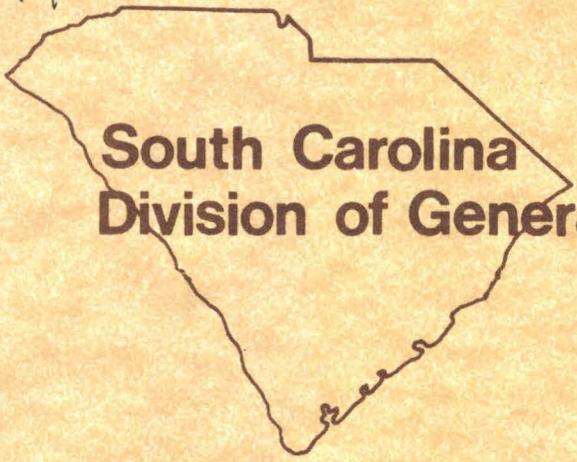


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**South Carolina  
Division of General Services**

# PROCUREMENT AUDIT AND CERTIFICATION

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SAVANNAH VALLEY AUTHORITY

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AGENCY

JULY 1, 1986 - FEBRUARY 28, 1993

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DATE

STATE OF SOUTH CAROLINA  
*State Budget and Control Board*  
DIVISION OF GENERAL SERVICES



CARROLL A. CAMPBELL, JR., CHAIRMAN  
GOVERNOR

GRADY L. PATTERSON, JR.  
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CHAIRMAN, SENATE FINANCE COMMITTEE

WILLIAM D. BOAN  
CHAIRMAN, WAYS AND MEANS COMMITTEE

LUTHER F. CARTER  
EXECUTIVE DIRECTOR

April 28, 1993

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

Dear Rick:

I have attached Savannah Valley Authority's procurement audit report and recommendations made by the Office of Audit and Certification. Since Budget and Control Board action is not required, the report is submitted as information.

Sincerely,

A handwritten signature in cursive script that reads "Helen T. Zeigler".

Helen T. Zeigler  
Deputy Director

HTZ/jj

Attachment

SAVANNAH VALLEY AUTHORITY  
PROCUREMENT AUDIT REPORT

JULY 1, 1986 - FEBRUARY 28, 1993

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NOTE: The Authority's responses to issues noted in this report have been inserted immediately following the issues they refer to.

STATE OF SOUTH CAROLINA  
*State Budget and Control Board*  
DIVISION OF GENERAL SERVICES



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JAMES J. FORTH, JR.  
ASSISTANT DIVISION DIRECTOR

April 27, 1993

Helen T. Zeigler  
Deputy Director  
Division of General Services  
1201 Main Street, Suite 420  
Columbia, South Carolina 29201

Dear Helen:

We have examined the procurement policies and procedures of the Savannah Valley Authority for the period July 1, 1986 - February 28, 1993. As part of our examination, we studied and evaluated the system of internal control over procurement transactions to the extent we considered necessary.

The 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 Authority procurement policy. Additionally, the evaluation was used in determining the nature, timing and extent of other auditing procedures necessary for developing an opinion on the adequacy, efficiency and effectiveness of the procurement system.

The administration of the Savannah Valley Authority is responsible for establishing and maintaining a system of internal control over procurement transactions. In fulfilling

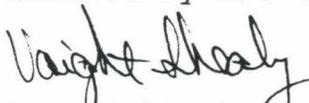
this responsibility, estimates and judgements by management are required to assess the expected benefits and related costs of control procedures. The objectives of a system are to provide management with reasonable, but not absolute, assurance of the integrity of the procurement process, that affected 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 professional care. However, because of the nature of audit testing, they would not necessarily disclose all weaknesses in the system.

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

Corrective action based on the recommendations described in these findings will in all material respects place the Savannah Valley Authority in compliance with the South Carolina Consolidated Procurement Code and its ensuing regulations and the Authority's alternative code allowed by Act 456 of 1992.

  
R. Voight Shealy, CFE, Manager  
Audit and Certification

## INTRODUCTION

In accordance with Section 11-35-1230 of the South Carolina Consolidated Procurement Code, we conducted an examination of the internal procurement operating policies and procedures of the Savannah Valley Authority. Our on-site review was conducted March 16-26, 1993. While we normally conduct such audits, we did this audit at this time in response to a request by Legislators.

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 Authority's Purchasing Manual, were in compliance with the South Carolina Consolidated Procurement Code and its ensuing regulations. With Act 456 of 1992, the General Assembly exempted the Savannah Valley Authority from most sections of that Code effective July 1, 1992. However, the Act required that the Authority develop an alternative code and submit it to the Budget and Control Board.

