October 12, 1988

Mr. Richard W. Kelly  
Division Director  
Division of General Services  
1201 Main Street, Suite 400  
Columbia, South Carolina 29201  

Dear Rick:

Attached is the South Carolina State Housing Authority audit report and recommendations made by the Office of Audit and Certification. Since no certification above the $2,500.00 allowed by law was requested, and no action is necessary by the Budget and Control Board, I recommend that this report be presented to them for their information.

Sincerely,

James J. Forth, Jr.  
Assistant Division Director  

Attachment
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October 5, 1988

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

We have examined the procurement policies and procedures of the South Carolina State Housing Authority for the period July 1, 1986 through April 30, 1988. 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 internal 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 South Carolina State Housing Authority 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 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 the South Carolina State Housing Authority in compliance with the South Carolina Consolidated Procurement Code and ensuing regulations.

R. Vought Shealy, Manager
Audit and Certification
SCOPE

Our examination encompassed a detailed analysis of the internal procurement operating procedures of the South Carolina State Housing Authority 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 reviewed all procurement transactions which exceeded $500.00 each for the period July 1, 1986 - April 30, 1988, for compliance testing and performed other audit procedures that we considered necessary in the circumstances to formulate this opinion. Our review of the system included, but was not limited to, the following areas:

(1) adherence to applicable laws, regulations and internal policy;

(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) inventory and disposition of surplus property;

(10) economy and efficiency of the procurement process; and,

SUMMARY OF AUDIT FINDINGS

Our audit of the South Carolina State Housing Authority (the Authority) produced findings and recommendations in the following areas.

I. Compliance - Goods and Services, Consultants and Information Technology

Twelve procurements out of a sample of thirty-two were made without evidence of competition.

II. Compliance - Sole Source Procurements and Trade-in Sales

A. Unnecessary Reporting of Sole Source Procurements

The Authority reported six sole source procurements to the Materials Management Office unnecessarily.

B. Trade-in Sale Not Reported

The Authority failed to report a trade-in sale to the Materials Management Office.

III. Internal Control and Procedural Weaknesses

A. Receiving Reports

Eight vouchers were processed without receiving reports to confirm receipt of goods or services. This is a violation of the Authority's policy.
B. **Procurement Procedures**

Our observation of procurement procedures and internal controls resulted in several recommendations for improvement.
RESULTS OF EXAMINATION

I. Compliance - Goods and Services, Consultants and Information Technology

Our audit of the Authority consisted of a test of all non-exempt procurements in excess of $500.00 each for the period July 1, 1986 - April 30, 1988. There were thirty-two (32) such transactions for that period. Twelve of the thirty-two were not supported by evidence of competition or by sole source or emergency determinations.

<table>
<thead>
<tr>
<th>Item</th>
<th>Voucher</th>
<th>Voucher Amount</th>
<th>Item/Service Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>(1)</td>
<td>0330</td>
<td>$ 716.41</td>
<td>Miscellaneous furniture</td>
</tr>
<tr>
<td>(2)</td>
<td>159</td>
<td>708.94</td>
<td>Office supplies</td>
</tr>
<tr>
<td>(3)</td>
<td>1581</td>
<td>669.90</td>
<td>Binders; projector</td>
</tr>
<tr>
<td>(4)</td>
<td>950</td>
<td>640.71</td>
<td>Time clock</td>
</tr>
<tr>
<td>(5)</td>
<td>0685</td>
<td>656.25</td>
<td>Oriental rug</td>
</tr>
<tr>
<td>(6)</td>
<td>1055</td>
<td>675.56</td>
<td>Computer paper</td>
</tr>
<tr>
<td>(7)</td>
<td>1260</td>
<td>889.80</td>
<td>Mobile rack</td>
</tr>
<tr>
<td>(8)</td>
<td>273</td>
<td>1,932.00</td>
<td>Travel services</td>
</tr>
<tr>
<td>(9)</td>
<td>0833</td>
<td>1,571.85</td>
<td>20 meg disc</td>
</tr>
<tr>
<td>(10)</td>
<td>0150</td>
<td>1,776.18</td>
<td>Travel services</td>
</tr>
<tr>
<td>(11)</td>
<td>947</td>
<td>1,974.48</td>
<td>Computer cable</td>
</tr>
<tr>
<td>(12)</td>
<td>0087</td>
<td>7,785.00</td>
<td>Install cable</td>
</tr>
</tbody>
</table>

Regulation 19-445.2100, Subsection E, Item 2, which covers procurements from $500.01 to $1,499.99, requires "Solicitations of verbal or written quotes from a minimum of two qualified sources of supply." Items 1 through 7 above needed only documentation of two (2) telephone quotes to meet this requirement. However, this was not done.

