PROCUREMENT AUDIT AND CERTIFICATION
May 2, 1984

Mr. Tony Ellis
Division of General Services
300 Gervais Street
Columbia, South Carolina 29201

Dear Tony:

Attached is the final Department of Highways and Public Transportation audit report and recommendations made by the Materials Management Office. I recommend that the Budget and Control Board grant certification limits of $20,000.00 per direct purchase commitment for goods, services, and consulting services made by the Department of Highways and Public Transportation's Purchasing Office. This is not to include confirmation requisitions or order-invoice acknowledgements or any other procurements above $2,500.00 made by district, county or other operating units. Also, excluded is printing equipment which must be approved by the Materials Management Officer.

It is further recommended that the Department of Highways and Public Transportation's Materials Testing Lab be certified to procure construction material testing contracts not to exceed $200,000.00 for the annual total of all contracts combined. Certification in the area of Information Technology and Construction not outlined in the audit report shall be deferred until statewide procedures governing these areas are finalized.
I recommend the Budget and Control Board grant the Department of Highways and Public Transportation a two (2) year certification predicated upon the findings and understanding determined in the audit report.

Respectfully,

[Signature]
Richard J. Campbell
Materials Management Officer

RJC:mm
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October 29, 1983

Mr. Richard J. Campbell
Materials Management Officer
Columbia, South Carolina

We have examined the procurement policies and procedures of the South Carolina Department of Highways and Public Transportation (SCDHPT) for the period July 31, 1981 - January 31, 1983. 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 SCDHPT 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 SCDHPT is responsible for establishing and maintaining a system of internal control over procurement transactions. In fulfilling this responsibility, estimates and judgments 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 SCDHPT in compliance with the South Carolina Consolidated Procurement Code and ensuing regulations.

Barbara A. McMillan
Director of Agency Services

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INTRODUCTION

The Audit and Certification Section conducted an examination of the internal procurement operating procedures and policies and related manual of the SCDHPT.

Our on-site review was conducted November 8, 1982 through January 31, 1983, and was made under the 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, 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.
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 materials management office shall review the respective governmental body's internal procurement operation, shall certify 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.

On June 15, 1982, the SCDHPT requested certification limits of $10,000 for goods and services not under term contracts.

This request was expanded on June 22, 1982, when the SCDHPT requested the same certification limit for information technology procurements of peripheral gear and computer software excluding central processors; field terminal stations for motor vehicle and patrol offices and accessories such as disk packs, paper, tapes, etc.; telecommunication equipment such as modems and the leasing of private telephone lines for data communication; office automation and related items.

As a result of this request, we began an audit of the procurement system on November 8, 1982.
SCOPE

Our examination encompassed a detailed analysis of the internal procurement operating procedures of the SCDHPT 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 of the Materials Management Office statistically selected random samples for the period July 1, 1981 - October 31, 1982, of procurement transactions for compliance testing and performed other auditing procedures through January 31, 1983, 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 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. reporting of Fiscal Accountability Act;
(10) warehousing, inventory and disposition of surplus property;
(11) economy and efficiency of the procurement process;
and
(12) duplicating equipment utilization analysis.

We are unable to recommend certification in the areas of Information Technology and Construction. The state plan for the management and use of information technology has not been completed. Additionally, procedures for monitoring construction and related services procurements have not been finalized. Because of this, we feel it would be inappropriate to recommend certification in these areas at this time.

Our examination included a review of these areas so that once the aforementioned plans and procedures are completed we will be able to make recommendations for certification with only a limited follow-up review.
SUMMARY OF AUDIT FINDINGS

Our audit of the procurement system of the South Carolina Department of Highways and Public Transportation (SCDHPPT) produced findings and recommendations in the following areas:

PAGE

I. AUTHORITY AND RESPONSIBILITY

A. Exemption for Construction, Maintenance and Repair of Bridges, Highways and Roads

Under Section 11-35-710(a) of the Consolidated Procurement Code, SCDHPT has been exempted from the purchasing provisions of the Code in the procurement of construction, maintenance and repair of bridges, highways and roads; vehicle and road equipment maintenance and repair; and any other emergency type parts or equipment. SCDHPT, we believe, has too broadly interpreted this exemption.

B. Decentralized Procurement Authority

Due to SCDHPT being a highly decentralized agency, procurement authority has been widely delegated.

C. Accountability for the Procurement Function

We determined that agency management has not developed written quantifiable standards for assessing the efficiency and effectiveness of their purchasing system.
II. COMPLIANCE - GENERAL

A. Sole Source Procurements

All sole source procurements were not reported to the Materials Management Office. Many other sole source procurements do not provide adequate justification for the single source.

B. Emergency Procurements

We found the majority of these transactions to be proper and accurately reported, but we did encounter some exceptions which affect compliance with the Procurement Code.

C. Annual Report of Lands Leased for Maintenance and Construction

SCDHPT has not filed an annual report of lands leased for maintenance and construction purposes with the Division of General Services for fiscal year 1981-82, as is required by Regulation 19-445.2120, Subsection C.

III. COMPLIANCE - GOODS AND SERVICES

We found a number of goods and services procurements that were not handled in compliance with the Procurement Code.
IV. COMPLIANCE - CONSULTANT AND CONTRACTUAL SERVICES

All the requirements for the procurement of consultant services were not met by the Materials and Testing Lab on two service contracts.

V. COMPLIANCE - INFORMATION TECHNOLOGY

We found payments for rental of data processing equipment were being approved by the Motor Vehicle Division's Data Processing Section when the supporting contracts and authorization letters could not be located.

VI. COMPLIANCE - CONSTRUCTION

Our examination of construction project files for non-exempt buildings established that two construction contracts have been negotiated improperly since the passage of the Consolidated Procurement Code.

VII. SUPPLY WAREHOUSING AND PROPERTY MANAGEMENT

A. Supply Management

Our examination which included an in-depth study of the inventory supply system uncovered weaknesses that should be corrected.
B. Property Management

Improvements in the property control system could increase the effectiveness of property management.

C. Surplus Property Management

The SCDHPT has not reported surplus property to the Division of General Services nor obtained their approval for sealed bid sales of these items.

VIII. FISCAL ACCOUNTABILITY ACT REPORTING

Partially as a result of a lack of clarification as to report procedures statewide, SCDHPT has failed to comply with the requirements of the Fiscal Accountability Act.

IX. PROFESSIONAL DEVELOPMENT OF PROCUREMENT PERSONNEL

Personnel training is one of the most critical factors in the successful operation of a procurement system. However, we found that professional development of the purchasing staff has been overlooked as a goal of the Department.

X. EFFICIENCY OF THE PROCUREMENT SYSTEM

A. Procurement Objectives Hampered by Excessive Paperwork

The capability of the purchasing office to handle a $10,000 certification limit is hampered by excessive paperwork.
B. Small Order Procedures

The Equipment Depot and the office machine repair shop process a large volume of small purchase requisitions because they do not use the order-invoice-acknowledgement (E.P.O.) form.

XI. REVIEW OF THE INTERNAL PROCUREMENT OPERATING PROCEDURES MANUAL

Our review of the current manual determined that several areas need to be added, changed or expanded.

XII. PRINT SHOP UTILIZATION

As part of our examination, the State Printing Officer analyzed print shop equipment and personnel utilization.
RESULTS OF EXAMINATION

I. AUTHORITY AND RESPONSIBILITY

A. Exemption for Construction, Maintenance and Repair of Bridges, Highways and Roads

Under Section 11-35-710(a) of the Consolidated Procurement Code, the Department of Highways and Public Transportation (SCDHPT) has been exempted from following the purchasing provisions of the Code in the procurement of the following items:

The construction, maintenance and repair of bridges, highways and roads; vehicle and road equipment maintenance and repair; and any other emergency type parts or equipment....

SCDHPT has broadly interpreted this to include the purchase of materials and supplies to be used in the construction, maintenance and repair of bridges, highways and roads. Included here are such items as sand, aggregate, asphalt and culvert pipe bought in large quantities to be used, as needed, by SCDHPT personnel. Also, we found this to include all items used in, around or for maintenance of highways including guard rails, specialized traffic paint, signs and markers, lumber, etc.

The first part of this exemption covers contractual services for construction, maintenance and repair of bridges, highways and roads but not materials and supplies bought to be used, as needed, by in-house personnel. In other words, when the SCDHPT awards a contract specifically to construct a road or to repair a
bridge, they are not required to purchase the construction service through the respective chief procurement officer nor follow the purchasing provisions of the Code. However, when, for example, corrugated aluminum alloy pipe is procured and placed in inventory to be used in road maintenance at some future date, or when services are procured to test materials to be used in road construction, the Procurement Code does apply. The exemption does not include highway maintenance materials and supplies to be used by in-house personnel.

Based on these factors, all procurements of materials and supplies used in the construction, maintenance and repair of bridges, highways and roads should be made in accordance with the Procurement Code and regulations. All procurements greater than $2,500 or a higher certification limit, when granted, not made from term contracts, should be forwarded to the Materials Management Office for processing.

B. Decentralized Procurement Authority

Our examination revealed that in many instances procurements were made by departments without the knowledge of Purchasing. In other cases, procurements were handled outside the Purchasing Department, then forwarded to them after the fact for purchase order preparation.

Consultant services are procured with no input from Purchasing. For instance, the Research and Materials Lab procures professional services as needed. See IV below.
As noted in V below, Data Processing renews equipment lease and maintenance contracts routinely, with no review by the Purchasing Department for compliance with the Procurement Code.

District and county offices are handling the following procurement actions:

1. Procurements up to $1,500, with the District Administrator's approval, on order-invoice-acknowledgements (E.P.O.'s). Procurements are made, and services or items are received along with invoices, before the documents are forwarded to Purchasing for review. Since this review is after the fact, it provides little control and contributes to the problems noted in X-A below.

