



**SOUTH CAROLINA
DEPARTMENT OF TRANSPORTATION (DOT)
INDEPENDENT PROCUREMENT AUDIT REPORT**

April 1, 2011 to June 30, 2018

**Office of Audit & Certification
Division of Procurement Services
February 14, 2019**

TABLE OF CONTENTS

	<u>PAGE</u>
Introduction.....	1
Scope.....	3
Summary of Findings.....	4
Results of Audit	6
I – Procurement	6
II – Purchasing Cards (P-Card)	13
III – P-Card Program Improvement.....	22
Certification Recommendation	24
Agency Response.....	Attachment

INTRODUCTION

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

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

The management of DOT is responsible for the agency's compliance with the 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 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 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.

Our audit was also performed to determine if recertification under §11-35-1210 is warranted.

INTRODUCTION

On August 8, 2012, the South Carolina Budget and Control Board granted DOT the following procurement certifications:

<u>PROCUREMENT AREAS</u>	<u>CERTIFICATION LIMITS</u>
Supplies	*\$ 1,000,000 per commitment
Services	*\$ 500,000 per commitment
Information Technology	*\$ 100,000 per commitment
Consultant Services	*\$ 100,000 per commitment
Construction Contract Award	\$ 500,000 per commitment
Construction Contract Change Order	\$ 100,000 per change order
Architect/Engineer Contract Amendment	\$ 25,000 per amendment

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

During the audit DOT did not request an increase in its certification limits

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 DOT's compliance with the Code for the period April 1, 2011 through June 30, 2018, the audit period, 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 examination included, but was not limited to a review of the following:

- (1) Internal Procurement and P-Card procedure manuals
- (2) All sole source and emergency procurement justifications
- (3) Procurement transactions for the audit period as follows:
 - a) Sixty-five procurements each exceeding \$2,500
 - b) Five hundred sequentially filed purchase orders reviewed for the use of order splitting and favored vendors
 - c) One hundred and twenty three 123 P-Card transactions for the three month period April through June 2018
- (4) Minority Business Enterprise Plans and reports. The following activity was reported to the Governor's Office Division of Small and Minority Business Contracting and Certification:

Fiscal Year	\$ Goal	\$ Actual
2013	3,886,234	5,281,841
2014	4,301,730	4,523,348
2015	4,014,793	9,129,515
2016	7,507,695	12,036,619
2017	6,641,784	6,966,037
2018	4,953,735	5,136,422

- (5) Information technology acquisitions under IT Plans
- (6) Surplus property dispositions, and approval for trade-ins exceeding \$5000
- (7) Disposition of unauthorized procurements. The following activity was reported to the Division of Procurement Services (DPS):

Fiscal Year	Count	\$ Amount
2013	5	58,264
2014	8	68,159
2015	9	81,609
2016	4	62,153
2017	34	197,074
2018	24	297,328

SUMMARY OF FINDINGS

PAGE

<u>I. Procurement</u>	
1. <u>Contract Exceeded Agency Procurement Authority</u>	6
On one contract, four contract change orders totaling \$42,094 caused the agency to exceed their \$500,000 procurement authority for services.	
2. <u>Sole Source Procurements</u>	
A. <u>Inappropriate Sole Source Procurement</u>	6
A sole source procurement for software, in the amount of \$611,119, was deemed inappropriate and should have been competed.	
B. <u>Non-Compliance with Drug-Free Workplace Act</u>	7
Sixteen sole source procurements with values greater than \$50,000 were entered into without obtaining drug-free workplace certifications.	
3. <u>Written Determinations Not Provided for Unauthorized Procurements</u>	8
No written determinations were provided for 12 unauthorized procurements.	
4. <u>Statutorily Required Quarterly Reports</u>	
A. <u>Omissions from Sole Source Reporting</u>	10
Seven sole source procurements totaling \$1,209,121 were omitted from DOT's statutorily required quarterly reports.	
B. <u>Reported Procurements Lacked Documentation</u>	10
No documentation provided for seven reported procurements.	
5. <u>Inadequate/Inappropriate Use of Blanket Purchase Agreements (BPAs)</u>	11
Improper purchase order type selected for 14 BPA's that demonstrated one or more variances from the required characteristics of a BPA.	
<u>II. Purchasing Cards</u>	
1. <u>Program Administration</u>	13
We identified weaknesses in management oversight of the P-Card program that resulted in inappropriate use of P-Cards.	
A. <u>Roles and Responsibilities</u>	13
Roles and Responsibilities for all P-Card positions lack clarity and management oversight.	
B. <u>Review of P-Cards for Inactivity</u>	14
Inactive P-Cards had not been adequately tracked and managed resulting in three of the seven being cancelled during the audit.	
C. <u>Missing or Late Management Signature on Cardholder Statements</u>	14
Management approval of P-Card statements was inconsistent.	

SUMMARY OF FINDINGS

	<u>PAGE</u>
D. <u>Independent Audits of P-Cards Not Performed</u>	15
An independent audit of the agency’s P-Card program had not been completed since 2011.	
E. <u>Agency P-Card Manual Lacks Clarity</u>	15
The agency’s P-Card Manual lacked specificity in the assignment of roles and responsibilities, and the timeline for completion of tasks.	
2. <u>Transaction Testing</u>	16
Transaction testing identified areas of non-compliance.	
A. <u>Supporting Documentation Not on File</u>	16
Testing identified undocumented P-Card purchases.	
B. <u>Split Transactions</u>	17
Testing identified split transactions.	
C. <u>Purchases Made by Other Than the Cardholder</u>	17
We identified transactions made by someone other than the Cardholder.	
D. <u>Card Used to Make Purchase from Personal On-line Account</u>	19
Using the P-Card to pay for a legitimate purchase from a cardholder’s personal online account resulted in a personal purchase appearing on the P-Card statement.	
E. <u>Blocked MCC Codes</u>	19
We identified transactions made against blocked MCC Codes.	
F. <u>Exception for Purchase of Employee Meals During a Declared Emergency</u>	20
DOT did not comply with internal policy and procedures for the purchase of meals during a declared emergency.	
G. <u>Purchases Not Aligned with Internal Policies and Procedures</u>	21
Transactions were identified that did not comply with the agency’s internal procedures for use of the P-Card.	
III. <u>P-Card Program Improvement</u>	22

DOT’s response is included as an attachment to this report. DPS acknowledges the Department’s ongoing commitment to continuous process improvement to ensure compliance with the SC Consolidated Procurement Code and SC Purchasing Card Policy and Procedures Manual.

RESULTS OF AUDIT

I. Procurement

1. Contract Exceeded Agency Procurement Authority

In the first quarter of FY2018, DOT reported an unauthorized procurement for crane services due to a PO dated April 20, 2017 being created after the invoice was received. As part of the ratification process, DOT initiated an internal review of crane rental expenditures and discovered multiple invoices for additional unauthorized crane service procurements. To facilitate payment of the additional unauthorized invoices, DOT buyers had issued POs under the contract rather than requesting ratification of the individual unauthorized purchases.

DOT's contract for crane services was issued on November 3, 2014, for \$500,000, by a DOT buyer. To accommodate the aforementioned POs, DOT buyers issued three change orders to the contract between November 2016 and January 2017, bringing the contract total to \$542,094, and exceeding DOT's procurement authority.

Regulation 19-445.2015 (A) requires that "upon finding after award that a State employee has made an unauthorized award of a contract or that a contract award is otherwise in violation of the law, the appropriate official may ratify or affirm the contract or terminate it accordance with this section. ...If the value of the contract exceeds one hundred thousand dollars, the chief procurement officer must concur in the written determination before any action is taken upon the decision." DOT's Procurement Policies and Procedures Manual, sections Unauthorized Procurements, and Commission Approval also address this issue.

As of the date of this report, DOT has not requested ratification of the contract by the CPO.

RESULTS OF AUDIT

Recommendation: We recommend DOT develop and implement procedures to:

- ensure compliance with the agency's certification limits,
- properly evaluate change orders that alter a contract, and obtain required approvals by management, and
- ensure that ratification of unauthorized acts in excess of the agency's procurement authority be submitted to SFAA for concurrence by the CPO, as required by Reg. 19-445.2015 (A) and DOT's Procurement Policies and Procedures manual.

We further recommend that DOT request DPS conduct a procurement for crane rental services on behalf of DOT in the event the agency continues to require the services.

2. Sole Source Procurements

We tested 582 sole source procurements totaling \$38,515,527 for the audit period and identified the following issues:

A. Inappropriate Sole Source Procurement

DOT issued a PO, dated September 2, 2014, in the amount of \$611,119 for a software upgrade. This software is used to control and monitor all of the Intelligent Transportation System (ITS) devices owned and operated by DOT.

Documentation on file from the vendor indicated that this was a new platform, and not an upgrade. The file contained a letter from the vendor, dated August 11, 2014, which stated that there were at least three sources for the product, indicating that competition was available through authorized distributors. Based on the availability of competition, this was not a sole source procurement, and competition for the new software should have been solicited. Additionally, this procurement would have exceeded DOT's \$100,000 procurement authority for information technology.

