PROCUREMENT
AUDIT AND
CERTIFICATION

S. C. STATE LIBRARY
JULY 1 '6 1997
STATE DOCUMENTS

STATE HOUSING FINANCE AND
DEVELOPMENT AUTHORITY
AGENCY
JULY 1, 1995 - DECEMBER 31, 1996
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 audit report for State Housing Finance and Development Authority. Since we are not recommending any certification above the basic $5,000 allowed by the Code, no action is required by the Budget and Control Board. Therefore, I recommend that the report be presented to the Budget and Control Board as information.

Sincerely,

Voight Shealy
R. Voight Shealy
Materials Management Officer
STATE HOUSING FINANCE AND DEVELOPMENT AUTHORITY

PROCUREMENT AUDIT REPORT

July 1, 1995 - December 31, 1996
# TABLE OF CONTENTS

<table>
<thead>
<tr>
<th>Section</th>
<th>PAGE</th>
</tr>
</thead>
<tbody>
<tr>
<td>Transmittal Letter</td>
<td>1</td>
</tr>
<tr>
<td>Introduction</td>
<td>3</td>
</tr>
<tr>
<td>Scope</td>
<td>4</td>
</tr>
<tr>
<td>Results of Examination</td>
<td>5</td>
</tr>
<tr>
<td>Conclusion</td>
<td>8</td>
</tr>
<tr>
<td>Authority Response</td>
<td>9</td>
</tr>
<tr>
<td>Follow-up Letter</td>
<td>10</td>
</tr>
</tbody>
</table>
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 State Housing Finance and Development Authority for the period July 1, 1995 through December 31, 1996. 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 Authority 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 State Housing Finance and Development Authority 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 State Housing Finance and Development Authority in compliance with the South Carolina 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 State Housing Finance and Development Authority. Our on-site review was conducted January 20-27, 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 Authority 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 State Housing Finance and Development Authority 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 systematically selected samples from the period July 1, 1995 through December 31, 1996 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 from the period July 1, 1995 through December 31, 1996

(2) Procurement transactions for the period July 1, 1995 through December 31, 1996 as follows:
   a) Thirty-five payment transactions for goods and services reviewed for competition and compliance to the Code
   b) A block sample of 300 numerical purchase orders reviewed for order splitting and favored vendors

(3) Surplus property disposition and procedures

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

(5) Information technology plans for fiscal years 1995-98

(6) Internal procurement procedures manual

(7) Real property lease procedures
RESULTS OF EXAMINATION

The Office of Audit and Certification performed an examination of the internal procurement operating policies, procedures and related manual of the State Housing Finance and Development Authority for the period July 1, 1995 through December 31, 1996.

Since our last audit, the State Housing Finance and Development Authority has maintained what we consider to be a professional, efficient procurement system. However, we did note the following exceptions which should be addressed by management.

I. Unauthorized Purchase

We noted one procurement that was unauthorized. The items were ordered before the Purchasing Office issued a purchase order. Purchase order 4610 dated December 29, 1995 for $1,889.73 was issued after receiving a vendor invoice for training manuals. The invoice was dated December 22, 1995. This violates the Authority's internal procurement procedures, Section IV, which states in part, "The Director of Procurement, by delegation of the Executive Director, is the Purchasing Agent for the Authority. The Agent is responsible for all areas of Materials Management, .... including purchasing of goods and services."

We recommend ratification of the unauthorized procurement be requested from the Executive Director in accordance with Regulation 19-445.2015.

II. Insufficient Competition Solicited

Voucher 2102 for $2,798.25 was a payment for printing services. Two written quotes for these services were documented. Section 11-35-1550 of the Code requires three quotations for this level of procurement.

We recommend the Authority comply with the competitive requirement of the Code as listed in Section 11-35-1550.

III. Statewide Term Contract Not Used

Purchase order 3855 dated June 21, 1995 was issued to procure five legal size file cabinets with a unit cost of $305.00 each. The statewide term contract for legal size file cabinets contained a better quality item with a unit cost of $272.75 each.
Section 11-35-310(33) of the Code defines a term contracts as, “a contract established by the Chief Procurement Officer for a specific product or service for a specified time and for which it is mandatory that all governmental bodies procure their requirements for the goods and services during its term.”