Regulation 19-445.2100, Subsection B, Item 3, which covers procurements from $1,500.00 to $2,499.99 requires "Solicitation
of written quotations from three qualified sources of supply shall be made and documented..." Items 8 through 11 above fall into this category.

Section 11-35-1520 of the Procurement Code states, "Contracts amounting to two thousand, five hundred dollars or more shall be awarded by competitive sealed bidding except as otherwise provided in Section 11-35-1510." Regulation 19-445.2035 specifies that for procurements from $5,000.00 to $9,999.99 competitive sealed bids must be solicited from a minimum of five qualified sources. Otherwise, these procurements should have been supported by sole source or emergency procurement determinations if appropriate. Item 12 above falls into this category.

Further, the Authority's procurement limit is $2,500.00, meaning this transaction is an unauthorized procurement. As such, the Authority Director must request ratification of this procurement from the State Materials Management Officer. In accordance with Regulation 19-445.2015, the request must specify the facts and circumstances surrounding the act, what corrective action is being taken to prevent recurrence, action taken against the individual committing the Act, and documentation that the price is fair and reasonable.

The Authority was under the impression that if a line item total on a requisition did not exceed five hundred dollars, ($500.00) competition was not required, even if the requisition total exceeded five hundred dollars. This is incorrect. Competition must always be solicited when the total of the
requisition or purchase order is expected to exceed five hundred dollars.

The competitive requirements of the Procurement Code must be adhered to at all times.

II. Compliance - Sole Source Procurements and Trade-in Sales

We examined all sole source and emergency procurements, the supporting documents and the quarterly reports of this activity for the period July 1, 1985 - December 31, 1987, 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. We found the majority of these transactions to be appropriate, however, we noted the following exceptions.

A. Unnecessary Reporting of Sole Source Procurements

The Authority reported the following six sole source procurements to the Division of General Services even though they were not procured as sole sources.

<table>
<thead>
<tr>
<th>Item</th>
<th>Voucher</th>
<th>Amount</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>0276</td>
<td>$6,930.00</td>
<td>Printers</td>
</tr>
<tr>
<td>2</td>
<td>1202</td>
<td>5,027.50</td>
<td>System analysis</td>
</tr>
<tr>
<td>3</td>
<td>1184</td>
<td>840.00</td>
<td>System analysis</td>
</tr>
<tr>
<td>4</td>
<td>0838</td>
<td>9,600.00</td>
<td>Advertising</td>
</tr>
<tr>
<td>5</td>
<td>0973</td>
<td>1,970.00</td>
<td>Advertising</td>
</tr>
<tr>
<td>6</td>
<td>Req 12579</td>
<td>1,922.50</td>
<td>Furniture</td>
</tr>
</tbody>
</table>

Items 1, 2, and 3 were solicited by the Materials Management Office. Items 4 and 5 were exempt from the Procurement Code and Item 6 was supported by competition.

Unnecessary reporting of procurements as sole sources over states sole source totals for the Authority and for the State. Only true sole source procurements should be reported.
B. Failure to Report a Trade-in Sale

The Authority traded three used 10 Meg Discs valued at $150.00 each on three new 20 Meg Discs costing $649.00 each for a total procurement of $1,571.85. The trade-in was properly approved, but it was not reported on the quarterly report of trade-in activity for the period of January 1, 1987 through March 30, 1987.

III. Internal Control and Procedural Weaknesses

We noted the following internal control and procedural weaknesses during our audit of the Authority.

A. Receiving Reports

The following vouchers were processed without confirmation of receipt of goods.

<table>
<thead>
<tr>
<th>Voucher</th>
<th>Amount</th>
<th>Description/Service</th>
</tr>
</thead>
<tbody>
<tr>
<td>0950</td>
<td>$1,571.85</td>
<td>20 Meg. hard disc</td>
</tr>
<tr>
<td>0947</td>
<td>1,974.48</td>
<td>Computer cable</td>
</tr>
<tr>
<td>1260</td>
<td>889.80</td>
<td>Mobile racks</td>
</tr>
<tr>
<td>0330</td>
<td>716.41</td>
<td>Miscellaneous furniture</td>
</tr>
<tr>
<td>0059</td>
<td>4,050.00</td>
<td>PC/AT</td>
</tr>
<tr>
<td>0685</td>
<td>656.25</td>
<td>Oriental rug runner</td>
</tr>
<tr>
<td>0833</td>
<td>640.71</td>
<td>Time clock</td>
</tr>
<tr>
<td>01078</td>
<td>568.33</td>
<td>Computer paper</td>
</tr>
</tbody>
</table>

Evidence of receipt of goods or services is required to document delivery, thereby clearing a commitment for payment. The Authority procurement and procedures manual indicates that the blue copy of the requisition purchase order will be used as the receiving report. However, this was not done in these cases. An invoice should not be processed for payment without written confirmation of receipt of goods or services. We recommend the
Authority comply with its own internal procedures when processing invoices in the future.

