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PROCUREMENT AUDIT AND CERTIFICATION

OFFICE OF THE ADJUTANT GENERAL

AGENCY

JULY 1, 1993 - JUNE 30, 1995

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RAYMOND L. GRANT
ASSISTANT DIRECTOR

February 14 , 1996

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

Dear Helen:

I have attached the Office of the Adjutant General procurement audit report and recommendations made by the Office of Audit and Certification. I concur and recommend the Budget and Control Board grant the Office a two year certification as noted in the audit report.

Sincerely,

Raymond L. Grant

Raymond L. Grant
Materials Management Officer

OFFICE OF THE ADJUTANT GENERAL

PROCUREMENT AUDIT REPORT

JULY 1, 1993 - JUNE 30, 1995

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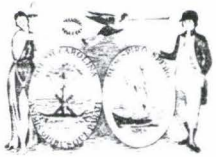

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RAYMOND L. GRANT
ASSISTANT DIRECTOR

December 7, 1995

Mr. Raymond L. Grant
Materials Management Officer
Office of General Services
1201 Main Street, Suite 600
Columbia, South Carolina 29201

Dear Ray:

We have examined the procurement policies and procedures of the Office of the Adjutant General for the period July 1, 1993 through June 30, 1995. 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 Office 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 Office of the Adjutant General 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 Office of the Adjutant General in compliance with the South Carolina Consolidated Procurement Code and ensuing regulations.

Larry G. Sorrell, Manager
Audit and Certification

INTRODUCTION

We conducted an examination of the internal procurement operating policies and procedures of the Office of the Adjutant General. Our on-site review was conducted June 30, 1995 through July 21, 1995 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 Office 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 Office of the Adjutant General 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, 1993 through June 30, 1995 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, 1993 through June 30, 1995

(2) Procurement transactions for the period July 1, 1993 through June 30, 1995 as follows:
   a) One hundred payments, each exceeding $1,500
   b) A block sample of one department's activity for 3 - 4 months.

(3) Seven professional service contracts and four construction contracts for compliance with the Manual for Planning and Execution of State Permanent Improvements

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

(5) Information technology plans and approvals.

(6) Internal procurement procedures manual

(7) Surplus property procedures

SUMMARY OF AUDIT FINDINGS

Our audit of the procurement system of the Office of the Adjutant General, hereinafter referred to as the Office, produced findings and recommendations as follows:

	PAGE
I. Compliance-Sole Source and Emergency	
A. Inappropriate Sole Source	7
Microfilming services were procured as a sole source when other sources existed.	
B. Construction-Related Emergencies	7
Eight construction-related emergencies were not reported to the Office of the State Engineer within ten days.	
C. Reporting Errors	8
We noted several errors in the reporting of sole source and emergency activity.	
II. Compliance - General	
A. Unauthorized Procurement	9
A section was procuring printing services without procurement's authorization.	
B. Insufficient Competition Solicited	10
Two procurements which required solicitation of three verbal quotes only had two quotes solicited.	
C. No Evidence of Compliance	10
Software was bought without any evidence of competition, sole source or emergency determination.	
D. Error in Award	10
An error was made when transferring the award from the quote to the requisition. As a result, the purchase order exceeded the quote by $60.	
III. Blanket Purchase Agreements	10
The Office has an excessive amount of blanket purchase agreements.	

PAGE

IV. Information Technology Plans 11

The Office has not prepared or submitted an Information Technology Plan since Fiscal Year 1993/1994.

V. Internal Procurement Procedures 11

The internal procurement procedures manual needs to be updated.

RESULTS OF EXAMINATION

I. Compliance - Sole Source and Emergency Procurements

We reviewed all sole source and emergency procurements and trade-in sales with supporting documentation for the period July 1, 1993 through June 30, 1995. We found these procurements to be in compliance with the South Carolina Consolidated Procurement Code and ensuing regulations with the following exceptions.

A. Inappropriate Sole Source

The Office procured microfilming services from another state agency on PO001889 for $4,145.20 as a sole source. The determination stated the agency had performed this service in the past and has remained relatively inexpensive. The determination also stated that the time needed to get verbal/written quotes could be better used on other projects.