We recommend the Authority comply with the Code by procuring items on term contract.

IV. Sole Source Reporting

A. Software License Renewal and Maintenance

The following software licenses/maintenance renewals were unnecessarily sole sourced and reported.

<table>
<thead>
<tr>
<th>Reported</th>
<th>Purchase Order</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>09/30/95</td>
<td>4136</td>
<td>$24,450</td>
</tr>
<tr>
<td>03/31/96</td>
<td>4768</td>
<td>6,545</td>
</tr>
<tr>
<td>03/31/96</td>
<td>4769</td>
<td>5,050</td>
</tr>
<tr>
<td>06/30/96</td>
<td>4910</td>
<td>4,840</td>
</tr>
<tr>
<td>06/30/96</td>
<td>5113</td>
<td>22,380</td>
</tr>
<tr>
<td>06/30/96</td>
<td>5174</td>
<td>3,630</td>
</tr>
<tr>
<td>09/30/96</td>
<td>5238</td>
<td>7,865</td>
</tr>
<tr>
<td>06/30/96</td>
<td>100013</td>
<td>3,500</td>
</tr>
</tbody>
</table>

On April 22, 1986, the South Carolina Budget and Control Board approved an exemption for software license renewals after such software had been competitively bid as required by the Procurement Code. This software had been competitively bid through the Materials Management Office. We recommend the Authority discontinue sole sourcing exempt items. An amended report should be submitted to the Materials Management Office to remove purchase order 5228 from the activity for the current fiscal year.
B. Procurement Not Reported

Purchase order 4187 dated August 7, 1995 was for modifications to the computer loan servicing system for $4,120. The procurement was made as a sole source, however, it was not reported to the Materials Management Office as required by Section 11-35-2440 of the Code.

We recommend the Authority submit each sole source procurement timely to accurately reflect the total sole source activity.
CONCLUSION

As enumerated in our transmittal letter, corrective action based on the recommendations described in this report, we believe, will in all material respects place the State Housing Finance and Development Authority in compliance with the South Carolina Consolidated Procurement Code and ensuing regulations.

The Authority has not requested increased procurement certification above the basic limit of $5,000 allowed by the Code. Subject to corrective actions listed in this report, we will recommend the State Housing Finance and Development Authority be allowed to continue procuring all goods and services, consultants services, construction services, and information technology up to the basic level of $5,000 as allowed by the South Carolina Consolidated Procurement Code and accompanying regulations.

James M. Stiles, CPPB
Audit Manager

Larry G. Sorrell, Manager
Audit and Certification
June 6, 1997

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

Dear Mr. Sorrell:

This letter is to confirm that we concur with and have addressed the four exceptions listed in the procurement audit report of the South Carolina State Housing Finance and Development Authority for the period of July 1, 1995-December 31, 1996. We have taken corrective action and will also ensure that these exceptions will not be repeated in the future. If you have any questions or need additional information, please feel free to contact me.

Sincerely,

Barbara Anderson  
Director of Human Resources

cc: Dave Leopard  
Foster H. Yarborough
Mr. Voight Shealy  
Materials Management Officer  
Materials Management Office  
1201 Main Street, Suite 600  
Columbia, South Carolina 29201

Dear Voight:

We have reviewed State Housing Finance and Development Authority’s response to our audit report for July 1, 1995 - December 31, 1996. Also, we have followed the Authority’s corrective action during and subsequent to our field work. We are satisfied that the Authority has corrected the problem areas and the internal controls over the procurement system are adequate.

Additional certification was not requested. Therefore, we recommend the Authority be allowed to continue procuring all goods and services, construction, information technology and consulting services up to the basic level of outlined in the Code.

Sincerely,

Larry G. Sorrell, Manager  
Audit and Certification

LGS/tl

Total Copies Printed - 30  
Unit Cost - .36  
Total Cost - 10.80