PROCUREMENT AUDIT AND CERTIFICATION
January 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 Wildlife and Marine Resources audit report and recommendations made by the Office of Audit and Certification. I concur and recommend the Budget and Control Board grant the Agency three years certification as outlined in the audit report.

Sincerely,

William J. Clement, AIA
Assistant Division Director

Attachment
SOUTH CAROLINA WILDLIFE AND MARINE RESOURCES DEPARTMENT
AUDIT REPORT

December 11, 1986
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Mr. 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 Wildlife and Marine Resources Department for the period July 1, 1984 through June 30, 1986. 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 a recommendation for certification above the $2,500 limit.

The administration of the Wildlife and Marine Resources Department is responsible for establishing and maintaining a system of internal control over procurement transactions. In fulfilling this responsibility, estimates and judgements by man-
agement 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 Wildlife and Marine Resource Department 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 and related manual of the South Carolina Wildlife and Marine Resources Department.

Our on-site review was conducted August 11 through September 9, 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.
BACKGROUND

Section 11-35-1210 of the South Carolina Consolidated Procurement Code states:

The (Budget and Control) Board may assign differential dollar limits below which individual governmental bodies may make direct procurements not under term contracts. The Division of General Services shall review the respective governmental body's internal procurement operation, shall verify in writing that it is consistent with the provisions of this code and the ensuing regulations, and recommend to the Board those dollar limits for the respective governmental body's procurement not under term contract.

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

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

Our audit was performed primarily to determine if recertification is warranted. Additionally, the Wildlife and Marine Resources Department requested the increased certification limits listed below:

<table>
<thead>
<tr>
<th>Category</th>
<th>Requested Limit</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Goods and Services</td>
<td>$10,000</td>
</tr>
<tr>
<td>2. Construction</td>
<td>$25,000</td>
</tr>
</tbody>
</table>
SCOPE

Our examination encompassed a detailed analysis of the internal procurement operating procedures of the Wildlife and Marine Resources Department and the related policies and procedures manual to the extent we deemed necessary to formulate an opinion on the adequacy of the system to properly handle procurement transactions up to the requested certification limits.

The Audit and Certification team statistically selected random samples for the period July 1, 1984 through June 30, 1986, 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) warehousing, 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 of the South Carolina Wildlife and Marine Resources Department produced findings and recommendations in the following areas:

I. Compliance - Goods and Services

Our examination of goods and services revealed compliance exceptions to the Code and internal procurement procedures in the following areas:

A. Source Selection

Five procurements were made improperly, since they were not supported by evidence of competition or sole source or emergency procurement determinations.

B. Splitting Orders

The Charleston Purchasing Office split orders to stay below the $500 purchasing limit, above which competition is required.
II. **Cash Discounts Lost**

Accounts Payable failed to take allowable cash discounts totalling $1,052.85 on two vendor contract payments.

III. **Change Order Policy**

Internal procurement policy was not followed on a contract price change.
RESULTS OF EXAMINATION

I. Compliance - Goods and Services

Our examination of goods and services procurement transactions revealed two areas where procurements were not made in compliance with the Consolidated Procurement Code and internal procurement policy.

A. Source Selection

Five procurements were not supported by evidence of competition, sole source or emergency procurement determinations. These exceptions were as follows:

<table>
<thead>
<tr>
<th>P.O. #</th>
<th>Date</th>
<th>Amount</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>1167</td>
<td>10/29/84</td>
<td>$1,100</td>
<td>Vehicle transmission repair</td>
</tr>
<tr>
<td>1672</td>
<td>01/04/85</td>
<td>750</td>
<td>Boat motor repair</td>
</tr>
<tr>
<td>31778</td>
<td>08/31/84</td>
<td>859</td>
<td>Camera equipment &amp; accessories</td>
</tr>
<tr>
<td>30723</td>
<td>11/08/85</td>
<td>1,088</td>
<td>Clam survey</td>
</tr>
<tr>
<td>32982</td>
<td>03/14/86</td>
<td>2,097</td>
<td>Fuel system overhaul in diesel engine</td>
</tr>
</tbody>
</table>

Since each transaction was less than $2,500.00, the small purchase provisions of Section 19-445.2100 of the regulations should have been followed. In the future, the department must insure that the correct source selection process is utilized in all procurements.
B. Splitting Orders

We found evidence of order splitting in the Charleston Purchasing Office. This process was used to insure the orders would not be greater than $500.00, the level at which competition is required. The exceptions noted are as follows:

<table>
<thead>
<tr>
<th>P.O. #</th>
<th>Reg. #</th>
<th>Reg. Date</th>
<th>Amount</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>30037</td>
<td>17867</td>
<td>07/03/85</td>
<td>$498.62</td>
<td>Water treatment chemicals</td>
</tr>
<tr>
<td></td>
<td>17868</td>
<td>07/03/85</td>
<td>491.27</td>
<td>Water treatment chemicals</td>
</tr>
<tr>
<td></td>
<td>17869</td>
<td>07/03/85</td>
<td>491.27</td>
<td>Water treatment chemicals</td>
</tr>
<tr>
<td></td>
<td>17870</td>
<td>07/03/85</td>
<td>491.27</td>
<td>Water treatment chemicals</td>
</tr>
<tr>
<td>30859</td>
<td>87344</td>
<td>09/03/85</td>
<td>390.21</td>
<td>Lab compressor parts</td>
</tr>
<tr>
<td>30861</td>
<td>87342</td>
<td>*08/30/85</td>
<td>390.21</td>
<td>Lab compressor parts</td>
</tr>
<tr>
<td>33291</td>
<td>74552</td>
<td>03/17/86</td>
<td>382.59</td>
<td>Electrical fixtures</td>
</tr>
<tr>
<td>33333</td>
<td>74551</td>
<td>03/17/86</td>
<td>382.59</td>
<td>Electrical fixtures</td>
</tr>
</tbody>
</table>

* There was evidence that the requisition dated September 3, 1985 was back dated to August 30, 1985.

