

---

**OFFICE OF THE ADJUTANT GENERAL**

**PROCUREMENT AUDIT REPORT**

**JULY 1, 2005 – DECEMBER 31, 2006**

**TABLE OF CONTENTS**

---

	<b><u>PAGE</u></b>
Transmittal Letter.....	1
Introduction.....	3
Scope.....	4
Summary of Results.....	5
Result of Examination.....	7
Conclusion .....	24
Follow-up Letter .....	25

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

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 9, 2007

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 Office of the Adjutant General for the period July 1, 2005 through December 31, 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 established a basis for reliance upon the system of internal control to assure adherence to the Consolidated Procurement Code, State regulations and procurement policy of the Office of the Adjutant General. 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 Office of the Adjutant General 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 that transactions are executed in accordance with management's authorization and 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 actions based on the recommendations described in these findings will in all material respects place the Office of the Adjutant General 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 Office of the Adjutant General. Our review, conducted February 22, 2007 through April 9, 2007, was made under Section 11-35-1230(1) of the South Carolina Consolidated Procurement Code and Section 19-445.2020 of the accompanying regulations.

On August 9, 2005, the State Budget and Control Board granted the Office of the Adjutant General, hereinafter referred to as TAG, the following procurement certifications:

<u>PROCUREMENT AREAS</u>	<u>CERTIFICATION LIMITS</u>
Goods and Services	\$ 25,000 per commitment
Consultant/Contractual Services	\$ 25,000 per commitment
Information Technology	\$ 25,000 per commitment
Construction Services	\$ 25,000 per commitment
Construction Contract Change Order	\$ 25,000 per change order

On June 13, 2006, Senate bill 572 was signed into law raising all governmental bodies' procurement authority levels to \$50,000. As a result TAG has not requested additional procurement certifications.

## 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 Office of the Adjutant General 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, 2005 through December 31, 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, 2005 through December 31, 2006
- (2) Procurement transactions for the period July 1, 2005 through December 31, 2006 as follows:
  - a) Ninety-nine payments each exceeding \$1,500
  - b) Five hundred numerically filed purchase orders reviewed against the use of order splitting and favored vendors
- (3) Construction contracts for compliance with the Manual for Planning and Execution of State Permanent Improvements as follows:
  - a) Ten Delivery Orders issued from five Indefinite Delivery Construction contracts
  - b) One major construction contract
  - c) Three Professional Service Delivery Orders issued from three Indefinite Delivery Construction contracts for Architect/Engineering services
- (4) Procurement card transactions for October and November of 2006
- (5) Minority Business Enterprise Plans and reports for the audit period
- (6) Approval of the most recent Information Technology Plan
- (7) Internal procurement procedures manual
- (8) File documentation and evidence of competition
- (9) Surplus property disposal procedures

## SUMMARY OF RESULTS

	<u>PAGE</u>
I. <u>Extensive Audit Findings Noted in Indefinite Delivery Contracts</u>	
We noted extensive problems with the management of indefinite delivery contracts to include:	
A. <u>Delivery Orders Subcontracted Without Competition</u>	7
B. <u>Contractors' Cost Proposals Not Prepared in Accordance with Contracts</u>	9
C. <u>Contractor's Licensing Law Violated</u>	10
D. <u>Cost Proposals Do Not Agree to Rate Schedules</u>	10
E. <u>Major Construction Projects Done through IDCs Violating IDC Limits</u>	11
F. <u>Required Certificates of Insurance and Bonding Not Obtained</u>	12
G. <u>Building Plans and Specifications Not Submitted to Office of the State Engineer</u>	13
H. <u>Quarterly Reports of IDC Activity Not Submitted to the Office of the State Engineer</u>	13
II. <u>Artificially Divided Procurements</u>	
Our block sample of 500 sequentially issued purchase orders revealed 50 (10%) were artificially divided.	
A. <u>Two Awards Incorrectly Made From One Solicitation</u>	14
B. <u>Awards From Same Department With Value Exceeding \$10,000 With No Competition</u>	14
C. <u>Purchase Orders With Total Value Exceeding \$50,000 With No Competition</u>	15
D. <u>Purchases Orders With Total Value Exceeding \$10,000 With No Competition</u>	18
III. <u>Artificially Divided Procurement Card Transactions</u>	
We noted procurement card purchases of fire extinguishers over a month that should have been combined and competition solicited.	19