Per §11-35-1560 of the Procurement Code, "A contract may be awarded for a supply, service, information technology, or construction item without competition if, under regulations promulgated by the board, the chief procurement officer, the head of a purchasing agency, or a designee of either office, above the level of the procurement officer, determines in writing that

RESULTS OF AUDIT

there is only one source of the required supply, service, information technology, or construction item.”

Recommendation: We recommend DOT review and revise its procedures to ensure compliance with SC Code Ann. §11-35-1560 regarding sole source procurements, and that information technology available from multiple distributors be procured through a competitive process. Additionally, we recommend staff be trained on the revised procedures regarding the proper use of sole source procurements.

B. Non-Compliance with Drug-Free Workplace Act

Our review of sole source procurements valued at \$50,000 or more identified 16 procurements totaling \$2,891,019 for which the Drug-Free Workplace Act Certifications were not obtained. Sole source procurements are subject to this law.

Section 44-107-30 of the Drug-Free Workplace Act states, “no person, other than an individual, may receive a domestic grant or be awarded a domestic contract for the procurement of any goods, construction, or services for a stated or estimated value of \$50,000 or more from any state agency unless the person has certified to the using agency that it will provide a drug-free workplace...”

DOT’s Procurement Manual states, “In order to implement this Act, a clause is included in all solicitations in excess of \$50,000 that gives a brief explanation of the Act.”

Recommendation: We recommend DOT revise its procedures to ensure that solicitations greater than \$50,000 require contractors to certify that they will provide a drug-free workplace as required by the Drug-Free Workplace Act, and verifying that such certifications are obtained prior to commencement of work under the contract.

3. Written Determinations Not Provided for Unauthorized Procurements

We reviewed unauthorized procurements to determine if they were properly ratified or terminated in accordance with Reg. 19-445.2015. We noted 12 instances totaling \$56,341, where

RESULTS OF AUDIT

unauthorized purchase orders were properly reported, but there was no written determination provided for these transactions describing facts and circumstances, and corrective action taken to prevent future occurrence, as required by Reg. 19-445.2015(B). Without documentation, we were unable to determine if the agency took appropriate corrective action(s).

Regulation 19-445.2015(B) states, "All decisions to ratify or terminate a contract shall be supported by a written determination of appropriateness. In addition, the appropriate official shall prepare a written determination as to the facts and circumstances surrounding the act, what corrective action is being taken to prevent recurrence, and the action taken against the individual committing the act."

Written determinations were provided for two unauthorized procurements, but had not been approved as required by Reg. 19-445.2015 (A), which states in part, "...the appropriate official may ratify or affirm the contract or terminate it in accordance with this section...The decision required by this subsection A may be made by the State Chief Procurement Officer, the head of a purchasing agency, or a designee of either officer above the level of the person responsible for the person committing the act." DOT's Procurement Manual addresses this topic on page 44,

UNAUTHORIZED PROCUREMENTS.

Recommendation: We recommend DOT develop and implement procedures to ensure that:

- the required written determinations of facts and circumstances surrounding unauthorized procurements are prepared,
- review and recommendation for appropriate corrective action and disposition of the contract is completed by the procurement director, and
- approval by the appropriate official is obtained,

as required by Regulation 19-445.2015. We further recommend that documented training be provided to effected staff on the procedures.

RESULTS OF AUDIT

4. Statutorily Required Quarterly Reports

A. Omissions from Sole Source Reporting

DOT omitted the following seven sole source procurements totaling \$1,209,121 from its statutorily required quarterly reports:

<u>PO Number</u>	<u>PO Date</u>	<u>Item Description</u>	<u>Amount</u>
4600458596	11/16/2015	License renewal 9/1/15 - 8/31/16	\$ 598,346
4600459688	11/20/2015	Software Maintenance	3,775
4600459959	11/23/2015	Proprietary Sensors	234,155
4600461456	12/2/2015	CTS Upgrade	12,756
4600464584	12/21/2015	Software Maintenance	15,000
4600464586	12/21/2015	Software Maintenance	139,746
4600561993	4/28/2017	Stalite Lightweight Aggregate	205,343
Total			\$1,209,121

SC Code Ann. §11-35-2440 requires that governmental bodies submit quarterly, a record listing of all contracts made pursuant to §11-35-1560 to the Chief Procurement Officers.

Recommendation: We recommend DOT develop a documented process, to include management review and approval, to ensure that a complete list of all sole sources is reported quarterly in a timely manner.

B. Reported Procurements Lacked Documentation

Required documentation for sole sources, a trade-in sale, and the application of resident vendor preferences, were not provided for the following seven transactions that were reported to DPS:

<u>PO #</u>	<u>PO Date</u>	<u>PO \$ Amt.</u>	<u>Description</u>	<u>Type</u>
4600154608	3/6/2012	5,600	Maintenance	Sole Source
4600150751	2/16/2012	21,875	Refurbish/Recharge Halon Tank	Sole Source
4600430169	3/11/2015	1,299	Camera Focus Model	Trade-in
5400004664	Q4 FY2012	99,639	Greenville Bridge	Preference
Q281679	Q1 FY2012	4,416	Elevator Maintenance	Preference
Q277872	Q3 FY2011	19,840	Total Station	Preference
Q276055	Q3 FY2011	5,100	Janitorial Service	Preference

RESULTS OF AUDIT

Regulation 19-445.2005 (B) states, "Each governmental body must maintain procurement files sufficient to satisfy the requirements of external audit." Per §11-35-2430 of the Procurement Code, "All procurement records of governmental bodies shall be retained and disposed of in accordance with records retention guidelines and schedules approved by the Department of Archives and History after consultation with the Attorney General."

Recommendation: We recommend that DOT comply with Reg. 19-445.2005(B) and SC Code Ann. §11-35-2430 regarding procurement files and records retention.

5. Inadequate/Inappropriate Use of Blanket Purchase Agreements (BPAs)

A BPA is a purchase order type intended to be used for small purchases under S.C. Code Ann. §11-35-1550. Per Reg. 19-445.2100 B. (1), "A BPA is a simplified method of filling repetitive needs for small quantities of miscellaneous supplies, services, or information technology by establishing "charge accounts" with qualified sources of supply. BPAs are designed to reduce administrative costs in accomplishing small purchases by eliminating the need for issuing individual purchase documents."

Regulation 19-445.2100 B. (3)(c), states, "...that a list of names of individuals authorized to place calls under the agreement, identified by organizational component, and the dollar limitation per call for each individual shall be furnished to the supplier by the Procurement Officer."

In several instances, DOT Procurement used BPA's in SRM when they should have used another purchase order type. We identified 14 purchase orders classified as BPAs that did not contain the terms and conditions required by Reg. 19-445.2100 concerning description of the agreement, extent of obligation, individuals authorized to place calls and dollar limits. None of the 14 BPAs had a dollar limitation per call and nine of the 14 did not list the names of individuals authorized to place calls under the agreement.

RESULTS OF AUDIT

The following 14 purchase orders were inappropriately set up as BPAs or demonstrated one or more variances from the characteristics of a BPA:

	PO Number	Product	PO \$ Amount	Correct PO Type	Unlimited Call Amount	Authorized Callers Omitted
1	4600467322	stainless steel bars, plates, rods	493	ZBLT	X	X
2	4600467319	auto replacement parts	9,373	ZBPO	X	
3	4600467317	auto replacement parts	2,812	ZBPO	X	X
4	4600500637	auto replacement parts	2,375	ZBLT	X	X
5	4600504177	absorbent mats, shop towels	1,747	ZBLT	X	X
6	4600554665	glass replacement and repair	545	ZBLT	X	X
7	4600554731	cables, looms, terminals	1,314	ZBLT	X	
8	4600553124	welding accessories, cutting tips	2,282	ZBLT	X	X
9	4600584490	glass repair/replacement services	2,102	ZBLT	X	X
10	4600585142	wrecker/towing services for equipment	1,357	ZBLT	X	X
11	4600579103	misc. hardware parts	232	ZBLT	X	
12	4600598504	annual fire extinguisher inspections	195	ZBLT	X	
13	4600585087	wrecker services for equipment	900	ZBLT	X	X
14	4600572753	parts and service	2,479	ZBLT	X	
Total Counts					14	9

Per the OCG's PO Policy and SRM:
 ZBLT – Blanket Purchase Order
 ZBPO – Blanket Purchase Agreement

Recommendation: We recommend DOT develop and implement procedures to ensure compliance with Reg. 19-445.2100, by establishing BPAs only for filling repetitive needs for small quantities of miscellaneous supplies, services, or information technology. Terms and Conditions must identify individuals authorized to place calls and specify dollar limitations per call for each authorized individual.

RESULTS OF AUDIT

II. Purchasing Cards

1. Program Administration

We reviewed DOT's P-Card policies and procedures for compliance with the South Carolina Purchasing Card Policy and Procedures and identified areas of non-compliance. DOT had 626 cardholders that spent approximately \$48,321,028 for the period 10/1/15 to 6/30/18. Due to the volume of usage, there is enhanced risk of misuse without adequate management oversight.

