PROCUREMENT AUDIT AND CERTIFICATION
Mr. Tony Ellis  
Division Director  
Division of General Services  
300 Gervais Street  
Columbia, South Carolina  29201

Dear Tony:

Attached is the final South Carolina Forestry Commission audit report and recommendations made by the Materials Management Office. Since no certification request above the $2,500 allowed by law remains to be considered by the Budget and Control Board, I recommend that this report be presented to them for the purpose of information.

Sincerely,

Richard J. Campbell  
Materials Management Officer

RHC/ra  
Attachment
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Mr. Richard J. Campbell  
Materials Management Officer  
Columbia, South Carolina 29210

We have examined the procurement policies and procedures of the Forestry Commission for the period July 1, 1982 - April 30, 1984. 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 Commission procurement policy. Additionally, the evaluation was used in determining the nature, timing and extent of other auditing procedures that were necessary for developing an opinion on the adequacy, efficiency and effectiveness of the procurement system.

The administration of the Forestry Commission 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 disclose conditions enumerated in this report which we believe to be subject to correction or improvement.

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

Richard W. Kelly
Director of Agency Services
INTRODUCTION

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

Our on-site review was conducted May 24, 1984 through June 15, 1984, 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 Purchasing Policies and Procedures Manual, were in compliance with the South Carolina Consolidated Procurement Code and its ensuing regulations.
SCOPE

Our examination encompassed a detailed analysis of the internal procurement operating procedures of the Forestry Commission, to the extent we deemed necessary to formulate an opinion on the adequacy of the system to properly handle procurement transactions.

The Audit and Certification team selected random samples for the period July 1, 1982 - April 30, 1984, of procurement transactions for compliance testing and performed other auditing procedures that we considered necessary in the circumstances to formulate this opinion. As specified in the Consolidated Procurement Code and related regulations, our review of the system included, but was not limited to, the following areas:

1. adherence to provisions of the South Carolina Consolidated Procurement Code and Regulations;
2. procurement staff and training;
3. adequate audit trails and purchase order register;
4. evidences of competition;
5. small purchase provisions and purchase order confirmations;
6. emergency and sole source procurements;
7. source selections;
8. file documentation of procurements;
9. reporting of Fiscal Accountability Act;
10. warehousing, inventory and disposition of surplus property; and
SUMMARY OF AUDIT FINDINGS

Our audit of the procurement system of the Forestry Commission produced findings and recommendations in the following areas:

I. Compliance - Sole Source & Emergency Procurements
   A. Lack of Written Determinations
      Three procurements did not have proper documentation.
   B. Quarterly Report Review
      In a review of quarterly reports, we found the majority of these transactions to be proper and accurately reported, but we did encounter some exceptions.

II. Review of the Procurement Procedures Manual
    Our review of the current manual indicated several areas that needed to be added, changed or expanded.

III. Compliance - General
    A. Sales tax exemption procedure unclear to vendors and auditors.
    B. Undocumented change order procedures.
    C. Discounts lost.
    D. Partial purchase orders.
    E. Review of field purchase orders.
RESULTS OF EXAMINATION

I. Compliance - Sole Source & Emergency Procurements

A. Lack of Written Determination

We tested a randomly selected sample of sixty (60) procurement transactions and found them to be in compliance with the Consolidated Procurement Code except for three that did not have documentation of competition nor a sole source or emergency determination.

1. Purchase order number 2937 was issued to Purdue University in the amount of $640.00. This was in payment for a training seminar for the Forestry Commission.

2. Purchase order number 4473 was issued in the amount of $2,130.84 for airplane inspection and engine replacement.

3. Thirty yards of concrete were purchased on purchase order number 3450 in the amount of $1,294.80.

Forestry personnel convinced us that the above were either a sole source or an emergency. The Code in sections 11-35-1560 and 11-35-1570 states that a determination in writing must be prepared when there is only one source for the required supply or service or when an emergency exists.

We recommend that the purchasing director insist on the written determination prior to making a commitment for sole source or emergency supplies or services.
Based on the sampling parameters used, the percentage of these type errors in the population can be statistically projected, with 95% confidence, to be up to 14% of all procurements in excess of $500.00. We, therefore recommend that attention be directed to these compliance violations and that the procurement management function develop sound practices to remedy these issues.

