

SOUTH CAROLINA FORESTRY COMMISSION

PROCUREMENT AUDIT REPORT

JULY 1, 2005 – MARCH 31, 2008

TABLE OF CONTENTS

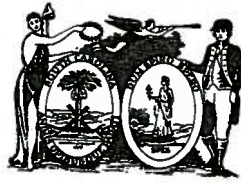
	<u>PAGE</u>
Transmittal Letter	1
Introduction.....	3
Scope.....	4
Results of Examination.....	5
Certification Recommendations	7
Commission Response.....	8
Follow-up Letter	9

STATE OF SOUTH CAROLINA
State Budget and Control Board
PROCUREMENT SERVICES DIVISION

MARK SANFORD, CHAIRMAN
GOVERNOR

CONVERSE A. CHELLIS III, CPA
STATE TREASURER

RICHARD ECKSTROM, CPA
COMPTROLLER GENERAL



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

DANIEL T. COOPER
CHAIRMAN, WAYS AND MEANS COMMITTEE

FRANK W. FUSCO
EXECUTIVE DIRECTOR

DELBERT H. SINGLETON, JR.
DIVISION DIRECTOR
(803) 734-2320

MATERIALS MANAGEMENT OFFICE
1201 MAIN STREET, SUITE 600
COLUMBIA, SOUTH CAROLINA 29201
(803) 737-0600
Fax (803) 737-0639

R. VOIGHT SHEALY
MATERIALS MANAGEMENT OFFICER

July 18, 2008

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

Dear Voight:

We have examined the procurement policies and procedures of the South Carolina Forestry Commission for the period July 1, 2005 through March 31, 2008. As part of our examination, we studied and evaluated the system of internal control over procurement transactions to the extent we considered necessary.

The evaluation was used to establish a basis for reliance upon the system of internal control to assure adherence to the Consolidated Procurement Code, State regulations, and the Commission's procurement policy. Additionally, the evaluation was used in determining the nature, timing and extent of other auditing procedures necessary for developing an opinion on the adequacy, efficiency, and effectiveness of the procurement system.

The administration of the South Carolina Forestry Commission is responsible for establishing and maintaining a system of internal control over procurement transactions. In fulfilling this responsibility, estimates and judgments by management are required to assess the

expected benefits and related costs of control procedures. The objectives of a system are to provide management with reasonable, but not absolute, assurances of the integrity of the procurement process that affected assets are safeguarded against loss from unauthorized use or disposition and that transactions are executed in accordance with management's authorization and are recorded properly.

Because of inherent limitations in any system of internal control, errors or irregularities may occur and not be detected. Also, projection of any evaluation of the system to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or that the degree of compliance with the procedures may deteriorate.

Our study and evaluation of the system of internal control over procurement transactions, as well as our overall examination of procurement policies and procedures, were conducted with professional care. However, because of the nature of audit testing, they would not necessarily disclose all weaknesses in the system.

The examination did, however, disclose conditions enumerated in this report that we believe need correction or improvement by the South Carolina Forestry Commission. Corrective action based on the recommendations described in these findings will, in all material respects, place the South Carolina Forestry Commission in compliance with the Consolidated Procurement Code and ensuing regulations.

Sincerely,



Larry G. Sorrell, Manager
Audit and Certification

INTRODUCTION

We conducted an examination of the internal procurement operating policies and procedures of the South Carolina Forestry Commission, hereinafter referred to as the Commission. Our on-site review, conducted March 22, 2008 through April 10, 2008, was made under Section 11-35-1230(1) of the South Carolina Consolidated Procurement Code and Section 19-445.2020 of the accompanying regulations.

The enactment of Senate Bill 572 on June 13, 2006 increased the baseline certification for all governmental bodies to \$50,000 for goods and services, consultant services, information technology, and construction. The Commission requested the following increased certifications.

<u>PROCUREMENT AREAS</u>	<u>CERTIFICATION LIMITS</u>
Goods and Services	\$ 100,000 per commitment
Major Fighting Equipment Per Commodity Codes 065 & 070	\$ 1,000,000 per commitment
Consultant Services	\$ 75,000 per commitment
Information Technology	\$ 75,000 per commitment

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 Forestry Commission 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 a judgmental sample for the period July 1, 2006 through March 31, 2008 of procurement transactions for compliance testing and performed other audit procedures that we considered necessary to formulate this opinion. Specifically, the scope of our audit included, but was not limited to, a review of the following:

- (1) All sole source and emergency procurements and trade-in sales for the period July 1, 2005 through December 31, 2007
- (2) Procurement transactions for the period July 1, 2006 through March 31, 2008 as follows:
 - a) Seventy-five payments exceeding \$2,500
 - b) One hundred sixty-two numerical purchase orders reviewed against the use of order splitting and favored vendors
 - c) Procurement card transactions for March, April, and May of 2006
- (3) Three construction contracts for compliance with the Manual for Planning and Execution of State Permanent Improvements
- (4) Minority Business Enterprise Plans and reports for the audit period with the following activity reported to the MBE Office

<u>Fiscal year</u>	<u>Goal</u>	<u>Actual</u>
2005-2006	\$39,298	\$3,160
2006-2007	60,880	2,946
2007-2008	47,513	5,871

- (5) Approval of most recent Information Technology Plan
- (6) Internal procurement procedures manuals
- (7) File documentation and evidence of competition
- (8) Surplus property disposal procedures
- (9) Blanket purchase agreements

RESULTS OF EXAMINATION

No Competition

Two procurements were not supported by solicitations of competition, sole source or emergency determinations, contract references or exemptions.

