

SOUTH CAROLINA DEPARTMENT OF REVENUE

PROCUREMENT AUDIT REPORT

JANUARY 1, 2013 – DECEMBER 31, 2015

TABLE OF CONTENTS

	<u>PAGE</u>
Transmittal Letter	1
Introduction	3
Scope	4
Summary of Audit Findings	6
Results of Examination	7
Conclusion.....	12
Follow-up Letter.....	13

NOTE: The Department’s responses to issues noted in this report have been inserted immediately following the items they refer to.

HENRY MCMASTER, CHAIR
GOVERNOR

CURTIS M. LOFTIS, JR.
STATE TREASURER

RICHARD ECKSTROM, CPA
COMPTROLLER GENERAL



HUGH K. LEATHERMAN, SR.
CHAIRMAN, SENATE FINANCE COMMITTEE

W. BRIAN WHITE
CHAIRMAN, HOUSE WAYS AND MEANS COMMITTEE

GRANT GILLESPIE
EXECUTIVE DIRECTOR

THE DIVISION OF PROCUREMENT SERVICES

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

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

September 15, 2017

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

Dear John:

We have examined the procurement policies and procedures of the South Carolina Department of Revenue for the period January 1, 2013 through December 31, 2015. As part of our examination, we studied and evaluated the system of internal controls over procurement transactions to the extent we considered necessary.

The evaluation established a basis for reliance upon the system of internal controls to assure adherence to the Consolidated Procurement Code, State regulations and the procurement policy of the South Carolina Department of Revenue. Additionally, the evaluation determined the nature, timing and extent of other auditing procedures necessary for developing an opinion on the adequacy, efficiency and effectiveness of the procurement system.

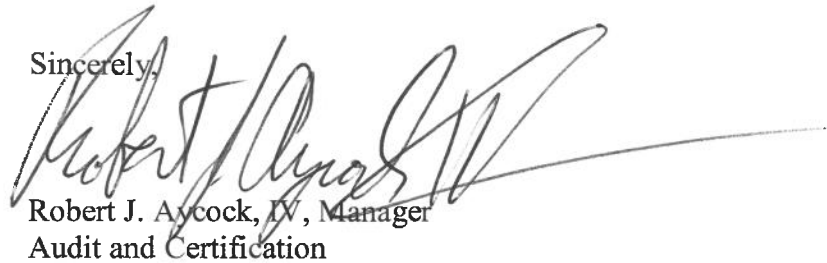
The administration at the South Carolina Department of Revenue is responsible for establishing and maintaining a system of internal controls over procurement transactions. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs

of control procedures. The objectives of a system of internal controls 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 those transactions are executed in accordance with management's authorization and are recorded properly.

Because of inherent limitations in any system of internal controls, 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 the degree of compliance with the procedures may deteriorate.

Our study and evaluation of the system of internal controls 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.

Sincerely,

A handwritten signature in cursive script, appearing to read "Robert J. Aycock, IV", written in black ink. The signature is positioned above the printed name and title.

Robert J. Aycock, IV, Manager
Audit and Certification

INTRODUCTION

We conducted an examination of the internal procurement operating policies and procedures of the South Carolina Department of Revenue, hereinafter referred to as the Department. We conducted our audit under authority granted in 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.

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 samples for the period January 1, 2013 through December 31, 2015 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) Procurement transactions for the period January 1, 2013 through December 31, 2015 as follows:
 - a) Ninety-six payments each exceeding \$2,500 with exceptions noted in Section II
 - b) A purchase order block sample review for the period April 1, 2015 through June 30, 2015 to check against the use of order splitting and favored vendors with no exceptions
 - c) Procurement card transactions for April, May and June 2015 with exceptions noted in Section IV
- (2) All sole source, emergency, and trade-in sale procurements for the period January 1, 2013 through December 31, 2015 with exceptions noted in Section I
- (3) Minority Business Enterprise Plans and reports with the following activity reported to the Governor's Office Division of Small and Minority Business Contracting and Certification with exceptions noted in Section III

<u>Fiscal Year</u>	<u>Goal</u>	<u>Actual</u>
FY 12-13	Not submitted	Not submitted
FY13-14	Not submitted	Not submitted
FY14-15	Not submitted	Not submitted
FY15-16	\$24,349	\$1,897

- (4) Approval of the most recent Information Technology Plan with no exceptions
- (5) Internal procurement procedures manual with no exceptions
- (6) Surplus property disposition procedures with no exceptions
- (7) Ratification of unauthorized procurements with no exceptions
- (8) File documentation and evidence of competition with no exceptions
- (9) Other tests performed as deemed necessary with no exceptions

