PROCUREMENT AUDIT AND CERTIFICATION

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SOUTH CAROLINA WILDLIFE AND MARINE RESOURCES DEPARTMENT

AGENCY

APRIL 1, 1989 - DECEMBER 31, 1991

DATE
August 31, 1992

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

Dear Rick:

Attached is the South Carolina Wildlife and Marine Resources procurement audit report and recommendations made by the Office of Audit and Certification. I concur and recommend the Budget and Control Board grant the Department a three (3) year certification as noted in the audit report.

Sincerely,

James J. Forth, Jr.  
Assistant Division Director

JJFjr/jlj

Attachment
SOUTH CAROLINA WILDLIFE AND MARINE RESOURCES DEPARTMENT

PROCUREMENT AUDIT REPORT

APRIL 1, 1989 - DECEMBER 31, 1991
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</table>
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 examined the procurement policies and procedures of the South Carolina Wildlife and Marine Resources Department for the period April 1, 1989 - December 31, 1992. 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 internal 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 South Carolina 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 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 South Carolina Wildlife and Marine Resources Department in compliance with the South Carolina Consolidated Procurement Code and ensuing regulations.

Veight Shealy
R. Voight Shealy, CFE, 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 Wildlife and Marine Resources Department. Our on-site review was conducted February 25, 1992 through March 31, 1992 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 South Carolina Wildlife and Marine Resources Department 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 ensuing regulations.

Most recently, on November 16, 1989, the Budget and Control Board granted the South Carolina Wildlife and Marine Resources Department certification as follows.

<table>
<thead>
<tr>
<th>Procurement Areas</th>
<th>Recommended Certification Limits</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>
<tr>
<td>3. Information Technology</td>
<td>5,000</td>
</tr>
</tbody>
</table>

Our audit was performed primarily to determine if recertification is warranted. Also, an increase in certification was requested as follows:
<table>
<thead>
<tr>
<th>Procurement Areas</th>
<th>Requested Certification Limits</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>
<tr>
<td>3. Information Technology</td>
<td>25,000</td>
</tr>
</tbody>
</table>
SCOPE

Our examination was performed in accordance with Generally Accepted Auditing Standards as they apply to compliance audits. It encompassed a detailed analysis of the internal procurement operating procedures of the South Carolina Wildlife and Marine Resources Department 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 systematically selected samples for the period July 1, 1989 - December 31, 1991, of procurement transactions for compliance testing and performed other audit procedures that we considered necessary to formulate this opinion. As specified in the Consolidated Procurement Code, hereinafter called the Code, and related regulations, our review of the system included, but was not limited to, the following areas:

(1) All sole source and emergency procurements and trade-in sales for the audit period

(2) Purchase transactions for the period July 1, 1989 through December 31, 1991 as follows:

   a) Two hundred systematically selected procurement transactions, each exceeding $500.00

   b) A block sample of all purchase orders issued to vendors from the Charleston Office with names beginning with C&H for fiscal year 1991/92

(3) Twenty-five permanent improvement contracts for compliance with the Manual for Planning and Execution of State Permanent Improvements

(4) Minority Business Enterprise Plans and reports
(5) Information Technology Plan
(6) Procurement procedures
(7) Property Management and fixed asset procedures
(8) Stockroom procedures
(9) Procurement staff and training
SUMMARY OF AUDIT FINDINGS

Our audit of procurement management at the South Carolina Wildlife and Marine Resources Department (hereinafter referred to as the Department) produced findings and recommendations in the following areas:

I. General Procurement Transactions
   A. Artificially Divided Procurements
      Our testing revealed four separate instances of artificially divided procurements.
   B. Unauthorized Contract
      One contract for $2,000 was unauthorized.
   C. Contract Awarded to Wrong Vendor
      We noted one contract where the Department did not award to the lowest bid offered.
   D. Shipping Charge Incorrectly Paid
      Only one instance was noted where shipping charges should not have been paid. It amounted to $105.84.

II. Construction
   A. Missing Construction Documents
      The Department was unable to provide us with some of the required documents on four construction contracts.
B. Minor Construction

The Department does not follow Article 9 of the Code in its procurements of minor construction. Also, when using PIP funds, the Department uses its construction certification limit of $25,000 for all types of procurements whether it is construction services or not.

III. Sole Source and Emergency Procurements

A. Inappropriate Emergencies

Two emergencies we believe were inappropriate.

B. Change Order Done as a Sole Source

A change order to an emergency contract was processed as a sole source instead of amending the emergency contract.

C. Emergency Contract Not Declared PIP

One contract done as an emergency should have been established as a permanent improvement project.
RESULTS OF EXAMINATION

I. General Procurement Transactions

We reviewed random samples from each of the four procurement areas defined by the Code. These areas are goods and services, information technology, consultants and construction. In all we tested samples of 200 transactions for compliance to the Procurement Code and Department procurement policies and procedures. Our findings are listed below except for construction findings which are listed in Section II of this report.