2. Procurements up to $2,500 on a confirmation requisition. Again, the procurement is made locally with no prior approval by Purchasing. Supporting documents are forwarded to Purchasing after the fact.

3. Procurements from state and agency term contracts to any amount on a confirming requisition. Again, no prior approval is required from Purchasing.

4. Make locally determined sole source procurements to any amount with Purchasing preparing a sole source determination and finding later. This is a clear violation of Section 19-445.2105 of the Procurement Code regulations.
This delegation of authority is due to the SCDHPT being a highly decentralized agency, both administratively and programatically. There are seven SCDHPT districts, each with numerous offices under it.

This decentralization prompted us to visit several district and county offices to analyze their activities. We found that generally this procurement authority is handled adequately but noted the following exceptions:

1. A county office made two procurements of sand, each greater than $500, without seeking competition. This was done with the knowledge of Purchasing.

2. A county maintenance shop split orders for redoing a seamless floor. Confirming requisitions 23689 and 23690 were prepared on the same day to the same vendor, each for $2,485. This made each requisition less than $2,500 which is the basic certification limit granted in the Code.

This also pointed out that Purchasing is preparing procurement justifications after the fact. Phone quotes were sought by the county maintenance shop originally with only one vendor responding. The service was authorized, the invoices were received dated June 11, 1982, and the confirming requisitions were dated June 23, 1982.

Subsequently, the information was forwarded to the Central Purchasing Office where a sole source determination and finding was prepared for each
confirming requisition on July 19, 1982, a full month after the procurement was made.

The sole source was obviously prepared after the fact and is questionable as such. Otherwise, Regulation 19-445.2100, Subsection B, Item 2, requires that written quotations, not phone quotes, be solicited for procurements of $1,500-$2,500, which was not done in this case.

In discussions, the District Engineer Administrator involved admitted that he had split orders when necessary to buy his needs and indicated that he would continue to do so.

3. A county maintenance shop procured $7,733 of riprap without competition on purchase order number 19389. This exceeds the SCDHPT's certification limit. SCDHPT considered this exempt as noted in I-A above.

4. District and county maintenance personnel are required by internal policy to obtain quotations on all procurements of items costing more than $25 each. We found four cases in one district where this policy was not complied with.

We acknowledge the SCDHPT's need for decentralized procurement authority because offices are spread to the far corners of the State. However, this level of decentralization is unusual compared to other state agencies, even those with district and county offices.
We recommend that, where practicable, procurements be made by DHPT Purchasing with all departments submitting requisitions to them prior to the procurement being made. If DHPT administration wishes to delegate procurement authority, we recommend the following guidelines be set to control procurement actions centrally, while providing district and county offices with desired purchasing authority:

1. The use of order-invoice-acknowledgements be continued allowing district and county offices to make procurements up to $300 or a reasonable limit in accordance with the Procurement Code and regulations and administrative memorandum number 321. These make up 58% of all purchases of the SCDHPT so this would cover a substantial portion of their procurements.

2. The policy of allowing direct procurements against established state term contracts be continued. This is contingent upon the implementation of a control form to be sent to vendors to establish conditions for the sale such as a local purchase order, an order-invoice-acknowledgement or some other document. The current system of preparing a confirmation purchase order after the procurement has been made is insufficient and should be eliminated.

3. The authority to make procurements up to a reasonable limit of items not on established term con-
tracts should be continued. Again, this is contingent upon a control document being implemented to be used at the local level to authorize procurements.

4. Every effort should be made to eliminate or dramatically reduce the frequency of use of confirmation orders. These provide little control to the department because they are only sent to Purchasing after procurements have been made locally and, at the time the order is placed, the vendor is not supplied a binding written agreement.

The above purchasing authority should not be released until procurement authority and responsibility is clearly assigned in the internal procurement operating procedures manual. This should detail each person in each local office that is authorized to make procurements and clearly indicate that they are totally accountable for their actions.

This should further be contingent upon these individuals attending a training seminar in the Consolidated Procurement Code held by the Division of General Services.

Procurement actions made by local personnel that exceed this authority would be unauthorized procurements as outlined in Regulation 19-445.2015. This regulation requires that such procurements be ratified in writing by the head of the governmental body, if within their certification level, and the Materials Management Officer if above the agency's certification. Further, this section states, "if the price paid is unreasonable, the individual may be held pecuniarily liable for the difference."
C. Accountability for the Procurement Function

We determined from our examination of the purchasing function at the SCDHPT that agency management has not developed written, quantifiable standards for assessing the efficiency and effectiveness of their purchasing system.

Specifically, we were unable to determine the existence of any accountability functions such as:

1. Realistic goal setting as a joint undertaking between agency and purchasing officials.
2. Performance standards or indicators used by top management in evaluating purchasing activity.
3. Any written program either complete or incomplete dealing with the implementation of the accountability function for procurement.

Centralization of authority and accountability are important elements of an effective procurement system. Purchasing in the public sector has evolved from a user oriented support service into a complex operation involving such functions as planning and scheduling procurements, standardization of specifications, property control, and inspection and testing in some cases. Under this broadened concept of purchasing as a management program, formal goal setting is necessary between agency and purchasing officials. Performance evaluation is an integral part of this type of program.

We recommend that this weakness in the management system be eliminated by implementing a systematic program for establishing
goals and measuring Purchasing's performance in acquiring goods and services efficiently and effectively.

The goals should address objectives which could improve the overall procurement function and should include the following:

a) Identifying common use items through standardization procedures and consolidating requirements into scheduled buys or term contracts.
b) Pursuing cooperative purchasing agreements between local and state governmental agencies.
c) Application of value analysis techniques in buying commodities including life cycle costing, lease versus purchase, etc.
d) Completing cost/price analysis of all negotiated procurements.
e) Accurately stating and describing requirements in bid notices to reduce unfair competitive advantage.
f) Reducing the amount of paperwork processing thus increasing productivity.

Purchasing's performance can be measured through the application of standards or indices to assess efficiency and effectiveness. Both of these factors can be measured quantitatively and qualitatively.

Efficiency can be assessed quantitatively by such things as determining the savings realized by reducing paperflow. In 1981-82, SCDHPT Purchasing monitored over 28,994 order-invoice-acknowledgements (E.P.O.'s) for correct price, etc. and issued 21,201 SCDHPT purchase orders. The Purchasing Department has an annual budget of $186,968.

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The department can project their "cost of doing business" and its efficiency by determining:

a) The cost of each purchase order is calculated by dividing the operating budget by the number of orders written. These figures were available to us and we have calculated this to be $8.82.

b) The cost per $1.00 of procurement is calculated by dividing the dollar volume of purchases by operating costs.

These figures can be compared to industry standards, other similar operations, and to themselves from year to year to provide quantitative assessment.

Quantitative standards used to measure procurements effectiveness would include:

a) Reduction in the frequency of executing rush orders (emergency purchases).

b) Measuring Purchasing's success in the inventory control process by the relationship between turnover and requisition volume.

c) Measuring the turnaround processing time from the requisition to the purchase order.

Qualitative assessment of efficiency can be measured by such things as:

a) The practices followed in training buyers to enhance their professional expertise.

b) The organizational structure that will encourage both individual action and effective teamwork.
c) Practices followed in providing financial and non-financial rewards for performance.

d) Practices followed in delegating purchasing authority to other departments.

Qualitative assessment of procurements effectiveness can be performed by review of areas such as:

a) A purchasing manual that clearly defines authority and responsibility and the reliance of ordering departments on the manual and purchasing officials.

b) Consultation with Purchasing by sections prior to making requirement decisions.

c) Development and use of economic order quantities for improved inventory control.

II. COMPLIANCE - GENERAL

A. Sole Source Procurements

We examined the quarterly reports of sole source procurements and all available supporting documents for the period July 30, 1981, through October 31, 1982, for the purpose of determining 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 Consolidated Procurement Code.

We encountered the following problems in this area:
1. As noted in I-A above, the SCDHPT has broadly interpreted the exemption allowed them by Section 11-35-710 of the Code as including the purchase of materials and supplies used in the construction, maintenance and repair of bridges, highways and roads and vehicles and equipment. Consequently, sole source procurements of these items totaling $1,293,731 have not been documented as such with determinations and findings, nor reported to the Division of General Services. Thus, 77.5% of the sole source procurements processed by the SCDHPT were not included in the annual report of statewide sole source procurements, which the Division of General Services prepared for the General Assembly, covering fiscal year 1981/82. We feel that most of these are not exempt and should have been reported.

2. In respect to those sole source procurements that were reported to the Division of General Services, many are questionable but the following items are in our opinion highly suspect:

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<tr>
<th>ITEM</th>
<th>P.O.#</th>
<th>AMOUNT</th>
</tr>
</thead>
<tbody>
<tr>
<td>a) Air Operated Grease Guns</td>
<td>12764</td>
<td>$ 719.87</td>
</tr>
<tr>
<td>b) Submergible Pumps</td>
<td>12766</td>
<td>900.00</td>
</tr>
<tr>
<td>c) Electronic Printing</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Calculators</td>
<td>13308</td>
<td>952.45</td>
</tr>
<tr>
<td>d) Replacement Locks for the</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Headquarters Building</td>
<td>13601</td>
<td>828.00</td>
</tr>
</tbody>
</table>
e) Executive Desks       14950  602.00  
f) Repair of a Ceiling    10974  800.00  
g) Metal and Wood Sliding  Doors       10691  804.00

h) During the period July 31, 1981 - June 30, 1982 there were seventeen (17) sole source orders to The Cooper Group for various blades, files, rasps, bandsaws, hacksaws, etc. A statement attached to each order suggests that SCDHPT purchase these type items from the manufacturer direct. This decision, per the Director of Purchasing, has been in effect for ten or more years and was approved by the former Director of Purchasing. A confidential price list from The Cooper Group has been obtained and updated over a period of years and price lists from other vendors have been solicited periodically and compared to this confidential list, in violation of the Code.