A. Roles and Responsibilities

DOT had approximately 226 liaisons during the audit period. The number of cardholders assigned to each liaison ranged from 1 to 19. There were nine liaisons assigned more than ten cardholders. Two cardholders were liaisons for their own cards. Our audit procedures found inconsistent documentation of review by liaisons or the Purchasing Card Administrator (PCA). We also found instances where approvers did not sign-off on the cardholder statements.

Per State P-Card policy, III. (A)(3), "Establish appropriate limits on the number of Cardholders assigned to a supervisor or approving official in order to ensure adequate review of business need and documentation for each purchase." Section V. (A) states, "...Internal controls shall include (3) appropriate hierarchical review and approval of purchases by someone with supervisory authority over the Cardholder and/or with the authority to question purchases if needed." Per DOT's P-Card Policy, III. 2, "...Liaisons may not serve as liaison for their own card..."

Recommendation: We recommend liaisons be assigned a number of cardholders they can effectively review during month-end close considering the volume and size of cardholder transactions, in accordance with State policy. We recommend reassigning the P-Cards to another liaison for the two that are liaisons of their own cards. The PCA should review the cardholder list on a periodic basis, at least quarterly, to ensure there is a proper separation of duties, including an evaluation of the number of cardholders assigned to liaisons, and that no liaisons review their own card. We also recommend the PCA ensure supervisor/approver and liaisons have fulfilled their responsibilities before signing the monthly Certification.

RESULTS OF AUDIT

B. Review of P-Cards for Inactivity

There were seven cards identified as inactive for at least twelve months and two cards in a suspended state. After the auditors requested explanations of inactive and suspended cards from management, three cards were terminated. Of the remaining inactive and suspended cards, one card was kept for special circumstances, one card was for an employee on military deployment, and the activity for one card resumed during the audit.

According to the State P-Card Policy, III. (A)(1), "...Develop the internal policy governing the use of the P-Card, to include the following minimum requirements...(xi) Monitor Cardholder accounts for inactivity and promptly close accounts and cards that are no longer needed." DOT's P-Card Policy, III (2) addresses this topic.

Recommendation: We recommend following the State P-Card Policy regarding monitoring and timely closing of inactive cards.

C. Missing or Late Management Signature on Cardholder Statements

There were 18 P-Card statements out of 64 tested where the manager signature, required by State P-Card Policy, was missing or dated after the agency's five-day reconciliation cycle. Three statements were signed by the liaison as the manager in violation of State and agency P-Card Policy. This is a repeat finding. Additionally, the agency's P-Card manual does not establish a timeline for managers' sign-off.

Per the State P-Card Policy III. A. 5. (c) "Establish reconciliation procedures between cardholders, supervisors/approving officials, and agency accounts payable unit to ensure timely payment of the monthly P-Card billing statement." Per III. (B)5(e), one of the manager/approver responsibilities is to "Sign the cardholder activity statements signifying review and approval for payment. This responsibility cannot be delegated to another person." Per 5(g) "Submit all documentation and cardholder activity statements for payment according to internally established procedures..." DOT P-Card Policy X(X)1 addresses this topic.

RESULTS OF AUDIT

Recommendation: We recommend DOT follow the State P-Card Policy as well as its Internal Policy concerning the timely reconciliation and approval of cardholder statements. We also recommend the agency clearly assign responsibility for monthly reconciliation and review, and establish a time for completion of each step, as required by the State P-Card Policy, to ensure timely payment of P-Card statements; and that all effected P-Card personnel be provided documented training on their specific responsibilities.

D. Independent Audits of Purchasing Cards Not Performed

Independent audits of purchasing card activity were not being performed by the agency as required. The last internal audit of the P-Card program, conducted in 2011, addressed \$53,000 in fraudulent P-Card use, resulting in criminal charges and the termination of an employee. Section III of the State P-Card Policy requires the agency to create a provision for audit or other independent review of all areas of program administration and transactions at least annually.

Recommendation: We recommend that DOT conduct independent annual audits of the P-Card program including program administration and transaction testing.

E. Agency P-Card Manual Lacks Clarity

Review of the DOT Purchasing Card Program Policy & Procedures Manual, dated February 27, 2015, identified areas of missing or unclear guidance, including, but not limited to the following:

- A prominent requirement for all P-Card purchases to comply with the SC Consolidated Procurement Code;
- Lack of adequate assignment of roles and responsibilities for such tasks as statement reconciliation and review, and review for non-allowable purchases, split transactions, and use of blocked MCC codes by liaisons;
- Cardholder qualifications, such as, assigning cards to “temporary grant employees”, contradict State Policy;
- P-Card Administrator oversight of card issuance, usage, and month-end procedures; and
- Requirement for annual independent audit of the P-Card program.

RESULTS OF AUDIT

The usual responsibilities of a PCA had been delegated to a position other than the one designated as P-Card Coordinator. Delineation of responsibilities between the two positions must be clarified and documented to ensure accountability.

The South Carolina Purchasing Card Policy and Procedures Manual contains specific requirements that should be covered in agency P-Card Policy and Procedures Manuals.

Recommendation: We recommend DOT review and revise its Purchasing Card Program Policy & Procedures Manual within 120 days to clarify assignment of roles and responsibilities, as well as management oversight to ensure understanding by agency employees responsible for use and oversight of the P-Cards, and compliance with State Procurement Code, and P-Card Policy and Procedures. We also recommend changing the P-Card Coordinator's title to reflect the current position title as Purchasing Card Administrator (PCA), consistent with the State P-Card Policy. Upon completion, provide a copy of the revised manual to the Office of Audit & Certification for review and consent.

2. Transaction Testing

A. Supporting Documentation Not on File

Our testing identified 17 transactions that did not have proper documentation such as receipts, pre-approval for internet purchases per DOT P-Card Policy, software and IT purchases, and proper documentation required for meals purchased for employees during a declared emergency.

Per State P-Card policies: III (C) 9., "Maintain all documentation required by State and internal P-Card policies... Minimum documentation requirements are: ...b) Itemized receipt or invoice" VI. 2. "...The agency PCA is required to close an account if...The cardholder fails to provide liaison with required receipts; the cardholder fails to provide, when requested, information about any specific purchase, the cardholder develops a trend of NOT adhering to the purchasing card policy and procedures."

RESULTS OF AUDIT

Recommendation: We recommend DOT follow its policies regarding documentation of P-Card transactions.

B. Split Transactions

Our testing identified 4 split transactions. One split transaction resulted in five transactions for a work-order over \$5,000. This purchase required at least three quotes and should not have been paid for with the P-Card.

Per the State P-Card Policy "III. A. (2) e) v. immediately reporting split purchases to the Manager of Audit & Certification...Note: Do not split transactions to avoid the single transaction limit. Splitting transactions is strictly prohibited and could result in removal of P-Card privileges." According to the SC Code Ann. §11-35-1550, Small purchase procedures; when competitive bidding required. "Procurement requirements must not be artificially divided by governmental bodies so as to constitute a small purchase pursuant to this section."

Recommendation: We recommend DOT follow the competitive requirements of the Code and not split purchases. We further recommend the liaison, supervisor, and the PCA perform documented reviews for possible misuse and fraud. It was mentioned during the entrance conference that the Bank of America (BOA) Works program has reports that can help identify possible misuse, such as split transactions.

C. Purchases Made by Other Than the Cardholder

Our testing identified six purchases made by someone other than the cardholder. In some instances, the purchases were made by the cardholder/managers' subordinate at the direction of the cardholder/manager. In one instance, two cardholder/managers split a purchase and had the same subordinate process both halves of the transaction using their two P-Cards. The supervisor/approver for one of the cardholder/managers was the other cardholder/manager that had participated in the split purchase.

RESULTS OF AUDIT

Per state P-Card Policy IV. A. "...The P-Card has the Cardholder's name embossed on it, and in accordance with VISA International regulations and State policy, may ONLY be used by that individual. Use of the P-Card by a Cardholder for a personal purchase and/or a purchase of supplies or services which the Cardholder had no authority to make, and/or use of the P-Card by a person other than the cardholder are unauthorized and strictly forbidden. Unauthorized use of the P-Card for personal purchases or use of the P-Card by a person other than the Cardholder may result in disciplinary action, up to and including termination from State employment and criminal prosecution. Supervisors or other approving officials who knowingly, or through willful neglect, approve or allow personal or fraudulent purchases or misuse of the P-Card are subject to the same disciplinary actions as the Cardholders."

Per State P-Card Policy III. B., "...Before approving the P-Card log and/or cardholder activity statements, the supervisor must carefully review all documentation..."

Recommendation: We recommend that these two P-Cards be terminated. We also recommend revising the liaisons' monthly P-Card review process to include the use of a checklist. This documented review of transactions for compliance with state and agency P-Card Policies should be completed prior to approving the P-Card statement.

D. Card Used to Make Purchase from Personal On-line Account

In another instance, a charge to the P-Card for a personal purchase resulted from the card number getting tied to a personal Amazon Prime account after the P-Card number was provided in payment of a DOT purchase. Best practice would be to prohibit using a state P-Card to make a payment on personal Amazon Prime accounts.

DOT practice allows one "inadvertent" use of the P-Card, without disciplinary action as long as DOT is reimbursed immediately upon discovery.