Additionally our work was directed toward assisting the Authority 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

We conducted our examination in accordance with Generally Accepted Auditing Standards as they apply to compliance audits. Our examination encompassed a detailed analysis of the internal procurement operating procedures of the Savannah Valley Authority, hereinafter referred to as the Authority, 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 reviewed the Authority's procurement transactions for the period July 1, 1986 - February 28, 1993, for compliance testing and performed other audit procedures that we considered necessary to formulate this opinion. Our review of the system included, but was not limited to, the following areas:

- (1) All sole source procurements for 7/1/86 - 2/28/93
- (2) All emergency procurements for 7/1/86 - 2/28/93
- (3) All purchase orders for the periods:
  - 7/3/86 - 6/24/87
  - 7/1/88 - 6/20/89
  - 7/2/90 - 6/30/91
  - 7/1/91 - 6/30/92
  - 7/1/92 - 2/05/93
- (4) All requisitions submitted to the Division of General Services for 7/1/86 - 2/28/93
- (5) All disbursement vouchers/checks for:
  - 7/1/87 - 6/30/88
  - 7/1/89 - 6/30/90
  - 7/1/90 - 6/30/91
  - 7/1/91 - 6/30/92
  - 7/1/92 - 2/28/93

- (6) All real property leases
- (7) Minority Business Enterprise Plans and approvals
- (8) Information Technology Plans and approvals
- (9) The Authority's procurement procedures manual that was developed in response to Act Number 456 of 1992, which exempted the Authority from the South Carolina Consolidated Procurement Code

SCOPE DISCLAIMER

We were unable to review all purchase orders for the entire audit period as we had planned. The purchase order files for fiscal years 1987/88 and 1989/90 were not available. This missing documentation affected both the Authority's and our ability to determine compliance with the Consolidated Procurement Code, hereinafter referred to as the Code.

RESULTS OF EXAMINATION

I. Inappropriate Sole Source Procurement

While the Authority processed the following procurement under its legal authority, we believe that under the circumstances competition should have been solicited:

<u>Date</u>	<u>Reference</u>	<u>Amount</u>	<u>Description</u>
12/03/90	Various	\$1,905,124.00	Consultant

Section 11-35-1560 of the Code reads:

A contract may be awarded for a supply, service, or construction item without competition when, under regulations promulgated by the Board, the chief procurement officer, the head of a purchasing agency, or a designee of either, above the level of the procurement officer, determines in writing that there is only one source for the required supply, service, or construction item... In cases of reasonable doubt, competition must be solicited.

Even though the Authority's position is that this firm was the only known source that possessed all of the needed qualifications, a competitive solicitation of proposals is the best way to verify that belief. We cannot predict whether or not other firms would have offered proposals or if they would have been selected. However, considering the purposes and policies of the Consolidated Procurement Code stated in part on page 3 of this report and the amount of this procurement, we believe that effort would have been worthwhile.

We recommend that the Authority seek competition when there is reasonable doubt that it may exist.

AUTHORITY RESPONSE

Sole source procurements are authorized by 11-35-1560, and may be "awarded for a supply, service or construction item without competition when, under regulations promulgated by the board...the head of a purchasing agency...determines in writing that there is only one source for the required supply, service, or construction item... In cases of reasonable doubt, competition must be solicited." Id.

The term "reasonable doubt" must be read in context with the provisions of 11-35-2410, which addresses the issue of the finality of determinations which are made. That section provides, in pertinent part:

"The determinations required by...11-35-1560 (Sole Source Procurement)...shall be final and conclusive unless they are clearly erroneous, arbitrary, capricious or contrary to law. The chief procurement officer shall review samples of such determinations periodically and issue reports and recommendations on the appropriateness of the determinations made." Id.

Reasonable doubt is a term foreign to the civil law; it rather is used only in the application of criminal law. Therefore, the statutory use of reasonable doubt, as found in Section 1560, being a term in the civil law, is necessarily defined and given its scope by the provisions of Section 2410, infra. Furthermore, a procurement is "inappropriate" only when it fails to meet the tests set out in Section 2410, that is, that the decisions of the procurement officer was clearly erroneous, arbitrary, capricious or contrary to law. The term "inappropriate" appears in the Procurement Code only in Section 2410.

