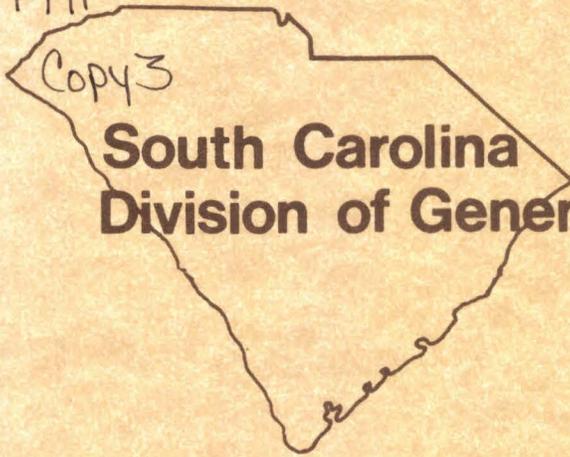


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**South Carolina
Division of General Services**

PROCUREMENT AUDIT AND CERTIFICATION

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STATE DOCUMENTS

SOUTH CAROLINA
FORESTRY COMMISSION

AGENCY

JULY 1, 1988 - JUNE 30, 1990

DATE

STATE OF SOUTH CAROLINA
State Budget and Control Board
DIVISION OF GENERAL SERVICES



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MATERIALS MANAGEMENT OFFICE
1201 MAIN STREET, SUITE 600
COLUMBIA, SOUTH CAROLINA 29201
(803) 737-0600

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CHAIRMAN, SENATE FINANCE COMMITTEE

WILLIAM D. BOAN
CHAIRMAN, WAYS AND MEANS COMMITTEE

JESSE A. COLES, JR., Ph.D.
EXECUTIVE DIRECTOR

February 19, 1991

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

Dear Rick:

I have attached the South Carolina Forestry Commission's procurement audit report and recommendations made by the Office of Audit and Certification. The Commission did not request certification above the \$2,500 limit so I recommend that the report be presented to the Budget and Control Board for information.

Sincerely,

A handwritten signature in cursive script, appearing to read "James J. Forth, Jr.".

James J. Forth, Jr.
Assistant Division Director

JJF/jjm

Attachment

SOUTH CAROLINA FORESTRY COMMISSION

PROCUREMENT AUDIT REPORT

JULY 1, 1988 - JUNE 30, 1990

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Note: The Commission's responses to specific issues noted in this report have been inserted immediately following the items they refer to.

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EXECUTIVE DIRECTOR

February 19, 1991

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

Dear Jim:

We have examined the procurement policies and procedures of the South Carolina Forestry Commission for the period July 1, 1988 through June 30, 1990. 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 Commission 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 Forestry Commission is responsible for establishing and maintaining a system of internal control over procurement transactions. In fulfilling

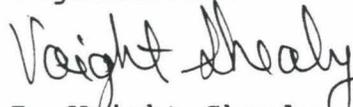
this responsibility, estimates and judgements by management are required to assess the expected benefits and related costs of control procedures. The objectives of a system are to provide management with reasonable, but not absolute, assurance of the integrity of the procurement process, that affected assets are safeguarded against loss from unauthorized use or disposition and that transactions are executed in accordance with management's authorization and are recorded properly.

Because of inherent limitations in any system of internal control, errors or irregularities may occur and not be detected. Also, projection of any evaluation of the system to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or that the degree of compliance with the procedures may deteriorate.

Our study, and evaluation of the system of internal control over procurement transactions, as well as our overall examination of procurement policies and procedures, were conducted with professional care. However, because of the nature of audit testing, they would not necessarily disclose all weaknesses in the system.

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

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



R. Voight Shealy, Manager
Audit and Certification

INTRODUCTION

The Office of Audit and Certification conducted an examination of the internal procurement operating procedures and policies of the South Carolina Forestry Commission. Our on-site review was conducted July 26 through August 31, 1990 and was made under 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 Forestry Commission's 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 Commission 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

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 Forestry Commission 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.