B. Quarterly Report Review

We examined the quarterly reports of sole source and emergency procurements and trade-in sales and all available supporting documents for the period January 1, 1982 - March 31, 1984, 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 found the majority of these transactions to be proper and accurately reported, but did encounter the following problems:

I. Sole Source Procurements

<table>
<thead>
<tr>
<th>P.O. #</th>
<th>Amount</th>
<th>Exception</th>
</tr>
</thead>
<tbody>
<tr>
<td>38785</td>
<td>778.04</td>
<td>The justifications for steering clutches, &quot;to keep equipment running&quot; does not lend itself to a sole source procurement.</td>
</tr>
<tr>
<td>40008</td>
<td>920.00</td>
<td>The procurement for disc blades and axle should not have been listed or reported as a sole source as competition was obtained from a second vendor.</td>
</tr>
</tbody>
</table>

The following purchase orders were appropriately approved by the authorized designee but only after the contract for the goods or services was underway or completed.
<table>
<thead>
<tr>
<th>P.O. #</th>
<th>Amount</th>
<th>P.O. Date</th>
<th>Sole Source Determination Date</th>
</tr>
</thead>
<tbody>
<tr>
<td>4334</td>
<td>1,075.91</td>
<td>02/27/84</td>
<td>03/02/84</td>
</tr>
<tr>
<td>31036</td>
<td>955.15</td>
<td>07/08/82</td>
<td>07/21/82</td>
</tr>
<tr>
<td>3733</td>
<td>2,471.22</td>
<td>08/26/83</td>
<td>08/31/83</td>
</tr>
<tr>
<td>2756</td>
<td>1,935.84</td>
<td>07/27/82</td>
<td>11/10/82</td>
</tr>
<tr>
<td>32216</td>
<td>691.84</td>
<td>05/19/82</td>
<td>05/27/82</td>
</tr>
</tbody>
</table>

It is not the intent of the Code to have a sole source procurement approved after the award of a contract. Further, the Forestry Commission's internal operating procedure manual clearly states for a sole source ... "such determinations and justifications must be in writing. In any case of doubt the Director of Engineering and Logistics is to be contacted prior to the making a contract (issuing a purchase order)."

Purchase order number 34030 in the amount of $619.84 for brick also violates internal policy which states "Field purchase orders are not to exceed $475 with the exception of motor vehicle equipment repair which is $1,400."

II. EMERGENCY PROCUREMENTS

<table>
<thead>
<tr>
<th>P.O. #</th>
<th>Amount</th>
<th>Exception</th>
</tr>
</thead>
<tbody>
<tr>
<td>22521</td>
<td>3,705.83</td>
<td>These two procurements for equipment repair are not authorized in the internal procedures manual because they exceed the $1,400 limit.</td>
</tr>
<tr>
<td>22526</td>
<td>2,179.36</td>
<td></td>
</tr>
</tbody>
</table>

Due to field personnel contracting for sole source procurements, then forwarding the field purchase order to central
purchasing for the determination approval, the above sole source procurements are in violation of internal procedures and the intent of the Code. Also, the above emergency procurements are in violation of internal policy.

We request that the purchasing office review the above exceptions and make a more concerted effort to insure that field personnel are aware of and abide by the Commission's internal operating procedures manual and the Code. Further, we insist that requisite approvals be obtained before sole source and emergency procurements are made.

If, in emergency situations, it is impossible to obtain written approval in advance verbal approval may be given by the Purchasing Director. This should be referenced on the subsequent emergency determination. Sole source procurements should not be made before written approval is obtained from the Director of Engineering and Logistics Division.

II. Review of the Procurement Procedures Manual

As a part of our examination, we reviewed the Purchasing Policies and Procedures Manual. We found the manual to be generally complete and well prepared. We did, however, notice several items that need to be added, expanded or changed. These are as follows:

Section F-1 The manual states that field purchase orders (FPO) shall not exceed $475 with the exception of motor vehicle equipment repairs which will not exceed $1400. During our review we found items exempted "under the Code" that exceeded these limits. The manual should
address the procurements of exempted items in relation to field purchase orders.