Recommendation: We recommend the notifications of non-compliance and corrective action be documented in the cardholder's file. The PCA should be tracking instances of non-compliance

RESULTS OF AUDIT

to ensure management is notified and that usage is brought into compliance. We also recommend liaisons track non-compliant transactions and notify the supervisor/approver and the PCA.

E. Blocked MCC Codes

We identified 12 transactions made with blocked MCC codes in violation of the State P-Card Policy. The blocked MCC codes were not identified by the liaison, cardholder, or the supervisor during the monthly review and reconciliation of cardholder statements.

According to the State P-Card policy II. C (2) "...unless hereafter approved by the OCG, MCCs shown on the following list as "blocked" must be blocked by Bank and the agency on each cardholder's card profile and may not be used by P-Card holders..." III (A) 1 (a) "Develop the internal policy governing the use of the P-Card, to include the following minimum requirements..." x. "Establish written internal procedures covering properly setting up the profile for each P-Card (including all blocked MCCs...)"

A memo from the CG's office to Agency Finance Directors dated April 29, 2010 pertaining to Blocked MCC codes stated that, "When your agency staff reviews each month's P-Card statement, the review should include checking the MCC listed on the statement for each purchase against the list of Group A Blocked MCC's...Please notify the cardholder, Bank of America and this office of any purchases on which the MCC is required to be blocked so corrective action may be taken on the profile for that card..."

Recommendation: We recommend DOT's Policies and Procedures be revised to include roles and responsibilities by position, including documented monthly reviews to ensure effective reviews are consistently performed. Liaisons should review for unallowable purchases, split transactions and the use of blocked MCC codes. The P-Card reviewers should notify the PCA of any issues found during those reviews. The PCA should notify BOA of any purchases made using blocked MCC codes and by which vendors.

RESULTS OF AUDIT

F. Exception for Purchase of Employee Meals During a Declared Emergency

P-Card testing identified violations of DOT's procedures for purchasing employee meals during a declared emergency.

Per State P-Card Policy, III. A. (2)(a) "Establish written procedures to ensure compliance with, or request exceptions to, the Code, the State P-Card Policy, and the internal P-Card policy. b) Coordinate any requests for exceptions to the State P-Card Policy with the MMO P-Card Coordinator or OCG, as appropriate. Document review of the status of all exceptions on an annual basis to determine if the exceptions should still be granted and notify the MMO P-Card Coordinator or OCG, as appropriate, of any revocations."

State P-Card Policy, II. E. Emergency Procedures states that "During the time of an emergency such as a natural disaster, agency PCAs may request that either the OCG temporarily un-block certain MCCs, MMO temporarily raise the transaction limits for specific cards, or both."

DOT's Procurement Card Program Policies and Procedures Manual, dated February 27, 2015, VIII. 3. Emergency Transactions; as well as its Fiscal Procedures Memorandum 62 provide circumstances and conditions for P-Card use during declared emergencies.

Our audit of P-Card usage found 37 emergency meals or food items purchased during the three-month test period. Proper documentation was not provided, as required by DOT's Fiscal Procedures Memorandum 62, to determine which employees worked outside of their normal business hours. None of the documentation provided for emergency meals listed dates and times employees were required to stay at their official headquarters outside of their normal business hours as required by DOT's policy. Meals were purchased for employees working during their normal business hours. Additionally, meals were purchased for HQ personnel and for non-DOT employees for a meeting pertaining to the emergency. There was no evidence that the charges had been reviewed by a division or sub-division head as required.

RESULTS OF AUDIT

Recommendation: We recommend that there be documented management reviews of these expenditures during the declared emergencies in compliance with the State and Agency P-Card Policies and Procedures and DOT's Procedures Memorandum 62. We also recommend reviewing Fiscal Procedures Memorandum 62 to determine if this exception should be time limited and be re-activated during an emergency.

G. Purchases Not Aligned with Internal Policies and Procedures

DOT's internal policies, especially those applied in emergency situations, serve as compensating controls when other policies or procedures are suspended for expedience.

During our testing for compliance with DOT's Internal Policies and Procedures, we documented the following deficiencies:

- 5 internet purchases not pre-approved.
- 1 IT equipment purchase over \$500.¹
- 1 Equipment/Fixed Asset purchase over \$1,000.²
- 3 purchases over the allowable limit for emergency meals.
- 1 purchase of safety shoes over the allowable limit.
- 16 receipts not signed by the cardholder.
- Proper documentation was omitted for 3 emergency meal purchases for employees.³

DOT management expressed its intent to conduct a review of its relevant internal Fiscal Procedures Memorandums to determine if they should be clarified.

Recommendation: We recommend continued monthly reviews of P-Card activity in order to timely detect any misuse of the P-Card. We commend management's commitment to continuous process improvement and recommend they consider the compensating control effectiveness provided by their internal policies, in the absence of suspended policies, as they consider revisions.

¹ Although not explicitly stated in the policy, DOT staff indicated that this policy is not applied to headquarter staff.

² The CG's Policy for tracking minor equipment raised the threshold from \$1000 to \$2500

³ DOT has applied travel policy guidelines, which do not require receipts for meals below the per diem amount, during declared emergencies after receiving a waiver of blocked P-Card MCC codes from the Comptroller General's Office (CGO). However, the CGO's MCC waiver did not relieve DOT of the P-Card policy's documentation requirements.

RESULTS OF AUDIT

III. P-Card Program Improvement

Increased management oversight of the P-Card program, including implementation of all the recommendations related to program administration, is necessary to reduce risk to an acceptable level and bring the program into compliance with the State P-Card Policy.

Recommendation: We recommend DOT conduct an agency wide analysis of the effectiveness and associated risk of its P-Card use within 90 days of the receipt of this report, to determine:

- The types of purchases made by cardholders and field offices, including whether they are on contract or not;
- Alternative payment methods that may be more effective in controlling risk for the types of purchases commonly made; and
- Whether or not risk can be effectively managed using a P-Card for the different types of purchases.

The Agency shall then evaluate opportunities to reduce the number of cards necessary to effectively acquire supplies and services, provide the results of its evaluation and planned program revisions to the Office of Audit & Certification, and provide guidance to cardholders and reviewers regarding the types of purchases to be made with the P-Card.

We also recommend DOT revise its Purchasing Card Program Policy & Procedures Manual within 120 days of receipt of this report and provide a copy to Audit and Certification for review and consent. Within 180 days of the receipt of this report, develop and provide documented training to all P-Card personnel on new and/or revised procedures and certify completion to Audit and Certification.

Upon implementation of the P-Card program improvements and staff training, we recommend monthly monitoring, by the Internal Auditor, of the agency's oversight and usage of P-Cards for a period of at least one year.

Throughout the process, DOT must provide monthly progress reports to the Office of Audit & Certification documenting the implementation of corrective action(s), including its revised P-Card

RESULTS OF AUDIT

Manual, training curriculum and evidence of training for all P-Card positions, and the results of monthly reconciliations and review by Supervisor/Approvers, Liaisons, and the P-Card Administrator.

At the end of that year, and annually thereafter, DOT's Internal Auditor will conduct an independent audit of the agency's Purchasing Card Program to include program administration and transaction testing. For the first three years, a copy of the internal audit report, including any findings and recommendations, as well as the agency's planned corrective actions, will be provided to the Office of Audit & Certification.

DPS is available to work with the DOT to revise its P-Card Policy & Procedures Manual and assist in the implementation of the recommendations made in this report.

CERTIFICATION RECOMMENDATIONS

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

Under the authority described in SC Code Ann. §11-35-1210, we recommend that the Department of Transportation's procurement authority to make direct agency procurements be re-certified to the following limits for a period of three years:

<u>PROCUREMENT AREAS</u>	<u>RECOMMENDED CERTIFICATION LIMITS</u>
Supplies	*\$1,000,000 per commitment
Services ⁴	*\$ 500,000 per commitment
Information Technology ⁵	*\$ 100,000 per commitment
Construction Contract Award	\$ 500,000 per commitment
Construction Contract Change Order	\$ 100,000 per change order
Architect/Engineer Contract Amendment	\$ 25,000 per amendment

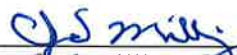
*Total potential purchase commitment whether single year or multi-term contracts are used.

We also recommend that:

- The Department of Transportation's Purchasing Card Program Manual be revised within 120 days to clarify roles and responsibilities and provide for sufficient management oversight to ensure compliance with State P-Card Policy.
- The implementation of recommendations regarding the agency's P-Card program made in this report be monitored by the agency's Internal Auditor for at least one year after the implementation of recommended procedural revisions and staff training.
- DOT management provide monthly reports to the Office of Audit & Certification throughout the process documenting the implementation of corrective action(s).



