PROCUREMENT AUDIT AND CERTIFICATION

SOUTH CAROLINA COMMISSION ON AGING

AGENCY

JULY 1, 1987 - JUNE 30, 1989

DATE
June 4, 1990

Mr. Richard W. Kelly
Director
Division of General Services
1201 Main Street, Suite 420
Columbia, South Carolina 29201

Dear Rick:

I have attached the South Carolina Commission on Aging procurement audit report and recommendations made by the Office of Audit and Certification. The Commission did not request certification above the $2,500 limit so I recommend that the report be presented to the Budget and Control Board for information.

Sincerely,

James J. Forth, Jr.
Assistant Division Director

/jlj
Attachment
SOUTH CAROLINA COMMISSION ON AGING

PROCUREMENT AUDIT REPORT

JULY 1, 1987 - JUNE 30, 1989
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June 1, 1990

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 Commission on Aging for the period July 1, 1987 - June 30, 1989. 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 Commission 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 Commission on Aging 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 Commission on Aging in compliance with the South Carolina Consolidated Procurement Code and ensuing regulations.

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 Commission on Aging.

Our on-site review was conducted August 8-25, 1989, 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 Commission's Internal Procurement Operating Procedures Manual, were in Compliance with the South Carolina Consolidated Procurement Code and its ensuing regulations.
SCOPE

Our examination encompassed a detailed analysis of the internal procurement operating procedures of the South Carolina Commission on Aging 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 random samples for the period July 1, 1987 - June 30, 1989 of procurement transactions 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 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 the Minority Business Enterprise Plan
SUMMARY OF AUDIT FINDINGS

Our audit of the procurement system of the South Carolina Commission on Aging, hereinafter referred to as the Commission, produced findings and recommendations as follows:

I. Compliance - General

We tested a sample of sixty-seven transactions from the period of July 1, 1987 - June 30, 1989 and noted the following exceptions:

A. Procurements Without Evidence of Competition

Nine procurements out of our sample were not supported by evidence of competition, a sole source or emergency procurement determination or exempted. In seven of these cases, the procurements may have been appropriate as sole sources due to either landlord or federal grantor agency requirements. However, the Commission was unaware that sole source determinations are required in these instances.

B. Unauthorized Procurements

Three of these procurements above were unauthorized.

C. Receiving Reports Not Prepared

Receiving reports were not prepared in seven cases. This violates Commission practice and internal control theory.
II. Compliance - Sole Source and Emergency Procurements

We examined all sole source and emergency procurements and the quarterly reports of these transactions for the audit period and noted the following exceptions:

A. Inappropriate Sole Source
   One sole source was inappropriate.

B. Poor Sole Source Justification
   One sole source was inadequately justified.

III. Procurement Procedures

Our observation of procurement procedures at the Commission resulted in several recommendations for improvement.

IV. Fixed Asset Accountability

The Commission's fixed asset records have not been updated for fiscal year 1988/89.

V. Professional Development

Professional development of the procurement officer needs to be a goal of the Commission.
VI. Review of the Procurement Procedures Manual

The Commission's procurement procedures manual should be updated and several policy and procedure statements should be added.
RESULTS OF EXAMINATION

I. Compliance - General

To test for general compliance with the Consolidated Procurement Code, hereinafter referred to as the Code, we selected a sample of sixty-seven transactions from the audit period of July 1, 1987 - June 30, 1989. As a result of this test, we noted the following problems:

A. Procurements Without Evidence of Competition

Nine procurements out of our sample were not supported by evidence of competition, a sole source or emergency procurement determination or an interagency exemption from the Materials Management Officer.

<table>
<thead>
<tr>
<th>PO#</th>
<th>Voucher#</th>
<th>Amount</th>
<th>Description</th>
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<td>889169</td>
<td>0295</td>
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<td>0157</td>
<td>840.00</td>
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<tr>
<td>899935</td>
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<td>1,475.00</td>
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</tr>
<tr>
<td>899931</td>
<td>1538</td>
<td>3,500.00</td>
<td>Printing of manual</td>
</tr>
<tr>
<td>899408</td>
<td>0662</td>
<td>3,520.38</td>
<td>Consultation for service grant</td>
</tr>
</tbody>
</table>

In seven of these cases, the procurements may have been appropriate as sole sources due to either landlord or federal grantor agency requirements. However, the Commission was unaware that sole source determinations are required in these instances.

