



**SOUTH CAROLINA
DEPARTMENT OF COMMERCE**

INDEPENDENT PROCUREMENT AUDIT REPORT

July 1, 2014 to June 30, 2017

**Office of Audit & Certification
Division of Procurement Services
April 20, 2018**

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GRANT GILLESPIE
EXECUTIVE DIRECTOR

THE DIVISION OF PROCUREMENT SERVICES

DELBERT H. SINGLETON, JR.
DIVISION DIRECTOR
(803) 734-8018

JOHN ST. C. WHITE
MATERIALS MANAGEMENT OFFICER
(803) 737-0600
FAX: (803) 737-0639

March 15, 2019

Mr. John St. C. White
Materials Management Officer
Division of Procurement Services
1201 Main Street, Suite 600
Columbia, South Carolina 29201

Re: South Carolina Department of Commerce (Commerce)
Procurement Audit

John:

We have audited the procurement policies and procedures of the Department of Commerce for the period July 1, 2014 through June 30, 2017 to determine whether, in all material respects, the internal controls of Commerce's procurement system were adequate to ensure compliance with the South Carolina Consolidated Procurement Code and ensuing regulations.

The audit disclosed conditions enumerated in the report which we believe need correction or improvement. Corrective action based on the recommendations described in these findings will in all material respects place Commerce in compliance with the South Carolina Consolidated Procurement Code and ensuing regulations.

Sincerely,

D. Crawford Milling, CPA, CGMA
Director of Audit & Certification

INTRODUCTION

We conducted an audit of Commerce's internal procurement operating policies and procedures, as outlined in their Internal Procurement Operating Procedures Manual, under §11-35-1230 (1) of the South Carolina Consolidated Procurement Code and Reg. 19-445.2020 of the accompanying regulations.

The primary objective of our audit was to determine whether, in all material respects, the internal controls of Commerce's procurement system were adequate to ensure compliance with the South Carolina Consolidated Procurement Code and ensuing regulations.

The management of Commerce is responsible for the agency's compliance with the South Carolina Consolidated Procurement Code. Those responsibilities include the following:

- Identifying the agency's procurement activities and understanding and complying with the Code
- Establishing and maintaining effective controls over procurement activities that provide reasonable assurance that the agency administers its procurement programs in compliance with the Code
- Evaluating and monitoring the agency's compliance with the SC Consolidated Procurement Code
- Taking corrective action when instances of noncompliance are identified, including corrective action on audit findings of this audit

Because of inherent limitations in any system of internal controls, errors or irregularities may occur and not be detected. 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 review and evaluation of the system of internal control over procurement transactions, as well as our overall audit 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.

INTRODUCTION

Commerce currently operates under the Procurement Code's \$50,000 statutory procurement authority and has requested the following certification limits:

<u>PROCUREMENT AREAS</u>	<u>REQUESTED CERTIFICATION LIMITS</u>
Supplies and Services	*\$ 100,000 per commitment
Consultant Services	*\$ 100,000 per commitment
Information Technology	*\$ 100,000 per commitment

* Total potential purchase commitment whether single year or multi-term contracts are used.

SCOPE

We conducted our audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. Our audit included testing, on a sample basis, evidence about Commerce's compliance with the South Carolina Consolidated Procurement Code for the period July 1, 2014 through June 30, 2017, and performing other procedures that we considered necessary in the circumstances. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

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 audit period with no exceptions
- (2) Procurement transactions for the audit period as follows:
 - a) Sixty-two payments each exceeding \$2,500 with exceptions noted in Section I
 - b) Three hundred sequentially filed purchase orders reviewed for the use of order splitting and favored vendors with no exceptions.
 - c) We sampled twenty-one procurement card transactions for the period March through May 2017 with exceptions noted in Section II
- (3) Minority Business Enterprise Plans and reports with exceptions noted in Section II. The following activity was reported to the Governor's Office Division of Small and Minority Business Contracting and Certification:

<u>Fiscal Year</u>	<u>Goal</u>	<u>Actual</u>
FY14-15	\$69,076	\$40,063
FY15-16	\$67,898	\$56,677
FY16-17	\$46,372	\$31,239

- (4) The most recent Information Technology Plan with no exceptions
- (5) Internal procurement and P-Card procedure manuals with exceptions noted in Section II
- (6) Surplus property disposition procedures with no exceptions
- (7) Ratification of unauthorized procurements with no exceptions

SUMMARY OF FINDINGS

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I. <u>Supplies and Services</u>	
A. <u>Delegated Authority Exceeded</u>	6
Commerce exceeded the delegated amount on a fix price bid for consultant services to assist with the identification of viable industrial development sites.	
B. <u>Late Payments</u>	6
Four payments were not made within the time period required by the Procurement Code.	
II. <u>Procurement Cards</u>	
A. <u>Increased Single Transaction Limit Not Approved</u>	7
One procurement card with a single transaction limit greater than \$2,500 had not been approved by the Materials Management Officer.	
B. <u>P-Card Roles and Responsibilities Need to Reflect Practice</u>	8
Commerce's Procurement Card Manual did not identify the responsibilities of all key personnel involved in the reviewing and approval process of transactions.	