Judith C. Nevergoll, CPA
Audit Manager



Crawford Milling, CPA, CGMA
Director of Audit & Certification

⁴ Supplies and Services includes non-IT consulting services

⁵ Information Technology includes consulting services for any aspect of information technology, systems and networks



Justin P. Powell
Deputy Secretary for Finance and Administration
803-737-1240 | 803-737-0096 Fax

October 3, 2019

Mr. D. Crawford Milling, CPA, CGMA
Director of Audit and Certification
Division of Procurement Services
SC State Fiscal Accountability Authority (SFAA)
1201 Main Street, Suite 600
Columbia, South Carolina 29201

RE: Response to Procurement Audit Report

Dear Mr. Milling:

The South Carolina Department of Transportation (SCDOT) appreciates the opportunity to respond to issues identified during your most recent audit of SCDOT procurement practices for the period April 1, 2011 through June 30, 2018. SCDOT takes compliance seriously and many of the reported findings have been addressed by the agency in the intervening seven years since the last review by Audit and Certification. SCDOT is pleased that its remediation efforts resulted in minimal issues noted in this report regarding its non-Procurement Card (P-Card) procurements. However, SCDOT recognizes the issues it has in P-Cards and is taking steps immediately to rectify them.

The following is our response to each item noted in the report.

I. Procurement

1. Contract Exceeded Agency Procurement Authority

This was self-reported by SCDOT on January 24, 2018 in an email from then SCDOT Procurement Director Norma Hall to SFAA Audit Manager Judith Nevergoll. This item was also reported to the State Law Enforcement Division (SLED) because of SCDOT's concerns and an investigation was conducted. The SLED report completed November 20, 2018 and closing letter dated January 18, 2019 were also provided. The procurement in question was ratified by the Secretary on September 7, 2018. The ratification request was held pending the completion of the SLED investigation, however due to questions from the auditors, it was routed for signatures prior to the final report from SLED. Ms. Hall stated she would provide documentation to Audit and Certification once approval was received,



however, it appears the ratification was never provided. A copy of the document was provided at the exit conference on July 16, 2019 and has since been forwarded to the Materials Management Officer of the Division of Procurement Services (DPS) (Attachment 1).

Compensating controls have been implemented. All change orders are now reviewed by the Contracts Manager, the District Buyers Manager, or the Procurement Director. Procurement has also addressed this through Procurement Policies and Procedures training. This training is conducted in-person quarterly for new hires and at least once every three years for all employees who have procurement roles. In March/April 2019, the Procurement Director and staff went to each district office and conducted mandatory training for all employees who have procurement roles. In August 2019, required training was held in all districts to provide updates on the new law and reinforce the requirements of change orders and other procedures. The field office in question has also taken corrective action to prevent reoccurrence as outlined in the unauthorized procurement ratification provided. The actions implemented included replacing the Administrative/Procurement Specialist assigned to handle bridge procurements with another Administrative/Procurement Specialist – who brought this pattern to the District offices attention. This individual will be the only one authorized to contact the vendor for services – securing a solid line of communication and accountability and preventing unauthorized activity. A system to keep track of total expenditures on these on-call contracts was also implemented.

DPS, on behalf of SCDOT, solicited a contract for bridge crane rental for SCDOT Engineering District 1 in March 17, 2017. This five-year contract was awarded May 4, 2017 by DPS (Attachment 2).

2. Sole Source Procurements

A. Inappropriate Sole Source Procurement

It should be noted that 1 of 582 sole sources lacked appropriate documentation. The one item found was dated 2014. In the intervening five years since this inappropriate sole source procurement, there has been a change in management. The process in place as of April 15, 2015 is to have all sole source procurements reviewed by the Procurement Director, reviewed by the Chief Procurement Officer, and approved by the Deputy Secretary for Finance and Administration. Examples of the procedures are noted (Attachment 3).



B. Drug-Free Workplace

This issue was rectified by SCDOT prior to this audit. As a control, all sole source procurements are run through one point of contact in the Procurement Office. Procurement paperwork is not forwarded for signature until all items required are in the package, including the Drug-Free Workplace Act certification for all procurements over \$50,000.00. This change was implemented in January 2018.

3. Written Determinations Not Provided for Unauthorized Procurements

SCDOT rectified this issue prior to the audit and now requires all paperwork must be completed prior to reporting an unauthorized procurement. This policy went into effect in January 2018. All items identified occurred prior to this implementation, with seven noted in 2014 and 2015.

4. Statutorily Required Quarterly Reports

A. Omissions from Sole Source Reporting

SCDOT implemented procedures in January 2018 to ensure quarterly reporting is accurate. The Procurement Office now runs an extract from the South Carolina Enterprise Information System (SCEIS) showing all sole source, emergency, unauthorized, and exempt procurements for the quarter. In addition, the new requirement in 11-35-1560 and 11-35-1570 to post an award or intent to award for all sole sources and emergency procurements over \$50,000 in SCBO will ensure proper reporting in the future.

B. Reported Procurements Lacked Documentation

It should be noted all but one of the transactions are between FY 2011 and FY 2012. Management has changed since these occurrences and, as a result, controls have been implemented and none have occurred since that time.

The resident vendor preferences were reported incorrectly as they were part of the solicitation, but preferences did not determine the awarded vendor. The trade-in sale has been addressed and the necessary paperwork for future trade-ins has been filed appropriately. Sole sources now have all paperwork funneled through one individual in the Procurement Office ensuring that all necessary documentation is on file with Audit and Certification. Audit and Certification's own policies and procedures requiring uploading the documentation for review and approval have also addressed this issue.



5. Inadequate/Inappropriate use of Blanket Purchase Agreements (BPAs)

SCDOT concurs with this finding. As a control, this matter is being addressed in modifying SCDOT's training program. It was determined that, in training, Blanket Purchase Agreements (which is transaction ZBPO in SCEIS) had been referred to as BPO and SCDOT staff were using the same abbreviation for Blanket Purchase Order (which is ZBLT in SCEIS). Training has been updated to refer to BPAs as such and BPOs as BLTs. This was done to clarify with field personnel as having two different abbreviations for each PO type is most likely confusing to new personnel not only at SCDOT, but also at other agencies.

In addition, SCDOT now has a policy in place that all BPAs are to be discussed with a buyer in headquarters prior to issuance. This requirement is also covered in training. Of the items noted, 12 of the 14 were actually treated and operated as Blanket Purchase Orders (BPOs) but used the incorrect code of ZBPO instead of ZBLT. These errors are due to a flaw in the design of SCEIS where the code for BPA is BPO.

II. Purchasing Cards

1. Program Administration

A. Roles and Responsibilities

SCDOT has already reduced the number of cardholders to liaison ratio. There were nine liaisons responsible for 131 cardholders specified in the draft work papers. That number has been reduced by 44%, down to 57 cardholders (approximately six cards per liaison). This information was provided to the auditors on June 12, 2019. SCDOT will continue to monitor this ratio.

SCDOT agrees to review the cardholder/liaison list on a periodic basis to ensure there is a proper separation of duties. This will include an evaluation of the number of cardholders assigned to liaisons and to ensure that the proper hierarchy of approval is in place. SCDOT will conduct a sample review and continue to stress in training the requirements of the cardholder and/or liaison and manager to sign monthly statements after reconciliation and determine that all charges are legitimate charges to conduct the business of SCDOT.

B. Review of P-Cards for Inactivity

SCDOT agrees with this recommendation and will include in the revised manual that the Procurement Card Administrator will review semi-annually.



C. Missing or Late Management Signature on Cardholder Statements

SCDOT agrees with this recommendation and will include in the training and manual the required days of reconciliation and signing of the monthly statements. SCDOT will develop a P-Card monthly reconciliation checklist for guidance.

D. Independent Audits of Purchasing Cards Not Performed

It should be noted that the SCDOT Internal Auditor reports statutorily to the Office of the State Auditor and not the SCDOT Commission or the Secretary of Transportation. The Office of Internal Audit has agreed to provide ongoing monitoring and annual audits of SCDOT's procurement card program. They have updated the authorizing charter to reflect this responsibility (Attachment 4).

E. Agency P-Card Manual Lacks Clarity

SCDOT agrees to review and revise the Procurement Card Program Policy and Procedure Manual in conjunction with a risk assessment performed by the Office of Internal Audit. SCDOT will change the Procurement Card Coordinator's title to Purchasing Card Administrator (PCA).

2. Transaction Testing

A. Supporting Documentation Not on File

SCDOT agrees with this recommendation. SCDOT will continue to require cardholders, liaisons, and Managers to adhere to all P-Card policies.

B. Split Transactions

SCDOT will ensure the Split Transaction Report is run monthly, along with other reports such as monitoring weekend purchases, frequently used vendors and repetitive transactions nearing the \$2,500 single transaction limit.

C. Purchases Made by Other Than the Cardholder

SCDOT will reiterate in training that P-Cards are to be used by the cardholder only and failure to comply may lead to losing P-Card privileges. SCDOT agrees with implementing a checklist for required statement review and reconciliation.



SCDOT currently keeps non-compliance and corrective action documentation in the cardholder's file.

D. Card Used to Make Purchase from Personal On-Line Account

SCDOT will continue to enforce its practice of not allowing cardholders to use the State P-Card for personal purposes. SCDOT currently documents the cardholder's file for any misuse of the State P-Card. Cardholders are required to notify the PCA of the action. The cardholder should immediately attempt to have the charge credited to the procurement card. If this fails, the cardholder must immediately document and submit a personal check along with a charge memorandum signed by management to accounting with a copy to the PCA to be documented in the cardholder's file. Failure to adhere to this may result in disciplinary action.