SUMMARY OF AUDIT FINDINGS

PAGE

I.	<u>Sole Source and Emergency Procurements</u>	
	A. <u>Inappropriate Sole Source Procurement</u>	7
	A procurement made as a sole source for consultant services should have been competed.	
	B. <u>Sole Source Determinations Not Dated</u>	8
	Four sole source determinations were not dated.	
II.	<u>Supplies and Services</u>	
	A. <u>Multi-Term Determination Not Prepared</u>	8
	A multi-term determination for a three year contract was not prepared.	
	B. <u>Mandatory Bid Conference Determination Not Prepared</u>	9
	The determination justifying a mandatory bid conference was not prepared.	
	C. <u>No Competition / Overpayment</u>	10
	A State term contract was improperly referenced and the Department was overcharged on items under another State term contract.	
III.	<u>MBE Plans and Quarterly Reports Not Submitted</u>	11
	The Department did not submit Minority Utilization Plans or the quarterly progress reports for the audit period.	
IV.	<u>Procurement Cards</u>	11
	Two temporary employees were issued procurement cards in violation of State policy.	

RESULTS OF EXAMINATION

I. Sole Source and Emergency Procurements

Our review of sole source, emergency, and trade-in sale procurements reported to the Materials Management Office (MMO) for the period January 1, 2013 through December 31, 2015, identified the following issues.

A. Inappropriate Sole Source Procurement

Purchase order 4600411750 issued as a sole source in the amount of \$112,500 dated April 23, 2015 for consulting services was inappropriate. The Department based its determination on the consultant being the only vendor who could provide information technology security, legislative and efficiency consulting services for the Department. We believe this type of service could have been procured through competitive means. Additionally, the transaction was not reported as a sole source to the Materials Management Office during the quarter the contract was executed. Section 11-35-1560 of the Procurement Code states “A contract may be awarded for a supply, service, information technology, or construction item without competition if [it is determined] in writing that there is only one source for the required supply, service, information technology, or construction item.” Additionally, Regulation 19-445.2105 states “Any request by a governmental body that a procurement be restricted to one potential contractor shall be accompanied by an explanation as to why no other will be suitable or acceptable to meet the need.” Section 11-35-2440 requires agencies to report quarterly, transactions made pursuant to Section 11-35-1560 (Sole Source Procurement).

We recommend the Department solicit competition for this type of service in the future.

Department Response

SCDOR will ensure procurements are completed in accordance with Section 11-35-1530 by soliciting competition for this type of service in the future.

B. Sole Source Determinations Not Dated

The following sole source procurement determinations contained authorized signatures but were not dated. As a result, we could not determine if the sole source authorizations were granted prior to contract execution.

<u>PO</u>	<u>Date</u>	<u>Description</u>	<u>Amount</u>
4600274885	08/01/13	Translation Services	\$120,000
4600462983	12/10/15	Scanners	\$ 42,971
4600462984	12/10/15	Scanner Maintenance	\$250,229
4600357316	07/30/14	Software Maintenance	\$273,751

Regulation 19-445.2105(C) states in part, “the [sole source] determination must be authorized prior to contract execution.”

Additionally, the last purchase order listed was not reported to the Materials Management Office. Section 11-35-2440 of the Procurement Code requires governmental bodies to submit quarterly records of all sole source contracts.

We recommend the Department comply with the Code sections and regulations cited.

Department Response

SCDOR will ensure procurements are completed in accordance with Procurement Code Section 11-35-2440(1)(a) and Regulation 19-445.2105(C) by requiring the authorized signatory to complete the entire signature block when executing a sole source purchase order.

II. Supplies and Services

A. Multi-Term Determination Not Prepared

A three year contract was awarded based on solicitation 5400007281 for an internet database subscription. Section 11-35-2030, Multi-term contracts, paragraph (1) states, “Specified Period. Unless

otherwise provided by law, a contract for supplies, services, or information technology must not be entered into for any a period of more than one year unless approved in a manner prescribed by regulation of the board.” Paragraph (2) of that same section requires a written determination justifying the use of a multi-term contract. The determination must explain why it is in the best interest of the State and how it encourages competition. Otherwise, the default in the Code requires agencies to bid contracts annually.

We recommend the Department comply with the multi-term provisions of the Code and complete the required determination when entering into a contract for more than twelve months.

Department Response

SCDOR will ensure compliance with the multi-term provisions of the Procurement Code and complete the required determination when entering into a contract for more than a twelve month period.

B. Mandatory Bid Conference Determination Not Prepared

The Department awarded solicitation 5400002877 for custodial services that required mandatory attendance at a pre-bid conference. Regulation 19-445.2042(C) states in part...”Pre-bid conferences may not be made mandatory absent a written determination by the head of the governmental body or his designee that the unique nature of the procurement justifies a mandatory pre-bid conference and that a mandatory pre-bid conference will not unduly restrict competition.”

We recommend the Department comply with the mandatory pre-bid conference provision of the regulation and prepare the required determination when appropriate.

Department Response

SCDOR will comply with Regulation 19-445.2042(C) by completing pre-bid conferences and preparing the required related documentation when applicable.

