

**SOUTH CAROLINA STATE HOUSING FINANCE AND
DEVELOPMENT AUTHORITY**

PROCUREMENT AUDIT REPORT

APRIL 1, 2006 – MARCH 31, 2009

TABLE OF CONTENTS

	<u>PAGE</u>
Transmittal Letter	1
Introduction	3
Scope.....	4
Results of Examination	6
Conclusion.....	10
Follow-up Letter.....	11

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

MARK SANFORD, CHAIRMAN
GOVERNOR

CONVERSE A. CHELLIS, III, CPA
STATE TREASURER

RICHARD ECKSTROM, CPA
COMPTROLLER GENERAL



SC BUDGET AND CONTROL BOARD

THE DIVISION OF PROCUREMENT SERVICES
DELBERT II. SINGLETON, JR.
DIVISION DIRECTOR
(803) 734-2320

R. VOIGHT SHEALY
MATERIALS MANAGEMENT OFFICER
(803) 737-0600
FAX (803) 737-0639

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

DANIEL T. COOPER
CHAIRMAN, HOUSE WAYS AND MEANS
COMMITTEE

FRANK W. FUSCO
EXECUTIVE DIRECTOR

October 19, 2009

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 State Housing Finance and Development Authority for the period April 1, 2006 through March 31, 2009. 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 established a basis for reliance upon the system of internal control to assure adherence to the Consolidated Procurement Code, State regulations and the South Carolina Housing Finance and Development Authority's procurement policy. Additionally, the evaluation determined the nature, timing and extent of other auditing procedures necessary for developing an opinion on the adequacy, efficiency and effectiveness of the procurement system.

The administration of the South Carolina State Housing Finance and Development Authority 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 of internal controls are to provide management with reasonable, but not absolute, assurance of the integrity of the procurement process, that affected assets are safeguarded against loss from unauthorized use or disposition and those transactions are executed in accordance with management's authorization and are recorded properly.

Because of inherent limitations in any system of internal controls, errors or irregularities may occur and not be detected. Also, projection of any evaluation of the system to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or 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 State Housing Finance and Development Authority in compliance with the Consolidated Procurement Code and ensuing regulations.

Sincerely,



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 State Housing Finance and Development Authority. Our on-site review was conducted from June 15, 2009 through July 15, 2009, for the audit period April 1, 2006 through March 31, 2009, 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 procurement system's internal controls were adequate and the procurement procedures, as outlined in the Internal Procurement Operating Procedures Manual, were in compliance with the South Carolina Consolidated Procurement Code and its ensuing regulations.

Additionally our work was directed toward assisting the South Carolina State Housing Finance and Development Authority in promoting the underlying purposes and policies of the Code as outlined in Section 11-35-20, which include in part:

- (1) to provide increased economy in state procurement activities and to maximize to the fullest extent practicable the purchasing values of funds while ensuring that procurements are the most advantageous to the State and in compliance with the provisions of the Ethics Government Accountability and Campaign Reform Act;
- (2) to foster effective broad-based competition for public procurement within the free enterprise system;
- (3) to ensure the fair and equitable treatment of all persons who deal with the procurement system which will promote increased public confidence in the procedures followed in public procurement;
- (4) to provide safeguards for the maintenance of a procurement system of quality and integrity with clearly defined rules for ethical behavior on the part of all persons engaged in the public procurement process.

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 State Housing Finance and Development Authority, hereinafter referred to as the Housing Authority, and its related policies and procedures manual to the extent we deemed necessary to formulate an opinion on the adequacy of the system to properly handle procurement transactions.

We selected samples for the period April 1, 2006 through March 31, 2009 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, emergency and trade-in sale procurements for the period April 1, 2006 through March 31, 2009 with exceptions noted in Section I & II of the report.
- (2) Procurement transactions for the period April 1, 2006 through March 31, 2009 as follows:
 - a) Seventy-four payments each exceeding \$2,500 with exceptions noted in Section III of the report.
 - b) Eighty-two sequentially filed purchase orders reviewed against the use of order splitting and favored vendors with no exceptions.
 - c) Procurement card transactions for the months of December 2008 and January 2009 with no exceptions noted.
- (3) Minority Business Enterprise Plans and reports with the following activity reported to The Governor's Office of Small and Minority Business Assistance

<u>Fiscal Year</u>	<u>Goal</u>	<u>Actual</u>
2005-2006	\$30,000	\$38,576
2006-2007	\$39,000	\$71,409
2007-2008	\$39,000	\$101,051

- (4) Approval of the most recent Information Technology Plan with an exception noted in Section IV of the report.
- (5) Internal procurement procedures manual with an exception noted in Section V of the report.
- (6) Surplus property disposition procedures with no exceptions.
- (7) Ratification of Unauthorized Procurements with exceptions noted in Section I & II.
- (8) File documentation and evidence of competition with no exceptions.
- (9) Other tests performed as deemed necessary with no exceptions.

