

SOUTH CAROLINA FORESTRY COMMISSION

PROCUREMENT AUDIT REPORT

APRIL 1, 2008 – DECEMBER 31, 2011

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July 22, 2012

Mr. R. Voight Shealy
Materials Management Officer
Division of Procurement Services
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 April 1, 2008 through December 31, 2011. 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 controls to assure adherence to the South Carolina Consolidated Procurement Code, State regulations, and the South Carolina Forestry Commission's procurement policies. 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 controls over procurement transactions. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of control procedures. The objectives of a system are to provide management with

reasonable, but not absolute assurance of the integrity of the procurement process, that affected assets are safeguarded against loss from unauthorized use or disposition and that transactions are executed in accordance with management's authorization and recorded properly.

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

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

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

Sincerely,

A handwritten signature in black ink, appearing to read "Robert J. Aycock, IV", written in a cursive style.

Robert J. Aycock, IV, Manager
Audit and Certification

INTRODUCTION

We conducted an examination of the internal procurement operating policies and procedures of the South Carolina Forestry Commission. Our review was performed February 6, 2012 through March 12, 2012 and was made under Section 11-35-1230(1) of the South Carolina Consolidated Procurement Code and Section 19-445.2020 of the accompanying regulations.

The examination was directed principally to determine whether, in all material respects, the internal controls of the procurement system were adequate and the procurement procedures, as outlined in the Internal Procurement Policies and Procedures Manual, were in compliance with the South Carolina Consolidated Procurement Code and ensuing regulations.

On November 6, 2008 the State Budget and Control Board granted the South Carolina Forestry Commission the following procurement certifications:

<u>PROCUREMENT AREAS</u>	<u>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

Our audit was performed primarily to determine if recertification is warranted. The South Carolina Forestry Commission requested to remain at its current certification levels.

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 South Carolina Forestry Commission, hereinafter referred to as SCFC, and its related policies and procedures manual to the extent we deemed necessary to formulate an opinion on the adequacy of the system to properly handle procurement transactions.

We selected judgmental samples for the period April 1, 2008 through December 31, 2011 of procurement transactions for compliance testing and performed other audit procedures that we considered necessary to formulate this opinion. The scope of our audit included, but was not limited to, a review of the following:

- (1) All sole source, emergency and trade-in sale procurements for the period April 1, 2008 through December 31, 2011 with exceptions noted in Section I
- (2) Procurement transactions for the period April 1, 2008 through December 31, 2011 as follows:
 - a) Eighty-five payments each exceeding \$2,500 with exceptions noted in Section II
 - b) A review of all PO's issued for calendar year 2011 reviewed against the use of order splitting and favored vendors with no exceptions
 - c) Procurement card purchases for April, May and June 2011 with no exceptions.
 - d) Direct Expenditure Vouchers exceeding \$2,500 with exceptions noted in Section II
- (3) Minority Business Enterprise Plans and reports with the following activity reported to the Governor's Office of Small and Minority Business Assistance with no exceptions

<u>Fiscal Year</u>	<u>Goal</u>	<u>Actual</u>
FY08-09	\$25,744.00	\$ 1,346.20
FY09-10	\$26,244.00	\$11,319.36
FY10-11	\$24,208.00	\$ 1,198.41

- (4) Internal procurement procedures manual with no exceptions
- (5) Approval of the most recent Information Technology Plan with no exceptions

- (6) Surplus property disposition procedures with no exceptions
- (7) Ratification of unauthorized procurements with no exceptions
- (8) Other tests performed as deemed necessary with no exceptions

SUMMARY OF AUDIT FINDINGS

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I. <u>Emergency Procurements</u>	
A. <u>Insufficient Emergency Determinations</u> Sixteen emergency determinations did not provide sufficient information to warrant emergency procurements.	7
II. <u>Supplies and Services</u>	
A. <u>Procurements Without Competition</u> Two procurements were not supported by solicitations of competition and one had inadequate solicitations.	9
B. <u>Not Advertised in SCBO</u> One solicitation was procured without being advertised in SCBO.	9

RESULTS OF EXAMINATION

I. Emergency Procurements

We tested emergency procurements made pursuant to Section 11-35-1570 (Emergency Procurements) to determine the appropriateness of the procurement actions and the accuracy of the quarterly reports submitted to the chief procurement officers required by Section 11-35-2440. We noted the following exceptions.

A. Insufficient Emergency Determinations

The following written emergency determinations were insufficient.