The decision to sole source the contract with the firm, made in November 1990 by the entire SVA Board of Directors, must be viewed in the context of facts as they existed in November 1990, not as they now appear. In devising the scope of services, the chief procurement officer found that the Russell Project would require consulting and services to assist the Authority in negotiating land purchases from the present owners, to develop an implementation plan for the project, and to assist the Authority in implementing that project. The implementation plan was required to address and resolve specifically the funding for the infrastructure, project, land planning, financial plans, development agreements, and land use covenants and restrictions. The procurement officer found that the project was similar in scope to the Savannah Lakes Village Project which had been successfully planned, funded, and implemented through the assistance of the firm.

The Savannah Lakes Village Project was itself unique in that it combined an infusion of private capital with funding from both local and state government sources and was dependent upon

cooperation with local government to provide for the ownership and operation of the road, water, and sewer systems.

The procurement officer also found that the firm was the only company to have successfully developed a multi-county industrial park in South Carolina. The scope of services for the contract which was sole sourced envisioned the planning and implementation of a Clemson University Research Park and a research and industrial park in Aiken County associated with the Savannah River Site. Again, the knowledge of the firm gained from its prior experience in a multi-county industrial park was a unique attribute which was required.

The Authority had previously contracted with Ed Pinckney & Associates for a generalized environmental analysis and development plan for the Russell Project. That contract was awarded by public solicitation. Pinckney & Associates, independent of the Authority, identified the development of the Russell Project along the lines as developed at Savannah Lakes Village, in terms of its funding, infrastructure, and project development. Therefore, the Russell Project would be unique, and the firm had provided the only successful prior implementation of such a project.

The procurement officer determined:

"[The firm] is the only company that possesses the level of experience and knowledge necessary to successfully design, implement, and establish a sound footing for these projects for the Savannah Valley Authority. This conclusion is based both upon [the firm's] direct, hands-on, intensive experience with this Authority concerning the Savannah Lakes Village Project and the similarity of skills and services needed between the Savannah Lakes Village Project and the Russell Project, and secondly, [the firm's] experience with multi-county development."

The terms "arbitrary" and "capricious" have been examined on numerous occasions by the Courts of the several states. The Courts of South Carolina have never directly defined the word "capricious". However, our Courts have defined an "arbitrary" decision as one without rational basis, based alone on one's will and not upon any course of reasoning and exercise of judgement, made at its pleasure, without adequate determining principals, or governed by no fixed rules or standards. Deese v. South Carolina State Board of Dentistry, 286 S.C. 182,332 S.E.2d(S.C. App. 1985). The South Carolina definition is in accord with the other jurisdictions of this Country. The Supreme Court of Washington, for instance, has stated that action is not arbitrary or capricious when exercised honestly and upon due consideration, even though it may be believed that an erroneous conclusion has been reached. Hayes v. Yount, 87 Wash.2d 280,552 P.2d 1038. Where there is a bona fide dispute as to facts, such actions are not arbitrary or capricious. Douglas v. Miller, 285 N.Y.S.

2d.174. The New York Supreme Court has also said that the words arbitrary and capricious are synonymous, the word "capricious" meaning freakish, whimsical, fickle, changeable, unsteady, and arbitrary, and the word "arbitrary" being defined as fixed or done capriciously or at pleasure, not found in the nature of things, unrational, not done or acting according to reason or judgement, depending on the will alone, tyrannical, or despotic. Monachino v. Rohan, 178 N.Y.S. 2d 246. Where there is room for two opinions, the action is not arbitrary or capricious.

Clearly, in the instant case, the decision to sole source the contract was based upon valid reasons, solely related to the necessity of contract performance, and was largely based upon a conceptual development plan prepared by Pinckney & Associates which had been obtained through normal public solicitation. The gist of the firm's contract which was sole sourced was one of implementation, under the unique facts and circumstances of the services to be provided. For this reason the sole source was clearly supported by the finality of determination presumption afforded under Section 2410.

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## II. Unauthorized Legal Services

On June 19, 1989, the Budget and Control Board "approved as an exception the employment by the Savannah Valley Authority of a firm to provide specialized environmental legal services..." (emphasis added)

During our review, we noted that the Authority had employed the firm for a variety of non-environmental legal services. These additional services were not approved by the State Attorney General as required by Section 11-35-1260 of the Code, and they were therefore unauthorized.

Examples of those services included: personnel matters, procurement issues, refinancing, ethics research, reviews of legislation, drafting of procedures manuals, and a variety of other "general" legal services.