F-2 Late payment penalty should be changed from sixty days to thirty working days under this section.

G-2 Quotation Procedures - Change "... purchases greater than $1500 to read purchases from $1500." Also state how a procurement less than $500 will be handled.

G-3 The list of exempted items and services should be updated.

H-3 Include specific policy on when accounting has the authority to pay an invoice that is different from the purchase order. State when a formal change order will be prepared.

The following additional items need to be incorporated in the manual:

1. Unauthorized Procurements
2. Complaints against vendors by departments
3. Confirmation purchases
4. Information Technology plan and procurement procedure
5. Multi-term contracts
6. Leasing equipment and real property
7. Method of procuring attorneys, auditors, and accountants
III. Compliance - General

During our audit visit, several deficiencies were noted in our review of documentation located in the accounting and purchasing departments. Correction of these items should provide better controls for a more efficient operation.

A. Certain agricultural supplies and equipment may be exempt from sales and use tax under Chapter 15 of Title 65 of the Code of Laws of South Carolina 1952. Our sample included three purchase orders for this type of supplies and equipment.

There is no designation on the purchase order to the vendor or accounting department stating the tax status of these purchases. We recommend that purchasing include a statement on the purchase order stating that the procurement is exempt from sales and use tax.

B. Changes have been made by accounting to purchase orders without documented approval of purchasing. Six purchase orders in our sample of sixty were changed to accommodate quantity or price changes as reflected in vendor invoices. These are listed below:

<table>
<thead>
<tr>
<th>P.O. #</th>
<th>Amount of P.O.</th>
<th>Amount of Changes</th>
</tr>
</thead>
<tbody>
<tr>
<td>3227</td>
<td>1,260.00</td>
<td>140.00</td>
</tr>
<tr>
<td>4377</td>
<td>967.50</td>
<td>12.90</td>
</tr>
<tr>
<td>4315</td>
<td>1,554.00</td>
<td>83.49</td>
</tr>
<tr>
<td>3868</td>
<td>731.22</td>
<td>24.12</td>
</tr>
<tr>
<td>3773</td>
<td>868.24</td>
<td>52.28</td>
</tr>
<tr>
<td>2713</td>
<td>696.30</td>
<td>21.10</td>
</tr>
</tbody>
</table>
Purchasing is responsible for approving any and all changes to a purchase commitment.

We recommend that purchasing set written guidelines for the changes to a purchase order. One example would be that all overages could be paid by accounting, with approval of purchasing, to a maximum of 10% of the purchase order not to exceed $100.00. This would satisfy five of the six purchase orders listed above. Any overage exceeding the guidelines would require a formal change order issued by purchasing on the existing change order form.

C. Two discounts were not taken even though the invoices were paid within the discount period.

<table>
<thead>
<tr>
<th>P.O. #</th>
<th>Amount of P.O.</th>
<th>Discount Lost</th>
</tr>
</thead>
<tbody>
<tr>
<td>3743</td>
<td>861.60</td>
<td>17.23</td>
</tr>
<tr>
<td>3578</td>
<td>996.00</td>
<td>6.97</td>
</tr>
</tbody>
</table>

We did note that the majority of discounts were taken and taking of discounts is standard procedure. We recommend a stronger effort by accounting in checking for discounts when processing invoices for payment.

D. Purchase orders have been written for partial amounts against encumbered funds.

<table>
<thead>
<tr>
<th>P.O. #</th>
<th>Amount of P.O.</th>
<th>Amount</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>4356</td>
<td>$25,000</td>
<td>$194,000</td>
<td>Construction Contract</td>
</tr>
<tr>
<td>3813</td>
<td>$ 6,000</td>
<td>$ 22,000</td>
<td>Architect Contract</td>
</tr>
</tbody>
</table>

Single purchase orders for the total amount of the contract with progress payments made against same would result in more
accurate record keeping and avoid possible confusion and duplicate payments.

We recommend that all future purchase orders be written for the total amount of commitment and not separately for payment purposes.