## SUMMARY OF RESULTS

	<u>PAGE</u>
<u>IV. Sole Source and Emergency Procurements</u>	
A. <u>Inadequate Justifications for Sole Source and Emergency Procurements</u>	20
Procurements made as sole sources and one emergency did not have adequate justification to support the transactions.	
B. <u>Sole Source and Emergency Procurements Not Reported</u>	21
Our random sample of procurement transactions revealed sole source and emergency procurements not reported.	
C. <u>Other Reporting Exceptions</u>	22
Four procurements reported as sole sources were exempt from the Code meaning sole source procedures were unnecessary.	
<u>V. General Procurement Exceptions</u>	
A. <u>Overpayments</u>	23
TAG paid several invoices that improperly included shipping charges that were not owed.	
B. <u>Procurement Manual Needs Updating</u>	23
TAG needs to update its Procurement Procedures Manual to reflect changes to the Code and regulations.	
C. <u>Blanket Purchase Agreements</u>	23
TAG failed to have vendors sign terms and conditions for blanket purchase agreements.	



## RESULTS OF EXAMINATION

### I. Extensive Audit Findings Noted in Indefinite Delivery Contracts

Article 10 of the South Carolina Consolidated Procurement Code (Code) authorizes the use of Indefinite Delivery Contracts (IDCs) for construction items, architectural-engineering and land surveying services. These contracts allow agencies to put vendors on call with established pricing derived through competitive sealed bidding for services. Our audit revealed extensive findings of non-compliance with the Code, accompanying Regulations and the Manual for Planning and Execution of State Permanent Improvements.

#### A. Delivery Orders Subcontracted Without Competition

None of the delivery orders in our sample, where IDC contractors used subcontractors, were priced in accordance with the Manual for Planning and Execution of State Permanent Improvements, i.e. Manual, resulting in no competition on the subcontracted portions.

<u>IDC Number</u>	<u>Description of Delivery Order</u>	<u>Subcontracted Without Competition</u>	<u>Total Delivery Order</u>
E24-D030	Install a security fence around the EMD center at the Pine Ridge Armory	\$ 93,016	\$ 93,016
E24-D041	Replace existing roof Bennettsville Armory	144,640	144,640
E24-D041	Labor and materials to install communications & power requirements for classroom, Distance Learning	10,401	10,401
E24-D038	Labor and materials and tools phase R renovations USP&FO	<u>119,595</u>	<u>148,000</u>
	Total	<u>\$367,655</u>	<u>\$396,057</u>

Delivery orders are work orders issued by an agency to a contractor already on contract with agreed upon pricing determined through competitive sealed bids usually using a cost pricing guide and a discount multiplier. The awarded vendor or vendors are determined from the greatest discounts of the cost guide. Contractors are required to price future work using the cost guide and multiplier. When subcontractors are used by the contractors, the contractor's cost

guide and multiplier applies to the subcontractors pricing plus the contractor is allowed to mark-up the subcontractor's price by 13%. Contractors are allowed to use subcontractors provided all of the terms of the original IDC contracts are applied to the subcontractors.

In the first three delivery orders, the project estimating sheets prepared by the contractors failed to use the contractors' multipliers and cost pricing guides to price the work. The subcontractors' prices should have been derived using the cost guide and contractors' multipliers, and then the contractors' mark-ups of 13% added. If this pricing could not be obtained through the cost pricing guides, then the IDC contracts did not apply. Separate bid solicitations should have been done.

As a result of not using the price guide and the discount multipliers, no competition was solicited for the contracts totaling \$367,655.

Section E2-11 of the Manual states: "If a sub-contractor or a sub-subcontractor (someone performing work on site and acting on behalf of the contractor) is contracted to do work for a project assigned by Delivery Order, the contractor shall include, or cause to be included, in the agreement with that entity, all provisions contained in the contract documents." This provision is included in the IDC contracts as well.

