South Carolina Office of General Services

PROCUREMENT AUDIT AND CERTIFICATION

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SOUTH CAROLINA DEPARTMENT OF REVENUE

AGENCY
JULY 1, 1994 - JUNE 30, 1997

DATE
Ms. Helen T. Zeigler, Director  
Office of General Services  
1201 Main Street, Suite 420  
Columbia, South Carolina 29201  

Dear Helen:  

I have attached the South Carolina Department of Revenue’s procurement audit report and recommendations made by the Office of Audit and Certification. I concur and recommend the Budget and Control Board grant the Department a three year certification as noted in the audit report.  

Sincerely,  

R. Voight Shealy  
Materials Management Officer
SOUTH CAROLINA DEPARTMENT OF REVENUE
PROCUREMENT AUDIT REPORT
JULY 1, 1994 - JUNE 30, 1997
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**NOTE:** The Department’s response to issues noted in the report have been inserted immediately following the issues they refer to.
Mr. R. Voight Shealy  
Materials Management Officer  
Office of General Services  
1201 Main Street, Suite 600  
Columbia, South Carolina 29201

Dear Voight:

We have examined the procurement policies and procedures of the South Carolina Department of Revenue for the period July 1, 1994 through June 30, 1997. As part of our examination, we studied and evaluated the system of internal control over procurement transactions to the extent we considered necessary.

The evaluation was to establish a basis for reliance upon the system of internal control to assure adherence to the Consolidated Procurement Code and State and agency procurement policy. Additionally, the evaluation was used in determining the nature, timing and extent of other auditing procedures necessary for developing an opinion on the adequacy, efficiency and effectiveness of the procurement system.

The administration of the South Carolina Department of Revenue 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 professional care. However, because of the nature of audit testing, they would not necessarily disclose all weaknesses in the system.

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

Corrective action based on the recommendations described in these findings will in all material respects place the South Carolina Department of Revenue in compliance with the Consolidated Procurement Code and ensuing regulations.

Sincerely,

Larry G. Sorrell, Manager
Audit and Certification
INTRODUCTION

We conducted an examination of the internal procurement operating policies and procedures of the South Carolina Department of Revenue. Our on-site review was conducted June 17, 1997 through July 11, 1997 and was made under Section 11-35-1230(1) of the South Carolina Consolidated Procurement Code and Section 19-445.2020 of the accompanying regulations.

The examination was directed principally to determine whether, in all material respects, the procurement system's internal controls were adequate and the procurement procedures, as outlined in the Internal Procurement Operating Procedures Manual, were in compliance with the South Carolina Consolidated Procurement Code and its ensuing regulations.

Additionally, our work was directed toward assisting the Department in promoting the underlying purposes and policies of the Code as outlined in Section 11-35-20 which include:

(1) to ensure the fair and equitable treatment of all persons who deal with the procurement system of this State

(2) to provide increased economy in state procurement activities and to maximize to the fullest extent practicable the purchasing values of funds of the State

(3) to provide safeguards for the maintenance of a procurement system of quality and integrity with clearly defined rules for ethical behavior on the part of all persons engaged in the public procurement process
BACKGROUND

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

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

On February, 14, 1995, the Budget and Control Board granted the South Carolina Department of Revenue the following procurement certifications:

<table>
<thead>
<tr>
<th>Category</th>
<th>Limit</th>
</tr>
</thead>
<tbody>
<tr>
<td>Goods and Services</td>
<td>$10,000 per commitment</td>
</tr>
<tr>
<td>Printing Services</td>
<td>$25,000 per commitment</td>
</tr>
</tbody>
</table>

Our audit was performed primarily to determine if recertification is warranted. The Department requested the following certifications.