3. It is estimated that 80% to 90% of the written determinations justifying sole source procurements are inherently weak in that they fail to adequately substantiate the basis for a single source designation of the item and the vendor. Examples of these justifications being used are as follows:
   a) Manufacturer;
   b) Authorized dealer;
c) Vendor was the original contractor when the building was built;

d) Doors are the same as ones purchased when building was built.

Regulation 19-445.2105 indicates the following on sole source procurements:

Sole source procurement is not permissible unless there is only a single supplier. The following are examples of circumstances which could necessitate sole source procurement:

1. where the compatibility of equipment, accessories, or replacement parts is the paramount consideration;
2. where a sole supplier's item is needed for trial use or testing;
3. where a sole supplier's item is to be procured for resale;
4. where public utility services are to be procured;
5. where the item is one of a kind; and
6. printed forms, pamphlets, brochures, exclusive of printing equipment.

In cases of reasonable doubt, competition should be solicited. Any request by a governmental body that a procurement be restricted to one potential contractor shall be accompanied by an explanation as to why no other will be suitable or acceptable to meet the need.

The SCDHPT should effect immediate compliance with the laws and regulations on sole source procurements. In this process, the SCDHPT should adopt the following Materials Management Office opinion on sole source procurements:

The terminology "only one source" is intended to mean one manufacturer or unique service provider distributing through one distribution.
channel. If a firm specification for a product or service is requested due to a unique circumstance or need only satisfied by the procurement of that specific product/service and there is more than one source of distribution, the procurement is not sole source.

Bids should be forwarded to all known distributors to achieve the lowest possible price for the particular service or product. If alternate sources are not known, other state purchasing departments should be contacted for assistance.

B. Emergency Procurements

We also examined the quarterly reports of emergency procurements and all available supporting documents for the period August 1, 1981 - October 31, 1982, for the purpose of determining 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. We found the majority of these transactions to be true emergencies and accurately reported; however, we did encounter the following problems which affect compliance with this section of the Procurement Code:

1. While the procurement transactions appear to be justified as emergencies, we noted several weak justifications which do not, in themselves, support the action taken. An example of this was glass installed due to the health of employees, energy saving in building also to match frame work already
in lobby. This justification mentions nothing to indicate how the emergency arose, i.e., was the glass broken?

2. In one case the determination and finding could not be located which precluded our determination of compliance.

3. In several cases it appears that, had proper procurement planning been done, the emergency situation might have been avoided. Examples of these were:
   a) The purchase of $759 worth of automobile brake pad replacements for the Equipment Depot.
   b) The purchase of $1,421 worth of oil by the Supply Depot.
   c) The purchase of $668.10 worth of uniforms for new lady examiners employed. At the time there were no clothes in stock and the uniforms were needed so they could begin work.

4. In almost all the cases reviewed, there was a lack of documentation of attempts to seek out competition. In two of the three cases in 3 above, the Code only requires two phone quotes.

Section 11-35-1570 of the Procurement Code requires that emergency procurements be made, "...only when there exists an immediate threat to public health, welfare, critical economy and efficiency, or safety...." This section further requires that these procurements be made, "...with as much competition as is practicable under the circumstances."
We therefore recommend the following:

1. In all emergency procurements, care be taken to fully explain both the basis for the emergency and the basis for the selection of the particular contractor.

2. Sufficient planning be performed by the supply areas to minimize the potential for emergency situations arising. If emergency buys must be made to restock the warehouse, they should be limited to the amount necessary to alleviate the emergency.

3. In all emergencies, as much competition as is possible at the time should be sought and documented.

C. Annual Report of Lands Leased for Maintenance and Construction

The SCDHPT has not filed an annual report of lands leased for maintenance and construction purposes with the Division of General Services for fiscal year 1981-82.

Regulation 19-445.2120, Subsection C states in part:

The Division of General Services may exempt governmental bodies from leasing State-owned and/or non-State-owned property through the leasing procedure herein required, provided however, that annual reports be filed with the Division of General Services, Real Property Management Section, prior to July 1 of each year. Annual reports shall contain copies of all existing leases of State-owned and non-State-owned real property. The Division of General Services may limit or withdraw any exemptions provided for in this Regulation.
The following exemptions are hereby granted in this Regulation:

(1) Highway Department - lands leased for maintenance and construction purposes;

A lack of understanding at the Department that this was required resulted in the report not being filed. Consequently, the Department is not in compliance with this procurement regulation.

We recommend the SCDHPT prepare and submit this report to the Division of General Services, Real Property Management Section, as soon as possible. Further, this information should be captured centrally for future reporting purposes.

III. COMPLIANCE - GOODS AND SERVICES

During our test of procurements in the area of goods and services, we found the following that were not procured in compliance with the Consolidated Procurement Code:

<table>
<thead>
<tr>
<th>P.O. #</th>
<th>Amount</th>
<th>Comments</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. 13043</td>
<td>$ 694.83</td>
<td>An emergency procurement of lady examiners' uniforms.</td>
</tr>
<tr>
<td>2. 12766 &amp; 12767</td>
<td>$2,071.68</td>
<td>A sole source procurement of submersible pumps for rest areas.</td>
</tr>
<tr>
<td>3. 18531</td>
<td>$3,380.15</td>
<td>This is above the $2,500 certification of the SCDHPT and should have been procured through the Materials Management Office.</td>
</tr>
</tbody>
</table>
4. 11140 $1,335.36 Paper for commission reports was procured without competition nor a sole source determination.

5. 06307 $ 675.79 Lumber was procured without the required phone quotes.

The emergency procurement in item 1 was discussed in Item II-B above. Item 2 was discussed in II-A above.

The reason these are mentioned again is that they were selected at random in this statistical sample. Consequently, to maintain the statistical validity of the sample and the resulting conclusions derived from it, they must be shown here.

Item 3, riveted corrugated aluminum alloy pipe and connecting bands, and item 5, lumber, were considered exempt by SCDHPT. As noted above, they are not. Item 3 exceeds the SCDHPT certification so they did not have the requisite authority to procure it. Competition should have been sought before item 5 was procured.

The Department intended to procure item 4 as a sole source but the determination and finding was never prepared, as required by Section 11-35-1560 of the Procurement Code.

Based on the above findings, we can project statistically at a 95% confidence level that up to 18% of the transactions in the area of goods and services may not have been processed in compliance with the Code.

It is our opinion that these exceptions are due in part to the procurements being made by personnel outside of the Purchasing Office as noted in I-B above. Four of the five exceptions listed above were confirmation orders. The recommendation we made at I-B would help alleviate these problems.
Additionally, we recommend that further care be taken to process procurements in compliance with state law. The exemption question aside, competition should be sought on all procurements when possible whether the item is exempt from the Procurement Code or not. Competition is required on all non-exempt procurements greater than $500.

Emergency procurements should be made with as much competition as is practicable under the circumstances, as required by Section 11-35-1570 of the Code. In cases of reasonable doubt, competition should be sought rather than making a sole source procurement.

IV. COMPLIANCE - CONSULTANT AND CONTRACTUAL SERVICES

Our examination of consultant service procurements revealed that the Research and Materials Testing Lab presently solicits competitive proposals for inspection and testing services which exceed $2,500 annually. This exceeds the SCDHPT's authority and should have been submitted to the Materials Management Office for procurement.

Our sample revealed a single monthly payment of $5,993.81 on this contract. The contractor provides fabrication and material inspection and non-destructive testing of welds in fabricating plants producing work on bridges and signs for the SCDHPT.

Also, the Lab has an open-ended contract for the inspection of treated wood products. The contract was established in January, 1978 and is extended each year upon mutual agreement.
Section 11-35-2030 of the Consolidated Procurement Code states in part:

Unless otherwise provided by law, a contract for supplies or services shall not be entered into for any period of more than one year unless approved in a manner prescribed by regulation of the board....

Regulation 19-445.2135, Subsection D clarifies this as follows:

The maximum time for any multi-term contract is five (5) years unless otherwise approved by the Board. A multi-term contract may be used when it is determined in writing by the Procurement Officer of the governmental body that:

(1) special production of definite quantities or the furnishing of long-term services are required to meet state needs; or

(2) a multi-term contract will serve the best interests of the state by encouraging effective competition or otherwise promoting economies in state procurement.

These contracts are negotiated by Testing Lab personnel. The problems addressed above are due to their unfamiliarity with the Procurement Code and Regulations.

We recommend that consultant and contractual service contracts within the SCDHPT's certification limit, currently $2,499.99, be procured by the Purchasing Office, with the concurrence of the Testing Lab. If the contract is estimated to exceed $2,499.99 or the SCDHPT's certification limit, a request should be submitted to the Materials Management Office.

We also remind the SCDHPT that a contract cannot be merely renewed for an additional year. Unless a multi-term contract has been established and justified, each annual renewal of a contract is a new procurement and must be handled accordingly.
These contracts and any other open-ended contracts, such as those for information technology equipment rental and maintenance, should be reviewed to determine if they are truly multi-term agreements. This requires that, (1) they were originally solicited as multi-term agreements and all respondents to the solicitation were made aware of this, and (2) the contracts have specific guidelines for establishing charges and rate increases for subsequent years under the contract. For example, this could be that fee increases will be based on the inflation rate or the consumer price index or that increases would be limited to 5%, 10% or some other agreed upon maximum.

If these contracts do not contain these provisions, they cannot be considered multi-term agreements. Contracts such as this must be resolicited at the end of the current contract year.

V. COMPLIANCE - INFORMATION TECHNOLOGY

In our test of transactions in the area of information technology, we found payments for rental of data processing equipment were being approved by the Motor Vehicle Division's Data Processing Section when the supporting contracts and authorization letters could not be located. These payments total $7,655.79 per month or $91,869.48 per year.

This is equipment that the SCDHPT has been renting since around 1960 which they still do not own. The SCDHPT should seriously study the possibility of purchasing this equipment. While we did no detail analysis of cost comparisons, we feel instinc-
tively that by renting this equipment for approximately twenty years the SCDHPT has paid for it several times over.