We recommend TAG adhere to Section E2-11 and the IDC contracts when accepting price proposals from its IDC contracts for subcontractor pricing.

#### TAG RESPONSE

We have changed our procedures to include competition between all IDC contractors. We are currently advertising a new general construction IDC contract to allow all contractors to provide a base bid for project award. After this competition the low three will be selected. After the contract is awarded we will ensure that all three successful bidders compete for the projects awarded under the IDC. We will also encourage competition between the general contractor's subcontractors.

B. Contractors' Cost Proposals Not Prepared in Accordance with Contracts

TAG accepted cost proposals from contractors for self-performed work who did not price the work in accordance with their IDC contracts by using the cost pricing guide and contractors' multipliers.

<u>IDC Number</u>	<u>Description of Delivery Order</u>	<u>Amount</u>
E24-D035	Labor and materials to replace HVAC at Darlington, Eastover and Greenville Armories	\$146,049
E24-D035	Labor and material to replace three roof top HVAC units	22,427
E24-D035	Replace three HVAC systems, Clarks Hill	21,216
E24-D035	Replace existing HVAC system	24,406

Section E2-5 (1) of the Manual requires agencies to use one of two methods, cost pricing guide and multiplier or unit pricing, to set up bid documents for IDC contracts to determine base bid for award purposes. TAG used the cost pricing guide and multiplier for these IDCs. The contractors' cost proposals for the delivery orders issued against the IDCs above did not show that the cost guides and multipliers were used in pricing the work. As a result, no competition was obtained. If the pricing could not be obtained through the cost pricing guides, then the IDC contracts did not apply. Separate bid solicitations should have been done.

We recommend TAG adhere to Section E2-5 (1) when accepting price proposals from its IDC contractors.

TAG RESPONSE

We will require IDC contractors to ensure that sub contractors use the cost price guide and apply the IDC contractor's multiplier when estimating contract cost when using RS Means.

C. Contractor's Licensing Law Violated

Two IDC delivery orders violated the contractor's licensing law.

<u>IDC Number</u>	<u>Description of Delivery Order</u>	<u>Amount</u>
E24-D041	Replace existing roof Bennettsville Armory	\$144,640
E24-D041	Install/replace communication (voice/data) & electrical outlet in classroom-Spartanburg	10,401

South Carolina Code of Laws Section 40-11-340, Qualifications for acting as sole prime contractor, states:

An entity licensed under the classifications or subclassifications in Sections 40 11 410(1), (2), or (3) may act as a sole prime contractor on a project if forty percent or more of the work as measured by the total cost of construction falls under one or more of the licensee's license classifications or subclassifications. An entity licensed under the classifications or subclassifications in Section 40 11 410(4) and (5) may act as sole prime contractor if fifty one percent or more of the work falls under one or more of the licensee's license classifications or subclassifications.

Neither of the general construction contractors were licensed to perform the work above. They both subcontracted the work to subs that were licensed. However, the contractor's licensing law requires that the general contractor be licensed for 40% or more of the work to be performed.

We recommend TAG insure that contractor's are licensed for the work to be performed in accordance with the contractor's licensing law before awarding delivery orders.

TAG RESPONSE

We have established procedures for award of general construction IDC contracts to ensure the prime contractor accomplishes forty percent. We are currently establishing a general/specialty roofing IDC contract to eliminate this problem. A majority of the findings were roofing projects which were awarded utilizing the general construction IDC. We have an electrical and mechanical IDC contract to accomplish those types of projects.

D. Cost Proposals Do Not Agree to Rate Schedules

Two delivery orders issued against IDC contracts for Architectural/Engineering (A/E) services failed to include evidence that the delivery order fees were negotiated in accordance

with the approved A/E hourly rate and reimbursable schedules attached to the A/E contracts.

The invoices did not show hourly rate information either.