Section 11-35-1560 of 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 designee of either officer, above the level of procurement officer, determines in writing that there is only one source for the required supply, service or construction item."

In this case, other sources existed for this service. Therefore, the contract should not have been done under this section. Accordingly, we recommend the Office review the sole source requirements and comply with the competitive requirements of the Code.

B. Construction-Related Emergencies

The Office did not report the following eight construction-related emergencies to the Office of the State Engineer.

Date	PO Number	Amount	Description
12/13/93	PO001552	$12,000	Engineering Services To Prepare Contamination Assessment Report
01/28/94	PO001889	16,015	Replace Underground Fuel Tank
02/08/95	PO002043	24,485	Post Frame Building
12/05/94	PO001602	47,740	Roof Replacement
11/09/94	PO001435	9,887	Force Main Sewer Line
11/03/94	PO001398	6,974	Environmental Remediation
09/29/94	PO001000	58,850	Post Frame Building
09/30/94	PO001036	17,600	Install Security Devices

The Manual for Planning and Execution of State Permanent Improvements Part II Paragraph 1.11 H. requires that any construction related emergency procurements be submitted to the Office of the State Engineer (OSE) within ten days of award.

Accordingly, we recommend the Office report the emergencies to the OSE and institute a procedure to ensure that any future emergencies are submitted on form MMO# 103 within ten days of contract award.

C. Reporting Errors

We noted the following errors in the reporting of sole source and emergency procurements for fiscal year 1994/95.

Date	PO	Amount	Description
09/07/94	PO000763	$ 936	Delete from Sole Source-Exempt Items
12/13/94	PO001668	6,550	Delete from Sole Source-Exempt Items
12/13/94	PO001669	6,550	Delete from Sole Source-Exempt Items
12/05/94	PO001603	500	Delete From Emergency-Does not Exceed $1500
11/09/94	PO001436	500	Delete From Emergency-Does not Exceed $1500
11/02/94	PO001378	1,500	Delete From Emergency-Does not Exceed $1500
07/19/94	PO000275	500	Delete From Emergency-Does not Exceed $1500
08/15/94	PO000533	1,500	Delete From Emergency-Does not Exceed $1500
09/06/94	PO000738	1,500	Delete From Emergency-Does not Exceed $1500
07/25/94	PO000332	1,092	Delete From Emergency-Does not Exceed $1500
04/20/95	PO002470	3,949	Delete From Emergency- Competition Requirements met
09/21/94	PO000915	6,600	Add to Emergency Report

Additionally, we noted several procurements from the previous fiscal year that were reported incorrectly. Section 11-35-2440 requires that governmental bodies submit a listing of all contracts made as a sole source or emergency quarterly.

We recommend the Office review internal procedures to ensure correct reporting and amend the reports for the items listed above.

II. Compliance - General

A. Unauthorized Procurements

A section of the Office procured printing services on vouchers 11664 for $2,709.53 and 10646 for $5,040.99 from another state agency without Procurement's authorization. The total on voucher 11664 and $4,001.48 on voucher 10646 were done by this section. Each printing job paid on the vouchers did not exceed $1,500.

The Office of the Adjutant General's Regulation 37-4, Paragraph 4.a. states, "No person, office or unit of the South Carolina National Guard or its State workforce is authorized to incur an obligation of Federal or State funds for the purchase of goods or services without the specific approval of the appropriate program manager. The approval of the requisition by the Procurement Office and subsequent receipt of the purchase order is your approval to incur an obligation of funds." Since the department did not get the approval of the Procurement Office prior to the obligation of funds, the procurements were unauthorized.

We recommend the Office request ratification of the each procurement pursuant to Regulation 19.445.2015. Accounting should discontinue paying these items without a purchase order.

B. Insufficient Competition Solicited

The Office solicited two written quotes on purchase orders PO002091 and PO002018 for $2,438.06 and $2,127.80 respectively. Section 11-35-1550 requires three verbal quotes for this level of procurement.

We recommend the Office comply with competitive requirements of the Code.

C. No Evidence of Compliance

A work order software system was bought on PO000443 for $2,010. No evidence of competition, sole source or emergency determination was contained in the file. Section 11-35-1520 of the Code lists the methods of source selection. The file did not contain any evidence of compliance.

