Section III C, Sole Source Procurements, it states, "The Director, or in his absence, the Assistant Director of Administration will be authorized to approve sole source purchases. In Section B, Duties of the Assistant Director for Administration, (Purchasing Officer) it states "The Assistant Director for Administration is responsible for the administration of all procurement operations...with the exception of legal and auditing services."

Section 11-35-1560 of the Procurement Code indicates that sole source procurements must be authorized by an official above the level of the procurement officer. If the Assistant Director for Administration is the official procurement officer of the Council she cannot approve sole source procurements.

Under Section II C (1), Restrictive Specifications, it states, "It is the policy of the Legislative Audit Council, when possible not to use restrictive specifications when making a procurement." (Emphasis added) The words "when possible" should be eliminated.

In Section IV B Consultants, the first sentence should be changed to read "Legislative Audit Council normally uses only CPA firms for auditing, as approved by the State Auditors Office, and legal services as approved by the Attorney General's Office."

Exhibit VI, Record of Trade-in-Sales should be replaced with the current updated MMO form #107.

With these noted changes, the Procurement Procedures Manual will be considered approved by the Division of General Services as required by Section 11-35-540 (3).
CONCLUSION

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

Subject to this corrective action and because additional certification was not requested at this time, we recommend that the Legislative Audit Council 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.

James M. Stiles
Audit Supervisor

R. Voight Shealy, Manager
Audit and Certification
Legislative Audit Council
Procurements Made Before July 1, 1987 That Would Have Been Exceptions to the Consolidated Procurement Code

I. Goods and Services

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Dear Mr. Shealy:

As one auditor to another, we greatly appreciate the professional manner in which this audit of our procurement activity was conducted. We have no disagreement with the findings of this report, and we have adopted the changes in our procedures which you have recommended.

Sincerely,

[Signature]

George L. Schroeder
Director

/cc: Mr. Jim Stiles
April 5, 1988

Mr. D.L. McMillin, CPPO
Acting Materials Management Officer
Division of General Services
1201 Main Street, Suite 600
Columbia, South Carolina 29201

Dear D.L.:

We have reviewed the response to our audit report of the Legislative Audit Council covering the period July 1, 1985 through September 30, 1987. Combined with observations made during our exit conference this review has satisfied the Office of Audit and Certification that the agency has corrected the problem areas found and that internal controls over the procurement system are adequate.

Additional certification was not requested, therefore we recommend that the Legislative Audit Council be allowed to continue procuring all goods and services, construction, information technology and consulting services up to the basic level as outlined in the South Carolina Consolidated Procurement Code.

Sincerely,

R. Voight Shealy, Manager
Audit and Certification