<u>IDC Number</u>	<u>Description of Delivery Order</u>	<u>Amount</u>
E24-D025	McCrary RTC main entrance design	\$48,000
E24-D053	Conduct environmental site assessment Charleston Readiness Center	8,000

Section E1-3 General, of the Manual, paragraph D., states: "The fee for each Delivery Order shall be separately negotiated in accordance with the approved A/E's Hourly Rate and Reimbursable Schedule." Section E1-6. C. states: "In response to the Agency's request, the A/E shall prepare a Cost and Technical Proposal to: 5. Provide the fee structure for providing services using the approved Hourly Rate & Reimbursables Schedule. This may be either a "Lump Sum" contract or "Not to Exceed" with payment on an hourly basis.

We recommend TAG adhere to Sections E1-3 and E1-6 (C) when accepting price proposals from its IDC A/Es.

#### TAG RESPONSE

We have established crosschecks to ensure that the A&E cost proposals and invoices follow the agreed upon rates.

#### E. Major Construction Projects Done through IDCs Violating IDC Limits

We identified three major construction projects awarded using IDC contracts as opposed to soliciting bids.

<u>IDC Number</u>	<u>Description of Delivery Order</u>	<u>Project Amount</u>
E24-D035 & E24-D038	USP&FO renovations	\$793,053
E24-D035	Labor and materials to replace HVAC units for 7 armories	454,000
E24-D050	Roof replacement and repairs for armories	257,533

Section 11-35-3310 (1)(a) of the Code states, “When construction services contracts are awarded, each contract shall be limited to a total expenditure of seven hundred fifty thousand dollars for a two year period with individual project expenditures not to exceed one hundred fifty thousand dollars.” Additionally, Section 6.25 A of the Manual does not allow multiple delivery orders to IDC vendors on a single project to exceed \$300,000.

We recommend TAG adhere to project limits for IDCs per Section 11-35-3310 (1)(a) of the Code and Section 6.25 A of the Manual.

#### TAG RESPONSE

We have measures in place to limit IDC contracts to under \$300,000 for a single project.

#### F. Required Certificates of Insurance and Bonding Not Obtained

TAG failed to secure certificates of insurance from its contractors on all IDC projects at the time the awards were made on the items tested. TAG obtained the certificates based on our request. However, some showed that contractors did not have adequate levels of insurance. Section 6.20 of the Manual requires liability insurance on all state projects. This section also outlines minimum levels acceptable.

We recommend TAG obtain certificates of insurance from its contractors prior to issuing delivery orders on IDC contracts.

TAG failed to obtain bonding from its contractors on all IDC projects we tested for projects exceeding \$50,000. Section E2-9 of the Manual states in part, “Performance Bonds and Labor and Material Payment Bonds shall be required for all Delivery Orders exceeding \$50,000 (or less if required by the agency). Bonds shall each be in the amount of 100% of the amount of the Delivery Order ....”

We recommend TAG adhere to Section E2-9 regarding contractor bonding requirements.

#### TAG REPOSENSE

We are currently requiring bonding on IDC contracts.

G. Building Plans and Specifications Not Submitted to the Office of the State Engineer

TAG failed to submit plans and specifications to the Office of the State Engineer (OSE) for approval on two delivery orders issued against IDC contracts for construction services.

<u>IDC Number</u>	<u>Description of Delivery Order</u>	<u>Project Amount</u>
E24-D030	Install a security fence around the EMD center at the Pine Ridge Armory	\$ 93,016
E24-D038	Labor and materials and tools phase R renovations USP&FO	148,000

Section E2-10 of the Manual states, "Plans and specifications for Delivery Orders exceeding the agency's construction procurement certification shall be submitted to the OSE for code compliance review." At the time these delivery orders were issued, TAG's construction certification was limited to \$25,000 per commitment. The Code changed on June 13, 2006 increasing basic authority levels to \$50,000 for construction.

We recommend plans and specifications on all IDC projects defined as construction expected to exceed \$50,000 be submitted to the Office of the State Engineer for code compliance review and approval.

TAG RESPONSE

Plans and specifications are submitted to the Office of the State Engineer for their approval.