Our review of these services encompassed the period of June 1989 through January 1993. We reviewed vouchers and invoices totalling \$75,236.05. Of this amount, we estimated that \$18,763.37 was for non-environmental legal services.

We recommend that the Authority request ratification for \$18,763.37 of unauthorized legal services. This request should be made to the Director of the Division of General Services in accordance with Regulation 19-445.2015 of the Code.

#### AUTHORITY RESPONSE

The term environmental law has a very broad scope; however, it is clear that the great majority of the bills submitted by the firm were for services which fall within the standard and narrow definition of environmental law. The great bulk of the services provided by the firm prior to June 30, 1992, were related to implementation of the Richard Russell Project, particularly as it applied to the lease transfer with the United States of America (Army Corps of Engineers). This lease had overwhelming environmental considerations, including, but not limited to, compliance with federal and state environmental laws and the liability stemming therefrom, mitigation of both wildlife and fish habitat, soil erosion and sedimentation, water quality standards, and waste water disposal and quality. Therefore, all of the work which was performed by the firm in connection with the Richard Russell Project clearly falls within the scope of the authorization by the Budget and Control Board.

In a similar vein, the firm was also called upon to provide a number of services related to projects for industrial and economic development in Aiken County. The increasing complexity of the environmental laws, and the greatly expanded potential for liability, made it essential that the firm be associated for the purpose of insuring compliance with environmental standards. All services related to the EBASCO Project, the Westinghouse Research Facility in Aiken County, the Ameriglove Project, and the A&L Foods/Pope & Talbot transaction, required a great deal of environmental consultation, all of which fell within the scope of the Budget and Control Board Authorization.

The General Assembly amended the statutory authority of the Savannah Valley Authority, effective July 1, 1992. It added, inter alia, Subsection (p) to Section 13-9-30, South Carolina

Code of Laws, and specifically provided that the Authority has the power to "employ and dismiss at the will and pleasure of the Authority, those employees, consultants or other providers of service as the Authority considers as necessary and to fix and to pay their compensation." This authorization to employ "other providers of service" from the effective date of the act clearly evinces a legislative intent that the Authority should have the right to engage legal counsel at its will and pleasure. This is in addition to the amended authorization for the SVA to be exempt from the State Procurement Code, upon development of its own internal procurement code. Those services provided by the firm, which clearly are non-environmental in nature, but which were within the statutory authority conferred upon SVA by the General Assembly, effective July 1, 1992, amounted to \$8,544.21.

The Authority, in anticipation of developing the procurement manual as required by the General Assembly, engaged the services of the firm during June 1992 to begin drafting the procurement manual. Although those services were formed in FY 1992, they were not billed to the Authority until July 1992, after the beginning of the new fiscal year and after the statutory authority of the agency was altered. Given the particular expertise of the firm in procurement issues, it is felt that the payment for those services, in the amount of \$1,310.00, was clearly within the spirit of the legislative enactment.

There clearly remain some expenditures which were made to the firm prior to July 1, 1992, which were not covered in the scope of the Budget and Control Board authorization for specialized environmental legal services. The sum of those services is \$8,909.16.

The Authority will seek a ratification of all unauthorized services from the Budget and Control Board as suggested in the draft report.

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### III. Procurements Made Without Competition

#### A. Small Purchases Made Without Competition

The following procurements were not supported by evidence of competition as required by the Code:

	<u>Date</u>	<u>Reference</u>	<u>Amount</u>	<u>Description</u>
1.	10/27/86	Po.0217	\$ 724.50	Catering
2.	06/08/87	Po.0248	1,937.00	Desks
3.	06/18/87	Po.0248A	1,572.00	Chairs
4.	06/19/87	Po.250	1,365.00	Typewriter
5.	08/18/87	Vo.7039	1,572.00	Chair
6.	08/28/87	Vo.7053	1,115.01	Newsletter
7.	09/01/87	Vo.7060	675.00	Chairs
8.	12/16/87	Po.0292	1,230.00	Office furniture
9.	12/22/87	Vo.7172	871.50	Transcriber & recorder
10.	03/22/88	Po.0292	1,543.75	Furniture
11.	06/13/88	Vo.7398	1,718.06	Catering
12.	09/18/89	Vo.9113	500.00+	Contractual development
	03/26/90	Vo.9406	897.26	consultant
13.	10/03/89	Vo.9133	2,130.00	Newsletter
14.	07/13/90	Vo.9581	5,064.73	Toshiba laptop
15.	03/06/90	Vo.9382	4,500.00	Agricultural engineer
16.	08/07/90	Vo.1041	958.48	Software
17.	10/02/90	Vo.1137	775.95	(16) MB 80 NS Simms
18.	08/16/91	Vo.2051	672.00	Oak cabinets
19.	01/06/92	Vo.2265	726.00	Modular furniture
20.	03/24/92	Vo.2398	1,314.39	Boat repairs
21.	10/26/92	Vo.3148	1,144.50	Software