A. Artificially Divided Procurements

We found four separate instances where sections split requisitions to circumvent the Code or Department procedures.

In the first instance, five purchase orders totalling $6,800.25 were issued for what we believe to be one purchase of diving equipment. All five requisitions were submitted by the same Department official.

<table>
<thead>
<tr>
<th>PO Number</th>
<th>PO Date</th>
<th>Requisition Date</th>
<th>PO Amount</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. 90-611</td>
<td>08/29/89</td>
<td>08/22/89</td>
<td>$1,320.00</td>
<td>8 tanks</td>
</tr>
<tr>
<td>2. 90-616</td>
<td>08/29/89</td>
<td>08/25/89</td>
<td>1,347.25</td>
<td>5 wet suits</td>
</tr>
<tr>
<td>3. 90-673</td>
<td>09/01/89</td>
<td>08/22/89</td>
<td>2,000.00</td>
<td>8 regulators</td>
</tr>
<tr>
<td>4. 90-712</td>
<td>09/06/89</td>
<td>08/25/89</td>
<td>768.00</td>
<td>6 depth &amp; pressure guages</td>
</tr>
<tr>
<td>5. 90-735</td>
<td>09/11/89</td>
<td>08/25/89</td>
<td>1,365.00</td>
<td>4 stabilizing jackets</td>
</tr>
</tbody>
</table>

Total $6,800.25

All purchase orders were issued to the same vendor. Two verbal solicitations were made on all orders except purchase order 90-673 which had three written quotations. A minimum of five sealed solicitations were required under Regulation 19-445.2035.
Secondly, two purchase orders were issued totalling $4,830.00 for the printing of ticket books.

<table>
<thead>
<tr>
<th>PO Number</th>
<th>PO Date</th>
<th>Amount</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>91-10</td>
<td>07/02/90</td>
<td>$2,415.00</td>
<td>800 summons ticket books</td>
</tr>
<tr>
<td>91-11</td>
<td>07/02/90</td>
<td>$2,415.00</td>
<td>800 warning ticket books</td>
</tr>
<tr>
<td></td>
<td></td>
<td><strong>Total</strong></td>
<td><strong>$4,830.00</strong></td>
</tr>
</tbody>
</table>

The same three written quotations supported both purchase orders. Both purchase orders were issued to the same vendor. Regulation 19-445.2035 requires solicitation of a minimum of three sealed bids.

In the third instance, two purchase orders were issued to two different vendors for office furniture totalling $2,968.88.

<table>
<thead>
<tr>
<th>PO Number</th>
<th>PO Date</th>
<th>Amount</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>91-398</td>
<td>08/02/90</td>
<td>$954.98</td>
<td>Executive chair, side chair, cabinet</td>
</tr>
<tr>
<td>91-399</td>
<td>08/02/90</td>
<td>$2,013.90</td>
<td>Bookcase, 4 drawer file, executive desk, credenza</td>
</tr>
<tr>
<td></td>
<td></td>
<td><strong>Total</strong></td>
<td><strong>$2,968.88</strong></td>
</tr>
</tbody>
</table>

Both requisitions were submitted by the same Department official. All furniture went into the same office. The same three written quotations supported both purchase orders. However, Regulation 19-445.2035 requires that a minimum of three sealed bids be solicited.

Finally, we noted one Field Purchase Request (FPR) for boat rigging totalling $804.62 that appeared to be artificially divided. The Department allows the field offices to make limited procurements up to $500.00. Procurements exceeding $500.00 must be sent to the Procurement Office located in Columbia. However, we noted the following exception.
Both FPR's were issued to the same vendor for the same boat. No competition was sought on this procurement. Regulation 19-445.2100 requires solicitation of a minimum of two verbal quotes. Since the total amount exceeded the FPR limit of $500.00, the contract was unauthorized and must be submitted to the Department's Executive Director for ratification in accordance with Regulation 19-445.2015.

Regulation 19-445.2100 states in part, "...procurement requirements shall not be artificially divided by governmental bodies..." We recommend that Department personnel stop dividing procurements. Like items should be combined into one bid whenever possible so the best possible prices may be obtained.

B. Unauthorized Contract

Purchase order 90-32382 for book binding services for $2,000.00 was unauthorized as indicated by the fact that the invoice preceded the necessary authorizations. Further, the procurement was made without competition.

Even though the Procurement Office knew that, they issued a purchase order instead of calling the transaction unauthorized and requiring that it be submitted to the Department's Executive Director for ratification.

