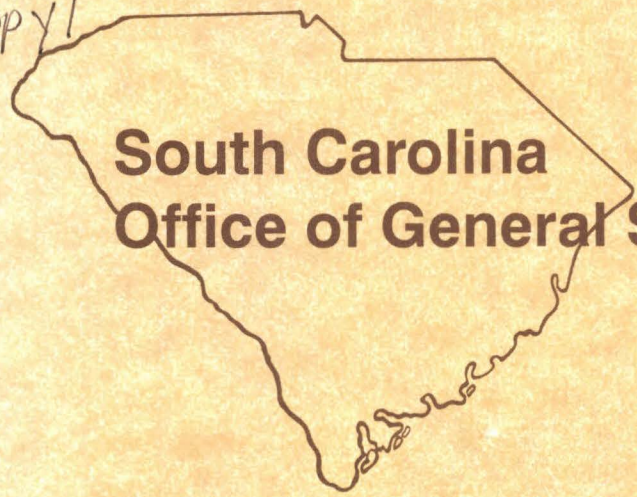


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PROCUREMENT AUDIT AND CERTIFICATION

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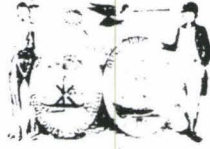
**SOUTH CAROLINA DEPARTMENT OF
NATURAL RESOURCES**

AGENCY

OCTOBER 1, 1994 - JUNE 30, 1997

DATE

STATE OF SOUTH CAROLINA
State Budget and Control Board
OFFICE 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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VOIGHT SHEALY
ASSISTANT DIRECTOR

January 21, 1998

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

Dear Helen:

I have attached the South Carolina Department of Natural Resources' procurement audit report and recommendations made by the Office of Audit and Certification. I concur and recommend the Budget and Control Board grant the Department a three year certification as noted in the audit report.

Sincerely,

A handwritten signature in cursive script that reads "Voight Shealy".

R. Voight Shealy
Materials Management Officer

/tl

SOUTH CAROLINA DEPARTMENT OF NATURAL RESOURCES

PROCUREMENT AUDIT REPORT

OCTOBER 1, 1994 - JUNE 30, 1997

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VOIGHT SHEALY
ASSISTANT DIRECTOR

January 6, 1998

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 South Carolina Department of Natural Resources for the period October 1, 1994 through June 30, 1997. 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 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 Department of Natural Resources 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 South Carolina Department of Natural Resources 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 South Carolina Department of Natural Resources. Our on-site review was conducted September 8 - 26, 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 Department 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

BACKGROUND

Section 11-35-1210 of the South Carolina Consolidated Procurement Code states:

The (Budget and Control) Board may assign differential dollar limits below which individual governmental bodies may make direct procurements not under term contracts. The Office of General Services shall review the respective governmental body's internal procurement operation, shall verify in writing that it is consistent with the provisions of this code and the ensuing regulations, and recommend to the Board those dollar limits for the respective governmental body's procurement not under term contract.

On February 14, 1995, the Budget and Control Board granted the Department the following procurement certifications.

<u>Category</u>	<u>Limit</u>
Goods and Services	\$50,000 per commitment
Information Technology in accordance with the approved Information Technology Plan	\$50,000 per commitment
Consultants Services	\$50,000 per commitment
Construction Services	\$25,000 per commitment

Since the Department did not request any additional certification, our audit was performed primarily to determine if recertification is warranted.

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 Department 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 voucher samples for the period July 1, 1995 through June 30, 1997 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 October 1, 1994 through June 30, 1997
- (2) Procurement transactions for the audit period as follows:
 - a) One hundred and twenty payments each exceeding \$1,500
 - b) An additional sample of fifty informal quotations
 - c) A numerical block sample of six hundred Central Office purchase orders tested for order splitting and favored vendors
 - d) A numerical block sample of one thousand Fort Johnson purchase orders tested for order splitting and favored vendors
- (3) Three professional service contracts and four construction contracts of permanent improvement projects 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 for fiscal years 95/98
- (6) Internal procurement procedures manual
- (7) Surplus property procedures

RESULTS OF EXAMINATION

I. Sole Source Procurements

We examined the quarterly reports of sole source, emergency and trade-in sale procurements for the period October 1, 1994 through June 30, 1997. The review was performed to determine the appropriateness of the procurement actions taken and the accuracy of the reports submitted to the Office of General Services as required by Section 11-35-2440 of the Code. The following exceptions were noted.

A. Inappropriate Sole Source

The Department bought a 19 foot law enforcement boat on purchase order 96-003286 for \$22,995. The sole source justification stated, "It is the only boat meeting law enforcement needs." The State currently has law enforcement boats in sizes of 16, 17, and 18 foot on term contract. Other vendors are available that can bid on a boat with the salient features of the 19 foot boat. Section 11-35-1560 of the Codes 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 items."

We recommend the Department comply with the competitive requirements of the Code when procuring law enforcement boats that are not on term contract.

B. Drug-Free Workplace Certification

We noted two sole source procurements that exceeded \$50,000 where the Department did not obtain the required drug-free workplace certification stating the vendor was in compliance with the South Carolina Drug -Free Workplace Act.

<u>PO</u>	<u>DESCRIPTION</u>	<u>AMOUNT</u>
Contract	Marina sewage disposal	\$80,100
96-30284	Sediment toxicity testing	88,065

Section 44-107-10 et seq. of the South Carolina Code of Laws requires on any contract of \$50,000 or more that a certification be obtained stating that the vendor maintains a drug-free workplace. Sole source and emergencies are subject to this law.

We recommend the Department obtain the drug-free workplace certification on all future contracts exceeding \$50,000.