RESULTS OF EXAMINATION

I. Unauthorized Sole Source Procurements

Our review of sole source procurements identified the following instances where the Procurement Officer authorized sole source procurements even though the Code specifically prohibits procurement officers from doing so. South Carolina Code Section 11-35-1560(A) limits sole source authority to the chief procurement officer, the head of a governmental body, or a designee of either officer above the level of the procurement officer.

<u>PO#</u>	<u>PO Date</u>	<u>Description</u>	<u>Cost</u>
15888	12/04/2006	8 Port V.34 fax, onboard interface	\$ 6,895
16444	12/13/2007	Exinda 4700 & Premium Service	\$ 8,336
16879	11/13/2008	Software License & Support	\$14,660
16939	01/22/2009	Fidelity Bond Coverage	\$10,474
16969	02/18/2009	Equipment Maintenance	\$ 9,710
16911	12/22/2008	Maintenance Support	\$ 5,054

We recommend sole source procurements be authorized by the agency head or a designee above the level of the procurement officer. Ratification will have to be requested in accordance to Regulation 19-445.2015.

AUTHORITY RESPONSE

The Authority's Executive Director has ratified the unauthorized Sole Source Procurements in accordance with Section 11-35-1560(A) of the SC Consolidated Procurement Code. We have reassessed our department procedures to ensure that staff is familiar with the appropriate requirements according to the Procurement Manual.

II. Invalid Sole Source Authorization

The following procurements for application software licenses which included training and documentation were procured through the use of an old sole source authorization dated April 15, 1999.

<u>Voucher #</u>	<u>Payment Date</u>	<u>Description</u>	<u>Amount</u>
8003318	4/10/2008	Software Maintenance Fee	\$ 9,251
8003794	6/17/2008	Software Maintenance Fee	\$24,504
9002843	3/26/2009	Software Maintenance Fee	\$56,850

As a result, the procurements were not supported by valid sole source authorizations making them unauthorized. Regulation 19-445.2105(B) states in part,

The determination as to whether a procurement shall be made as a sole source shall be made by either the Chief Procurement Officer, the head of a purchasing agency, or designee of either office above the level of the procurement officer.... Such officer may specify the application of such determination and the duration of its effectiveness. (Emphasis Added) The determination must be authorized prior to contract execution.

We recommend each sole source procurement be supported by its own properly authorized written determination. The Housing Authority may benefit from using a blanket authorization provided the authorizing official specifies the application of such a written determination and the duration of its effectiveness. Ratification in accordance with Regulation 19-445.2015 will have to be requested.

AUTHORITY RESPONSE

The Authority's Executive Director has ratified the invalid Sole Source Authorization in accordance with Regulation 19-445.2105 of the SC Consolidated Procurement Code. The Authority will ensure that each sole source procurement is supported by its own properly authorized written determination. The staff involved in this action will be instructed with the appropriate requirements of the agency's Procurement Manual.

III. Receiving Not Documented

The following vouchers were not supported by properly documented receiving reports.

<u>Voucher #</u>	<u>Payment Date</u>	<u>Description</u>	<u>Amount</u>
6003952	06/15/06	Temp Personnel Serv.	\$ 1,400
7001141	07/24/06	Leasing Charges	\$ 4,214
7001190	07/27/06	Dell Workstations	\$39,072
7001486	09/06/06	Dell Workstations	\$15,397
7003076	04/19/07	Leasing Charges	\$ 3,890
8001790	10/15/07	Meter Usage	\$ 2,589
8003372	04/17/08	Leasing Charges	\$ 3,888
9001128	07/21/08	Leasing Charges	\$ 3,888

We recommend all vouchers be supported by properly documented receiving reports prior to processing payments.