E. Blocked MCC Codes

SCDOT has implemented a monthly review of all charges with blocked MCC Codes and will notify the Office of the Comptroller General of any transactions made to a blocked code. SCDOT's normal practice is to not request a MCC Code to be unblocked, thus requiring cardholders to use an alternate form of payment.

F. Exception for Purchase of Employee Meals During a Declared Emergency

It should be noted all meals documented by the auditors were for a declared emergency that required personnel to work outside of normal working hours. When an emergency is declared that affects or involves SCDOT, the Secretary of Transportation has the authority to activate employees to respond to the emergency at hand. It should be noted when an emergency is declared it is all hands on deck and time is limited during the key moments of response. SCDOT agrees to perform a sample management review of emergency-related charges when necessary. SCDOT has revised Fiscal Procedures Memorandum 62 which defines emergency meals.

G. Purchases Not Aligned with Internal Policies and Procedures

SCDOT agrees with this recommendation and currently requires cardholders' liaisons and/or managers to timely review, reconcile, and question charges as they appear on statements. SCDOT will implement a checklist and retrain all individuals involved to aid in this process. SCDOT will also review its internal policies and procedure manual to ensure that it is consistent with state policy.



III. P-Card Program Improvement

SCDOT concurs with the intent of the P-Card Program Improvement Program and will work diligently to implement.

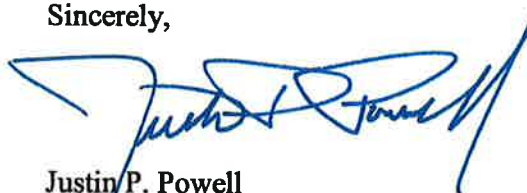
CONCLUSION

SCDOT has implemented or has already begun implementation of corrective actions regarding the recommendations. This includes revising the manual, evaluating internal policies, and scheduling appropriate training.

As noted in the response to the P-Card audit, SCDOT is unique among state agencies to have an internal auditor that reports to the Office of the State Auditor, rather than the agency head or governing body. Upon consultation with the State Auditor, SCDOT Internal Audit has agreed in its charter with SCDOT to provide the necessary audits and verifications that SCDOT is complying with the P-Card Improvement Plan. SCDOT believes that this unique independent relationship provides SFAA with a higher level of assurance that SCDOT shall act upon correcting the issues related to its P-Card program.

Should you have any additional questions or wish to discuss SCDOT's response further, please do not hesitate to contact my office.

Sincerely,



Justin P. Powell
Deputy Secretary for Finance and Administration

JPP:clb
Attachments

cc: Christy A. Hall, Secretary of Transportation
J. Darrin Player, Chief Procurement Officer
Wayne Sams, Director of Internal Audit Services, State Auditor's Office
John St. C. White, Materials Management Officer and State Engineer, SFAA





Secretary of Transportation
RATIFICATION

Previous Commission Approval:

Project/Phase Approved by the Commission on _____ N/A _____ within SFY N/A _____
STIP on Page N/A _____ State Plan on Page N/A _____
Project Ranking & Funding Category: N/A _____

Specifics:

Contract Value: \$ 542,094.50 Utilizing State Funding
Term of the Contract: One year with four, one year renewals. This contract has been closed

Description:

The Procurement Office asks for ratification of an increase of \$42,094.50 to contract 4400009594 D1 Bridge Maintenance Unit Crane Rental. This is required to be ratified by the Secretary of Transportation by Regulation 19-445.2015


The above referenced contract was awarded under the previous Director of Procurement for \$500,000 in November of 2014 without Commission or Secretary Approval. In November of 2016, Lexington Maintenance asked for an increase to the contract value as they had work done and had already exhausted the value of the contract. As there was a Purchase Order in place, the contract was increased by \$14,660.00. They called again in December of 2016 and had more work completed under the Purchase Order for an additional \$25,000.00. In January of 2017 they asked for an additional \$2,434.50 to be added in value as they had additional invoices for work done to be paid. The contract was ended shortly thereafter.


To prevent this in the future, all increases to contracts already awarded for \$500,000 or more will receive approval from the Secretary of Transportation prior to being increased. In addition, any contracts that have been requested to exceed \$500,000 when awarded for less will also be routed approval by the Secretary of Transportation prior to being increased.


Director Requesting Approval:


J. Darrin Player
Chief Procurement Officer


Deputy Secretary Concurrence:

 Brian W. Keys, P.E.
Deputy Secretary for Finance & Administration

for  James J. Feda, Jr., P.E.
Deputy Secretary for Intermodal Planning

 Leland D. Colvin, P.E.
Deputy Secretary for Engineering

Secretary Approval:


Christy A. Neal, P.E.
Secretary of Transportation

Date 9/7/18

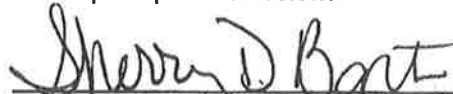
*In concurrence
John H. C. White
9/6/18*

UNAUTHORIZED PROCUREMENT RATIFICATION REQUEST

The signatures below indicate the facts and circumstances surrounding this Unauthorized Procurement are accurate, that corrective action has been taken to prevent reoccurrence, that action has been taken against the individual committing the Act and that the price paid is fair and reasonable. any exceptions should be noted in the space provided below.



Originator
Robert C. Dickinson-DME

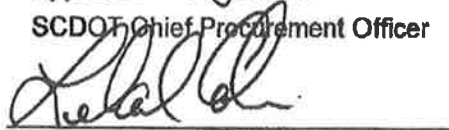


Approved for Ratification
SCDOT Chief Procurement Officer

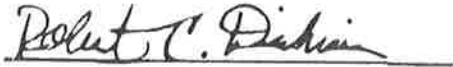


Originator's Supervisor

for: Bryan L. Jones-DEA



Ratification Approved
SCDOT Deputy Secretary



District Engineer / Director

for: Bryan L. Jones-DEA



Chief Engineer
Andrew T. Leaphart, PE

Purchase Order

Transaction Method (PO, 608, Visa, etc.)

--see attached--

Transaction Ref. #

--see attached--

Transaction Date

EXCEPTIONS

--none--

UNAUTHORIZED PROCUREMENT RATIFICATION REQUEST

THE FACTS AND CIRCUMSTANCES SURROUNDING THE ACT

Background: District 1's 5-year on-call crane rental Contract #4400009594 for \$517,094.50 was awarded to White Crane and began on 3-Nov-2014. A Shopping Cart referencing this contract was submitted 16-Nov-2016, at which time it was communicated that the on-call contract was increased by \$25,000 to a final target value of \$542,094.50 in order to approve this Shopping Cart and that future orders would have to be re-bid. Another Shopping Cart was submitted 4-Jan-2017, and it was reminded that the Contract had exceeded its target value and a new solicitation is at state procurement to be solicited.

1. *Work performed without Purchase Order:* While there was no contract in place, additional requests for crane service were made to White Crane totaling \$109,639. These requests were made, and services provided, directly between Bridge Engineer Duane Gamm and Earl Moore, operator for White Crane. The services were provided without a purchase order in place and without seeking competition, therefore were not brought to the District Office's attention until receipt of the invoice for services already rendered.
2. *Unauthorized Alteration of Contract:* Use of cranes was already contracted with Florence Concrete (incidentally via White Crane Co., Inc.) for setting of bridge spans via authorized contract awards and PO#4600474468, 4600508502, 4600508630, and 4600512404, for bridges S-40-1352, S-31-234, S-31-31, and S-43-81 respectively. Cranes that were bid with the manufacturing and delivery of the bridges were never used on the bridges—they were refused by Mr. Gamm who subsequently requested a separate crane for the same jobs via many invoices on PO#4600560361 and 4600563993.
3. **Additional Unauthorized Procurements:** While researching crane rental due to the pending ratification of the above procurements, the Procurement Office discovered that the following POs were also considered unauthorized because the work was performed prior to a PO being issued. While in many cases there was a contract in place, all work must be authorized by a PO prior to the work being completed.

POs Identified as Unauthorized:

4600446464	4600463219	4600465005	4600478393	4600531431
4600446466	4600463264	4600466149	4600478396	4600534303
4600446467	4600463269	4600466162	4600479947	4600541110
4600446469	4600464467	4600471843	4600495558	4600557539
4600450492	4600464468	4600476307	4600504236	4600560361
4600463217	4600465004	4600476308	4600510922	4600566295

ANY CORRECTIVE ACTION TAKEN TO PREVENT REOCCURRENCE

- Utilize the option to contract crane rental for each individual bridge site rather than continue to use the on-call contract that had ended.
- The Admin Specialist assigned to handle bridge procurements will be replaced by another Admin Specialist.
- Admin/Procurement Specialist will be the only one authorized to contact the vendor for services—securing a solid line of communication and accountability and preventing unauthorized activity such as deleting already contracted services.
- Develop a system to keep track of total expenditures on specific on-call contracts.

WHAT PERSONNEL CORRECTIVE ACTION IS BEING CONSIDERED

Duane Gamm will be required to retake Procurement training class. Disciplinary action is pending.