As required by the Code, competition must be solicited for all procurements that exceed $500.00 which are not exempt, are not appropriately justified as sole sources or emergencies or are not made from State term contracts.
We recommend that this requirement be strictly adhered to in the future.

**COMMISSION RESPONSE**

Although some of these expenditures were made inappropriately, the majority were made correctly but proper documentation was not attached to file copies. Measures have been initiated to avoid such oversights in the future.

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### B. Unauthorized Procurements

Additionally, the following three procurements listed above were also unauthorized.

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<thead>
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<th>PO#</th>
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<tr>
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<td>1406</td>
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<td>899408</td>
<td>0662</td>
<td>3,520.38</td>
<td>Consultation for service grant</td>
</tr>
</tbody>
</table>

The three procurements exceeded the Commission's level of procurement authority of $2,499.99. These procurements should have been submitted to the Materials Management Office or, if appropriate, justified as sole sources or emergencies. However, since this did not occur, the procurements must be submitted to the Materials Management Officer with a request for ratification in accordance to Regulation 19-445.2015.

**COMMISSION RESPONSE**

These three vouchers are for payments made to vendors specifically named in applications for federal grants which we were awarded. We were not aware at the time of the expenditures that procurement actions in these circumstances were governed by regulations outlined in the Procurement Code for expenditure of State funds.
C. Receiving Reports Not Prepared

We noted seven instances where there was no indication of receipt of goods or services. These transactions were as follows:

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<tr>
<th>PO#</th>
<th>Voucher#</th>
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<tr>
<td>899932</td>
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<td>912.45</td>
<td>Audiovisual equipment</td>
</tr>
<tr>
<td>889642</td>
<td>1190</td>
<td>753.90</td>
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</tr>
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Internal controls require that there be an indication of receipt of goods. This is usually done through a written receiving report. The Commission does use written receiving reports but neglected to do so in these instances. However, payments were still made.

We recommend that written receiving reports be completed on all procurement transactions. Payment should not be processed without clear confirmation of receipt of goods.

COMMISSION RESPONSE

It is standard procedure within the agency to obtain division approval for payments on all invoices received without receiving slips as verification of receipt of goods in good order. In the instances cited approval was not initiated on all copies of the documents, so agency copies did not have the needed signatures. Measures have been initiated to avoid such oversights in the future.

II. Compliance - Sole Source and Emergency Procurements

We examined the quarterly reports of sole source and emergency procurements and all available supporting documents for the period of July 1, 1985 - June 30, 1989. We attempted to determine the appropriateness of each procurement and the accuracy
of the reports to the Division of General Services. The following exceptions were noted:

A. Inappropriate Sole Source

A sole source procurement for manuals for a statewide training program, purchase order 899771 for $2,064.79, resulted from poor advance planning of needs. It was inappropriate.

Section 11-35-1560 of the Code indicates that sole source is permissible when there is only one supplier for the goods and services. The market was not tested for the procurement but competition exists.

We recommend that competition be solicited for similar procurements in the future. Sole source should only be used when competition is not available.

COMMISSION RESPONSE

Purchase order 899771 was cited as resulting from poor advanced planning of needs. While this may be true in the instance cited, there are often times when purchases must be made before a specific deadline either to provide needed goods and services or to circumvent the loss of needed funds. The utilization of the Emergency Procurement Form or the Sole Source Procurement Form in this instance was a judgement call based on vendor's ability to deliver. The agency was assured of the vendor's capability from past experience with the vendor.

B. Poor Sole Source Justification

One procurement for audiovisual materials, printed products and promotional items for $17,775 was poorly justified as a sole source. The determination stated only "expertise of South Carolina Educational Television". A sole source determination must present clear and convincing justification why the selected vendor is the only one that can furnish the required services.
COMMISSION RESPONSE

The question of "expertise" may be debatable as convincing justification for sole source selection. However, consideration should be given to allow such cooperation between government entities when projects involving large expenditures are involved and the government source of goods or services has proven (through past endeavors) capability of getting the job done; or as in this instance, the material being provided is a reproduction of a previous job.