H. Quarterly Reports of IDC Activity Not Submitted to the Office of the State Engineer

Out of ten IDC delivery orders and three A/E IDC delivery orders, nine were not reported to the Office of the State Engineer (OSE). Section E2-12 of the Manual states, "The Agency shall submit to the OSE quarterly reports on IDC contracts." The use of Permanent Improvement Funds (PIP) is among the items specifically listed to be included on the quarterly reports. Two of the delivery orders used PIP funds but were not reflected.

We recommend TAG adhere to Section E2-12 regarding quarterly reporting requirements for IDCs.

TAG RESPONSE

Quarterly reports will be submitted to the Office of the State Engineer.

II. Artificially Divided Procurements

Our block sampling technique of 500 sequentially issued purchase orders revealed 50 (10%) of those purchase orders had been artificially divided. Section 11-35-1550 states in part, "...procurement requirements must not be artificially divided by governmental bodies so as to constitute a small purchase under this section." We noted the following types of exceptions.

A. Two Awards Incorrectly Made From One Solicitation

The following purchase orders were based on one solicitation of three written quotes. Since the total awards exceeded \$10,000, written solicitation of written quotes and advertisement in the South Carolina Business Opportunities, i.e. SCBO, should have been made.

<u>PO</u>	<u>Date</u>	<u>Description</u>	<u>Amount</u>
400	09/08/06	Crushed stone; rip rap	\$10,141
401	09/08/06	Stone 789	<u>7,749</u>
		Total award	<u>\$17,890</u>

TAG RESPONSE

Concur with exceptions.

B. Awards From Same Department With Total Value Exceeding \$10,000 With No Competition

The following purchase orders were issued for the same Department and same requestor for related items. The files have no evidence of competition. Since the total award exceeded \$10,000, written solicitation of written quotes and advertisement in SCBO should have been made.



<u>PO</u>	<u>Date</u>	<u>Description</u>	<u>Amount</u>
515	09/29/06	Environmental clean-up materials; oil pads, oil booms, oil sock, oil pillows, gloves	\$2,396
516	09/29/06	Environmental clean-up materials; open head steel drums for hazardous waste	2,332
517	9/29/06	Environmental clean-up materials; drum truck, two drum cover, waste battery container	2,389
518	09/29/06	Environmental clean-up materials; used oil containment system, various labels	2,491
519	09/29/06	Environmental clean-up materials; covered secondary containment pallet, 4 drums	<u>2,270</u>
Total award			<u>\$11,878</u>

TAG RESPONSE

We agree that four of the five purchase orders should have been competed. Federal funds were received the last day or two of the fiscal year and the purchases were made from vendors who had the necessary items in stock. A different approach regarding purchases with end of year funds will be taken in the future. We feel the purchase on purchase order 518 was a valid purchase in that this vendor is the only one who stocks the particular label identified for use by the Army National Guard Hazardous Material & Waste Management Plan (compatibility between the National Guard Bureau and the individual states).

C. Purchases Orders With Total Value Exceeding \$50,000 With No Competition

These files have no evidence of competition. The total awards exceeded \$50,000. Sealed bids should have been solicited by the Materials Management Office. Because the total value of the contract exceeded \$50,000, TAG exceeded its authority limit resulting in each procurement being unauthorized as defined in Regulation 19-445.2015.

<u>PO</u>	<u>Date</u>	<u>Description</u>	<u>Amount</u>
624	10/10/06	HVAC service agreement; preventive maintenance for radiant heaters, roof top units, water heater – 10/01/06 – 06/30/07 Pine Ridge in West Cola	\$1,350
627	10/10/06	Quarterly PM on HVAC – roof top units & radiant heaters – 10/01/06 – 06/30/07 Eastover	1,293
628	10/10/06	HVAC service agreement; radiant heaters, HVAC, water heaters, boiler 10/01/06 – 06/30/07 Beaufort	2,200