A blanket type contract with the vendor was located which outlined in very general terms the agreement between the SCDHPT and the vendor. The contract shows no specific information, such as serial numbers, that could be used for payment verification.

This was a common arrangement at the time the agreement was established. Once the contract was in place authorization letters were used to add or delete equipment as needed.

However, in this case the authorization letters, which should show specific information as serial numbers of equipment that could be used for payment verification, could not be located.

In order to properly control payments on equipment rentals, there must be a copy of the contract and supporting documents on hand so that services and charges can be verified. This will also indicate when the contract should be rebid.

As noted in IV above, Regulation 19-445.2135, Subsection D requires a special written determination by the Procurement Officer when a contract exceeds one year in duration. Further, this regulation limits a multi-term contract to five years. This contract should be reviewed to determine if it meets the requirements for a multi-term contract that are outlined in IV above.

Payments on rental agreements should not be processed until they are verified against appropriate contracts. If the contracts, or in this case the authorizing correspondence, cannot be located copies should be requested from the vendor. If items are added to existing contracts, as is the case here, documentation
should always be obtained from the vendor to ensure that invoices can be verified before payment is processed. These should be centrally filed for future reference.

In order to fully control multi-term contracts, we recommend the SCDHPT start a system whereby purchase orders are prepared annually supplementing agency contracts and authorizing the continuation of these for each fiscal year. These purchase orders should address contract numbers and specify equipment serial numbers thereby providing a complete audit trail for ease of payment verification.

Additionally, this would allow for the encumbrance of sufficient funds to cover the agreement each fiscal year providing each budget manager a better picture of true available funds. This would also provide a mechanism for reporting these agreements to the Division of General Services for Fiscal Accountability Act requirements which, as stated in VII below, are not being met at this time.

VI. COMPLIANCE - CONSTRUCTION

The permanent improvement programs of the SCDHPT for the construction, renovation and repair of buildings are subject to the Procurement Code and regulations. The only construction exempted is the construction of bridges and roads. Our examination of construction project files for buildings established that two construction contracts have been negotiated improperly since the passage of the Consolidated Procurement Code. These projects were:
1. Kershaw County Rest Area

2. Construction of Patrol and Motor Vehicle Division Buildings in Florence and Darlington and the Renovation of the Florence District Office (awarded collectively)

The following sections of the Procurement Code and regulations were not complied with:

1. A written determination of the method of construction contracting administration was not prepared by the department and approved by the State Engineer as required by Code Section 11-35-3010 and Regulation 19-445.2145, subsection B.

2. Invitations for bids for these projects were not formally advertised in the official state government publication as required by Section 11-35-3020(a).

3. A copy of the bid tabulation was not sent to all responsive bidders within ten working days following the bid opening as required by Section 11-35-3020(b)(iv).

4. Retainage was 10% rather than the 5% limit specified in Section 11-35-3030(4) of the Procurement Code.

We found that no contracts have been awarded to architects, engineers or related construction professionals since the Procurement Code was enacted. However, we noted the following additional procedures that should be performed to procure these services in compliance with Section 11-35-3220 of the Code.
1. Formal invitations to firms for submission of information must be advertised in the official state government publication.

2. Firms or persons responding to invitations must be allowed at least thirty days for submission of information.

3. Interested firms or persons must respond to the invitation with the submission of a current and accurate Federal Standard Form 254, Architect-Engineer and Related Services Questionnaire, and Federal Standard Form 255, Architect-Engineer and Related Services Questionnaire for Specific Project.

4. Written notification of the election and the order of preference of the top five recommended persons or firms must be immediately sent to all those that responded.

5. The agency selection committee's report, listing the persons or firms that responded to the invitation to submit information and enumerating the reasons of the committee for selecting the particular ones to be interviewed, the written ranking report of the agency selection committee and all data substantiating the determinations made in that report, and the tentative contract were not submitted to the State Engineer's Office for his approval.
We recommend that the building construction procedures be revamped and strengthened to ensure that future permanent improvement and renovation services are procured and administered in compliance with the Code.

VII. SUPPLY WAREHOUSING AND PROPERTY MANAGEMENT

A. Supply Management

Our examination of the SCDHPT included an in-depth study of the inventory supply system. Specifically, we examined the four main supply areas including Patrol Supply, Office and Engineering Supply, Supply Depot and the Equipment Depot. We looked at the overall efficiency and effectiveness of these supply areas with emphasis on inventory turnover, obsolescent and overstocked items and stockouts. We noted the following weaknesses:

1. **Patrol Supply** - We realize there are certain difficulties in stocking clothing of different sizes but, in our opinion, insufficient planning and unrealistic orders have resulted in some items being overstocked. Examples of these are as follows:

<table>
<thead>
<tr>
<th>Item</th>
<th>Stock On Hand 10/31/81</th>
<th>Usage for Past 16 Months</th>
<th>Number of Years to Use Current Stock</th>
<th>Inventory Dollar Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Battle Jackets</td>
<td>499</td>
<td>76</td>
<td>8.7</td>
<td>$41,451.93</td>
</tr>
<tr>
<td>Work Jackets</td>
<td>715</td>
<td>98</td>
<td>9.7</td>
<td>55,212.30</td>
</tr>
<tr>
<td>Hats, Panama</td>
<td>99</td>
<td>-0-</td>
<td>1+</td>
<td>1,474.11</td>
</tr>
<tr>
<td>Examiner Hats, Panama</td>
<td>186</td>
<td>5</td>
<td>50.0</td>
<td>2,410.56</td>
</tr>
<tr>
<td>Examiner Hats, Winter</td>
<td>96</td>
<td>7</td>
<td>18.2</td>
<td>1,701.12</td>
</tr>
<tr>
<td>Item</td>
<td>Quantity</td>
<td>Size</td>
<td>Price</td>
<td>Total</td>
</tr>
<tr>
<td>----------------------</td>
<td>----------</td>
<td>------</td>
<td>--------</td>
<td>---------</td>
</tr>
<tr>
<td>Examiner Jacket</td>
<td>134</td>
<td>12</td>
<td>14.8</td>
<td>12,196.68</td>
</tr>
<tr>
<td>Examiner Shirt</td>
<td>872</td>
<td>38</td>
<td>30.5</td>
<td>18,233.52</td>
</tr>
</tbody>
</table>

The dollar value of the above seven items was $132,680.22; however, during the past sixteen months, issues of these items totaled only $16,004.42. Of the items tested, 75% appear to be overstocked, considering the fact that the primary function of this supply area is to provide replacement items for approximately 750 highway patrolmen and 115 license examiners.

Several of the items appear, in fact, to be overstocked to the point that they are surplus to the needs of the department. As such, they should have been reported to the Division of General Services' Surplus Property Section, as required by Section 19-445.2150 of the regulations. This section requires that, "All governmental bodies must identify surplus items, declare them as such, and report them to the Materials Management Officer or his designee within 90 days from the date they become surplus."

2. **Equipment Depot** - Our turnover tests indicated a 90% probability that no less than 30% and up to 50% of the parts inventory may be overstocked. Additionally, we can state with the same confidence that no less than 6% and up to 20% of the items in inventory are in a "stock-out" situation. Our understanding of these conditions was clarified somewhat by depot personnel who indicated the need for the large variety of parts required to
service their fleet vehicles, and the necessity of stocking emergency parts, and items for old equipment. However, in our opinion, improvements should be made in the management of this inventory to eliminate "dead" stock, stockouts and increase turnover.

3. Office and Engineering Supply - Based on our examination of this area, we can state with a 90% probability that no less than 37% and up to 50% of the inventory items may be overstocked.

4. Supply Depot - Last year's aggregate turnover rate, based on dollar volume, is documented at 5.28 times per year in an internal audit report. This aggregate turnover is very good. Additionally, our tests indicate that only 10% to 30% of the individual line items in stock may be overstocked.

   Based on these statistics and other audit steps performed, including an analysis of Supply Depot operating costs, we concluded that this is one of the most efficient operations in South Carolina state government.

   Prudent supply management techniques must be applied and continually monitored to ensure that supply warehouses are operated efficiently and effectively. Consolidation of purchases of commonly used items is an effective method of providing increased economy in purchasing transactions and of providing increased employee productivity since turnaround time is reduced.

   However, there are costs involved in a warehousing operation such as personal service, utilities, equipment repair and other
overhead costs. These costs are continuous in nature, so the longer an item stays in the warehouse the more cumulative operating cost is associated with it. The operating cost of a central warehouse must be weighed against the cost savings it provides.

Low turnover rates resulting from insufficient planning of minimum reorder points and the lack of implementation of written procedures for disposal of "dead" stock result in agency funds and warehouse space being tied up unnecessarily.

We recommend that the following actions be taken within the supply areas to improve the overall efficiency and effectiveness of the warehousing system:

1. Minimum reorder points should be established for patrol supply instead of visual inventory assessments. These should allow for on-hand stock balances to be moved in a maximum of one year allowing for reorder lead time. The reorder points should be based on the past usage for 24 months and systematically reviewed on a scheduled basis to reflect more realistic stock balances.

2. The repair parts inventory at the Equipment Depot should be purged of obsolete and "dead" stock through the implementation of disposal procedures which are already in place but have not been applied.

3. Priority should be given to the completion of the study now being undertaken for the automation of the supply depot operation.
4. All supply areas should reduce their excess inventory through attrition, management review of all large restocking orders and write-offs. Where possible, vendors might be contacted to see if they would allow credits for unused items returned to them. Additionally, if disposal procedures for obsolete merchandise are not currently written and applied, they should be developed and implemented.

B. Property Management

Our examination of the property control system revealed three areas where improvement could increase the effectiveness of property management. These areas are:

1. There are no formal written policies and procedures regulating property control. These are in various directives and memorandums.

2. The present system of processing equipment transactions is a multi-step process combining manual functions with a batch processing system. Although this is a functional operation, it does not maximize the timeliness of the property management function.