<u>PO</u>	<u>Date</u>	<u>Description</u>	<u>Amount</u>
FPO 72002	07/03/06	Tires	\$ 2,704
FPO 72202	12/21/06	Truck repairs	2,662

The tires were noted as being procured from a state term contract, however the vendor was not the state contract vendor. The Commission did not solicit quotes for the truck repairs.

We recommend the Commission comply with the competitive requirements of the Code for these types of items.

Inadequate Emergency Determinations

Four emergency procurements did not have written determinations with sufficient information supporting the transactions.

<u>PO</u>	<u>Date</u>	<u>Description</u>	<u>Amount</u>
PO86	10/08/06	Repairs to tree harvester	\$14,974
REQ99002	03/02/07	Tree planting services	10,237
FPO7284	04/15/07	Aerial spraying services	2,566
REQ200722	05/10/07	Fungicide	3,396

Tree harvester repairs were declared an emergency due to time constraints. However, the written justification did not describe how or when the harvester became damaged or when it was discovered that repairs were needed. Tree planting services were declared an emergency because tree planting season was approaching. No other justification was given as to what caused the emergency condition or why there was not enough time to solicit competition. Aerial spraying services were based on time and weather restrictions. No cause of the emergency condition was described in the justification nor was any danger as a result of time and weather restrictions

described. Fungicide was procured as an emergency based on time constraints but failed to explain the basis of the time constraints.

We recommend the Commission include sufficient factual grounds and reasoning on the written determinations to provide an informed, objective explanation for each emergency procurement.

Unauthorized Revenue Generating Contract

The Commission entered into a research and development agreement for loblolly pines located in Jasper County. The agreement period is July 1, 2006 to December 31, 2010 with estimated revenue of \$233,020 to the Commission. The Commission did not solicit competition using the methods defined in Section 11-35-1510 nor justify it as a sole source procurement. The contract was unauthorized, as defined in Regulation 19-445.2015 in July of 2006, as the total value exceeded the Commission's procurement authority of \$50,000.

We recommend the Commission comply with the competitive requirements of the Code for this type service. The Commission must submit a ratification request in accordance with Regulation 19-445.2015 to the Materials Management Officer.

CERTIFICATION RECOMMENDATIONS

As enumerated in our transmittal letter, corrective action based on the recommendations described in this report, we believe, will in all material respects place the South Carolina Forestry Commission in compliance with the Consolidated Procurement Code and ensuing regulations.

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

<u>PROCUREMENT AREAS</u>	<u>RECOMMENDED CERTIFICATION LIMITS</u>
Supplies and Services	*\$ 100,000 per commitment
Major Fire Fighting Equipment Per Commodity Codes 065, 071, 072, 073, 760 & 765	*\$ 1,000,000 per commitment
Consultant Services	*\$ 75,000 per commitment
Information Technology	*\$ 75,000 per commitment

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



Mac Stiles
Senior Auditor



Larry G. Sorrell, Manager
Audit and Certification



PO Box 21707
Columbia, SC 29221
(p) 803.896.8800
(f) 803.798.8097
www.trees.sc.gov

Henry E. (Gene) Kodama, State Forester

July 28, 2008

Mr. Larry G. Sorrell
Manager, Audit and Certification
Materials Management Office
1201 Main Street, Suite 600
Columbia, S. C. 29201

Dear Mr. Sorrell:

I have read and reviewed the draft report of the Forestry Commission's Procurement Audit sent to Procurement Director, Melissa Fleming. I have discussed the draft with Melissa and the agency concurs with your report. Concerning two items, tires and repairs, listed under the No Competition finding we will take appropriate action to insure procurements using state contracts or requiring quotes are processed correctly.

Also, on the findings Inadequate Emergency Determinations and Unauthorized Revenue Generating Contract, the agency will take the necessary action and work with employees to insure future emergency procurements and contracts are handled properly.

I would like to thank you and your staff for their hard work. Your staff was very professional and should be commended for their efforts. The Forestry Commission looks forward to working with your office in the future.

Sincerely,

Larry D. Moody
Director of Administration

Our mission is to protect and develop the forest resources of South Carolina.

STATE OF SOUTH CAROLINA
State Budget and Control Board
PROCUREMENT SERVICES DIVISION

MARK SANFORD, CHAIRMAN
GOVERNOR

CONVERSE A. CHELLIS III, CPA
STATE TREASURER

RICHARD ECKSTROM, CPA
COMPTROLLER GENERAL



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

DANIEL T. COOPER
CHAIRMAN, WAYS AND MEANS COMMITTEE

FRANK W. FUSCO
EXECUTIVE DIRECTOR

DELBERT H. SINGLETON, JR.
DIVISION DIRECTOR
(803) 734-2320

MATERIALS MANAGEMENT OFFICE
1201 MAIN STREET, SUITE 600
COLUMBIA, SOUTH CAROLINA 29201
(803) 737-0600
Fax (803) 737-0639

R. VOIGHT SHEALY
MATERIALS MANAGEMENT OFFICER

October 10, 2008

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

Dear Voight:

We have reviewed the response from the South Carolina Forestry Commission to our audit report for the period of July 1, 2005 to March 31, 2008. Also we have followed the Commission's corrective action during and subsequent to our fieldwork. We are satisfied that the South Carolina Forestry Commission has corrected the problem areas and the internal controls over the procurement system are adequate.

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

Sincerely,

A handwritten signature in blue ink that reads "Larry G. Sorrell".

Larry G. Sorrell, Manager
Audit and Certification

LGS/gs

Total Copies Printed	11
Unit Cost	<u>\$.41</u>
Total Cost	<u>\$4.51</u>