C. No Competition / Overpayment

Purchase order 4600254062 was issued for software and maintenance in the amount of \$7,150. This purchase order referenced State term contract number 4400004281. We were not able to identify the item purchased as being part of the State term contract referenced. It appears this item should have been competed in accordance with Section 11-35-1550(b) for purchases over two thousand five hundred dollars to ten thousand dollars.

Purchase order 4600426963 for software and onsite support referenced State term contract number 4400010430. This contract is set up for discounts off of a published manufacturer's pricelist. The price list is posted on the Materials Management Office web site as a reference to help ensure correct pricing. The agency issued the purchase order based on a quote supplied by the contract vendor. The prices quoted exceeded allowed contract prices. The table below identifies the items overcharged on invoice 39751.

<u>Item Part Number</u>	<u>Contract Price</u>	<u>Invoiced Amount</u>	<u>Difference</u>
ADX18-SVL-4OS-3	\$12,479	\$14,974	(\$2,495)
ADX-1K-LIC-Prem	\$ 3,080	\$ 3,639	(\$ 559)

This resulted in an overcharge of \$3,054 for both items. The Department is due a refund or credit.

We recommend the Department request a refund or credit from the vendor. The Department must verify the prices quoted are the correct prices prior to issuing purchase orders.

Department Response

SCDOR will verify prices quoted are correct prior to issuing a purchase order. SCDOR will investigate requesting a refund on Purchase Order 4600254062.

III. MBE Plans and Quarterly Reports Not Submitted

The Department did not submit annual minority business enterprise (MBE) utilization plans or submit quarterly progress reports to the Governor's Office Division of Small and Minority Business Contracting and Certification (SMBCC) for the audit period. Section 11-35-5240(2) of the Procurement Code requires that MBE utilization plans be submitted to the SMBCC for approval no later than July 30th each year. Quarterly progress reports must be submitted no later than thirty days after the end of each quarter.

We recommend that the Department comply with the MBE provisions of the Code and timely submit the annual plan and quarterly progress reports to the SMBCC.

Department Response

SCDOR has filed annual and quarterly progress reports timely since April 5, 2016. SCDOR is committed to transparency in procurements and will continue to submit these reports timely as required by Code Section 11-35-5240(2).

IV. Procurement Cards

Two temporary employees were issued procurement cards in violation of State policy. The Materials Management Office Purchasing Card Procedures Manual, Section V. Program Compliance, Subsection C (2) is clear in stating a cardholder must be a full time employee. This is also a requirement of the Department's Internal Procurement Card Program Manual. Additionally, the Department was cited for this same finding in a 2015 report issued by its Internal Audit Division.

We recommend cancelling these procurement cards and only issuing procurement cards to full time state employees.

Department Response

SCDOR Management has been made aware of this finding. Management is taking steps to comply with this requirement.

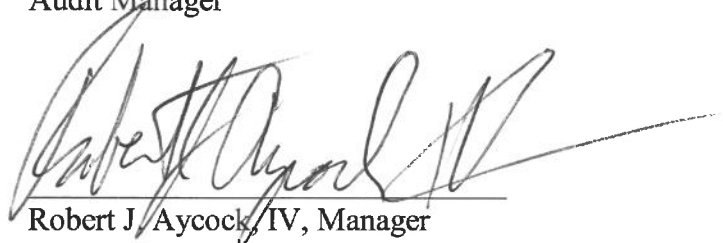
CONCLUSION

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 South Carolina Department of Revenue in compliance with the Consolidated Procurement Code.

Provided the Department completes the corrective action identified herein, we recommend the South Carolina Department of Revenue be allowed to continue procuring all supplies and services, construction, information technology, and consultant services up to the basic limit of \$50,000 as allowed in the South Carolina Consolidated Procurement Code.



David E Rawl, CPPB
Audit Manager



Robert J. Aycock, IV, Manager
Audit and Certification

HENRY MCMASTER, CHAIR
GOVERNOR

CURTIS M. LOFTIS, JR.
STATE TREASURER

RICHARD ECKSTROM, CPA
COMPTROLLER GENERAL



HUGH K. LEATHERMAN, SR.
CHAIRMAN, SENATE FINANCE COMMITTEE

W. BRIAN WHITE
CHAIRMAN, HOUSE WAYS AND MEANS COMMITTEE

GRANT GILLESPIE
EXECUTIVE DIRECTOR

THE DIVISION OF PROCUREMENT SERVICES

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

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

November 9, 2017

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

Dear John:

We have reviewed the response from the South Carolina Department of Revenue to our audit report for the period of January 1, 2013 through December 31, 2015. In our opinion, the South Carolina Department of Revenue complies with the South Carolina Consolidated Procurement Code, State regulations, and the Department's procurement policies and procedures in all material respects and the internal procurement operating procedures are adequate to properly handle procurement transactions.

Sincerely,

Robert J. Aycock, IV, Manager
Audit and Certification

Total Copies Printed	11
Unit Cost	<u>\$.56</u>
Total Cost	<u>\$6.16</u>