Regulation 19-445.2100 requires that procurements from \$500.01 to \$1,499.99 be supported by solicitations of verbal or written quotes from a minimum of two qualified sources and that procurements from \$1,500.00 to \$2,499.99 be supported by solicitations of written quotations from a minimum of three qualified sources. The Authority could not present evidence that these competition requirements were met.

We recommend that competition be solicited and documented to support future procurements.

Since items 14 and 15 exceeded the Authority's certification they were unauthorized and must be submitted for ratification in accordance with Regulation 19-445.2015(A) of the Code.

#### AUTHORITY RESPONSE

##### 1. Catering - \$724.50

Although backup documentation for this purchase cannot be located, this selection was made by contacting the two barbecue caterers serving this area; and the selection was made on the basis of per plate prices and the ability to provide service on the required date.

- 2. Corrections/Prison Industries-Office Furniture - \$1,937.00:
- 3. Corrections/Prison Industries-Office Furniture - \$1,572.00:
- 5. Corrections/Prison Industries-Office Furniture - \$1,572.00:
- 7. Corrections/Prison Industries-Office Furniture - \$ 675.00:
- 8. Corrections/Prison Industries-Office Furniture - \$1,230.00:
- 10. Corrections/Prison Industries-Office Furniture - \$1,543.75:

These procurements of office furniture were made during the period of June 1987 through March 1988 to provide furnishings to meet the demands created by the employment of several new SVA employees. They were made under the assumption that SVA could contract directly with Prison Industries because both are agencies of the State of South Carolina. A review of office supply catalogues at the time also revealed that the office furniture under consideration could be procured from Prison Industries more cheaply than from available commercial sources. SVA received the best value available by dealing with Prison Industries for the furniture and would have, in all likelihood, selection Prison Industries if the purchases had been competitively bid. The practice of dealing directly with Prison Industries without bidding was ceased when we discovered the prohibition.

##### 4. Typewriter Purchase - \$1,365.00:

This purchase was attempted under the State Contract. Based on non-availability of the product from the vendor at that time and acting on the advice of the vendor, SVA purchased directly from manufacturer's outlet at a price below the State Contract price.

6. Newsletter - \$1,115.01:

This procurement was competed. The file containing the backup documentation was lost or destroyed.

9. Transcriber & Recorders - \$871.50:

This procurement was competed. The file containing backup documentation has been lost or destroyed.

11. Catering - \$1,718.06:

This procurement was competed. The file containing the backup documentation was lost or destroyed. Notes on file indicate that three area caterers were called; one would not bid; the low bidder had a conflict on the date of the event; and the remaining vendor was selected. The difference between the price of the low bidder who could not meet SVA's time schedule and the price of the selected bidder was \$0.20 per plate or a total of approximately \$55.

12. Development Assistance:

This was an agreement with the development arm of another governmental agency whereby they arranged meetings, provided meeting space, and accomplished other needed tasks for SVA on an as needed basis to supplement SVA's in-house capabilities. The charges to SVA were for cost only. This arrangement was handled as a contract because the SVA attorney prefers to use contractual documents to avoid misunderstandings.

13. Printing Newsletter - \$2,130.00:

This procurement was competed. The file containing backup documentation has been lost or destroyed. Related files reflect that the project was bid and that the cost was in line with previous solicitations. From recollection, this vendor was the only one that responded to this solicitation.

14. Purchase of Portable Computer - \$5,064.73:

16. Computer Software - \$958.48:

The procurement for the portable computer was competed after consultation with DIRM. The file containing backup documentation for the computer purchase has been lost or destroyed. The software and installation of software for the computer was purchased from the same vendor without competition. The vendor was the only authorized dealer in the immediate area for the type of computer SVA purchased, making it the logical selection to ensure adequate service. The Authority intends to seek a ratification of the computer purchase in accordance with Regulation 19-445.2015(A) as suggested in the draft report.