<u>PO Number</u>	<u>PO Date</u>	<u>Description</u>	<u>Total</u>
FPO813-049	06/24/08	Aircraft radio and repair services	\$ 2,691
4/17/08	06/02/08	Repair parts for tractor	\$ 19,418
124-01	04/11/08	Slip on tank units	\$123,721
9005	10/13/08	Tractor repair	\$ 8,964
9007	10/13/08	Tractor repair	\$ 6,184
9011	04/26/09	Tractor repair	\$ 4,997
40109	04/01/09	Tractor repair	\$ 2,793
1004	10/08/09	Replacement parts for fire suppression equip	\$ 3,999
SHSF1006	10/08/09	Replacement parts for fire suppression equip	\$ 5,595
102309	11/30/09	Tractor repair	\$ 3,635
317	03/17/11	Equipment repair	\$ 3,377
63011	06/30/11	Repair to dozer	\$ 4,182
53111	05/31/11	Repair to dozer	\$ 2,605
1201	09/27/11	Repair to dozer	\$ 3,553
90811	09/13/11	Repair to dozer	\$ 12,162
10111	10/12/11	Repair to dozer	\$ 12,322

Many of the emergency procurements cited were for repairs to equipment. Most of the determinations stated that the equipment is used for fire suppression and must be operational at all times. This information in itself was not sufficient to authorize an emergency procurement in our

opinion. Regulation 19-445.2110, Emergency Procurements, (B) Definition, states, “An emergency condition is a situation which creates a threat to public health, welfare, or safety such as may arise by reason of floods, epidemics, riots, equipment failures, fire loss, ...” The examples listed, by reason of floods, epidemics, riots, equipment failures, fire loss, are all unknown, unforeseen occurrences. Further, the South Carolina Supreme Court, in Sloan v. DOT, Opinion No. 26534 (S.C. 2008) ruled that, “An emergency is, by its very nature, a sudden, unexpected onset of a serious condition.” The emergency procurements did not cite sudden or unexpected conditions nor did they address any serious conditions. The determinations simply indicated the equipment needed to be repaired because it is used for fire suppression and must be operational at all times. The SCFC could consider competing an equipment repair contract. Such a contract would eliminate many of these emergency procurements.

The determination for aircraft radio and repair services on FPO813-049 states that the aircraft is required for fire patrol and is required to have radios and electronics to be in compliance with FAR standards. The determination did not address any sudden occurrence that created an emergency condition. The determination for PO 124-01 states that after researching the market, it was determined that these tank units would work best with current vehicles and are best suitable for current needs. Nowhere does this determination address an emergency condition.

Regulation 19-445.2110(F), Written Determination, states, “The Chief Procurement Officer or the head of the purchasing agency or a designee of either office shall make a written determination stating the basis for an emergency procurement and for the selection of the particular contractor. The determination must contain sufficient factual grounds and reasoning to provide an informed, objective explanation for the decision.”

We recommend that SCFC comply with the emergency regulation by ensuring determinations contain sufficient factual grounds and reasoning to provide an informed, objective explanation for the decision.

II. Supplies and Services

A. Procurements without Competition

No evidence of competition was provided for the first two procurements. One other quote was solicited for the third procurement.

<u>Ref Number</u>	<u>Date</u>	<u>Description</u>	<u>Total</u>
3001685438	2/9/11	Tractor parts	\$3,607
3002244272	9/7/11	Off road diesel	\$4,448
3000875032	3/31/10	Lumber	\$7,143

Per 11-35-1550(2)(b), "Solicitation of written quotes from a minimum of three qualified sources of supply must be made and documentation of the quotes attached to the purchase requisition for a small purchase over two thousand five hundred dollars but not in excess of ten thousand dollars."

We recommend that SCFC comply with the South Carolina Consolidated Procurement Code for small purchases over two thousand five hundred but not in excess of ten thousand dollars.

B. Not Advertised in SCBO

A solicitation that resulted in purchase order 129 for tractor parts dated April 22, 2008 in the amount of \$12,642.21 was not advertised in the South Carolina Business Opportunities (SCBO). Section 11-35-1550 (3) states in part, "All competitive procurements above ten thousand dollars must be advertised at least once in the South Carolina Business Opportunities publication...."

We recommend that SCFC comply with the South Carolina Consolidated Procurement Code for publishing solicitations in SCBO.


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 South Carolina Consolidated Procurement Code.

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

<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.


Robert J. Aycock, IV, Manager
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Henry E. (Gene) Kodama, State Forester

November 20, 2012

Mr. Robert J. Aycock, IV
Manager, Audit and Certification
Materials Management Office
1201 Main Street, Suite 600
Columbia, S. C. 29201

Dear Mr. Aycock:

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. In Section I, Emergency Procurements; I believe we both agree that equipment failures and threat of fire loss justify an emergency procurement but the agency will adhere to your recommendation to ensure that determinations contain sufficient grounds and reasoning to justify it.

Also, the agency concurs with the findings in Section II of your report and will take appropriate action to insure procurements are made competitively and also properly advertised in South Carolina Business Opportunities (SCBO).

I would like to thank you and your staff for their hard work. You and your staff were very professional and are to be commended for your efforts. Again, the Forestry Commission will implement procedures to accomplish the recommendations you have suggested and look forward to working with your office on future audits.

Sincerely,

A handwritten signature in cursive script that reads "Larry D. Moody".

Larry D. Moody
Director of Administration

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

NIKKI R. HALEY, CHAIR
GOVERNOR

CURTIS M. LOFTIS, JR.
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MARCIA S. ADAMS
EXECUTIVE DIRECTOR

November 26, 2012

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

Dear Voight:

We have reviewed the response from the Forestry Commission to our audit report for the period of April 1, 2008 through December 31, 2011. We have followed-up on the Forestry Commission's corrective action during and subsequent to our fieldwork.

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

Sincerely,

Robert J. Aycock, IV, Manager
Audit and Certification

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