III. Procurement Procedures

The following recommendations are made to tighten procurement procedures of the Commission:

(1) Some purchases made from state or agency contracts failed to reference the contract numbers. Every purchase order made from an existing contract should reference the contract number.

(2) If a purchase order is for a multi-year contract the purchase order should note which year of the contract it covers, i.e. year 3 of 5 year contract.

(3) The Commission should initiate a formal change order policy and form for changes to purchase orders greater than a set amount, such as $25 or 10% of the total amount. This procedure should be placed in the procedures manual.

(4) For purchases less than $1,500.00, purchasing should require a standard phone quote form to support the voucher package.

(5) Purchasing should initiate an informal written quotation form for quotations between $1,500 and $2,499.99. All written quotations should be included in the voucher package.
(6) All sole source and emergency procurement determinations should be documented in the voucher package.

(7) All written quotations should be time and date stamped when received.

**COMMISSION RESPONSE**

All recommendations to tighten procurement procedures have been initiated and are being incorporated into the revised procurement procedures as part of our administrative manual.

**IV. Fixed Asset Accountability**

The Commission failed to maintain current inventory records and assign identification numbers (decals) for the 1988/89 fiscal year. Each agency is responsible for properly identifying and controlling its fixed assets. Further, this is necessary for establishing adequate insurance coverage.

This weakness in internal controls over the agency's fixed assets should be corrected.

**COMMISSION RESPONSE**

All inventory controls are currently in place.

**V. Professional Development**

Professional development of the procurement officer has been overlooked as a goal of the Commission. The procurement officer has been in this position more than a year without formal purchasing training. Her past experience does not include 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 techniques and methods of public procurements."
We recommend that the Commission implement a program promoting professional development of procurement personnel.

**COMMISSION RESPONSE**

The agency has implemented a program promoting professional development of procurement personnel.

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**VI. Procurement Procedures Manual**

The Commission has on file with the Materials Management Office a procurement procedures manual which was last updated in March 1982. Since then, many top management personnel have changed along with assigned job duties, responsibilities and authority. We reviewed the manual with the procurement officer and recommended several sections be updated.

Also, the following topics need to be added in the manual as policy or procedure statements:

- A - Retention of Records
- B - Restrictive Specifications
- C - Expenditure of Funds (Federal)
- D - Professional Development
- E - Conflict of Interest
- F - Authorized Signature Approval
- G - Advance Notification of Needs
- H - Unauthorized Procurements and the Ratification Process
- I - Term Contracts
- J - Legal Services
- K - Auditing Services
- L - Procurements of Art
- M - Amendment of Purchase Orders
- N - Information Technology Procedures
- O - Confirmation Purchase
- P - Leasing of Real Property and Equipment
- Q - Small purchasing procedures need to be expanded to include the procurement method for each dollar level up to the Commission certification level ie, 0-$500, $500.01-$1,499.99 $1,500.00- $2,499.99
We recommend the manual be revised for our review and approval.

COMMISSION RESPONSE

Revision of the procurement manual is in process.
CONCLUSION

The Commission on Aging should take immediate action to effect compliance with the South Carolina Consolidated Procurement Code and regulations.

Corrective action should be completed by March 30, 1990. Prior to that time, we will perform a follow-up review to determine that this has been accomplished.

Subject to this corrective action, which will be verified by this Office, and since the Commission on Aging has not requested procurement certification, we recommend that they be allowed to continue procuring all goods and services, consultant services, construction services and information technology up to the basic level of $2,500.00 as allowed by the Consolidated Procurement Code and regulations.

James M. Stiles
James M. Stiles, PPB
Audit Manager

R. Voight Shealy, Manager
Audit and Certification
May 31, 1990

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 Commission on Aging to determine the progress made toward implementing the recommendations in our audit report covering the period of July 1, 1989 - June 30, 1989. 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.

Since the Commission did not request certification, we recommend that it be allowed to continue procuring all goods and services, consultant services, information technology and construction up to the basic level established by the South Carolina Consolidated Procurement Code.

Sincerely,

R. Voight Shealy
Manager
Audit and Certification

/jlj