C. Reporting

The Department reported a sole procurement of \$29,540 for the design and installation of a power correction system at the Marine Resources Center at Fort Johnson on two quarterly reports. The original sole source procurement was reported for the quarter ending September 30, 1995. A revised purchase order was issued on December 8, 1995 and the procurement was reported again for the quarter ending December 31, 1995.

We recommend an amended report be submitted to the Materials Management Office to delete the duplication.

II. Overpayments

We noted the following payments that were not included on the purchase orders.

	<u>Voucher Number</u>	<u>Voucher Amount</u>	<u>Purchase Order Number</u>	<u>Purchase Order Amount</u>	<u>Description</u>	<u>Overpayment</u>
1.	13842	\$ 4,976	97000976	\$4,944	Freight	\$ 32
2.	18373	7,085	97001880	7,000	Freight	85
3.	432	13,433	96000368	13,279	Boat/Trailer	154

<u>Voucher Number</u>	<u>Voucher Amount</u>	<u>Purchase Order Number</u>	<u>Purchase Order Amount</u>	<u>Description</u>	<u>Overpayment</u>
4. 20425	\$10,730	97003096	\$10,230	Hook-up part/Installation	\$500

For items 1 and 2, the vendors invoiced for freight. However, the purchase orders had freight terms of F.O.B. destination and should not have been paid. For item 3, the vendor increased the cost for a boat and trailer by \$154. For item 4, the vendor added \$500 for the hook-up parts and installation on two flatbed trailers. The hook-up cost was not listed on the purchase order. The Accounting Department should not have paid for the additional items as these costs were not listed on the purchase orders.

We recommend the Accounting and Procurement Departments resolve any discrepancies between the invoice and purchase order prior to payment. Payment should only be made based on the terms noted on the purchase order or as authorized by the Procurement Department.

III. Unauthorized Procurement

The Department bought surplus printers from another state agency on IDT 130 for \$2,800. The person responsible for this procurement did not have delegated procurement authority and believed that buying from other state agencies was exempt from the Code. The internal manual places procurement authority in the Procurement Department with a few exceptions noted. This procurement is not one of the exceptions noted.

Regulation 19-445.2015 defines an unauthorized procurement as an act obligating the State in a contract by any person without the requisite authority to do so by an appointment or delegation under the Code. Since this purchase was made by departmental personnel without requisite authority, it is unauthorized.

We recommend that purchases from other state agencies be routed through the Procurement Department unless specifically exempted in the internal manual. A ratification request must be made from the Executive Director in accordance with Regulation 19-445.2015.

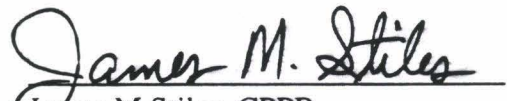
CERTIFICATION RECOMMENDATIONS

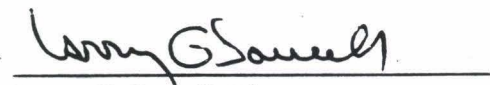
As enumerated in our transmittal letter, corrective action based on the recommendations described in this report, we believe, will in all material respects place the South Carolina Department of Natural Resources in compliance with the Consolidated Procurement Code.

Under the authority described in Section 11-35-1210 of the Procurement Code, subject to this corrective action, we will recommend the South Carolina Department of Natural Resources be re-certified to make direct agency procurements for three years up to the limits as follows:

<u>PROCUREMENT AREA</u>	<u>RECOMMENDED CERTIFICATION LEVELS</u>
Goods and Services	*\$50,000 per commitment
Information Technology	*\$50,000 per commitment
Consultants Services	*\$50,000 per commitment
Construction Services	*\$25,000 per commitment

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


James M Stiles, CPPB
Audit Manager


Larry G. Sorrell, Manager
Audit and Certification

South Carolina Department of Natural Resources



Paul A. Sandifer, Ph.D.
Director

John B. Reeves
Deputy Director for
Administrative Services

January 14, 1998

Larry G. Sorrell
Audit and Certification
Division of General Services
1201 Main Street, Suite 600
Columbia, SC 29201

Dear Mr. Sorrell:

I have fully reviewed with staff the audit report for the period October 1, 1994 - June 30, 1997 with special consideration given to the findings and recommendations of the audit staff.

I concur with your staff findings and recommendations and I have instructed staff to make the necessary corrections in all areas that were identified in the audit. Furthermore, a term contract for 19' law enforcement patrol boats is being developed and will be released for bid the first part of February. I am confident that the reported deficiencies will be rectified as action has already been undertaken to do so.

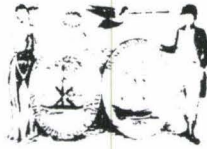
I sincerely appreciate your staff's work in reviewing our purchasing procedures and the consideration with which you have offered recommendations for a more efficient operation.

Sincerely,

A handwritten signature in black ink that reads "Paul A. Sandifer". The signature is written in a cursive style with a large, looping "P" and "S".

Paul A. Sandifer
Director

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



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VOIGHT SHEALY
ASSISTANT DIRECTOR

January 21, 1998

Mr. R. Voight Shealy
Materials Management Officer
Materials Management Office
1201 Main Street, Suite 600
Columbia, South Carolina 29201

Dear Voight:

We have reviewed the response from the South Carolina Department of Natural Resources to our audit report for the period of October 1, 1994 - June 30, 1997. Also we have followed the Department's corrective action during and subsequent to our field work. We are satisfied that the Department has corrected the problem areas and the internal controls over the procurement system are adequate.

Therefore, we recommend the Budget and Control Board grant the South Carolina Department of Natural Resources the certification limits noted in our report for a period of three years.

Sincerely,

Handwritten signature of Larry G. Sorrell in cursive.

Larry G. Sorrell, Manager
Audit and Certification

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