PROCUREMENT
AUDIT AND
CERTIFICATION

SOUTH CAROLINA
SEA GRANT CONSORTIUM
AGENCY

JULY 1, 1987 - JUNE 30, 1989
DATE
June 4, 1990

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

Dear Rick:

I have attached the final South Carolina Sea Grant Consortium procurement 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
SOUTH CAROLINA
SEA GRANT CONSORTIUM
PROCUREMENT AUDIT REPORT

JULY 1, 1987 - JUNE 30, 1989
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We have examined the procurement policies and procedures of the South Carolina Sea Grant Consortium for the period July 1, 1987 - June 30, 1989. 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 Sea Grant Consortium 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 Sea Grant Consortium in compliance with the South Carolina Consolidated Procurement Code and ensuing regulations.

R. Veight Shealy, Manager
Audit and Certification
SCOPE

Our examination encompassed a detailed analysis of the internal procurement operating procedures of the Sea Grant Consortium 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 selected sixty (60) transactions which exceeded $500.00 each, and all sole source procurements and emergency procurements for the period July 1, 1987 - June 30, 1989, for compliance testing. We also 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. disposition of surplus property
10. Minority Business Enterprise Plan
RESULTS OF EXAMINATION

The Office of Audit and Certification performed an examination of the internal procurement operating procedures and policies of the Sea Grant Consortium, hereinafter referred to as the Consortium, for the period of July 1, 1987 through June 30, 1989. Our on-site review was conducted August 10 - 15, 1989, and was made under the authority as described in Section 11-35-1230(1) of the South Carolina Consolidated Procurement Code.

We noted the following areas which should be addressed by management:

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

Our examination of procurement activity at the Consortium included a test of sixty (60) randomly selected transactions. Nine of the sixty transactions were not supported by evidence of competition or by sole source or emergency procurement 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># 90129</td>
<td>$ 783.75</td>
<td>Computer repair</td>
</tr>
<tr>
<td>2</td>
<td>P.O.890126</td>
<td>594.80</td>
<td>Accounting supplies</td>
</tr>
<tr>
<td>3</td>
<td>80463</td>
<td>971.25</td>
<td>Printing</td>
</tr>
<tr>
<td>4</td>
<td>80528</td>
<td>708.00</td>
<td>Airline ticket</td>
</tr>
<tr>
<td>5</td>
<td>80699</td>
<td>961.00</td>
<td>Office equipment</td>
</tr>
<tr>
<td>6</td>
<td>90568</td>
<td>1,440.00</td>
<td>Catering</td>
</tr>
<tr>
<td>7</td>
<td>P.O.880177</td>
<td>635.25</td>
<td>Office furniture</td>
</tr>
<tr>
<td>8</td>
<td>90020</td>
<td>587.16</td>
<td>Files</td>
</tr>
<tr>
<td>9</td>
<td>80111</td>
<td>1,927.28</td>
<td>Printing</td>
</tr>
</tbody>
</table>

Regulation 19-445.2100, Subsection E, Item 2, which covers procurements from $500.01 to $1,499.99, requires "Solicitation of verbal or written quotes from a minimum of two qualified sources of supply." Items 1 through 8 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 2 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..." Item 9 above falls into this category.

The Consortium 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 purchase is expected to exceed five hundred dollars.

II. Compliance - Sole Source Procurements

We examined all sole source and emergency procurements, the supporting documents and the quarterly reports of this activity for the period July 1, 1987 through June 30, 1989. This task was complicated by the fact that the Consortium did not prepare sole source determinations to support these procurements.

Specifically, the following six procurements which the Consortium indicated were sole sources were neither supported by written determinations nor reported to the Division of General Services.

<table>
<thead>
<tr>
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<th>Voucher Amount</th>
<th>Item/Service Description</th>
</tr>
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<tbody>
<tr>
<td>1</td>
<td>80330</td>
<td>2,000.00</td>
<td>Computer run time</td>
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<tr>
<td>2</td>
<td>80171</td>
<td>1,250.00</td>
<td>Printing brochures</td>
</tr>
<tr>
<td>3</td>
<td>90896</td>
<td>594.23</td>
<td>Print enlargement</td>
</tr>
<tr>
<td>4</td>
<td>80077</td>
<td>840.00</td>
<td>Software</td>
</tr>
<tr>
<td>5</td>
<td>80162</td>
<td>609.00</td>
<td>Printing guides</td>
</tr>
<tr>
<td>6</td>
<td>890161</td>
<td>1,124.00</td>
<td>Mega drive</td>
</tr>
</tbody>
</table>
All eight procurements are violations of Section 11-35-1560 of the Consolidated Procurement Code which 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 a designee of either officer, above the level of the procurement officer, determines in writing that there is only one source for the required supply, service, or construction item. (emphasis added)

Also, these eight procurements are violations of Section 11-35-2440 of the Procurement Code which states:

Any governmental body as defined in Section 11-35-310(18) shall submit quarterly a record listing all contracts made under Section 11-35-1560 (Sole Source Procurements) or Section 11-35-1570 (Emergency Procurement) to the chief procurement officer.

The Consortium should take action immediately to comply with these requirements of the Procurement Code. Sole source is permissible only if an authorized official prepares in advance a written determination which appropriately justifies a procurement as such.
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 Sea Grant Consortium in compliance with the South Carolina Consolidated Procurement Code and ensuing regulations.

In accordance with Code Section 11-35-1230(1) the Sea Grant Consortium should take this corrective action prior to March 31, 1989. Subject to this corrective action and because additional certification was not requested, we recommend that the Sea Grant Consortium 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.

R. Voight Shealy, Manager
Audit and Certification
March 19, 1990

Mr. Voight Shealy, Manager
Audit and Certification
Materials Management Office
1201 Main Street, Suite 600
Columbia, SC 29201

Dear Mr. Shealy:

After your discussion with Judy Linder and Elaine Knight of my office we offer the following in response to the draft procurement audit report of the Sea Grant Consortium.

In reference to Regulation 19-445.2100, Subsection E, Item 2 which covers procurements from $500.01 to $1,499.99 requiring "Solicitation of verbal or written quotes...":

I - Item 1 - Estimated cost of repair was $475.00 - After repair had been started and equipment taken apart it would have been more expensive to have it put back together and then solicit two more written bids from other vendors - we are not computer experts and therefore have to depend on reputable vendors for estimates.

Items 2, 5, 7, 8 - These purchase orders/vouchers were cumulative and the items themselves were under $500.01 each - we were not aware that the standalone items if put together on a purchase order/voucher would constitute having to secure bids.

Items 3, 6, 9 - Bids were not secured under the above regulation.

Item 4 - We were unaware that transportation tickets required competitive bidding from different airlines/travel agencies.

Subsequent to Mr. Widdowson's audit we are now in compliance with the above regulation of the South Carolina Procurement Code.
Item II -

Violations of Section 11-35-1560 - Sole Source Procurements

The Consortium acknowledges these violations and have taken steps to comply with the Procurement Code and are now attaching the proper sole source forms to any purchase orders/vouchers pertaining to sole source procurements.

Violation of Section 11-35-2440 - Quarterly Reporting

All reporting will be done in accordance with this Section.

If any other information is required, please let me know.

Sincerely,

Margaret A. Davidson
Executive Director
May 31, 1990

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 Sea Grant Consortium to determine the progress made toward implementing the recommendations in our audit report covering the period of July 1, 1987 - June 30, 1989. During this visit, we followed up on each recommendation made in the audit report through inquiry, observation and limited testing.

We observed that the Consortium 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.

The Consortium did not request additional certification. Therefore, we recommend that the Consortium 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