Note: The Department of Commerce's responses to issues raised in this report have been inserted immediately following the recommendations in the body of the report.

RESULTS OF AUDIT

I. Supplies and Services

Our review of supplies and services for the period July 1, 2014 through June 30, 2017 identified the following issues.

A. Delegated Authority Exceeded

On October 17, 2014, Commerce was delegated authority to solicit a fixed price bid for consultant services to assist with the identification of viable industrial development sites with a total potential value of \$450,000. Seven contracts were awarded for a total of \$346,500 for the period March 17, 2015 through March 16, 2019. Review of the expenditures found Commerce issued seven POs totaling \$461,900, exceeding the contract amount by \$115,400 and the delegation amount by \$11,900.

SC Code Ann. §11-35-540(3) requires governmental bodies to develop internal operating procedures consistent with the SC Consolidated Procurement Code.

We recommend Commerce review and revise their procurement procedures to ensure that expenditures under a contract do not exceed contract award amounts.

Agency Response

Commerce acknowledges that purchase orders were issued for an amount exceeding the contract and delegation amounts. Commerce has implemented checks and balances that will be maintained in the Procurement Office for all contracts to ensure this will not be a recurring issue. Invoices received and payments made from the purchase orders and contracts did not exceed the total potential value of the contract.

B. Late Payments

Four of the forty-two procurements tested (10%) had invoices that were not paid within thirty work days.

RESULTS OF AUDIT

Per SC Code Ann. §11-35-45(A), “All vouchers for payment of purchases of services, supplies, or information technology must be delivered to the Comptroller General's office within thirty work days from acceptance of the goods or services and proper invoice.”

We recommend Commerce revise their procedures to ensure timely payment of invoices in accordance with §11-35-45(A) of the South Carolina Consolidated Procurement Code.

Agency Response

Commerce acknowledges that in some cases invoices were not paid within thirty work days. Commerce has revised procedures to ensure compliance with this requirement. Commerce will use our current procurement log to track and notify end-users and vendors of open/outstanding purchase orders to confirm timely payment and ensure invoices are made in accordance with the Procurement Code.

II. Procurement Cards

A. Increased Single Transaction Limit Not Approved

Commerce did not receive authorization for a procurement card with a single transaction limit of \$5,000.

Section II(D)(1) of the South Carolina Purchasing Card Policy and Procedures Manual states in part, “To raise the Single Transaction Limit above the “no compete” Purchase Limit, the P-Card Administrator must submit the requested change in writing (Email or memo) to the MMO Chief Procurement Officer...”

We recommend Commerce comply with the South Carolina Purchasing Card Policy and Procedures Manual by requesting authorization for procurement cards with single transaction limits exceeding \$2,500.00.

RESULTS OF AUDIT

Agency Response

Commerce acknowledges that prior authorization was not received to raise the transaction limit to \$5,000 for a “Ghost” procurement card. Commerce has reduced the authorized limit back to a \$2,500 single transaction level.

B. P-Card Roles and Responsibilities Need to Reflect Practice

Review of the procurement card transactions selected for testing revealed Commerce has a process requiring Division Directors of each cardholder to review and sign P-Card statements. However, a review of Commerce’s Procurement Card Manual does not address Division Director responsibilities as it does for cardholders and Procurement Card Administrators.

We recommend Commerce revise their Procurement Card Manual defining the responsibilities of the Division Director to be consistent with practice.

Agency Response

Commerce acknowledges that the current Procurement Card Manual does not properly address Division Director’s responsibilities as it does for cardholders and Purchasing Card Administrators. Commerce is currently reviewing and revising the P-Card Manual to outline responsibilities at all levels to be completed by April 1, 2019.

CERTIFICATION RECOMMENDATION

We believe corrective action based on the recommendations in this report will, in all material respects, place the Department of Commerce in compliance with the South Carolina Consolidated Procurement Code.

Under the authority described in SC Code Ann. §11-35-1210, we recommend that the Department of Commerce be granted Procurement Certification to make direct agency procurements up to the following limits for three years:

<u>PROCUREMENT AREAS</u>	<u>RECOMMENDED CERTIFICATION LIMITS</u>
Supplies and Services ¹	*\$ 100,000 per commitment
Information Technology ²	*\$ 100,000 per commitment

*Total potential purchase commitment whether single year or multi-term contracts are used.



D. Crawford Milling, CPA, CGMA
Director of Audit & Certification

¹ Supplies and Services includes non-IT consulting services

² Information Technology includes consulting services for any aspect of information technology, systems and networks