UNAUTHORIZED PROCUREMENT RATIFICATION REQUEST

THE FACTS AND CIRCUMSTANCES SURROUNDING THE ACT

1. *Work performed without Purchase Order:* Invoices from White Crane Co., Inc. were received for work done the weeks of 27-June 2016 on S-43-290, 5-July-2016 on S-43-290, and 26-Sept-2016 on S-31-36. Around 26-July-2017 thru 3-Aug-2017, White Crane Co., Inc. said they performed work on S-43-81 and Invoiced as such, both invoices dated 17-Aug-2017. These requests referenced above were made, and services provided, directly between Bridge Engineer Duane Gamm and Earl Moore, operator for White Crane. The services were provided without a purchase order in place, therefore were not brought to the District Office's attention until receipt of the invoice for services already rendered.

ANY CORRECTIVE ACTION TAKEN TO PREVENT REOCCURRENCE

- The Admin Specialist assigned to handle bridge procurements had already been replaced by another Admin Specialist—who brought this pattern to the District Office's attention.
- Admin/Procurement Specialist will be the only one authorized to contact the vendor for services—securing a solid line of communication and accountability and preventing unauthorized activity.
- Develop a system to keep track of total expenditures on specific on-call contracts.

WHAT PERSONNEL CORRECTIVE ACTION IS BEING CONSIDERED

Duane Gamm will be required to retake Procurement training class. Disciplinary action is pending.

STATE OF SOUTH CAROLINA
SFAA, DIV. OF PROCUREMENT SERVICES, MMO
1201 MAIN STREET, SUITE 600
COLUMBIA SC 29201

Intent to Award

Posting Date: May 04, 2017

Solicitation: 5400012640

Description: BRIDGE UNIT CRANE RENTAL - DISTRICT 1

Agency: SC Department of Transportation

The State intends to award contract(s) noted below. Unless otherwise suspended or canceled, this document becomes the final Statement of Award effective **08:00:00, May 16, 2017**. Unless otherwise provided in the solicitation, the final statement of award serves as acceptance of your offer.

Contractor should not perform work on or incur any costs associated with the contract prior to the effective date of the contract. Contractor should not perform any work prior to the receipt of a purchase order from the using governmental unit. The State assumes no liability for any expenses incurred prior to the effective date of the contract and issuance of a purchase order.

CERTIFICATES OF INSURANCE COVERAGE TO BE FURNISHED PRIOR TO COMMENCEMENT OF SERVICES UNDER CONTRACT.

Any actual bidder, offeror, contractor, or subcontractor who is aggrieved in connection with the intended award or award of a contract shall protest within ten days of the date notification of award is posted in accordance with this code. A protest shall be in writing, shall set forth the grounds of the protest and the relief requested with enough particularity to give notice of the issues to be decided, and must be received by the appropriate Chief Procurement Officer within the time provided. [Section 11-35- 4210]

PROTEST - CPO ADDRESS - MMO: Any protest must be addressed to the Chief Procurement Officer, Materials Management Office, and submitted in writing

(a) by email to protest-mmo@mmo.sc.gov, or

(b) by post or delivery to 1201 Main Street, Suite 600, Columbia, SC 29201.

Contract Number: 4400016034

Awarded To: WHITE CRANE COMPANY INC (7000151120)
3414 AUGUSTA ROAD
WEST COLUMBIA SC 29170

Total Potential Value: \$ 1,292,430.00

Maximum Contract Period: May 16, 2017 through May 15, 2022


Item	Description	Unit Price	Total
00001	Rental of 40 Ton Crane	\$ 144.00	\$ 7,200.00
00002	Rental of 60 Ton Crane	\$ 164.00	\$ 123,000.00
00003	Rental of 75 Ton Crane	\$ 184.00	\$ 1,104,000.00
00004	Operator Overtime for 40 ton Crane	\$ 24.00	\$ 120.00
00005	Operator Overtime for 60 ton Crane	\$ 24.00	\$ 1,560.00
00006	Operator Overtime for 75 ton Crane	\$ 24.00	\$ 19,200.00

00007	Operator travel for 40 Ton Crane	\$ 45.00	\$ 450.00
00008	Operator travel for 60 Ton Crane	\$ 45.00	\$ 3,150.00
00009	Operator travel for 75 Ton Crane	\$ 45.00	\$ 33,750.00

Procurement Officer
WILLIAM BUTLER




January 10, 2019 -
Notes from Procurement
Policy + Procedures class.


Credit Applications – If you have a vendor ask you to fill out a credit application it should be forwarded to Accounting.

These documents can only be completed by ACCOUNTING.

Jenise Taylor


Sole Source:
Product available ONLY from one source can fulfill the requirements. **The source is the sole manufacturer and sole distributor.** This requires approval by the **Deputy Secretary of Finance and Administration or a designee of his/her office** in advance of the purchase.

This PO must be processed by your District or Headquarters Buyer in the Procurement Office.

Vernell Godwin
in his office -
everything should be
routed through her. She
handles all sole
source work.

SOLE SOURCE

- ONLY ONE SOURCE
- IF AWARD OVER \$50,000
 - Drug Free Workplace Certification
 - Notice of Intent to Award for 5 Business Days in SCBO up to \$250,000
 - If over \$250,000 must post for 10 Business Days in SCBO before entering contract

Vernell Goodwin is the Procurement Specialist for Sole Source.



South Carolina
Department of Transportation

MEMORANDUM

TO: Emmett Kirwan

FROM: Vernell H. Goodwin

DATE: June 27, 2019

RE: Sole Source

This Sole Source is to procure Winch, XL Crib and Mounting System to transport Rumble Strips. After completing the Sole Source research process, I have verified that PSS Innovations for Safety is the Sole Source vendor.

cc:

JDP:vhg





South Carolina
Department of Transportation

Clarendon Maintenance
803-435-4431 | 803-435-0581 Fax

Memorandum

To: Emmett Kirwin, CPO for Commodities and Services

From: Coleman K. Holladay, Resident Maintenance Engineer

Date: June 25, 2019

Re: Sole Source Procurement

Clarendon Maintenance is seeking approval to make a sole source purchase through PSS Innovations. The equipment that we are requesting to purchase is as follows:

- 1. 1 - Winch*
- 2. 1 - XL Crib*
- 3. 1 - Mounting System*

This equipment has been mandated through our SCDOT Safety Office. They are wanting rumble strips present at all active work zone. This is the reason for our request. Please find attached letter stating the sole source of these products.


Coleman Holladay

CKH:bel
Attachments
cc: File



JUSTIFICATION FOR
SOLE SOURCE PROCUREMENT


SOLE SOURCE CHECKLIST

Based upon the following determination, the proposed procurement action described below is being procured pursuant to the authority of Section 11-35-1560 of the South Carolina Procurement Code and 19-445.2105 of the Rules and Regulations, 1976 South Carolina Code of Laws.

This agency proposes to procure a crib to transport Rumble Strips
(1)

as a sole source procurement from PSS
(2)

On the basis of:
(3) PSS is the only dealer that makes a crib to carry their rumble strips

DATE	GOVERNMENTAL BODY	AUTHORIZED SIGNATURE	TITLE
	<u>SCDOT</u>	 Justin Powell	Deputy Secretary for Finance & Administration

- NOTES:
- (1) Enter description of goods or services to be procured.
 - (2) Enter name of sole source contractor.
 - (3) Enter the determination and basis for sole source procurement.

The Drug-free Work Place certification must be obtained for sole source procurements greater than \$50,000.



2444 Baldwin Road | Cleveland, Ohio 44104
 800 662 6338 | F 216-231-2702 | PSSInnovations.com

Quote

Quote number: 4844
 Date: 06/19/2019
 Sales Person: Stephen M. Walker
 Valid until: 2019-07-18
 Customer:
 Lead Time:
 Terms: Net 30
 Quoted By: Jennifer Relich

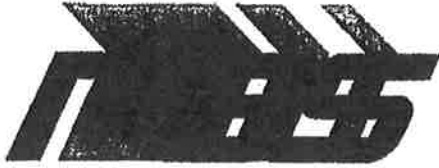
Bill To	Ship To
Lenn Gardner SCDOT - Manning 325 East Boyce St Manning, SC, 29102	Lenn Gardner SCDOT - Manning 325 East Boyce St Manning, SC, 29102

Quantity	Quoted Line Item	Description	Unit Price	Ext. Price
1.00	RR-EW-ASSY-CF-1	RQ Retrieval System Electric Winch Assembly Complete Front Mount	\$6,295.00	\$6,295.00
1.00	RU-CRIB-XL-04-C		\$3,695.00	\$3,695.00
	Lead time is 3-4 business days to ship.	Lead time is 3-4 business days to ship.		
	RR-EW-ASSY-CF-1 does not include battery.	RR-EW-ASSY-CF-1 does not include battery.		
	RR-EW-ASSY-CF-1 does not include battery.	RU-CRIB-XL-04-C includes straps, T handles, hardware, and Quik-Detach system.		
	RU-CRIB-XL-04-C includes straps, T handles, hardware, and Quik-Detach system.			