AUTHORITY RESPONSE

The Authority has reassessed its internal payment procedures to ensure that the Finance and Procurement staff is familiar with all current procurement procedures according to the agency's Procurement Manual to include the approval of all invoices prior to processing for payment.

IV. Information Technology Plan Not Approved

The Housing Authority did not submit an Information Technology Plan for Fiscal Year 2008/2009 to the Budget and Control Board. Regulation 19-445.2115(B) states:

Every governmental body shall develop in coordination with the designated board officer master plan for Information Technology procurements as defined in Section 11-35-310 of the Procurement Code. Subject to the approval of the master plan by the designated board office, acquisition of Information Technology by governmental bodies shall be through the Information Technology Management Office.

Consequently every procurement of information technology greater than \$50,000 for fiscal year 2008/2009 was unauthorized. We recommend the Housing Authority comply with Regulation 19-445.2115(B).

AUTHORITY RESPONSE

The Authority will ensure that IT Plans are prepared in a timely manner in accordance with Regulation 19-445.2115 of South Carolina Consolidated Procurement Code and that the Procurement Officer has a copy on file. Further, the Procurement Officer will not process any IT procurements unless a current IT Plan is on file.

V. Inadequate Operational Procurement Manual

Our review of the *Housing Authority's Procurement Policy* revised January 2009, concluded that the procurement policy lacked detailed operating procedures and was therefore inadequate. Section 11-35-540(3) of the South Carolina Consolidate Procurement Code (the Code) requires governmental bodies to develop internal operational procedures consistent with the Code; except, that the operational procedures must be approved in writing by the appropriate chief procurement officer. The current operating procedures, not having been approved by the chief procurement officer, is insufficient, and not in compliance with applicable regulations.

We recommend the Housing Authority revise its procurement policy and submit it to the Materials Management Office in accordance with Section 11-35-540.

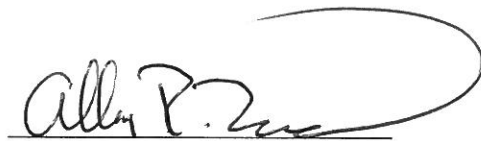
AUTHORITY RESPONSE

The Authority has updated it Procurement Manual in accordance with Section 11-35-540(3) of the South Carolina Consolidated Procurement Code and submitted to the Audit and Certification Department of the Materials Management Office for approval.

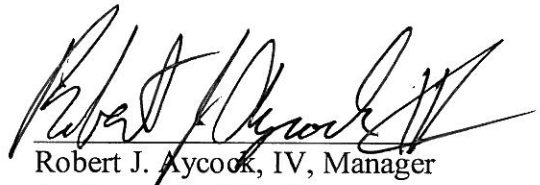
CONCLUSION

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

Under the authority described in Section 11-35-1210 of the South Carolina Consolidated Procurement Code, subject to this corrective action, we will recommend the South Carolina State Housing Finance and Development Authority be allowed to continue to make direct agency procurements up to the basic limits authorized by law.



Allen R. Townsend, CBM
Audit Manager



Robert J. Aycock, IV, Manager
Audit and Certification

MARK SANFORD, CHAIRMAN
GOVERNOR

CONVERSE A. CHELLIS, III, CPA
STATE TREASURER

RICHARD ECKSTROM, CPA
COMPTROLLER GENERAL



SC BUDGET AND CONTROL BOARD

THE DIVISION OF PROCUREMENT SERVICES
DELBERT H. SINGLETON, JR.
DIVISION DIRECTOR
(803) 734-2320

R. VOIGHT SHEALY
MATERIALS MANAGEMENT OFFICER
(803) 737-0600
FAX (803) 737-0639

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

DANIEL T. COOPER
CHAIRMAN, HOUSE WAYS AND MEANS
COMMITTEE

FRANK W. FUSCO
EXECUTIVE DIRECTOR

November 30, 2009

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 State Housing Finance and Development Authority to our audit report for the period of April 1, 2006 to March 31, 2009. Also we have followed the Authority's corrective action during and subsequent to our fieldwork. We are satisfied that The South Carolina State Housing Finance and Development Authority have 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 State Housing Finance and Development Authority be allowed to continue to make direct agency procurements up to the basic limits authorized by law.

Sincerely,

Robert J. Aycock, IV, Manager
Audit and Certification

RJA/gs

Total Copies Printed	11
Unit Cost	<u>\$.49</u>
Total Cost	<u>\$5.39</u>