We statistically selected random samples for the period July 1, 1988 - June 30, 1990, 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 review of the following:

- (1) One hundred sixty randomly selected procurement transactions
- (2) The selection and approval of an architect and engineering service contract
- (3) Two permanent improvement contracts for approvals and compliance with the Manual for Planning and Execution of State Permanent Improvements
- (4) Block sample of five hundred sequentially numbered purchase orders
- (5) All sole source procurements
- (6) All emergency procurements
- (7) Minority Business Enterprise Plan and quarterly progress reports
- (8) One (and only) real property lease agreement
- (9) Procurement staff and training

- (10) Adequate audit trails
- (11) Evidence of competition and informal bidding procedures
- (12) Warehousing, inventory and disposition of surplus property procedures
- (13) Property management procedures
- (14) Economy and efficiency of the procurement process

SUMMARY OF AUDIT FINDINGS

Our audit of procurement management at the Forestry Commission, hereinafter referred to as the Commission, produced findings and recommendations in the following areas:

	<u>PAGE</u>
I. <u>Compliance - General</u>	
A. <u>Unauthorized Procurements</u>	8
We noted nine procurements that were unauthorized.	
B. <u>Unauthorized Procurement Artificially Divided</u>	9
Commission personnel artificially divided a procurement and proceeded with it two months before the purchasing office authorized a purchase order.	
C. <u>Procurements Without Written Quotes</u>	11
Four procurements lacked the required written quotations.	
D. <u>Splitting Orders</u>	12
Three orders could have been combined and competitively bid.	
E. <u>Change Orders</u>	13
Accounting paid invoices that differed from the purchase orders without approval from the purchasing office.	

II. Compliance - Construction

15

We noted one exception in construction.

III. Sole Source Procurements

16

We did not accept helicopter maintenance as a sole source.

RESULTS OF EXAMINATION

I. Compliance - General

To test for general compliance with the Consolidated Procurement Code, hereinafter referred to as the Code, we selected a sample of one hundred sixty transactions from the audit period July 1, 1988 through June 30, 1990. As a result of this testing, we noted the following exceptions:

A. Unauthorized Procurements

The following nine procurements were unauthorized.

<u>Item#</u>	<u>PO#</u>	<u>Voucher#</u>	<u>Amount</u>	<u>Description</u>
1	1055	7866	\$ 850.00	Truck bed extension
2	95	1152	2,708.13	Moving services
3	118	1724	2,450.00	Ammonia nitrate
4	246	2297	650.00	Disk controller repair
5	508	4486	2,388.75	Remanufactured engine
6	562	4628	1,819.74	Trusses
7	579	4747	1,572.67	Fill dirt
8	792	6742	1,528.00	Screenings
9	1055	8595	1,548.65	Doors and frames

These contracts were entered into by field personnel without the prior approval of the purchasing office or the issuance of a confirming purchase order.

The Commission allows field personnel to make procurements up to a limit of \$475 for supplies and \$1,400 for equipment repair by using field purchase orders (FPO's). None of these procurements fell into those categories. Above that limit, field personnel are required to submit requisitions to the purchasing office for procurements to be made. However, in the cases listed above field personnel proceeded with the procurements, then submitted requisitions and quotations to the purchasing office for after the fact purchase orders.

We recommend that the Commission institute new procedures for issuance of confirming purchase orders to field personnel. The current practice is unacceptable. The purchasing office must authorize all future procurements above the FPO limit prior to commitment by field personnel. This should be so noted in the Commission's Procurement Procedures Manual.

Finally, all of the procurements above, with the exception of Item 2, must be submitted to the State Forester for ratification. Since Item 2 exceeded the Commission's certification level of \$2,500.00, it must be submitted to the State Materials Management Officer for ratification. These requests for ratification must be in accordance with Regulation 19-445.2015.

COMMISSION RESPONSE

We understand your findings and concur with your recommendations. The field supervisors have been advised and instructed of corrections that must be made relating to field purchasing. The Purchasing Department has established a system for issuing confirmations for procurements that must be made on a short term notice.

I have reviewed the procurements listed for ratification with our Procurement Director. All individuals involved have been advised of the report and instructed to follow requirements and procedures of the Procurement Code.

Item two (2) involved engaging the services of a moving company. The rates of moving companies for moves between cities are established and regulated by the Interstate Commerce Commission. We felt since companies could not change their rates by law that competitive bidding could not be done. Shortly after this move was made, the State of South Carolina changed moving expenses from a procurement activity to a reimbursable expense, which we feel it was all along.