Note:

Grand Total

Currency:	USD	Subtotal:	\$9,990.00
Tax Rate:	0.00%	Tax:	\$0.00
Shipping Provider:	Central	Shipping:	\$121.57
		Total	\$10,111.57



Innovations for Safety®

2444 Baldwin Road • Cleveland, OH 44104 • PSS-Innovations.com
800-662-6338 • 216-231-8590 • F 216-231-2702

June 19, 2019

TO: Mr. Lenn Gardner
South Carolina D.O.T.
325 East Boyce St
Manning, SC 29102

FROM: Michael Heltzel
Customer Service Manager
PSS (formerly Plastic Safety Systems, Inc.)

RE: Sole Source Declaration for RoadQuake® Temporary Portable Rumble Strips

Lenn,

This letter is to confirm that PSS (formerly Plastic Safety Systems, Inc.) is the sole source for RoadQuake portable, temporary rumble strips and handling products (CRIB carrier, retriever, etc...) as well as the sole representative for RoadQuake sales into South Carolina.

Please contact me if you require further information or with questions. I can be reached at 216-658-7551.

Thank you,

A handwritten signature in black ink, appearing to read 'Michael Heltzel', is written over a printed name. The signature is fluid and cursive, with a large initial 'M' and a long, sweeping tail.

Michael Heltzel
Customer Service Manager
michael.heltzel@pss-innovations.com
PSS (formerly Plastic Safety Systems, Inc.)

**JUSTIFICATION FOR
SOLE SOURCE PROCUREMENT**

SOLE SOURCE CHECKLIST

Based upon the following determination, the proposed procurement action described below is being procured pursuant to the authority of Section 11-35-1560 of the South Carolina Procurement Code and 19-445.2105 of the Rules and Regulations, 1976 South Carolina Code of Laws.

This agency proposes to procure _____XL Crib with Retrieval Electric Winch Assembly

(1)

as a sole source procurement from _____PSS-Innovations

(2)

On the basis of:

____I have attached a letter from the vendor stating that they are the sole source for these products.

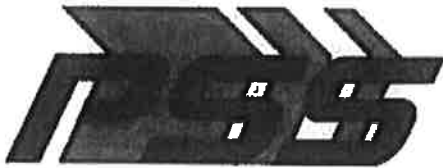
(3)

Acting Deputy Secretary for
Finance & Administration

DATE	GOVERNMENTAL BODY	AUTHORIZED SIGNATURE	TITLE
		Kace L. Smith	

- NOTES:
- (1) Enter description of goods or services to be procured.
 - (2) Enter name of sole source contractor.
 - (3) Enter the determination and basis for sole source procurement.

The Drug-free Work Place certification must be obtained for sole source procurements greater than \$50,000.



Innovations for Safety®

2444 Baldwin Road • Cleveland, OH 44104 • PSS-Innovations.com
800-662-6338 • 216-231-8590 • F 216-231-2702

March 6, 2019

TO: Ms. Patayna Garrett
South Carolina D.O.T.
301 E. Calhoun Street
Sumter, SC 29150

FROM: DeAnn Parker
Customer Service Representative
PSS (formerly Plastic Safety Systems, Inc.)

RE: Sole Source Declaration for RoadQuake[®] Temporary Portable Rumble Strips

Tracy:

This letter is to confirm that PSS (formerly Plastic Safety Systems, Inc.) is the sole source for RoadQuake portable, temporary rumble strips and handling products (CRIB carrier, retriever, etc...) as well as the sole representative for RoadQuake sales into South Carolina.

Please contact me if you require further information or with questions. I can be reached at 216-658-7545.

Thank you,

A handwritten signature in black ink that reads "DeAnn Parker". The signature is written in a cursive, flowing style.

DeAnn Parker
Customer Service Representative
DeAnn.Parker@pss-innovations.com
PSS (formerly Plastic Safety Systems, Inc.)



2444 Baldwin Road | Cleveland, Ohio 44104
 800-662-6398 | F 216-231-2702 | PSS-innovations.com

Quote

Quote number: 4400
 Date: 02/11/2019
 Sales Person: DeAnn Parker
 Valid until: 03/11/2019
 Customer: 17563
 Lead Time: 3-5 business days ARO
 Terms: Net 30
 Quoted By: DeAnn Parker

Bill To	Ship To
Patyna Garrett SCDOT - Sumter 301 E. Calhoun Street Sumter, SC, 29150	SCDOT - Sumter 301 E. Calhoun Street Sumter, SC, 29150

Quantity	Quoted Line Item	Description	Unit Price	Ext. Price
1.00	RU-CRIB-XL-01-C	CRIB XL Black Complete Straps Handles & Hdwr	\$2,395.00	\$2,395.00
1.00	RU-CRIB-QDXL	CRIB XL RoadQuake Carrier Quik Detach System Two Units	\$650.00	\$650.00
1.00	RR-EW-ASSY-C-01	RQ2-F Retrieval Electric Winch Assembly Complete	\$5,995.00	\$5,995.00

Note:

Grand Total			
Currency:	USD	Subtotal:	\$9,040.00
Tax Rate:	0.00%	Tax:	\$0.00
Shipping Provider:	Central	Shipping:	\$183.96
		Total	\$9,223.96



INTERNAL AUDIT SERVICES AUTHORIZING CHARTER

Updated July 17, 2019

Mission

Internal Audit Services is an independent objective **VOICE** for assurance and continuous improvement in collaborative pursuit of SCDOT objectives.

Core Values

Visionary Objectivity Integrity Collaboration Excellence

Authority

Internal Audit Services is established by SC Code Section 57-1-360 and is further clarified by the State Auditor as part of its oversight function. As provided by SC Code Section 57-1-360(B)(2), Internal Audit Services is granted full, free, and unrestricted access to any and all records, physical properties, and personnel relevant to its scope and responsibilities.

Professional Standards

Internal Audit Services adheres to the standards, professional practices, and code of ethics published by the Institute of Internal Auditors (IIA Standards).

Independence and Objectivity

To ensure independence, Internal Audit Services reports administratively and functionally to the State Auditor consistent with its enabling legislation. The State Auditor provides direct oversight, including approval for release of engagement reports. Internal Audit Services will work collaboratively with SCDOT leadership in developing an audit plan that appropriately aligns with SCDOT's mission and business objectives and reflects the business risks and other priorities identified by leadership and Internal Audit Services. To ensure objectivity, Internal Audit Services is not involved in the day-to-day operations or internal control procedures of SCDOT and has no direct responsibility or managerial authority over the programs and activities of SCDOT.

Scope and Responsibilities

The scope of Internal Audit Services' work includes the review of risk management, internal control, information systems, and governance processes through the provision of assurance services (defined as objective examinations of evidence for the purpose of providing an independent assessment) and consulting services (defined as advisory activities, the nature and scope of which are agreed with management). This work also involves periodic testing of transactions, best practice reviews, investigations, appraisals of legal and regulatory requirements, and measures to help prevent and detect fraud. To fulfill its responsibilities, Internal Audit Services shall:

- Facilitate SCDOT's implementation of an enterprise risk management (ERM) strategy. Subsequent to implementation, review the effectiveness of risk management practices.
- Review the effectiveness of internal control and governance processes established to ensure:
 - Compliance with policies, plans, procedures, applicable laws and regulations, and business objectives.
 - The reliability and security of financial and management information and supporting systems and operations that produce this information.
 - The means of safeguarding assets including information technology hardware, software, systems, and data.

INTERNAL AUDIT SERVICES AUTHORIZING CHARTER

Page 2

- Provide ongoing monitoring and annual audits of SCDOT's procurement card program.
- Review established processes and propose improvements.
- Appraise the use of resources with regard to economy, efficiency, and effectiveness.
- Carry out consulting activities, ad hoc appraisals, investigations, or reviews requested by SCDOT leadership.
- Provide independent appraisal services of program areas and activities as specified in grants, contracts, or agreements with external parties.
- Facilitate effective communication between SCDOT and external auditors by attending entrance and exit conferences; maintain a log to track reports, findings, responses, and corrective action.
- Maintain the audit staff's professional expertise through ongoing training and education.
- Receive complaints of alleged fraud, waste, abuse, mismanagement, or unethical acts; meet with SCDOT General Counsel and Human Resources Director to determine nature of complaint and who the investigator should be; report suspected criminal activities to the appropriate law enforcement authorities and assist, as needed, in investigations performed by authorities; report findings and recommendations to the Secretary of Transportation; and maintain confidential files of complaints, investigations, findings and actions.

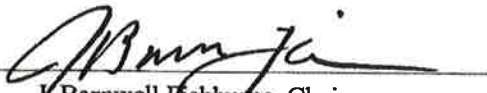
Reporting

Internal Audit Services is responsible for planning, conducting, reporting, and following up on internal audits. The results of each audit will be reported through a detailed audit report that summarizes the objectives and scope of the audit as well as observations and recommendations. In all cases, follow-up work will be undertaken to ensure adequate response to management's proposed risk responses and/or Internal Audit Services recommendations. Internal Audit Services reports will be delivered to the State Auditor for approval prior to distribution to the SCDOT Commission and the Legislative committee chairs identified in SC Code Section 57-1-360(B)(2).

Approved by: _____



George L. Kennedy, III, CPA

Acknowledged by: _____


J. Barnwell Fishburne, Chairman

SCDOT Transportation Commission Audit Committee

Acknowledged by: _____


Christy A. Hall, P. E.
Secretary of Transportation