15. Agricultural Engineer - \$4,500.00:

SVA's contract with this engineer was developed as a necessary implementation step in assuring proper sewage treatment for the Savannah Lakes Village development. The engineer was selected because of his unique ability to provide the specialized engineering services necessary to allow McCormick Commission of Public Works to receive a DHEC permit for sludge application. He is a recognized expert in the field. The documentation identifies the process used to select the engineer and the need for such services. This was a sole source contract. The file containing backup documentation has been lost or destroyed. The Authority intends to seek a ratification of the computer purchase in accordance with Regulation 19-445.2015(A) as suggested in the draft report.

17. (16) 1-MB 80 NS Simms - \$775.95:

This represents the purchase of sixteen individual memory expanders for the SVA computer network. They were not available on state contract through Apple, and we compared the cost through a number of computer publications. This purchase represented the least cost approach to upgrading the SVA computer network.

18. Oak Filing Cabinets - \$672.00:

The two two-drawer file cabinets were procured based on either catalog price from an approved supplier or based on telephone survey of cost. One criteria for this purchase was to match two-drawer file cabinets purchased at an earlier date. The price was reasonable and consistent with previous purchases.

19. Corrections/Prison Industries-Modular Furniture - \$726.00:

This specific procurement involved the exchange and modification of office dividers purchased by SVA from the Department of Corrections as part of an earlier procurement. Department of Corrections was willing to take the panels excess to SVA's needs in exchange and re-cut the others to meet our new needs. No other supplier would have made this exchange.

20. Boat Repairs - \$1,314.39:

Although substantiating documentation cannot be located, calls were made to a total of three suppliers of this type of service. The vendor was selected for this job for two reasons: (1) Based on telephone survey of three local service suppliers, the vendor was the only supplier that would provide the complete service in a timely and cost-effective manner. (2) The vendor is the closest full-service marine supplier in the area, and therefore the most convenient to SVA. This was a reasonable price for the boat repairs, and SVA received good value for its expenditure.

21. Software - \$1,144.50:

This was for the accounting software package needed by the accounting firm establishing SVA's accounting system. The consultant was instructed to locate the software package and obtain it in as timely a manner as possible in order to meet the contractual deadlines. The accountant fulfilled those instructions and had the software billed to SVA. That particular software is not on the State Contract and could not be located at or obtained through any other supplier in a timely manner.

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B. Extended Procurements Made Without the Requisite Competition

The Authority entered into the following multi-term agreements either without competition or without soliciting the level of competition required for the total potential commitments.

<u>Original Contract Date</u>	<u>Ref.</u>	<u>Total Actual Term</u>	<u>Estimated Total Pay-Out</u>	<u>Description</u>
11/28/87	Various	11/28/87-02/28/93	\$11,425.00	Clean Office
05/02/89	Various	05/02/89-02/28/93	9,200.00	Grounds Maint.
02/09/89	Various	02/09/89-02/28/93	2,260.00	Trash pickup
07/24/90	Various	07/24/90-02/28/93	1,530.00	Pest control
06/19/87	Various	06/19/87-02/28/93	2,000.00	Typewriter maintenance

For items 1 and 2 above, the Authority requested quotes from local vendors. It did not seek competition for the remaining items.

We take the following exceptions with these procurements:

- a) Requisite competition was not solicited for any of these procurements. While quotes were solicited for items 1 and 2 above, Section 11-35-1520 of the Code requires that sealed bids be solicited for procurements greater than \$2,500. We believe the Authority did not consider the total potential commitment of these procurements.

- b) Items 1 and 2 were unauthorized since the Authority's procurement limit is \$2,500. Consequently, the Executive Director must submit items 1 and 2 to the Materials Management Officer for ratification.
- c) By definition, each of these transactions was a multi-term procurement as defined in Section 11-35-2030. However, none of them were supported by the required determination.

#### AUTHORITY RESPONSE

##### 1. Clean Offices:

The original contracts were let based on a request for proposal. The vendor was the low bid and is a certified minority contractor. This contract is used toward meeting the Minority Contract goals of SVA. The original prices have not changed. The Authority intends to seek a ratification of those services from the Materials Management Officer as suggested in the draft report.

##### 2. Grounds Maintenance:

The original contracts were let based on a request for proposal. The vendor was the low bid and is a certified minority contractor. This contract is used toward meeting the Minority Contract goals of SVA. The original prices have not changed. The Authority intends to seek a ratification of those services from the Materials Management Officer as suggested in the draft report.

##### 3. Trash Pickup:

This is the only supplier of these services in McCormick County; all rural customers have to deal with them. The procurement should have been accomplished as a sole source contract or coded as a utility.