We recommend that all procurements be made in accordance with the Code and Department policy. If it is discovered that
this has not occurred, the Procurement Office should stop the transaction until it is ratified. Since the procurement above is still unauthorized, it must be submitted for ratification in accordance with Regulation 19-445.2015.

C. Contract Awarded to Wrong Vendor

On purchase order 90-219 for display terminals in the amount of $2,216.25, the Department did not award the contract to the vendor who offered the lowest bid for the quantity anticipated. The bids were as follows:

<table>
<thead>
<tr>
<th>Vendor</th>
<th>Quantity</th>
<th>Price</th>
<th>Price</th>
<th>Price</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>1 to 5 Units</td>
<td>6 to 15 Units</td>
<td>16 or more Units</td>
<td></td>
</tr>
<tr>
<td>Vendor A</td>
<td>$ 895.00 ea</td>
<td>$ 895.00 ea</td>
<td>$ 695.00 ea</td>
<td></td>
</tr>
<tr>
<td>Vendor B</td>
<td>$ 789.00 ea</td>
<td>$ 789.00 ea</td>
<td>$ 789.00 ea</td>
<td></td>
</tr>
<tr>
<td>Vendor C</td>
<td>$1,116.00 ea</td>
<td>$1,116.00 ea</td>
<td>$1,116.00 ea</td>
<td></td>
</tr>
</tbody>
</table>

The Department issued the purchase order to vendor A at $695 each, which is the price he offered if we bought sixteen or more units. However, the Department only bought three units meaning that vendor B should have received the award.

Based on his invoice, vendor A apparently accepted the Department's change in his price. However, this type of activity is not within the spirit of the Code which strives to offer a fair and equal chance to all who participate in the procurement process of the State.

We recommend the Department award contracts based on actual anticipated purchase quantities.

D. Shipping Charge Incorrectly Paid

We noted one instance where the Department paid shipping charges unnecessarily. This occurred on purchase order 90-1801
for printing where they paid $105.84 in shipping charges which the Department did not owe.

We recommend Accounts Payable scrutinize the purchase orders closer. All purchase orders stipulate whether shipping should be paid by the Department.

II. Construction

We reviewed a random sample of sixty construction and construction related transactions related to twenty-five permanent improvement projects (PIP's). We noted the following exceptions:

A. Missing Construction Documents

The Department was unable to provide us with some of the required documentation on four construction contracts. These documents by project were as follows:

1) Project #9527 Remley's Point Landing $104,293
   Performance and labor & materials payment bonds with power of attorney

2) Project #9600 Bridge Repair at Breach Inlet $ 16,500
   a) Executed contract
   b) Performance and labor & materials payment bonds with power of attorney
   c) Certificate of insurance

3) Project #9608 Fish house repairs at Dennis Center $ 14,215
   Labor & materials payment bond with power of attorney

4) Project #9609 Repairs to Maintenance Building $ 71,368
   at Dennis Center
   Labor & materials payment bond with power of attorney

With the exception of the SE-515 and SE-610, all of the documents listed are required by Article 9 of the Code. The SE-515 and SE-610 are required by the State Engineer's "Manual for Planning and Execution of State Permanent Improvements" (SPIRS).
We recommend the Department ensure that these required documents are obtained and maintained in the future.

B. Minor Construction

The Department is certified to make procurements of construction up to $25,000 per contract. During our review of the minor construction contracts - i.e. less than $25,000, we learned that the Department does not compete its minor construction contracts in accordance with the authorized procedures of the Code as outlined in Article 9. Instead, the Department has been using the procedures outlined in Article 5 of the Code which pertains to goods and services procurements.

Article 9 has specific requirements not addressed in Article 5. Primarily, solicitations for construction services must be advertised, and must require bid bonds, performance and labor and material payment bonds, contractors certificate of insurance and listing of subcontractors. Also, certified bid tabulations must be prepared and mailed to all responsive bidders. Article 5 does not require these items.

We recommend the Department revise its minor construction procurement procedures in accordance with Article 9 of the Code.

One other exception noted during our review of minor construction was the Department considered the use of permanent improvement project funds to fall under its construction certification of $25,000 regardless of the type of procurement to be made. This would include goods and services, information technology and consultant procurements in which the Department has lower certifications.
Construction certification only applies to procurements of construction services. The source of funds is irrelevant in this determination.

We recommend the Department review its procedures to ensure that only procurements of construction are made under its construction certification.

III. Sole Source and Emergency Procurements

We examined the quarterly reports of sole source and emergency procurements for the period April 1, 1989 through December 31, 1991. This review was performed to determine 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 Code. Most of the transactions were handled properly. However, we did note a few exceptions.