3. The present policy of using a $25 minimum as one of the guidelines in assigning property numbers is not reflective of today's prices and inflation rates, and results in a high volume of document flow.
Prudent management dictates an ongoing effort to maximize departmental efficiency by reducing document processing and turnaround time. Additionally, constant effort must be exerted to improve the efficiency of an operation through the implementation of more cost effective programs which increase clerical accuracy, adherence to regulations and planning of future goals and objectives.

We recommend the following improvements be considered in the internal property system and the related controls:

1. Existing memos and directives addressing property procedures should be compiled into a formal operations manual, adding additional material where needed.

2. It is our understanding that the SCDHPT is currently considering an "on line" equipment management system as one of their goals. We recommend they continue to pursue this objective. If the on-line system is not opted for, the current system should be analyzed to improve efficiency, report turnaround time and flexibility of report generation.

3. It is our opinion that the present policy of using $25 as the cut-off for inventory accountability is too low and should be increased to a more reasonable level. The State Auditor's Office should be consulted to get their input before any new limit is established.
C. Surplus Property Management

We found that the SCDHPT has not reported surplus property to the Division of General Services’ Materials Management Office nor obtained their approval for sealed bid sales of these items. This is due to a misinterpretation of the following proviso of the 1982/83 Appropriations Act:

Provided, Further, That the Department of Highways and Public Transportation may sell any materials, supplies, or equipment classified as obsolete, surplus, or junk for which the Department has no further need, or offer same for trade-in in the purchase of new materials or equipment. All such sales of obsolete, surplus or junk materials or equipment by the Department shall be at public auction, unless the Department deems another sales method is more advantageous, with the approval of General Services, not less than ten days after having been advertised in a newspaper of statewide circulation at least once.... [Emphasis added]

This does not preclude the SCDHPT from the above reporting requirements in Section 19-445.2150 of the Procurement Code regulations.

We recommend the SCDHPT identify surplus items, declare them as such, and report them to the Materials Management Officer or his designee within 90 days. Further, we recommend that whenever the SCDHPT plans to sell surplus property by any method other than public auction that a request be forwarded to the Materials Management Officer.
VIII. FISCAL ACCOUNTABILITY ACT REPORTING

Partially as a result of a lack of clarification as to report procedures statewide, the SCDBPT has failed to comply with the requirements of the Fiscal Accountability Act (FAA) in the following areas:

1. Neglected to reconcile the data collected for FAA reporting to General Services with the general accounting disbursement records.

2. Failed to report procurements of consultant services.

3. Failed to report procurements of construction services for buildings, roads and bridges.

4. Failed to report all procurements of information technology services.

5. Failed to report to the Comptroller General a statement of all existing contracts for permanent or capital improvements and the status of the work pursuant to such contracts.

Act 561 of 1976, Section 4, states in part:

The quarterly reports required by this act shall include the following information current to the end of the last preceding quarter:

(2) A statement of all existing contracts for permanent or capital improvements and the status of the work pursuant to such contracts....

Additionally, Section 5 states in part:

All agencies, departments and institutions of state government shall...furnish to the Division of General Services of the Budget and
Control Board...a statement of all expenditures...for commodities which were not purchased through the Division. Such statements shall be prepared in the commodity code structure and report format established by the Division for reporting commodities purchased through the Division's central purchasing system....

Further, 561 as amended May 30, 1977, states in part:

...it is the intent of the General Assembly that all funds including state, federal, and other agency revenues, and also including any financial transactions covered by the budget code of the Comptroller General's Office, be included in the reporting requirements of this Act....

While the Department is faithful to the requirements of the FAA in reporting all procurements that are handled on purchase orders by the Director of Purchasing, the above procurements handled outside of the Purchasing Department are not reported.

The General Assembly, without major additional effort, could not readily obtain the procurement activity of the SCDHPT as contemplated by the FAA in the areas of:

1. Permanent and capital improvements including road construction;

2. Total commodities purchased.

Additionally, by not establishing FAA input as a reliable data base, the department has deprived itself of the internal fringe benefits that could result therefrom, such as:

1. Planning and scheduling acquisitions;

2. Consolidation of commodities for better prices;
3. Monitoring user department needs for efficiency, cost effectiveness and small order abuse;
4. Evaluation of purchasing goals.

The Division of General Services is currently working with the Comptroller General's Office on proposals to make major revisions in the reporting requirements of the FAA in the near future. These revisions will hopefully make the data reported by agencies more responsive and cost effective.

Because of the possibility of these major revisions, we cannot recommend that the SCDHPT expend unnecessary time and money in effecting compliance with this law although we feel compelled to point out the lack of compliance. This lack of compliance has been discovered in differing degrees, however, at all agencies which we have audited.

IX. PROFESSIONAL DEVELOPMENT OF PROCUREMENT PERSONNEL

Personnel training is one of the most critical factors in the successful operation of a procurement system. However, we found that professional development of the purchasing staff has been overlooked as a goal of the department. This is evidenced by the following:

1. We found no professional development goals established for the purchasing staff in the Internal Procurement Operating Procedures Manual or anywhere else.
2. No funds are budgeted for staff training.

3. Only one buyer is a member of a professional purchasing organization.

4. Only one buyer has attended a class or conference by the National Institute of Governmental Purchasing.

5. No one has attended any of the seminars on the Procurement Code given by the Materials Management Office.

Per Section 11-35-20(k), one of the primary purposes and policies of the Procurement Code is, "to train procurement officials in the techniques and method of public procurements." To help accomplish this, the Training and Research Section of the Materials Management Office was established.

We are aware of the current budgetary restrictions placed on state government and that many times professional development is one of the first things cut. However, we understand the Purchasing Department was told that, until procurement courses were specifically required, there would be no funds budgeted for this purpose in the department.

This attitude toward procurement by upper management causes us a great deal of concern. Professional development should be pursued on all levels. Particularly though, we are concerned that by not attending code updates, sole source seminars, etc., the SCDHPT purchasing staff may not be as familiar with the law and regulations as they could be.
We recommend the department implement a program promoting professional development of procurement personnel through the following:

1. Including a policy statement on professional development goals in the Internal Procurement Operating Procedures Manual.

2. Budgeting available funds for procurement training such as the basic, intermediate and advanced purchasing seminars given by the National Institute of Governmental Purchasing.

3. Promoting the attainment of professional certification of the purchasing staff such as Professional Public Buyer (PPB) or Certified Public Purchasing Officer (CPPO). These certifications are a part of the Universal Certification Requirements for Public Procurement Personnel developed by the National Institute of Governmental Purchasing (NIGP) and the National Association of State Purchasing Officials (NASPO).

4. Promoting participation in professional purchasing organizations such as the National Association of State Purchasing Officials (NASPO) or the South Carolina Association of Governmental Purchasing Officers (SCAGPO).

5. Attending the code updates given by the Materials Management Office (most of these are free).
X. EFFICIENCY OF THE PROCUREMENT SYSTEM

A. Procurement Objectives Hampered by Excessive Paperwork

The capability of the Purchasing Department at the SCDHPT to handle a $10,000 certification limit under the present workload is questionable. Employee job responsibilities are not conducive to maximizing the efficiency of the procurement activity through proper document control. The following inefficiencies were noted during our review:

1. A large number of invoices received by Accounting are transmitted to Purchasing for assignment of a purchase order number. For the most part, this is caused by the confirmation orders referred to in I-A above.

   Invoices are sent to Purchasing as an internal policy function and is done to avoid interest charges which may be incurred if the invoice is not submitted to the Comptroller General's Office within 30 days. Unfortunately, this places an additional workload on Purchasing, and weakens internal control regarding separation of duties since Purchasing is directly involved in invoice processing.

2. Current internal policy requires buyer approval of all term contract purchases, confirming purchase orders and Order-Invoice-Acknowledgements (E.P.O.'s). This monitoring process consists of
verifying prices, ensuring destination points, etc., and detracts from the buyer's main responsibilities of getting lower prices for goods and services.

3. Currently, expediting requests are handled by individual buyers based on their commodity assignments. This task requires an inordinate loss of production time because of records searches, etc.

4. The present system of processing purchase orders for the FAA reporting requirements and the manual typing of purchase orders requires three or more clerical personnel. One does the actual coding, another enters the information into the computer, and the third manually types the purchase order. This is an antiquated system which could be streamlined for better efficiency.

Section 11-35-20(f) of the Consolidated Procurement Code states as one of the policies and purposes of the Code:

- to provide increased economy in state procurement activities and to maximize to the fullest extent practicable the purchasing values of the funds of the state.

When purchasing managers and buyers are routinely processing clerical work, they are unable to utilize their procurement skills in the most advantageous manner.

Centralization of authority and responsibility combined with effective management techniques and logical workload assignments can raise Purchasing's activity from a clerical oriented position...
employing "crisis management" policies to a position where "management by objectives" and sound procurement policy lead to improved performance.

We recommend that the internal procurement system be re-examined to determine the solutions necessary to make it more efficient. Consideration should be given to the following suggestions:

1. The implementation of an automated purchase order system which would allow for the combination of several clerical functions such as the commodity code reporting system and the issuance of purchase orders. Currently over 50,000 orders are being commodity coded each year. Twenty-one thousand of these are typed manually.

   If purchase orders were entered through a computer terminal and printed by an automated system, the typing, commodity coding and reporting could be done in a single step. Currently this is a three step process.

   As a part of this, consideration should be seriously given to the establishment of an automated vendor file. A system such as this helps in a variety of ways from identifying potential sources of supply to eliminating the typing of vendor names and addresses which are pulled from the vendor file automatically once the vendor code is entered.
2. Examine the buyer job responsibilities to determine if routine clerical duties such as order expediting and price verification, presently done at their level, can be shifted to clerical personnel. This would result in better management of buyer productive time.