<table>
<thead>
<tr>
<th>Category</th>
<th>Limit</th>
</tr>
</thead>
<tbody>
<tr>
<td>Goods and Services</td>
<td>$25,000 per commitment</td>
</tr>
<tr>
<td>Printing Services</td>
<td>$25,000 per commitment</td>
</tr>
</tbody>
</table>
SCOPE

We conducted our examination in accordance with Generally Accepted Auditing Standards as they apply to compliance audits. Our examination encompassed a detailed analysis of the internal procurement operating procedures of the South Carolina Department of Revenue and its related policies and procedures manual to the extent we deemed necessary to formulate an opinion on the adequacy of the system to properly handle procurement transactions.

We selected judgmental samples for the period July 1, 1994 through June 30, 1997 of procurement transactions for compliance testing and performed other audit procedures that we considered necessary to formulate this opinion. Specifically, the scope of our audit included, but was not limited to, a review of the following:

(1) All sole source, emergency and trade-in sale procurements for the period July 1, 1994 through March 31, 1997

(2) Procurement transactions for the period July 1, 1994 through March 31, 1997 as follows:
   a) Seventy payments each exceeding $1,500
   b) A block sample of 292 sequential purchase orders

(3) Minority Business Enterprise Plans and reports for the audit period

(4) Information technology plans for audit period

(5) Internal procurement procedures manual

(6) Surplus Property Procedures
SUMMARY OF AUDIT FINDINGS

Our audit of the procurement system of the South Carolina Department of Revenue, hereinafter referred to as the Department, produced findings and recommendations as follows:

I. Sole Source, Emergency and Trade-In Sale Procurements
   A. Unauthorized Sole Source Contracts
      We noted six sole source procurements which were not approved by an authorized official prior to the start of services resulting in the transactions being unauthorized.
   B. Reporting Errors
      During our review of sole source, emergency and trade-in sale procurements, we noted several types of reporting errors.

II. General Procurement Activity
   A. Procurements Not Done In Accordance To Internal Procedures
      Three procurements were not done in accordance to the Internal Procurement Operating Procedures Manual and were unauthorized as a result.
   B. No Procurement Information
      One procurement in the amount of $79,235 for an annual maintenance service agreement on a scanner showed no evidence of compliance to the Code.
   C. Amendments Not Required To Be Acknowledged
      The Department did not require vendors to acknowledge amendments.
   D. Overpayments
      Two procurements in our samples had overpayments.
RESULTS OF EXAMINATION

I. Sole Source, Emergency and Trade-In Sale Procurements

We examined the quarterly reports of sole source, emergency and trade-in sale procurements for the period July 1, 1994 through March 31, 1997. This review was performed to determine the appropriateness of the procurement actions taken and the accuracy of the reports submitted to the Office of General Services as required by Section 11-35-2440 of the South Carolina Consolidated Procurement Code. Our testing revealed the following.

A. Unauthorized Sole Source Contracts

We noted six sole source procurements which were not approved by an authorized official prior to the start of services. Item one was for software. Items two to six were for the maintenance agreements on information technology equipment.

<table>
<thead>
<tr>
<th>Item</th>
<th>Division</th>
<th>Sole Source</th>
<th>Signature Date</th>
<th>Date</th>
<th>PO</th>
<th>Amount</th>
<th>Service Dates</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Property</td>
<td>668</td>
<td>01/30/97</td>
<td>01/31/97</td>
<td>$</td>
<td>2,261</td>
<td>7/25/96 (Invoice)</td>
</tr>
<tr>
<td>2</td>
<td>DMV</td>
<td>312</td>
<td>08/16/95</td>
<td>08/17/95</td>
<td>2,268</td>
<td>7/1/95 to 6/30/96</td>
<td></td>
</tr>
<tr>
<td>3</td>
<td>IRM</td>
<td>544</td>
<td>12/18/96</td>
<td>12/18/96</td>
<td>11,156</td>
<td>10/16/96 to 6/30/97</td>
<td></td>
</tr>
<tr>
<td>4</td>
<td>DMV</td>
<td>513</td>
<td>10/09/95</td>
<td>10/05/95</td>
<td>18,427</td>
<td>7/1/95 and 8/1/95</td>
<td></td>
</tr>
<tr>
<td>5</td>
<td>DMV</td>
<td>407</td>
<td>08/31/94</td>
<td>09/06/94</td>
<td>44,152</td>
<td>7/1/94 to 6/30/94</td>
<td></td>
</tr>
<tr>
<td>6</td>
<td>IRM</td>
<td>472</td>
<td>09/16/94</td>
<td>09/19/94</td>
<td>46,222</td>
<td>07/94</td>
<td></td>
</tr>
</tbody>
</table>