We recommend the Office comply with the Code and maintain evidence of such compliance in the procurement file.

D. Error in Award

The Office issued P000870 for $3,690 to strip a taxi-way. The vendor invoiced and was paid $3,690. However, the original quote was $3,630. According to Office personnel, an error was made when preparing the requisition which was reflected on the purchase order.

We recommend the Office attempt to get the overpayment refunded and exercise caution in preparing requisitions and purchase orders.

III. Blanket Purchase Agreements

We reviewed the blanket purchase agreements and a sample of releases. The Office issues multiple purchase orders to vendors. Purchase orders are issued for each activity center. Vendors were being issued recurring blanket purchase agreements within the activity centers.

We also noted that, in some instances, persons not authorized on the purchase orders were receiving items.

Regulation 19-445.2100 B. describes a blanket purchase agreement as a simplified method of filling small, repetitive needs. This regulation further states, "Blanket purchase agreements are designed to reduce administrative costs in accomplishing small purchases by eliminating the need for issuing individual purchase documents."

The Office is issuing the individual purchase documents for these needs, thus the method is not being used efficiently. We recommend the Office consolidate the blanket purchase agreements and discontinue allowing persons not listed on the agreement to receive goods. The Office should review Regulation 19-445.2100 B. (3) to ensure that all requirements are included in the agreements.

VI. Information Technology Plans

The Office has not prepared or submitted an Information Technology Plan since fiscal year 1993/94. Section 129.44 of the 1994/95 Appropriations Act requires that agencies, institutions, or departments submit all expenditures and requested increases to the Information Technology Policy and Management for compilation and evaluation. The Office of Information Technology Management now requires a three year plan be submitted for approval. Therefore, we recommend the Office comply with these requirements.

V. Internal Procurement Procedures Manual

The Procurement Office is in the process of updating the procurement manual. The current manual does not reflect the changes in the Procurement Code. We request the Office submit the revised manual to our office for review.

CERTIFICATION RECOMMENDATIONS

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 Office of Adjutant General in compliance with the South Carolina Consolidated Procurement Code. We will perform a follow-up review by January 31, 1996 to ensure the Office has completed this corrective action.

Under the authority described in Section 11-35-1210 of the South Carolina Procurement Code, subject to this corrective action, we recommend the Office of the Adjutant General be certified to make direct agency procurements for two years up to the limits as follows:

PROCUREMENT AREA	RECOMMENDED CERTIFICATION LIMIT
Goods and Services	$25,000 per commitment*

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

Melissa Rae Thurstin
Senior Auditor

Larry G. Sorrell, Manager
Audit and Certification

The State of South Carolina
Military Department

STANHOPE S. SPEARS
MAJOR GENERAL
THE ADJUTANT GENERAL

OFFICE OF THE ADJUTANT GENERAL
1 NATIONAL GUARD ROAD
COLUMBIA, S.C. 29201-4766

January 25, 1996

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

Dear Larry:

The following information is provided to finalize the procurement audit report of the Office of the Adjutant General.

1. Letter of Ratification.

2. Letter from Contractor pertaining to State Purchase Order Number 000870.

3. Agency policy letter on Procurement Operational Authority.

Thank you and Melissa for the courtesy shown to us during the audit.

If you have any questions or need additional information, please contact me.

Sincerely,

Jack P. Pierce

JACK P. PIERCE
Director of Procurement
Office of the Adjutant General

Encls:
as

STATE OF SOUTH CAROLINA

State Budget and Control Board

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RAYMOND L. GRANT
ASSISTANT DIRECTOR

February 14, 1996

Mr. Raymond L. Grant
Materials Management Office
1201 Main Street, Suite 600
Columbia, South Carolina 29201

Dear Ray:

We have reviewed the Office of the Adjutant General response to our audit report July 1, 1993 - June 30, 1995. Also, we have followed the Office's correction action during and subsequent to our field work. We are satisfied that the Office has corrected the problem areas and the internal controls over the procurement system are adequate.

Therefore, we recommend that the Budget and Control Board grant the Office of the Adjutant General the certification limits noted in our report for a period of two years.

Sincerely,

Larry G. Sorrell

Larry G. Sorrell, Manager
Audit and Certification

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