3. The SCDHPT's purchase order states as a condition that vendor invoices presented for payment show a purchase order number. It is our opinion, that if the vendor has a purchase order or order-invoice-acknowledgement number in advance, as is required on the purchase order, and the vendor does not comply with this condition of the purchase, the time involved in returning the invoices to the vendor for proper completion should not be considered within the 30 day limitation specified by the Code, and the interest charges would not apply.

   However, if it is a confirming order placed by someone outside of Purchasing and the vendor was not given a reference number at the time the order is filed, the SCDHPT is responsible and the 30 day payment period applies. In other words, the 30 day payment period applies to all invoices that do not show purchase order numbers when the procurement was a confirming order. Since the vendors were not given reference numbers, the delay was caused by SCDHPT personnel.
To document that invoices were returned to vendors and why a two-part form may be needed. This could be preprinted to indicate the various reasons for returning invoices to vendors. One part could be returned to the vendor with the invoice and upon its return the second part could be attached and sent to the Comptroller General's Office as explanation.

B. Small Order Procedures

Our review of the procedures for processing small orders for auto parts at the Equipment Depot and office machine parts at the machine repair shop revealed that a large number of requisitions are initiated in these two departments. Purchasing merely issues confirming purchase orders after the fact for these.

In fiscal year 1981-82, over 1,560 requisitions were processed from the Equipment Depot, of which 55% totalled less than $100 each. There were over 100 requisitions from the machine repair shop.

The National Association of Education Buyers' handbook on "Small Purchase Procedures" identifies a number of systems to control small purchases effectively. These could be applied to reduce the cost of processing purchase orders and result in a measurable cost savings to the Purchasing Department.

Purchasing managers are aware of the desirability for changing small order procedures; however, they are involved in exten-
sive manual processing of small requests at this time, with procedural development being slow to advance. A successful attempt is being made at some reduction of paper flow through the use of order-invoice-acknowledgements (E.P.O.'s) in the district and county offices. At this time, however, neither the Equipment Depot nor the machine repair shop utilizes this procurement method to assist in reducing their requisition flow.

In order to reduce the document flow at the Equipment Depot and other areas and improve cost savings in the Purchasing Department at SCDHPT, we recommend the implementation of the order-invoice-acknowledgement (E.P.O.) system now in use at maintenance shops. Additionally, the institution of blanket agreements whereby properly authorized members of the various departments may place small direct orders with vendors would also be helpful. The dollar limits of these two procurement vehicles should be established by the Purchasing and Supply Departments after a thorough review. We feel that adequate monitoring controls can be established by the Director of the Purchasing Department to ensure that departments do not circumvent procurement law.

XI. REVIEW OF THE INTERNAL PROCUREMENT OPERATING PROCEDURES MANUAL

The SCDHPT has given us a draft copy of the Internal Procurement Operating Procedures Manual for review to determine that written internal operating procedures as submitted are consistent with the Consolidated Procurement Code and regulations.
Our review of the current manual revealed that the following areas need to be added, changed or expanded:

1. The introduction states, "The Department attempts to secure bids on all items not classed as Original Equipment manufacturer replacement repairs parts."

   This is not always justification for a sole source procurement, i.e., automobile replacement parts are available from parts stores.

2. The purpose section, as it now reads, appears to be more a determination of compliance. This does not really address the goals of the Department.

3. The term "emergency" regulations should be changed to merely regulations since the permanent regulations are now in effect.

4. The order-invoice-acknowledgement is referred to as an emergency purchase order. This terminology should be changed since the word emergency has a specific meaning under the Procurement Code.

5. Page 4 states in part, "the Department adheres to all term contracts awarded by Central State Purchasing where practicable."

   The Procurement Code stipulates in Section 11-35-310 that the use of these is mandatory. This statement should be strengthened to indicate this.

6. Page 4 states in part, "Requisitions for procurements not specifically exempted by the Code or available through existing term contracts are sub-
mitted to Central State Purchasing for all items that exceed $2,500.00."

If the Department is certified to handle their own procurements above $2,500, this should be changed.

7. Page 5, Item 3, mentions the provisions of the standard specifications for highway construction. These specifications should be made a part of this manual.

8. The flow chart labelled consultants is actually for architects, engineers and other related construction professional services. A flow chart for consultant services should be added and the current chart renamed.

9. The Construction and Related Professional Services flow chart on Page 10 should be changed as follows:
   a) This states, "in some instances if the estimated value of the contract is less than $10,000.00 informal bids may be solicited." This is incorrect. Informal bids may only be solicited if the contract is less than $2,500.
   b) This states, "The award and execution of the contract including requirements for performance and indemnity bond will be in accordance with the South Carolina Department of Highways and Public Transportation Standard Specifications for Highway Construction." This should be the Consolidated Procurement Code or both.
c) Procedures for construction of highways, roads and bridges should be shown separately from those for construction of buildings because they are different.

10. The flow chart on Page 11 entitled Consultant Services indicates that for architect-engineer services less than $12,000 they merely directly negotiate. This says nothing about the requirement in Section 11-35-3230(2) of the Code that fees paid during the 24 month period immediately preceding negotiation of the contract by any single governmental body for professional services performed by any one architectural-engineering or land surveying firm pursuant to this section and Section 11-35-3220 shall not exceed thirty-six thousand dollars.

Further, this flow chart does not indicate that the selection committee must develop a formal invitation to firms for submission of information nor does it mention the Office of Management & Budget forms that must be used for its submission.

The chart now shows, "After the top five ranking has been concluded, all other firms that responded will be informed that other firms are being considered."

This should read as Section 11-35-3220 of the Procurement Code which states in part, "When it is
determined that the ranking report is final, written notification of the selection and order of preference shall be immediately sent to all those that responded to the agency selection committee's invitation to submit information."

11. The Information Technology flow chart on Page 13 says nothing about the Information Technology Plan and matching information technology requests with this plan.

Additionally, we feel the following areas should be added to the manual:

1. Policy statements covering:
   - Retention of records
   - Restrictive specifications
   - Expenditure of federal funds when used for procurements not exempt from the Procurement Code addressing the applicability of the Code.
   - Vendor grievances
   - Minority business policy
   - Unauthorized procurements
   - Vendor complaints
   - Professional development
   - Funds availability and authorizations required
   - Conflict of interest
   - Sample submission
- Advance notification of needs
- Approval authority of determinations
- Official file of determinations and findings

2. Information technology plan
3. Exempted commodities list
4. Fiscal Accountability Act reporting procedures
5. Property control and/or the fixed asset system
6. Small purchase methods:
   - Telephone quotations
   - Written quotations
   - Blanket purchase agreements
7. Emergency and sole source procurements
8. Consultant procurement procedures
9. Accounting, auditing and legal procurement procedures addressing the special approvals required
10. Leasing of real property
11. Confirmation purchase order procedures
12. Procedures for quarterly reporting of emergency and sole source procurements
13. Formal change to purchase order/contract procedures
14. Procedures for ordering printing services and printing equipment
15. Multi-term contract procedures
16. Bidder list with appropriate procedures for adding and deleting vendors
17. Competitive sealed bid and request for proposal procedures including:
18. Pertinent exhibit appendix

19. The fact that the office machine shop head has been given authority to make procurements of repair parts should be addressed.

XII. PRINT SHOP UTILIZATION

As part of our examination, the State Printing Officer analyzed print shop equipment and personnel utilization. The following is his report:

**DUPLICATING EQUIPMENT UTILIZATION ANALYSIS**

Standards for evaluating efficiency and effectiveness of duplicating equipment in the SCDHPT's Print Shop were established in part by the Legislative Audit Council and the State Printing Manager. (See Program and Operational Review of Printing, Dupli-cating and Photocopying Activities of South Carolina State Agen-cies, November 14, 1978) The Print Shop is currently operating five (5) separate pieces of equipment. These five are made up of

-Necessary determinations and findings
-Bid receipt, security and opening
-Correction or withdrawal of bids
-Negotiation after unsuccessful competitive bids
-Notice of award
-Tie bid
-In-state preference
three (3) Offset Duplicators and two (2) Xerox Duplicators. The criteria for evaluating equipment utilization has generally been established as 50% of the rated machine speed of the equipment being analyzed.

A minimum standard for use levels has been developed by allowing three and one-half (3½) hours out of each seven and one-half (7½) hour working day to be used for job set-up time, clean-up time, routine maintenance, breaks and miscellaneous down time. The number of hours equipment is available for operation annually is the same number of hours an operator would be on the job.

\[
\begin{align*}
37\frac{1}{2} \text{ hours straight time per week} \times 52 \text{ weeks} &= 1,950 \\
\text{Less: 15 days annual leave} &= 112.5 \\
\text{15 days sick leave} &= 112.5 \\
\text{11 holidays} &= 82.5 \\
\text{307.5 hours}
\end{align*}
\]

1950 hours available minus 307.5 hours = 1,624.5 hours

1642.5 hours divided by 7.5 hours = 219 days

Utilizing the production standards mentioned, 100% utilization would equal four hours per day. The number of working days per month based on 219 days divided by 12 equals 18.25 days.

In this analysis each piece of equipment has been evaluated individually and a percentage of utilization calculated. A collective utilization has also been calculated based on five pieces of equipment. Man hours have been analyzed using basically the same criteria established for evaluating equipment utilization.
The percentage of man hours utilized out of the working hours available indicates the overall efficiency of the SCDHPT's Print Shop. At this point, data is not available to compare the efficiency of this Print Shop with others in State Government. However, when all the data is compiled from each agency Print Shop, the results will be published.