4. Pest Control:

We discovered we had a serious infestation of ants, contracted with the company that could provide immediate service, and have not changed providers. Based on a comparison of the costs of other services, this vendor provides good value to SVA.

6. Xerox-Typewriter Maintenance Contract:

The maintenance contract for the Xerox Memorywriter typewriters was originally provided on the State Contract. When the vendor ceased providing the service, and there were no substitute providers except for Xerox itself. This probably should have been a sole source contract.

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IV. Architect-Engineer Services Not Approved by the State Engineer

The Authority procured the following architect, engineer and land surveyor services without competition or the requisite approvals.

	<u>Voucher Date</u>	<u>Voucher Ref.</u>	<u>Voucher Amount</u>	<u>Total Project Fee</u>	<u>Description</u>
1.	11/24/87	Vo.7144	\$ 593.76	\$ 593.76	Stevens Creek Analysis
2.	07/14/88	Vo.7445	6,600.00	22,000.00	McCormick-Calhoun Falls
3.	10/01/87	Vo.7087	1,861.00	1,861.00	Stevens Creek Analysis
4.	08/28/87	Vo.7054	8,200.00	8,200.00	Prepare NPDES/PER
5.	07/02/89	Vo.2566	689.08	750.00	Environmental Assessment Update
6.	09/15/92	Vo.3087	887.07	1,500.00	Level I Assessment
7.	02/23/93	CK.0242	6,000.00	6,000.00	Level I Assessment
8.	02/22/93	CK.0241	2,800.00	2,800.00	Assessment

Sections 11-35-3220 and 11-35-3230 of the Code require that all procurements of architect-engineer services and extensions of previously approved procurements be approved by the State Engineer. Since this did not happen, they were unauthorized.

The Executive Director must submit each item to the Materials Management Officer for ratification in accordance with Regulation 19-445.2015.

We recommend that future procurements of architect-engineer services be made in accordance with these sections of the Code or the Authority's Code.

#### AUTHORITY RESPONSE

1. Stevens Creek Analysis:
2. McCormick-Calhoun Falls Wastewater:
3. Stevens Creek Analysis:
4. Prepare NPDES/PER:

Each of these services was covered by the procurement exemption for the Savannah Lakes Village (Little River) Project because of the fact that these projects were required to support the development of the SLV master plan. Also, these services were obtained as part of an allowable extension to an engineering contract developed as the result of a public solicitation and approved by the OSE. Based on a review of the documentation, it is clear that the extension was not resubmitted to the OSE. The Authority intends to seek a ratification of those services from the Materials Management Officer in accordance with Regulation 19-445.2015 as suggested in the draft report.

5. Environmental Assessment Update:

The Authority intends to seek a ratification of those services from the Materials Management Officer in accordance with Regulation 19-445.2015 as suggested in the draft report.

6. Level I Assessment:
7. Level I Assessment:
8. Assessment:

These were post-June 1992 procurements and made under the authorities given the SVA by its new legislation. Subsection (p) to Section 13-9-30, South Carolina Code of Laws, specifically provided that the Authority has the power to "employ and dismiss at the will and pleasure of the Authority, those employees, consultants or other providers of service as the Authority considers as necessary and to fix and to pay their compensation." The Authority intends to seek a ratification of those services from the Materials Management Officer in accordance with Regulation 19-445.2015 as suggested in the draft report.

V. Unauthorized Procurement of a Vehicle

During June 1987, the Authority procured an automobile costing \$12,490 without evidence of approval from the Division of Motor Vehicle Management and without the required purchasing authority. As such, the procurement was unauthorized meaning the Executive Director must submit a ratification request to the State Materials Management Officer.

There is evidence that the Authority informed Motor Vehicle Management, but no documented approval. The Authority solicited bids from four vendors, but its procurement authority limit was \$2,500. Further, the Code requires that bids be solicited from a minimum of ten qualified providers on procurements greater than \$10,000.

We recommend that the Authority submit a request for ratification to the Materials Management Officer in accordance with Regulation 19-445.2015.

AUTHORITY RESPONSE

The Authority intends to seek a ratification of those services from the Materials Management Officer in accordance with Regulation 19-445.2015 as suggested in the draft report.

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VI. Unauthorized Cellular Telephone Procurement

The Authority procured a cellular telephone and services August 1991 (Ref. PO#0567). It did not receive approval from the Division of Information Resource Management (DIRM) as required by

Section 1-11-430 of the South Carolina Code of Laws. It did use a vendor under a state contract but approval is required each time an agency procures cellular telephone service.