B. Unauthorized Procurement Artificially Divided

Commission personnel split an order and proceeded with it without authorization from the purchasing office. The purchase orders were as follows:

<u>PO#</u>	<u>Voucher#</u>	<u>Amount</u>	<u>Description</u>
1101	8139	\$1,275.00	Lengthen wheelbase-Chevy
1102	8140	\$1,275.00	Lengthen wheelbase-Intl.

On December 13, 1989, they obtained a written quotation of \$1,275 per truck from one vendor. Apparently, they authorized the vendor to proceed because he invoiced the Commission on December 18 and 26, as he completed work on the trucks.

On January 6 and 17, 1990, almost one month after the procurements were made, Commission personnel obtained two additional quotations of \$1,100 per truck and \$1,500 per truck.

On January 24, requisitions 92932 and 92933 were prepared for the original bidder and submitted to the purchasing officer. Both requisitions noted "Work already completed."

Finally, on February 13, the purchasing office prepared purchase orders 1101 and 1102 of \$1,275 each. They reported one as an emergency. The same quotations support both procurements.

In our opinion, the Commission artificially divided these procurements in violation of Section 11-35-1550 of the Code. Further, clearly the procurements were unauthorized since the work was invoiced almost two months before the purchase orders were prepared.

The Commission must request ratification of the procurements in accordance with Regulation 19-445.2015. This regulation states that the individual responsible for the act may be held pecuniarily liable if the price paid was unreasonable. The fact that the file documents a quote \$175 per truck cheaper than the price the Commission paid indicates the price may not have been reasonable.

COMMISSION RESPONSE

We understand your findings and concur with your recommendations. I have discussed the purchases with our Procurement Director and we realize that the Commission should have made the procurements involved as an emergency procurement. One vendor could not modify all the trucks and thus we had to deal with more than one to be prepared for forest fire suppression activities.

The services required on the procurements involved were provided after blades were added to tractors involved in the post-Hurricane Hugo fire suppression efforts to allow the Commission to more effectively operate in the hurricane damaged areas. The trucks had to be modified (bed extensions) to carry the crawler tractors with the additional blades. Given the hazardous emergency situation, there was not time available to go through the normal procurement procedures.

I will proceed with the ratification process as recommended in your report.

C. Procurements Without Written Quotations

Four procurements were not supported by written quotations. They are as follows:

<u>Item#</u>	<u>PO#</u>	<u>Voucher#</u>	<u>Amount</u>	<u>Description</u>
1	716	5708	\$2,400.00	Vinyl siding
2	83	1462	2,450.00	Whistles
3	508	4486	2,388.75	Remanufactured engine
4	1129	8764	1,641.78	Concrete

Purchase order 716 was supported by two phone quotes. The Code requires solicitation of three written quotations.

On purchase order 83, the Commission obtained three written quotations on the original solicitation, but due to a revision of the specifications, the Commission solicited revised quotes from the same bidders. However, they did not secure the new quotations in writing.

Purchase order 508, which was unauthorized as noted in I.A. above, was not supported by a written quotation from the successful vendor. Similarly, purchase order 1129 was not supported by a written quotation from the successful vendor.

Regulation 19-445.2100 B(3) requires the solicitation of written quotations from three qualified sources on purchases from \$1,500.00 to \$2,499.99.

We recommend that the Commission strictly adhere to this regulation and to its internal procedures.

COMMISSION RESPONSE

We have reviewed your findings and understand the corrections that need to be made. We concur and all the parties involved with the purchases have been advised of the correct procedure that should have been followed and have been instructed to take the corrective steps to prevent reoccurrence. The Commission's purchasing manual includes the specific instructions you recommend.

D. Split Orders

The following groups of procurements should have been combined and competitively sealed bid. Instead, the Commission solicited informal solicitations.