**EQUIPMENT INVENTORY**

1. Offset Duplicators - AB Dick 350
2. AB Dick 350
3. AB Dick 350
4. Xerox Duplicators - 9200
5. 8200
6. Plate Maker - Itek 12.18
7. Light Table
8. Paper Cutter Challenge 19 3/8"
9. Binders - Bindfast II
10. Collators & Stitches - 10 Bin Stand Alone Collator

Pitney Bowes, Collator Switcher and Stacker

**EMPLOYEES**

Printing Services Supervisor
Printing Production Manager
Printing Operator II
Printing Operator II
Photo Copy Specialist
EQUIPMENT UTILIZATION ANALYSIS

A.B. DICK 350, SERIAL NUMBER 538284-A

Monthly Volume:

<table>
<thead>
<tr>
<th>Month</th>
<th>Year</th>
<th>Impressions</th>
</tr>
</thead>
<tbody>
<tr>
<td>July</td>
<td>1981</td>
<td>150,051 impressions</td>
</tr>
<tr>
<td>August</td>
<td>1981</td>
<td>183,124 impressions</td>
</tr>
<tr>
<td>September</td>
<td>1981</td>
<td>317,877 impressions</td>
</tr>
<tr>
<td>October</td>
<td>1981</td>
<td>156,174 impressions</td>
</tr>
<tr>
<td>November</td>
<td>1981</td>
<td>87,345 impressions</td>
</tr>
<tr>
<td>December</td>
<td>1981</td>
<td>78,395 impressions</td>
</tr>
<tr>
<td>January</td>
<td>1982</td>
<td>209,820 impressions</td>
</tr>
<tr>
<td>February</td>
<td>1982</td>
<td>137,877 impressions</td>
</tr>
<tr>
<td>March</td>
<td>1982</td>
<td>* impressions</td>
</tr>
<tr>
<td>April</td>
<td>1982</td>
<td>* impressions</td>
</tr>
<tr>
<td>May</td>
<td>1982</td>
<td>* impressions</td>
</tr>
<tr>
<td>June</td>
<td>1982</td>
<td>* impressions</td>
</tr>
</tbody>
</table>

*Equipment not in production as a result of losing operator.

Total Annual Volume - 1,320,663 impressions
Average Monthly Volume - 110,055 impressions

1,320,633 Annual Impressions Divided by 219 working days = 6,030
6,030 Daily Impressions Divided by 5000 impressions per hour = 1.2 hours
1.2 hours is 30% of 4 hours (Representing 100% Utilization).

A.B. Dick 350 Utilization - 30%
### A. B. DICK 350, SERIAL NUMBER 538508

#### Monthly Volume:

<table>
<thead>
<tr>
<th>Month</th>
<th>Year</th>
<th>Impressions</th>
</tr>
</thead>
<tbody>
<tr>
<td>July</td>
<td>1981</td>
<td>166,535</td>
</tr>
<tr>
<td>August</td>
<td>1981</td>
<td>197,378</td>
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<tr>
<td>September</td>
<td>1981</td>
<td>379,684</td>
</tr>
<tr>
<td>October</td>
<td>1981</td>
<td>150,979</td>
</tr>
<tr>
<td>November</td>
<td>1981</td>
<td>199,944</td>
</tr>
<tr>
<td>December</td>
<td>1981</td>
<td>141,059</td>
</tr>
<tr>
<td>January</td>
<td>1982</td>
<td>200,930</td>
</tr>
<tr>
<td>February</td>
<td>1982</td>
<td>157,525</td>
</tr>
<tr>
<td>March</td>
<td>1982</td>
<td>179,797</td>
</tr>
<tr>
<td>April</td>
<td>1982</td>
<td>268,851</td>
</tr>
<tr>
<td>May</td>
<td>1982</td>
<td>259,650</td>
</tr>
<tr>
<td>June</td>
<td>1982</td>
<td>216,617</td>
</tr>
</tbody>
</table>

**Total Annual Volume**  -  2,518,949 impressions
**Average Monthly Volume**  -  209,912 impressions

2,518,949 Annual Impressions Divided by 219 working days = 11,502
11,502 Daily Impressions Divided by 5000 impressions per hour = 2.3 hours
2.3 hours is 57% of 4 hours (Representing 100% Utilization).

**A.B. Dick 350 Utilization**  -  57%

### A. B. DICK 350, SERIAL NUMBER 000774

#### Monthly Volume:

<table>
<thead>
<tr>
<th>Month</th>
<th>Year</th>
<th>Impressions</th>
</tr>
</thead>
<tbody>
<tr>
<td>July</td>
<td>1981</td>
<td>176,800</td>
</tr>
</tbody>
</table>

**-66-**
August 1981 255,385 impressions
September 1981 371,780 impressions
October 1981 144,416 impressions
November 1981 123,355 impressions
December 1981 115,070 impressions
January 1982 198,011 impressions
February 1982 160,426 impressions
March 1982 188,248 impressions
April 1982 300,115 impressions
May 1982 292,418 impressions
June 1982 222,547 impressions

Total Annual Volume = 2,548,571 impressions
Average Monthly Volume = 212,381 impressions

2,548,571 Annual Impressions Divided by 219 working days = 11,637
d 11,637 Daily Impressions Divided by 5000 impressions per hour = 2.32 hours
2.32 hours is 58% of 4 hours (Representing 100% Utilization).

A.B. Dick 350 Utilization - 58%

XEROX 9200, SERIAL NUMBER 336019233

Monthly Volume:
July 1981 227,681 impressions
August 1981 178,273 impressions
September 1981 216,366 impressions
October 1981 309,898 impressions

-67-
November 1981 317,834 impressions
December 1981 359,533 impressions
January 1982 332,973 impressions
February 1982 331,108 impressions
March 1982 373,818 impressions
April 1982 357,236 impressions
May 1982 359,403 impressions
June 1982 357,801 impressions

Total Annual Volume - 3,721,924 impressions
Average Monthly Volume - 310,160 impressions

3,722,424 Annual Impressions Divided by 219 working days = 16,995
16,995 Daily Impressions Divided by 3600 impressions per hour = 4.72 hours
4.72 hours is 118% of 4 hours (Representing 100% Utilization).

Xerox 9200 Utilization - 118%

XEROX 8200

Monthly Volume:

July 1981 * impressions
August 1981 99,046 impressions
September 1981 81,701 impressions
October 1981 88,472 impressions
November 1981 69,549 impressions
December 1981 85,674 impressions
January 1982 70,925 impressions
<table>
<thead>
<tr>
<th>Month</th>
<th>Year</th>
<th>Impressions</th>
</tr>
</thead>
<tbody>
<tr>
<td>February</td>
<td>1982</td>
<td>81,333</td>
</tr>
<tr>
<td>March</td>
<td>1982</td>
<td>103,014</td>
</tr>
<tr>
<td>April</td>
<td>1982</td>
<td>104,985</td>
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<tr>
<td>May</td>
<td>1982</td>
<td>89,211</td>
</tr>
<tr>
<td>June</td>
<td>1982</td>
<td>95,313</td>
</tr>
</tbody>
</table>

*Equipment not in production.

Total Annual Volume - 969,223 impressions
Average Monthly Volume - 80,769 impressions

969,223 Annual Impressions Divided by 219 working days = 4,426
4,426 Daily Impressions Divided by 2100 impressions per hour = 2.10 hours
2.10 hours is 52% of 4 hours (Representing 100% Utilization).

Xerox 8200 Utilization - 52%

DUPLICATING EQUIPMENT UTILIZATION SYNOPSIS
Total number of impressions produced from July 1, 1981 through June 30, 1982 = 11,079,830.

<table>
<thead>
<tr>
<th>Equipment</th>
<th>Impressions</th>
</tr>
</thead>
<tbody>
<tr>
<td>Xerox 9200</td>
<td>3,722,424</td>
</tr>
<tr>
<td>Xerox 8200</td>
<td>969,223</td>
</tr>
<tr>
<td>A.B. Dick 350</td>
<td>2,548,571</td>
</tr>
<tr>
<td>A.B. Dick 350</td>
<td>1,320,663</td>
</tr>
<tr>
<td>A.B. Dick 350</td>
<td>2,518,949</td>
</tr>
</tbody>
</table>

Utilization Percentages:

<table>
<thead>
<tr>
<th>Equipment</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>A</td>
<td>118%</td>
</tr>
<tr>
<td>B</td>
<td>52%</td>
</tr>
</tbody>
</table>
C. 58%
D. 30%
E. 57%

Average Equipment Utilization Percentage - 63%

**MAN HOUR UTILIZATION ANALYSIS**

Number of Employees - Five (5) full time.

1. Printing Services Supervisor
2. Printing Production Supervisor
3. Printing Operator II
4. Printing Operator II
5. Photo Copy Specialist

There are four employees (2 through 5 above) directly responsible for duplicating equipment productivity. These employees operate five pieces of duplicating equipment.

Volume Produced Overall - 11,079,830 impressions.

11,079,830 Divided by 219 Working Days = 50,593 impressions per day.

50,593 Impressions Per Day Divided by 4 employees = 12,648 impressions per employee.

12,648 Impressions Per Employee Divided by *4,140 Impressions = 3.05 hours.

3.05 hours is 76% of 4 hours (Representing 100% Utilization).

Man Hour Utilization - 76%

(*4,140 impressions is the average of the production standards used for each piece of duplicating equipment.)
100% Equipment Utilization would generate - 18,133,200 impressions.
Actual Equipment Utilization - 11,079,830.

100% Man Hour Utilization - 3,504.
Actual Man Hour Utilization - 2,663.

RECOMMENDATIONS

The Printing Services Supervisor should make an effort, this fiscal year, to phase out the operation of one A.B. Dick 350 Offset Duplicator. Every effort should be made to secure all work available for the SCDHPT's in-house facility. All jobs going outside of the agency for reproduction should be examined to determine what, if any, can be produced in-house. A goal should be established to increase the number of impressions produced on each piece of duplication equipment a minimum of 1,000 impressions per hour on the average.

