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**PATRIOTS POINT DEVELOPMENT AUTHORITY**

**PROCUREMENT AUDIT REPORT**

**JULY 1, 2004 – JUNE 30, 2006**

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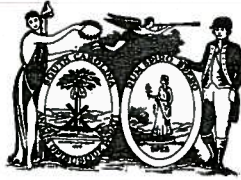
**NOTE:** The Authority's responses to issues noted in the report have been inserted immediately following the items they refer to.

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*State Budget and Control Board*  
PROCUREMENT SERVICES DIVISION

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R. VOIGHT SHEALY  
MATERIALS MANAGEMENT OFFICER

November 30, 2007

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

Dear Voight:

We have examined the procurement policies and procedures of Patriots Point Development Authority for the period July 1, 2004 through June 30, 2006. 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 to establish a basis for reliance upon the system of internal control to assure adherence to the Consolidated Procurement Code, State regulations and the procurement policy of the Authority. 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 Patriots Point 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 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 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 which we believe need correction or improvement. Corrective action based on the recommendations described in these findings will in all material respects place Patriots Point Development Authority in compliance with the Consolidated Procurement Code and ensuing regulations.

Sincerely,



Larry G. Sorrell, Manager  
Audit and Certification

## **INTRODUCTION**

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We conducted an examination of the internal procurement operating policies and procedures of Patriots Point Development Authority. Our review was conducted October 26, 2006 through November 1, 2006 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.

## 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 Patriots Point Development 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 July 1, 2004 through June 30, 2006 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 July 1, 2004 through June 30, 2006
- (2) Procurement transactions for the period July 1, 2004 through June 30, 2006 as follows:
  - a) Eighty-six payments each exceeding \$1,500
  - b) Procurement card transactions for April and May of 2006
- (3) Three construction contracts and two professional service 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
- (5) Approval of the most recent Information Technology Plan
- (6) Internal procurement procedures manual
- (7) File documentation and evidence of competition
- (8) Surplus property disposal procedures

## RESULTS OF EXAMINATION

### Unauthorized Food Concession Contracts

The Patriots Point Development Authority, hereinafter referred to as the Authority, procured food concessions incorrectly as exempt from the Code.

The Budget and Control Board granted the Authority exemptions from the Code as follows...

#### Exemption 93 dated April 25, 1989 by Budget and Control Board

In accord with Code Section 11-35-710, exempted the Patriots Point Development Authority from the requirements of the Procurement Code for its food concession and public relations contracts until August 1, 1989.

#### Exemption 96 dated July 18, 1989 by Budget and Control Board

In accord with Code Section 11-35-710, extended the exemption of the Patriots Point Development Authority from the requirements of the Procurement Code for the food concessions and public relations contracts until January 1, 1990. On March 31, 1990, this exemption was extended to September 1, 1990.

#### Exemption 102 dated September 12, 1990 by Budget and Control Board

In accord with Code Section 11-35-710, granted an extension to the Patriots Point Development Authority exemption from the requirements of the Procurement Code for food concession and public relations contracts. This exemption expired December 31, 1990.

In 1996, the Materials Management Office issued a solicitation for the food concession and awarded a multi-year contract that expired on March 31, 2001. The audited financial statements for the fiscal year ending June 30, 2001 including the following, in part, from note 7 of the financial statements for food and beverage commissions.

The initial contract term which ended December 31, 1996, was extended for three additional one-year periods. Upon termination of the food contract on January 31, 2001, the Authority executed an interim contract with the contractor for the period April 1, 2001 through October 31, 2001. Upon termination of the interim contract, the Authority will submit a Request for Proposal to the Materials Management Office to solicit bids for a contract with a concessionaire to provide food service.

At the expiration of the interim contract, the Authority did not submit a request for proposal to the Materials Management Office as stated in note 7. Instead, the

Authority contracted with the food concessionaire awarded the contract in 1996. No competition was solicited.

A memorandum of agreement issued by the Authority's Executive Director dated November 1, 2001 referred to contract C600409001 and included the following, in part.

This memorandum of agreement will serve as an Emergency Procurement to extend Contract No. C6004090014 between the Patriots Point Development Authority (the Agency) and the contractor for the time period November 1, 2001 through October 31, 2003.

A letter from the Materials Management Officer of the Budget and Control dated February 7, 2003 to the Executive Director of the Authority stated the following.

I am in receipt of your letter of January 29, 2003, in which you advised me that Patriots Point Development Authority intends to exercise an exemption from the Consolidated Procurement Code granted the Authority by the Budget and Control Board for the next iteration of both food concessions and public relations contracts. Apparently, there has been a misunderstanding of the exemption. Exemption no. 102 was the last of several extensions of an exemption granted Patriots Point to address a specific problem of that day. Each of the exemptions was granted temporarily, including exemption no. 102. Although the exemption list does not reflect it, the exemption expired on December 31, 1990 and has not been effective since that date. Therefore, the exemption is not available to Patriots Point at this time.

The Authority elected to disregard the letter dated February 7, 2003 from the Materials Management Officer by entering into another agreement with the same vendor per a memorandum of agreement dated October 1, 2003 that referred to contract C600409001 and stated the following, in part.

This Memorandum of Agreement will serve as an Emergency Procurement to further extend Contract No. C600409001 between Patriots Point Development Authority (the Agency) and the contractor for the time period of November 1, 2003 through October 31, 2004.

A letter from the Division Director of the Procurement Services Division of the Budget and Control Board dated July 19, 2004 to the Executive Director of the Authority stated the following, in part.