<u>PO#</u>	<u>Voucher#</u>	<u>Amount</u>	<u>Date</u>	<u>Description</u>
1607	11393	\$1,450.00	4/27/90	Storage building
1608	11394	1,300.00	4/27/90	Gas tank shed
910	10143	1,700.00	2/02/89	Rulers
911	10797	1,700.00	2/02/89	Pencils
110640	12868	449.06	6/06/90	Building supplies
110642	12868	385.06	6/06/90	Building supplies
110644	12868	487.18	6/06/90	Building supplies
110646	12868	430.50	6/06/90	Building supplies

Regulation 19-445.2100 (A) states in part "... that procurement requirements shall not be artificially divided by governmental bodies so as to constitute a small purchase..."

We recommend that the Commission combine like purchases and solicit the appropriate competition levels as required by the Code and the Commission's Purchasing Policies and Procedures Manual.

COMMISSION RESPONSE

We concur with your recommendation and understand in the cases involved. All field supervisors have been informed of these exceptions and instructed of the correct procedures to be followed and directed to follow them.

E. Change Order Payments Not Approved

We noted ten instances where accounting paid invoices without prior approval of the purchasing department in violation of internal policy.

<u>Item#</u>	<u>PO#</u>	<u>Voucher#</u>	<u>Amount</u>	<u>Description</u>
1	571	5759	\$ 4,165.00	State PO for sign material
2	884	7915	2,400.00	Fiber drums
3	845	12090	21,755.40	State PO-coveralls & trousers
4	846	7350	11,210.00	Fire foam (State contract)
5	807	8873	1,871.25	Safety cap, chainsaw
6	1005	7986	2,315.04	Drip torch, tank cover, tops and gaskets
7	1597	12073	8,900.00	Seedling lifter (sole source)
8	19	3469	1,040.00	Computer tape
9	740	6227	2,343.00	Deep well and pump
10	749	7057	2,169.64	Printing - activity books

PO# 571 - The Commission paid an additional \$250.00 for travel to the vendor without approval from purchasing (State PO).

PO# 884 - The Commission ordered 300 drums but received and paid for 310, without approval. The 10 extra drums cost \$73.90.

PO# 845 - The Commission ordered 300 coveralls and trousers, but received and paid for 360 coveralls and trousers (State PO). The 60 extra coveralls cost \$1,796.40, again without purchasing approval.

PO# 846 - The Commission ordered 1000 gallons of foam at \$11.21 per unit, but received and remitted for 550 gallons at

\$13.01 per unit and 450 at \$11.99 per unit. This resulted in a difference of an additional \$1,341 being paid without review or approval.

PO# 807 - The Commission paid \$90.78 in freight when the vendor's quote and purchase order clearly indicated "FOB destination."

PO# 1005 - The Commission paid \$110.61 freight when the PO clearly indicated "FOB destination."

PO# 1597 - The difference in the purchase order and the invoice was \$206.49 for freight and handling. The purchase order did not indicate "prepay and add."

PO# 19 - The Commission ordered two different magnetic computer tapes. The unit prices were \$115 per carton and \$145 per carton. The vendor shipped all at \$145. This resulted in a difference of \$120 being paid without purchasing review and approval.

PO# 740 - Accounting changed an FPO from \$43.00 to \$2,343.00 and paid it unaware that a requisition for \$2,300.00 was awaiting a purchase order in purchasing. The PO was issued and later required cancellation. If an approval had been requested from purchasing this problem would have never happened.

PO# 749 - The Commission paid an additional \$160 for a printing overage without purchasing approval.

Purchasing is responsible for approving any and all changes to a purchase commitment. We recommend that all overages be paid by accounting with approval of purchasing, to a maximum of 10% of the purchase order not to exceed \$100.00 Any overage exceeding

this guideline would require a formal written change order to be issued by purchasing.

COMMISSION RESPONSE

We have studied the ten instances listed in this section. We agree with the findings and recommendations.

The Accounts Payable staff has met to review the findings and recommendations. Questions were raised and procedures developed to handle future situations when purchase change orders are needed. A better understanding of the accounts payable role as it interfaces with Purchasing has been gained.

One of the instances where payments made were different from the PO issued was caused by the vendor billing the Forestry Commission at two different rates. The higher rate (\$13.01) was the price as bid to the State Purchasing Office. The price of \$11.99 was the price that the fire foam was on GSA Supply Schedule Contract #GS-07F-19289. The company could have legally charged the State of South Carolina \$13.01 per gallon for the total 1,000 gallons, but agreed to bill the portion they did (450 gallons) at the lower GSA contract price.