We would expect the SCDHPT to take these recommendations into consideration and strive to upgrade the operational efficiency of the Print Shop.
CERTIFICATION RECOMMENDATIONS

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

Under the authority described in Section 11-35-1210 of the Procurement Code, subject to this corrective action, we recommend SCDHPT be certified to make direct agency procurements as follows:

<table>
<thead>
<tr>
<th>PROCUREMENT AREA</th>
<th>RECOMMENDED CERTIFICATION LIMIT</th>
</tr>
</thead>
<tbody>
<tr>
<td>All goods and services procurements processed directly and completely by the SCDHPT Purchasing Office. This is not to include confirmation requisitions or order-invoice-acknowledgments or any other procurements above $2,500 made by district, county or other operating units. Procurements above $2,500 included in this certification are to be handled entirely by SCDHPT Purchasing Office, including source selection, communication with vendors, award, etc. Also, excluded is printing equipment which must be approved by the Materials Management Officer.</td>
<td>$20,000 per purchase commitment</td>
</tr>
<tr>
<td>Construction material testing contracts awarded by the Materials Testing Lab</td>
<td>$200,000 annual total of all contracts combined</td>
</tr>
</tbody>
</table>
This would result in the SCDHPT handling 99% of their own procurement transactions in these areas.

Because of the complexity of the changes which will be made by the SCDHPT in response to this report, we further recommend that, as a part of this certification, the Audit and Certification Section return to the department six (6) months from the actual date of certification to determine that all necessary procurement system controls are functioning properly and that the exemption allowed the SCDHPT is properly applied.

As indicated in the Background section of this report, certification was not requested in the construction services area of procurement. Additionally, we are unable to recommend certification in the area of information technology at this time but will be able to address these in the future when statewide plans are formalized.

R. Voight Shealy
Audit Supervisor

Robert W. Wilkes, Jr., CPA
Director, Audit and Certification
November 30, 1983

Mrs. Barbara A. McMillan, Assistant
Director for Agency Services
Division of General Services
300 Gervais Street
Columbia, South Carolina 29201

Dear Mrs. McMillan:

Enclosed is the Department's reply to the audit and certification report prepared by the Audit and Certification Section of the Division of General Services.

We are in the process of establishing training seminars to be conducted by Dr. Jan Temple on the procurement code, and as soon as these seminars are completed, we intend to proceed with our plan to delegate more purchasing authority to our field personnel located throughout the State.

The Department's internal operating procedures manual is being revised and will be submitted to you within the next few days.

We appreciate the cooperation extended by you and your staff and feel that the recommendations made will be beneficial to the Department. If you require any further information, please do not hesitate to contact me.

Very truly yours,

Paul W. Cobb
Chief Commissioner
Where practicable, all procurements will be made by Department of Highways and Public Transportation Purchasing Division from duly approved requisitions submitted by all purchasers prior to procurements being made.

The Department has delegated procurement authority to the district and county offices and equipment depot up to the limits stated in administrative memorandum 395 which supersedes administrative memorandum 321. All such procurements must be made in accordance with the procurement code and permanent regulations. Procurement authority will be delegated only after each person detailed in the Internal Operating Procedures Manual has attended a training seminar on the procurement code conducted by the Division of General Services. A follow up seminar presented by the Department's procurement and accounting personnel will be developed to clarify departmental procurement procedures.

Sole source purchases are to be held to a minimum and other state agencies will be contacted for possible sources of products when necessary. Where sole source procurements are necessary, state procedures for such procurements will be strictly adhered to.

Emergency purchases are to be made only when there is an immediate threat to the public health, welfare, safety or critical economy and efficiency and then only with as much competition as is practical under the circumstances.

Consultant and contractual service contracts within the Department's certification limit will be procured by the Department's Purchasing Division with the concurrence of the requesting division within the Department. Contracts exceeding the certified limit will be forwarded to the Materials Management Office.

At the time of the audit, the Department was paying a monthly rental on equipment that had no specific contractual documents available. Since that time, the Department has removed the majority of such equipment. By January, 1985, all of the remaining equipment will be displaced that has no specific contractual document.

Existing contracts relating to maintenance are open ended and some do not have escalation clauses as required. In the past year, all maintenance contracts negotiated by this agency have included in them an escalation clause for the protection of the agency. Those contracts now in existence that have no such protection clause have been reviewed and at renewal will have such clauses added. Also at renewal time, established Materials Management procedures for competitive bidding will be followed and purchase orders issued annually thereafter.
A written determination of Construction Contracting Administration has been prepared and has been forwarded to the State Engineer for approval in accordance with Code Section 11-35-3010 and Regulation 19-445.2145, Subsection B.

Invitations for bids for all projects are now being formally advertised in the "State Business Opportunity" as required by Section 11-35-3020(a).

A copy of the bid tabulation has always been sent to all responsive bidders within ten (10) working days following the bid opening as required by Section 11-35-3020(b)(iv). The cited projects were handled by a consultant rather than the Department and this requirement was inadvertently omitted. We will strengthen our present procedure to insure that this requirement is met on all future projects.

Retainage on all projects are now as follows:

1. 5% until the project completion reaches 35%.
2. Reduced to 2½% after project reaches 35% completion.
3. Can be further reduced when project is substantially complete by written request and justification.

A property management manual is being compiled by the Department's Supply and Equipment office. Current policy requires that any equipment purchased from the equipment account, major shop equipment and power tools account, office furniture account, photographic equipment account and miscellaneous equipment account must have a property control number assigned to it regardless of cost. Many items, even though their initial cost is $25.00 or less, must have control accountability to reduce the amount of unaccountable loss. An itemized print-out of all equipment is provided each department annually for inventory purposes.

Annual reports of land leased for maintenance and construction purposes will be filed annually with the Division of General Services, Real Property Management Section.

The Department has budgeted funds for training and purchasing personnel will begin attending the seminars given by the National Institute of Governmental Purchasing including the basic, intermediate and advanced seminars. These employees will strive to and be encouraged to attain professional certification. Membership registration fees will be included in future budgets for purchasing staff members to become associated with professional purchasing organizations. Code update sessions presented by the Materials Management Office have been and will continue to be attended by purchasing staff members.

Agency Management has directed the Department's Internal Audit Office to assist the Purchasing Office in developing written quantifiable standards for assessing the efficiency and effectiveness of our purchasing system. These written guidelines will address the objectives suggested. Additionally, our Internal Audit staff will follow up to insure compliance with the new guidelines.
The possibility of implementing an automated purchase order system has been discussed along with the possibility of an automated vendor file with the Data Processing staff.

Buyer job responsibilities have been discussed and the decision made that buyers must be aware of the problems that the Department encounters with various vendors that would not be known if order expediting, some price verification, and problems faced by the Accounting Division were turned completely over to clerical personnel. Buyers have clerical personnel available to assist them in resolving these problems and they utilize them as much as possible.
April 30, 1984

Mr. Richard J. Campbell  
Materials Management Officer  
Materials Management Office  
800 Dutch Square Boulevard  
Suite 150  
Columbia, South Carolina 29210

Dear Mr. Campbell:

We have returned to the Department of Highways and Public Transportation to determine the progress made toward implementing the recommendations in our audit report covering the period July 1, 1981 - January 31, 1983. During this review, we followed up on each recommendation made in the audit report through inquiry, observation and limited testing.

The Audit and Certification Section observed that the Department has made progress toward correcting the problem areas found and improving the internal controls over the procurement system.

In addition to our normal follow-up review, particular attention during the follow-up period has been directed by our
office and yours toward resolving conceptual and definitional problems in the following areas:

A. As stated in the report, we discovered, during the audit, that the department's interpretation of the exemption provided them under Section 11-35-710(a) of the Consolidated Procurement Code was much broader than our own. This difference of opinion led to many of the exceptions enumerated in the audit report.

B. Subsequent to the field audit period, we learned of delegated procurement authority within the department that we had not encountered previously because of their unique nature and the audit sampling procedures used. The following contractual services have been procured, as items exempted from the Consolidated Procurement Code, by the department in the past:

1. The Environmental Program Administrator of the Engineering Division contracted for archeological services for approximately $300,000 annually. These services are not exempt except when performed by an architect, engineer or other construction related professional addressed in Section 11-35-2910 of the Procurement Code.

2. The Engineering Division was prepared to contract for consultant services for the design
of a pre-construction engineering management system until we informed them that the transaction was subject to the Procurement Code. This is now being procured by the Division of General Services.

3. The South Carolina Interagency Council on Public transportation was determined to be subject to the provisions of the Procurement Code. Previously, they had operated as an exempted agency within the department.

After several productive meetings with the Department of Highways and Public Transportation, we feel that we have reached an agreement on the scope of the department's exemption for the construction, maintenance and repair of bridges, highways and roads. In addition to the clarifications listed in B. 1., 2., and 3., above, it is our agreement with the Department of Highways and Public Transportation that the exemption contained in Section 11-35-710(a) for the "construction, maintenance and repair of bridges, highways and roads." is restricted to the procurement of contractual services of construction firms. Further, we have also included within the preview of this exemption those services enumerated in Section 11-35-2910(1) (architect - engineer and land surveying services) and Section 11-35-2910(3) (construction management services) as they relate to the construction, maintenance and repair of bridges, highways and roads.
This exemption would, therefore, specifically not apply to procurements of materials and supplies to be used by in-house personnel. In addition, the exemption does not apply to professional services such as those described in B. 2., above, which do not relate to a specific highway, bridge or road project but rather to the general functioning or purpose of the Department of Highways and Public Transportation as a whole.

Of course, we consider that all purchases other than those referred to as exempt in this letter must be made in accordance with the Consolidated Procurement Code or fall within other exemptions provided therein.

Because of these agreements and understandings and because of the aforementioned general progress made toward correcting the problem areas found in the procurement system, we recommend that the certification limits for the Department of Highways and Public Transportation, as outlined in the audit report, be granted for a period of two (2) years subject to the specific conditions pointed out in the recommendation.

Sincerely,

Richard W. Kelly
Director of Agency Services

RWK:kl
<table>
<thead>
<tr>
<th>DATE DUE</th>
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</thead>
<tbody>
<tr>
<td>SEP. 2 24837</td>
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HIGH SMITH REORDER #45-230