E. We reviewed a random sample of over 750 field purchase orders (FPO) from fiscal year 83/84 to determine compliance with internal policy and the Code. We noted the following exceptions:

<table>
<thead>
<tr>
<th>FPO #</th>
<th>Amount</th>
<th>Exception</th>
</tr>
</thead>
<tbody>
<tr>
<td>33434</td>
<td>4,288.00</td>
<td>This exempted procurement exceeded the $475.00 authorized limit of internal policy. Also, the FPO was issued from the Columbia office. The Commission's manual states that FPOs are to be used only by personnel stationed outside the Columbia area.</td>
</tr>
<tr>
<td>44799</td>
<td>581.12</td>
<td>This procurement exceeded the authorized $475.00 limit as stated in the manual.</td>
</tr>
<tr>
<td>34010</td>
<td>1,234.48</td>
<td>These procurements exceeded the authorized limits in the manual. Further, we found no documentation of competition, sole source or emergency determinations which violate the Code.</td>
</tr>
<tr>
<td>43348</td>
<td>831.46</td>
<td></td>
</tr>
<tr>
<td>34011</td>
<td>1,491.13</td>
<td></td>
</tr>
<tr>
<td>43414</td>
<td>5,070.19</td>
<td></td>
</tr>
</tbody>
</table>

The procurement officer monitors all field purchase orders after the fact. This step should be continued. However, due to the exceptions noted, we recommend that the procurement officer communicate to field personnel procurement policy on field purchase orders and stress their mandatory compliance.
CONCLUSION

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

In accordance with Code Section 11-35-1230(1) the Commission should take this corrective action prior to October 17, 1984 the end of the next subsequent quarter.

Subject to this corrective action and because additional certification was not requested, we recommend that the Forestry Commission be allowed to continue procuring all goods and services, construction, information technology and consulting services up to the basic level as outlined in the Procurement Code.

Marshall B. Williams, Jr.
Audit Manager

R. Voight Shealy
Director, Audit and Certification
August 8, 1984

Mr. Richard W. Kelly
Director of Agency Services
Budget & Control Board
Division of General Services
300 Gervais Street
Columbia, SC 29201

Dear Mr. Kelly:

We have reviewed the modified audit report and acknowledge our concurrence with your staff's findings and recommendations.

In the area of Compliance - Sole Source/Emergency we have corrected the "Lack of Written Determinations" by completing the necessary forms. We will continue to remind our personnel of the importance of receiving prior approval for sole source/emergency purchases. In view of the responsibilities to respond in emergency circumstances we will strive to adhere to the spirit and requirements of the Procurement Code.

In the review of our Procurement Procedures Manual we acknowledge the changes necessary and we will prepare the changes/additions and review with your staff prior to release.

In the area of Compliance - General we acknowledge the exceptions noted and we will correct them by utilizing the recommendations of your staff. Some of the changes will involve Procedures Manual changes which will be reviewed with your staff in the on-site review which is to follow.

We have made a concerted effort to become familiar with and comply with the S. C. Consolidated Procurement Code in all areas as it applies. Our Purchasing Director attends procurement training courses, code update seminars and other meetings to remain familiar with modern procurement policies and practices.

We appreciate the opportunity of working with your staff to review and improve our procurement system.

Sincerely,

Leonard A. Kilian, Jr.
State Forester

LAKjr:WKjr/ef
October 25, 1984

Mr. Richard J. Campbell  
Materials Management Officer  
Columbia, South Carolina 29210

Dear Richard:

We have returned to the South Carolina Forestry Commission to determine the progress made toward implementing the recommendations in our audit report covering the period of July 1, 1982 - April 30, 1984. During this visit, 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 Forestry Commission has corrected the problem areas found in the audit thus strengthening the internal controls over the procurement system. We feel that the system's internal controls are adequate to ensure that procurements are handled in compliance with the Consolidated Procurement Code and ensuing regulations.

Because additional certification was not requested, we recommend that the Forestry Commission be allowed to continue procuring all goods and services, construction, information technology and consulting services up to the basic level as outlined in the Procurement Code.

Sincerely,

Richard W. Kelly  
Director of Agency Services