The Purchasing Office in Charleston has failed to adhere to Section 19-445.2100 Subsection A, of the Regulations, which states in part "...procurement requirements shall not be artificially divided by governmental bodies so as to constitute a small purchase..."

We remind the department that order splitting to circumvent the competitive bid requirements is a Code violation. It must stop to insure future agency recertification.
II. Cash Discounts Lost

Our testing of the procurement payment process revealed that the Accounts Payable Section has neglected to take allowable cash discounts for timely payment as authorized by contracts in at least two instances.

These two contracts entitled the department to: (1) a 3% discount on a $26,065 procurement and (2) a 2% discount on a $13,545 procurement as payment was made within 30 days of receipt. We determined that the department lost $1,052.85 in allowable cash discounts on these payments.

Care must be taken to ensure that cash discount provisions are utilized. Otherwise, the integrity of the procurement process may be undermined and funds can be expended unnecessarily.

III. Change Order Policy

We noted that a change order was not prepared for a transaction when the invoice amount exceeded the purchase order amount by greater than 10%, as required by internal policy. The exceptions were as follows:

<table>
<thead>
<tr>
<th>P.O. #</th>
<th>P.O. Amount</th>
<th>Voucher Amount</th>
<th>% Variance</th>
</tr>
</thead>
<tbody>
<tr>
<td>02623</td>
<td>$6,184.60</td>
<td>$7,555.91</td>
<td>+22%</td>
</tr>
</tbody>
</table>

The department's internal operating procedures states in part: "...The Procurement Officer has delegated authority to the
accounting office in the area of approving overages in the processing of invoices for payment not to exceed 10 percent or $100 of the actual purchase order amount...."

A formal standardized change order system, when followed, accomplishes several objectives:

1. Control of price deviations by the purchasing agent thereby centralizing the authorization function.
2. Preventing vendors from making unauthorized price changes in purchase orders which are issued and approved at a specific price.
3. Monitoring using department requests to authorize quantity changes to vendors.

Therefore we recommend that the department adhere to its internal change order policy to insure all material changes to purchase orders have written approval by the purchasing officer.
CERTIFICATION RECOMMENDATIONS

As enumerated in our transmittal letter, corrective action based on the recommendations in the body of this report, we believe, will in all material respects place the South Carolina Wildlife and Marine Resources Department in compliance with the State Consolidated Procurement Code and ensuing regulations.

Prior to March 31, 1986 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 department. Based on the follow-up review, and subject to this corrective action, we will recommend that the Wildlife and Marine Resources Department be re-certified to make direct agency procurements for a period of three years as follows:

<table>
<thead>
<tr>
<th>Procurement Area</th>
<th>Recommended Certification Limit</th>
</tr>
</thead>
<tbody>
<tr>
<td>I. Goods and Services</td>
<td>$10,000* per purchase commitment</td>
</tr>
<tr>
<td>II. Construction</td>
<td>$25,000* per purchase commitment</td>
</tr>
</tbody>
</table>

* The total potential purchase commitment to the State whether single year or multi-term contracts are used.
January 15, 1987

Mr. R. Voight Shealy, Manager  
Audit and Certification  
Division of General Services  
300 Gervais Street  
Columbia, South Carolina  29201

Dear Mr. Shealy:

I have reviewed in detail the audit report for the South Carolina Wildlife and Marine Resources Department for the period July 1, 1984 through June 30, 1986 and have given special consideration to the audit findings and recommendations as outlined on pages 10 through 13 of the report.

I concur with all recommendations and have instructed my Director of Administrative Services to take the necessary action to implement the recommendations immediately, and I am confident these deficiencies will be corrected.

I appreciate your team's work in reviewing our purchasing procedures and assure you that we at Wildlife take pride in adhering to the rules, regulations, established procedures and statutes. We take our deficiencies very seriously and will work toward the goal of conformance in all areas.

I look forward to your follow-up to determine complete compliance.

Sincerely,

James A. Timmerman, Jr.  
Executive Director

JATjr/mbs
January 19, 1987

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

Dear Bill:

We have reviewed the response to our audit report of the South Carolina Wildlife and Marine Resources Department covering the period July 1, 1984 through June 30, 1986. Combined with observations made during our site visit, this review has satisfied the Office of Audit and Certification that the Agency is correcting the problem areas found and that internal controls over the procurement system are adequate.

We, therefore, recommend that the certification limits for the Wildlife and Marine Resources Department outlined in the audit report be granted for a period of three (3) years.

Sincerely,

Voight Shealy  
R. Voight Shealy, Manager  
Audit and Certification