Section 11-35-1560 of the Code states, "A contract may be awarded for a supply, service, or construction item without competition when, under regulations promulgated by the board, the chief procurement officer, the head of a purchasing agency, or a designee of either officer, above the level of the procurement officer, determines in writing that there is only one source for the required supply, service, or construction item." Also, Regulation 19-445.2015 defines an unauthorized procurement as an act obligating the State in a contract by any person without the requisite authority to do so by an appointment or delegation. Since the Code is specific about who has sole source authority, the authorization must be received prior to the obligation of funds. Therefore, these procurements were unauthorized. Items one, two and six had signed ratification requests in the purchase order documentation, but the ratifications were not signed by the Director as required by the Regulation.
We recommend ratification requests be submitted to the Director for items one and two which are within the Department's $5,000 information technology certification. Ratification must be requested from the Materials Management Office for items three to six since each exceeds the certification level. We also remind the Department that ratification authority is based on its certification levels in the respective categories. Additionally, the Division Administrators need to anticipate the requirements and cooperate with the Procurement Department for the timely preparation of the justification to support each sole source procurement.

**DEPARTMENT RESPONSE**

We have obtained ratification of all required transactions.

**B. Reporting Errors**

During our review of sole source, emergency and trade-in sale procurements, we noted several types of reporting errors. Change orders to sole source or emergency contracts were not being reported. Canceled procurements were still reported. Amounts reported were incorrectly reduced by trade-in allowances. Addition errors were made when preparing the summary.

Additionally, an emergency procurement had a change order that was not reported. Purchase order 472 was issued for $102,532 that was increased to $107,532. As a result, emergencies were under reported by $5,000.

Section 11-35-2440 of the Code requires that quarterly reports of sole source and emergency contracts with the amount of the contract be submitted to the chief procurement officers.

In order to avoid these reporting problems in the future, we recommend the Department:

- Report change orders in the quarter when they occur for sole source and emergency contracts
- Remove canceled procurements
- Report sole source amounts to include trade-in amount
- Carefully review quarterly summary sheets for mathematical accuracy

The Department needs to submit amended reports to the Office of General Services correcting the errors.

**DEPARTMENT RESPONSE**

We have submitted amended reports, correcting the errors noted, to the Office of General Services.
II. General Procurement Activity

We selected judgmental samples for the period July 1, 1994 through June 30, 1997 of procurement transactions for compliance testing and performed other audit procedures that we considered necessary. The results of these tests are listed below.

A. Procurements Not Done In Accordance To Internal Procedures

Three procurements were not done in accordance to the Internal Procurement Operating Procedures Manual. These procurements were unauthorized as a result.

<table>
<thead>
<tr>
<th>Voucher</th>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>10417</td>
<td>Training services</td>
<td>$11,200</td>
</tr>
<tr>
<td>7812</td>
<td>Training services</td>
<td>7,740</td>
</tr>
<tr>
<td>982</td>
<td>Consultant/expert witness</td>
<td>4,875</td>
</tr>
</tbody>
</table>

None of these procurements were authorized by someone with procurement authority in advance of the commitments. By the time the Procurement Office received the transactions, services had already been rendered. Page 2 of the internal manual designates procurement authority to reside with the procurement officers. Page 14 of the internal manual specifically identifies categories not subject to issuance of purchase orders. None of the items above fit into any of these categories.

We recommend the Department follow its own established procedures. We also recommend Accounts Payable not pay invoices which are not authorized by purchase orders unless the items specifically meet the eight categories listed on page 14 of the internal manual. Finally, since the procurements were not authorized by someone with requisite procurement authority, ratification must be requested in accordance to Regulation 19-445.2015. The request must be made to the Materials Management Office on the first two items since they both exceeded the Department’s $5,000 authority level for consultants. Ratification on the last item must be requested from the Director.