We recommend that the Authority advise DIRM of this matter and request ratification from the State Materials Management Officer in accordance with Regulation 19-445.2015.

AUTHORITY RESPONSE

Although SVA procured this from a vendor under a state contract, it failed to get DIRM approval. The Authority intends to notify DIRM and seek ratification of those services from the Materials Management Officer in accordance with Regulation 19-445.2015 as suggested in the draft report.

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VII. Furniture Procurements Should Have Been Combined

The following three purchase orders were issued for what was actually one procurement of office furniture. No competition was solicited:

<u>PO#</u>	<u>PO Date</u>	<u>PO Amount</u>	<u>Description</u>
1. 0370	06/02/89	\$ 362.00	1 desk
2. 0371	06/02/89	245.00	1 executive chair
3. 0372	06/02/89	<u>690.00</u>	Work table & 2 side chairs

Total \$1,297.00

The Authority should have combined these items and solicited a minimum of two verbal quotations. Awards could have been made on a line item basis.

AUTHORITY RESPONSE

SVA used quotations received in a bid from earlier in the year to determine the most cost effective vendors for these products. In addition to the price, these vendors were able to provide furniture that matched that in the rest of the office.

VIII. Unauthorized Procurement of Office Furniture

On November 14, 1988 on purchase order number 0334, the Authority ordered furniture for their new office from a vendor without competition. On January 3, 1989, after the vendor informed the Authority that some of the furniture could not be delivered for 6-7 months, the Authority ordered the items available on a more timely delivery from the vendor and solicited bids for the remainder of the furniture.

Purchase order number 0334 to the vendor was then reissued for those items plus the recovering of several chairs. The total of the items ordered, less the recoverings, totalled \$2,215.60.

On January 13, 1989, the Authority solicited bids for the remainder of the office furniture. As a result, the following purchase orders were issued:

<u>PO#</u>	<u>PO Date</u>	<u>Amount</u>
1. 0349-A	01/20/89	\$5,448.00
2. 0349-B	01/20/89	1,131.30

After adding purchase order number 0334 to the vendor, the total of this procurement was \$8,794.90. This exceeded the Authority's certification and is therefore unauthorized.

We recommend that the Authority request ratification of this procurement from the Materials Management Officer in accordance with Regulation 19-445.2015 of the Code.

AUTHORITY RESPONSE

The Authority intends to seek a ratification of those services from the Materials Management Officer in accordance with Regulation 19-445.2015 as suggested in the draft report.

IX. Review of the Authority's Purchasing Policy Manual

As noted earlier, the General Assembly, through Act 456 of 1992, exempted the Authority from most sections of the South Carolina Consolidated Procurement Code, but required it to develop its own procedures and regulations and submit them to the Budget and Control Board for approval.

During this audit, we reviewed these procedures and regulations and found them to be a sound attempt by the Authority. We do make the following recommendations, however, that we believe will strengthen those procedures:

- (1) The Methods of Source Selection at Article II, Part A, should also list competitive sealed bidding and reference Article II, Part A.2.
- (2) Minimum solicitation requirements should be addressed under competitive sealed bids and competitive sealed proposals (Ref. Article II, Part A.2 & 3).
- (3) Article VI does not apply a time limit for submission of complaints. The Authority may wish to consider a reasonable time limitation.

AUTHORITY RESPONSE

The recommendations contained in the draft report will be incorporated into the final version of SVA's purchasing policy manual.

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CONCLUSION

As enumerated in our transmittal letter, corrective action based on the recommendations described in this report, we believe, will in all material respects place the Savannah Valley Authority in compliance with the South Carolina Consolidated Procurement Code or its procedures and regulations required by Act 456 of 1992.

We must state our concern over the number of audit exceptions listed herein. The Authority should take immediate action to eliminate the problem areas noted during our review. If possible, the Authority should complete corrective action by June 30, 1993. The Office of Audit and Certification will perform a follow-up review in accordance with Section 11-35-1230(1) of the Procurement Code to determine if the proposed corrective action has been taken by the Authority.

AUTHORITY RESPONSE

SVA has already begun corrective measures in accordance with the contents of this procurement audit. SVA will ensure that actions are taken to correct the deficiencies and that a report is submitted to the Budget and Control Board, Division of General Services within a 60 day period.

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R. Voight Shealy, CFE, Manager  
Audit and Certification

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