B. Procurement Procedural Weaknesses

During our audit, we noted several procedural weaknesses which resulted in the following recommendations for improvement.

1) **Exempt and Term Contract Items**: Procurements made from state term contracts should be documented on the purchase order by referencing the contract numbers. Additionally, when the procurement is exempt from the Code, the purchase order/requisition should be noted.

2) **Confirmation Orders**: A requisition/purchase order should always be prepared prior to the vendor receiving the order. In those rare cases when a purchase order number is given to the vendor, the purchase order should indicate confirmation of order placed previously.

3) **Separation of Duties**: Current procedure provides for the purchasing agent to prepare the purchase order to encumber the purchase order amount, accept receipt of goods on delivery, and verify the invoice before it is sent to accounting for payment. We recommend the internal control over the payment process be strengthened by having the invoices sent directly to accounts payable for processing.

4) **Procurement Procedures Manual**: The Authority's procurement procedures manual has been approved previously, however, we recommend the addition of an appendix to the manual which would include recent exemptions allowed by the Budget and Control Board. Also any documents pertinent to the procurement process should be included in the appendix.
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 materials respects place the State Housing Authority in compliance with the South Carolina Consolidated Procurement Code and ensuing regulations.

In accordance with Code Section 11-35-1230(1) the Authority should take this corrective action prior to September 30, 1988. Subject to this corrective action and because additional certification was not requested, we recommend that the Housing Authority be allowed to continue procuring all goods and services, information technology and consulting services up to the basic level as outlined in the Procurement Code.

Jeff Widdowson
Audit and Certification Analyst

Voight Shealy, Manager
Audit and Certification
September 21, 1988

Mr. Voight Shealy  
Manager, Audit and Certification  
120½ Main Street, Suite 420  
Columbia, SC 29201

Dear Mr. Shealy:

The Housing Authority underwent a Procurement Audit in May, 1988. The results of this audit have been received and reviewed, and the following is our formal response.

Items 1 - 7 - Lack of documentation:

Documentation of quotes will be provided for all future purchases as required by Code.

Item 8 and Item 10 - Travel
The Authority has always sought the lowest fares for air travel by using "super saver" fares, requiring employees to travel on weekends in order to obtain the reduced cost. It has been our experience that airlines are compatible in price when operating on the same schedules and itineraries. However, in order to be in compliance, three (3) travel agents are being called to check for lowest fares when it is expected that the cost will be in excess of $499.00. This is a time consuming task which results in the same fares being given for identical schedules, and involves unnecessary work for both the staff and travel agents.

Item 9 - Trade-in
All trade-in items will be reported in future. This was an oversight since the small discs were removed at the same time new ones were installed.

Items 11 and 12 - Computer Cable
At the time the System 36 was installed, staff members contacted our leasing agent and were instructed as to the required vendor (since major work was being done to the building). It is to be noted that the property we are leasing is not owned by the State and we must follow the lease agreement.
A letter seeking ratification of this procurement has been sent to Mr. Jim Forth, Materials Management Officer. As stated in that letter (copy attached) no action will be taken against staff involved in this process. All such future procurements will be handled according to the Code.

CORRECTIVE ACTIONS taken to ensure compliance with the S.C. Consolidated Procurement Code:

1. All necessary solicitations/quotes, verbal or written will be documented and provided as support materials to the procurement.

2. Exempt and term contract items will be properly marked on the requisition and documented.

3. Separation of duties - The following procedure has been put into effect:
   a. request received by Procurement, Requisition prepared and encumbered by Procurement,
   b. copy of request and Requisition to Finance
   c. shipping receipts signed by Procurement, goods delivered by Procurement and signed for by requesting division on Requisition copy,
   d. copies of signed shipping receipts and "received" copy of Requisition provided to Finance,
   e. all invoices received by Finance.

4. Manual will be updated as suggested, and appropriate appendix added.

Staff has been given a review of the internal requesting form and its use and purpose. A concerted effort is being made to ensure that all procurements adhere to the Code.

Sincerely,

Linwood H. Ransom, Jr.
Executive Director
October 5, 1988

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 State Housing Authority to determine the progress made toward implementing the recommendations in our audit report covering the period July 1, 1986 - April 30, 1988. During this visit, we followed up on each recommendation made in the audit report through inquiry, observation and limited testing.

We observed that the Authority 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.

Additional certification was not requested, therefore we recommend that the Authority 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,

R. Voight Shealy, Manager
Audit and Certification