A. Inappropriate Emergencies

We believe two transactions done as emergencies were inappropriate as such. They were:

<table>
<thead>
<tr>
<th>PO Number</th>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>91-2242</td>
<td>Boat repairs</td>
<td>$3,368.51</td>
</tr>
<tr>
<td>90-3802</td>
<td>Boat</td>
<td>15,200.00</td>
</tr>
</tbody>
</table>

The boat repairs appeared to be refurbishment. It included things such as fuel and oil filters, new battery, steering cable, new water pump, oil, prop flange, control box and a variety of other items. Emergency repairs normally would be the result of unexpected and unplanned events. As a result, bids should have been solicited for the needed refurbishment.
On the second item noted, the requisition was dated 3/2/90, yet the emergency was not declared and the boat procured until early June. From the elapsed time, it appears that there was enough time to follow the normal competitive procedures of the Code.

B. Change Order Done as a Sole Source

A change order to increase the amount of a contract originally entered into through an emergency declaration was processed as a sole source procurement. This sole source was unnecessary. A change order would have been a more appropriate way to handle this amendment to the emergency contract. (Ref PO# 91-30342 for generator repairs at $5,819.03)

C. Emergency Contract Not Declared PIP

While we do not question the validity of the emergency declaration for the following contract, the Department failed to establish a permanent improvement project (PIP) on it.

<table>
<thead>
<tr>
<th>PO Number</th>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>90-30640</td>
<td>Repair of electrical generator &amp; distribution system at Fort Johnson after Hurricane Hugo</td>
<td>$42,884.20</td>
</tr>
</tbody>
</table>

Since the contract met the definition of a PIP, it should have been established as such and the reporting procedures followed.

We recommend the Department report this project to the SPIRS Office.
CERTIFICATION RECOMMENDATIONS

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 South Carolina Wildlife and Marine Resources Department in compliance with the South Carolina Consolidated Procurement Code and ensuing regulations. This corrective action should be accomplished by June 30, 1992.

Under the authority described in Section 11-35-1210 of the Procurement Code and subject to this corrective action, we will recommend that the Wildlife and Marine Resources Department be recertified to make direct agency procurements for a period of three years as follows:

<table>
<thead>
<tr>
<th>Procurement Areas</th>
<th>Recommended Certification Limits</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Goods and Services</td>
<td>$10,000 per purchase commitment</td>
</tr>
<tr>
<td>2. Construction</td>
<td>$25,000 per purchase commitment</td>
</tr>
<tr>
<td>3. Information Technology in</td>
<td>$25,000 per purchase commitment</td>
</tr>
<tr>
<td>accordance with the approved</td>
<td></td>
</tr>
<tr>
<td>Information Technology Plan</td>
<td></td>
</tr>
</tbody>
</table>

Robert J. Aycock, IV
Audit Supervisor

R. Vaight Shealy, CFE, Manager
Audit and Certification
June 16, 1992

Mr. R. Voight Shealy, Manager
Audit and Certification
Division of General Services
1201 Main Street, Suite 600
Columbia, SC 29201

Dear Mr. Shealy:

I have reviewed in detail with staff the Audit report for the period April 1, 1989, through December 31, 1992, and have given special consideration to the Audit findings and recommendations by the audit staff.

I concur with your recommendations and have instructed staff to take the necessary actions to implement the recommendations immediately, and I am confident these deficiencies will be corrected. Specific actions noted on pages 12, 13, and 17 have been taken and all required reports/ratifications have been accomplished. As you are aware, the actions were reviewed with your staff during the exit audit.

There has been some confusion as to the correct procedure in securing goods and services as compared to minor construction projects. It is my understanding that your staff has reviewed specifics with our Procurement Section and that an understanding has been established.

I sincerely appreciate your staff's work in reviewing our purchasing procedures and the personal attention given to our purchasing staff by your audit team offering recommendations and suggestions that would provide for a more efficient operation.

Sincerely,

James A. Timmerman, Jr.
Executive Director

/gk

Rembert C. Dennis Building □ P.O. Box 167 □ Columbia, South Carolina 29202 □ Telephone: 803 - 734-4007
August 26, 1992

James J. Forth, Jr.
Assistant Division Director
Division of General Services
1201 Main Street, Suite 600
Columbia, South Carolina 29201

Dear Jim:

We have reviewed the response to our audit report of the South Carolina Wildlife and Marine Resources Department covering April 1, 1989 - December 31, 1991. We made a follow-up visit on August 26, 1992. This visit included limited testing, observations and discussions with Department personnel over the implementation of the recommendations made in the audit report. This visit and their response have satisfied the Office of Audit and Certification that the Department has corrected the problem areas found and that internal controls over the procurement system are adequate.

We, therefore, recommend that the certification limits outlined in the audit report be granted for three (3) years.

Sincerely,

R. Voight Shealy, Manager
Audit and Certification

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