Voight Shealy forwarded your letter of June 30, 2004 to me for approval of your request for authority for the Materials Management Office to solicit competition for a food service and vending machine operations contract at the Patriots Point Development Authority for a term of seven years. Your request is approved pursuant to South Carolina Code of Laws Section 11-35-2030 (4). I



trust, however, that you are aware of and have made the requisite contacts with the Commission for the Blind as required by Title 43, Chapter 26 of the SC Code of Laws regarding its statutory first option to establish a vending facility operated by blind persons on any public property.

The Authority did not submit a requisition to the Materials Management Office but contracted with a vendor on September 13, 2005 to provide food and vending services as noted in Attachment A. Page 8 of the contract defines the term as follows.

The term of this contract shall be for the period beginning with date of award through September 30, 2007. This contract will automatically extend on the anniversary date at the prices, terms, and conditions contained in this original documents. Said extensions may be less than, but will not exceed, three (3) additional one (1) year periods. Either party may elect not to extend this contract on the anniversary date. If the contractor elects not to extend on the anniversary date, the Agency must be notified in writing at least ninety (90) days prior to the automatic renewal date. Total number of years shall not exceed five (5).

The quarterly reports of sole source and emergency procurement activity from July 1, 2000 to September 30, 2006 did not contain any procurement for food concessions.

All of the contracts beginning on April 1, 2001 were subject to the competitive requirements of the Code as defined in Section 11-35-1510. Each contract was entered in violation of the Code. Further, since the total value of each contract exceeded the procurement limits of the Authority, each contract was unauthorized as defined in Regulation 19-445.2015.

We recommend the Authority develop and submit a requisition to the Materials Management Officer for the solicitation of the food concessions so a contract can be awarded in compliance with the Code. The Authority must submit a ratification request for each unauthorized contract to the Division Director of the Procurement Services Division in accordance with Regulation 19-445.2015.

#### AUTHORITY RESPONSE

The Authority will develop and submit a requisition to the Materials Management Officer for the solicitation of the food concessions so a contract can be awarded in compliance with the Code. The Authority anticipates having a new contract in place prior to December 31, 2008. The Authority has submitted a ratification request for each authorized purchase to Division Director of the Procurement Services Division.

### Minority Business Enterprise Plan and Reports

The Minority Business Enterprise Plans (MBE) and the quarterly progress reports have not been submitted to the Small and Minority Business Assistance Office (SMBAO) for each fiscal year in the audit period plus the current fiscal year. Section 11-35-5240 (1) of the Code requires that each agency develop a MBE plan with Section 11-35-5240 (2) requiring the progress reports each quarter. This is a repeat finding from our audit in 2000. The Authority's response to our exception in the audit of 2000 is as follows.

The Authority subscribes to and supports the Minority Business Utilization Plan. An annual plan will be developed and submitted for approval. An MBE Liaison Officer will be appointed and will maintain the directory of minority firms who wish to do business with the State. Quarterly reports will be submitted by the Finance Department within 15 days of the last day of each fiscal quarter.

Per the Small and Minority Business Assistance Office, the Authority has not submitted any plans or the corresponding quarterly progress reports since 2000.

We recommend the Authority comply with Section 11-35-5240 by preparing a plan for the fiscal year July 1, 2006 to June 30, 2007 and submitting the plan to the Small and Minority Business Assistance Office for approval. Quarterly progress reports must be submitted. Our recommendation also applies to subsequent fiscal years.

### AUTHORITY RESPONSE

The Authority submitted the Minority Business Enterprise Plans to the Small and Minority Business Assistance Office for fiscal years 2007 and 2008. The Authority will submit the quarterly progress reports recommended in the audit report.

### Procurement Procedures Manual

We reviewed the current Procurement Procedures Manual for compliance with the Code as defined in Section 11-35-540 and Regulation 19-445.2005 and found it to be deficient in a number of areas. A detail listing of the needed revisions was given to the Procurement Department along with a copy of a sample manual.

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

AUTHORITY RESPONSE

The Authority has submitted a revised manual to the Materials Management Office for approval.

Unauthorized Procurement Card Transaction

The internal control limits established by the Authority for procurement card transactions is \$1,500 per card transaction. The Authority's approved policies and procedures for the procurement card specifically states, per pages 2 and 4, a limit of \$1,500. The following procurement card transaction exceeded the \$1,500 limit.

<u>Date</u>	<u>Description</u>	<u>Amount</u>
05/12/06	Maintenance renewals (30) one year	\$2,130

Since the procurement card transaction exceeded the authority level of \$1,500, the procurement was unauthorized as defined in Regulation 19-445.2015.

We recommend the Authority adhere to its internal procedures. A ratification request must be submitted to the Executive Director or his designee for the unauthorized procurement in accordance with Regulation 19-445.2015.

AUTHORITY RESPONSE

The Authority has complied with the recommendation.

## 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 Patriots Point Development Authority in compliance the South Carolina Consolidated Procurement Code and regulations.

Patriots Point Development Authority has not requested procurement certification above the basic limits of \$50,000 as allowed per Section 11-35-1550 (1) of the Code. Since no action is required by the State Budget and Control Board, the report is being submitted as information.



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Larry G. Sorrell, Manager  
Audit and Certification

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R. VOIGHT SHEALY  
MATERIALS MANAGEMENT OFFICER

March 3, 2008

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

Dear Voight:

We have reviewed the response from Patriots Point Development Authority to our audit report for the period of July 1, 2004 to June 30, 2006. Also we have followed the Authority's corrective action during and subsequent to our fieldwork. We are satisfied that Patriots Point Development Authority has corrected the problem areas and the internal controls over the procurement system are adequate.

Additional certification was not requested. Therefore, we recommend the Authority be allowed to continue procuring all goods and services, construction services, information technology and consulting services up to the basic level as outlined in the Code.

Sincerely,

Handwritten signature of Larry G. Sorrell in blue ink.

Larry G. Sorrell, Manager  
Audit and Certification

LGS/gs

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