DEPARTMENT RESPONSE
We have requested ratification of our FY97 transactions 10417 in the amount of $11,200, and 7812 in amount of $7,740.

B. No Procurement Information

One procurement of $79,235 on purchase order 119 for an annual maintenance service agreement on a scanner did not have any documentation to support the competitive requirements.
of the Code. We received no explanation of how this procurement was made. Further, the monthly invoice amounts did not agree to the purchase order amount. The monthly charge on the invoice was $5,934 whereas the monthly purchase order amount was $6,288.

Since the procurement exceeded the Department’s procurement authority, a ratification of the unauthorized procurement must be requested from the Materials Management Office in accordance to Regulation 19-445.2015. Any difference between the amount on a purchase order and an invoice should be reconciled prior to payment being made. Future procurements for this maintenance agreement should be done in accordance to the Code.

DEPARTMENT RESPONSE
We have obtained ratification of this transaction.

C. Amendments Not Required To Be Acknowledged

The Department does not require vendors to acknowledge amendments. Amendments change bid conditions that can be minor, such as an extension of the bid opening date, or can be significant, such as adding additional bid items or requirements affecting bid prices. The Department does not require the vendors to return amendments indicating that the vendors have considered the changes in their response. Without the vendors acknowledgments of the amendments, we can not determine if the vendors considered the changes in their bids thus making them responsive to bid requirements.

We recommend that vendors be required to sign and return amendments or at least, on the bid documents, acknowledge receipt indicating that the bid has been prepared in accordance to the particular amendments.

DEPARTMENT RESPONSE
We concur and will cause vendors to acknowledge amendments.

D. Overpayments

Two procurements in our samples had overpayments. The first instance occurred on purchase order 502 for shredders in the amount of $6,649. All quotes were prepared FOB destination meaning all delivery costs would be paid by the awarded vendor. However, the purchase order was incorrectly prepared indicating prepay freight and add to invoice. Subsequently, the vendor billed and was paid $160 in freight charges. The second instance occurred on purchase order 1398 for the printing of envelopes in the amount of $8,489. The
vendor included on the invoice a preparation charge in the amount of $29. This fee was not authorized on the purchase order nor was it included in the vendor’s bid and should not have been paid.

We recommend that careful attention be made when preparing purchase orders and paying invoices regarding freight and other charges.

**DEPARTMENT RESPONSE**

We concur and will attend when preparing purchase orders and paying charges.
CERTIFICATION RECOMMENDATIONS

As enumerated in transmittal letter, corrective action based on the recommendations, described in this report, we believe, will in all materials respects place the Department of Revenue 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 will recommend the South Carolina Department of Revenue be recertified to make direct agency procurements for three years up to the limits as follows.

<table>
<thead>
<tr>
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<tbody>
<tr>
<td>Goods and Services</td>
<td>$25,000 per commitment</td>
</tr>
<tr>
<td>Printing Services</td>
<td>$25,000 per commitment</td>
</tr>
</tbody>
</table>

*This means the total potential purchase commitment to the State whether single year or multi-term contracts are used.

Robert J. Aycock, IV
Audit Manager

Larry G. Sorrell, Manager
Audit and Certification
Mr. R. Voight Shealy  
Materials Management Officer  
Materials Management Office  
1201 Main Street, Suite 600  
Columbia, South Carolina 29201

Dear Voight:

We have reviewed the response from the South Carolina Department of Revenue to our audit report July 1, 1994 - June 30, 1997. Also we have followed the Department’s corrective action during and subsequent to our field work. We are satisfied that the Department has corrected the problem areas and the internal controls over the procurement system are adequate.

Therefore, we recommend the Budget and Control Board grant the South Carolina Department of Revenue the certification limits noted in our report for period of three years.

Sincerely,

Larry G. Sorrell, Manager  
Audit and Certification

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