This situation supports the request that we have made to be able to have the option to purchase off GSA contracts forest fire fighting supplies when there is an obvious advantage to the State of South Carolina. There have, on occasion, been other instances such as this, and we feel the option of taking exemption would be advantageous to the State of South Carolina and the Forestry Commission.

We would be anxious to explore and discuss the possibilities for saving funds of the State of South Carolina when situations such as this present themselves.

II. Compliance - Construction

During our audit period, the Commission had four permanent improvement projects. Only one of these was significant, so we tested permanent improvement project, number 8680, Newberry Office/Shop. From that project we tested two construction contracts and one architect-engineer contract.

We noted the following exception with this project.

The Commission procured the architect-engineer services under Section 11-35-3230 of the Code entitled, Exception for Small Architect-Engineer and Land Surveying contract. Regulation 19-445.2145(F) that supports this section of the Code limits the use of this procurement method to contracts less than \$12,000 and allows its use only where the State agency has not paid the architect-engineer firm more than \$36,000 in the past two years.

Originally, the Commission obtained approval from the State Engineer's Office for an \$8,000 contract. However, the Commission has paid the firm \$44,851 as of July 1990.

Since the Commission exceeded the State Engineer's approval by \$36,851, this procurement is unauthorized. The Commission must request ratification from the Director of the Division of General Services in accordance with Regulation 19-445.2015.

COMMISSION RESPONSE

Ratification for exceeding State Engineer's approval on the Newberry Project is being requested as recommended.

Recent personnel reassignments at the Commission in the area of Engineering and Construction will result in better records accounting and construction supervision. We concur with your recommendations regarding construction and feel the current person assigned in this area has already made improvements.

III. Sole Source Procurements

We examined the quarterly reports of sole source procurements and all available documents for July 1, 1987 through June 30, 1990. This review was performed to determine the appropriateness of the procurement actions taken and the accuracy

of the reports submitted to the Division of General Services. We found these procurements to be proper and accurately reported with the exception of a personal service contract.

We noted an agreement to provide helicopter maintenance services based on a negotiated hourly rate. The mechanic has been paid over \$16,000 in the past year as a sole source procurement. These services have been furnished on an as-needed-basis.

We recommend that the Commission either solicit bids for this service or hire the individual as a special contract employee.

COMMISSION RESPONSE

We concur with your recommendation concerning the helicopter maintenance. We have hired the mechanic as a part-time employee to work on Commission-owned helicopters.

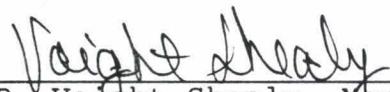
CONCLUSION

The Forestry Commission should take immediate action to effect compliance with the South Carolina Consolidated Procurement Code and Regulations.

Corrective action should be completed by February 28, 1991. Prior to that time, we will perform a follow-up review to determine that this has been accomplished.

Subject to this corrective action, which will be verified by this Office and since the Forestry Commission has not requested procurement certification, we recommend that they be allowed to continue procuring all goods and services, consultant services, construction services and information technology up to the basic level of \$2,500.00 as allowed by the Consolidated Procurement Code and regulations.


James M. Stiles, PPB
Audit Manager


R. Voight Shealy, Manager
Audit and Certification

STATE OF SOUTH CAROLINA
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EXECUTIVE DIRECTOR

February 19, 1991

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

Dear Jim:

We have 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, 1988 - June 30, 1990. During this visit, we followed up on each recommendation made in the audit report through inquiry, observation and limited testing.

We observed that the Commission has made substantial progress toward correcting the problem areas found and improving the internal controls over the procurement system. With the changes made, the system's internal controls should be adequate to ensure that procurements are handled in compliance with the Consolidated Procurement Code and ensuing regulations.

Therefore, we recommend that the Forestry Commission be allowed to continue making procurements of goods and services, consultants, information technology and construction up to the basic limit of \$2,500.00 as authorized by the Code.

Sincerely,

Handwritten signature of R. Voight Shealy in cursive.

R. Voight Shealy, Manager
Audit and Certification

RVS/jjm