<u>PO</u>	<u>Date</u>	<u>Description</u>	<u>Amount</u>
629	10/10/06	HVAC service agreement; radiant heaters, HVAC units, water heaters, boilers – 10/1/06 – 3/31/07 Congaree Armory on Garners Ferry Road Eastover	1,800
640	07/12/06	BPA for service calls to repair and maintain HVAC equipment – 07/01/06 – 09/30/06, Eastover, no limit per call,	8,635
702	10/20/06	BPA for preventive maintenance, inspections and service to HVAC equipment at MTC & CHTS, NTE \$2,500 (no time period)	20,000
706	10/20/06	Provide preventive maintenance of HVAC equipment – Military Museum, Columbia	632
711	10/20/06	Provide all labor and materials to treat boiler – USP&FO, Columbia	1,489
729	07/12/06	Service agreement for HVAC units, building 3800 McCrady–07/01/06 – 09/30/06	12,722
743	10/24/06	Provide all labor and materials to inspect boiler – USP&FO, Columbia	1,970
755	10/26/06	BPA for service calls on HVAC, electrical, plumbing systems at CHTS – Eastover – 10/01/06 – 06/30/07	<u>2,500</u>
Total award			<u>\$54,591</u>

<u>PO</u>	<u>Date</u>	<u>Description</u>	<u>Amount</u>
659	07/12/06	BPA for service calls on lift stations, grease traps & septic tank at MTC 07/01/06 – 09/30/06	\$19,627
680	10/12/06	Provide labor and material to clean grease traps monthly at McEntire – 10/01/06 – 06/30/07	1,575
690	07/12/06	BPA for MTC & Marines Waste Water systems (wash racks) NTE \$1,500 per call - 07/01/06 – 09/30/06	4,761
691	07/12/06	BPA for preventive maintenance on pumps and motors on wash rack facility MTC 07/01/06 – 09/30/06	10,000
703	10/20/06	BPA of MTC & Marines waster water system (wash racks) 10/01/06 – 06/30/07, NTE \$1,500	1,500
704	10/20/06	BPA for MTC water systems operation – 10/01/06 – 06/30/07, NTE \$2,500	12,000

<u>PO</u>	<u>Date</u>	<u>Description</u>	<u>Amount</u>
728	07/12/06	BPA for MTC water system – 07/01/06 – 09/30/06	6,563
747	10/26/06	BPA for PM on lift stations and wash rack pumps, motors & electrical systems at MTC done as sole source	<u>12,500</u>
Total award			<u>\$68,526</u>

<u>PO</u>	<u>Date</u>	<u>Description</u>	<u>Amount</u>
652	10/12/06	BPA – Inspection, recharging, maintenance, testing (if required) and certification of fire extinguishers and haz mat suppression systems NTE \$2,500 – 10/01/06 – 09/30/07	\$7,500
653	10/12/06	BPA – Inspection, recharging, maintenance, hydrostatic testing (if required) and certification of fire extinguishers and haz mat suppression systems NTE \$2,500 – 10/01/06 – 09/30/07	3,000
661	10/12/06	BPA – Inspection, recharging, maintenance, hydrostatic testing (if required) and certification of fire extinguishers NTE \$2,500 – 10/01/06 – 09/30/07	12,500
741	07/12/06	BPA for service calls to Electrical and Monaco fire alarm systems located at MTC – 07/01/06 – 09/30/06, NTE \$1,500	3,140
749	10/26/06	BPA for service calls to Electrical and fire alarm systems located at MTC – 7/1/06 – 9/30/06, NTE \$2,500	20,000
750	10/26/06	BPA for service calls & inspection on fire suppression system located at MTC – 10/01/06 – 06/30/07, NTE \$2,500	2,500
751	10/26/06	Fire extinguisher inspections – MTC – Eastover	2,500
758	10/26/06	Monaco fire alarm system training	2,250
759	10/26/06	Repair fire alarm system repeater	2,000
777	10/26/06	Inspect/ test fire alarm systems, blackhawk hanger, apache hanger, utility hanger	10,545
778	10/26/06	Quarterly inspection of fire alarm system, Eastover – 10/01/06 – 06/30/07	705
781	11/02/06	Monaco fire alarm system training, system start up, maintenance & troubleshooting	2,250

<u>PO</u>	<u>Date</u>	<u>Description</u>	<u>Amount</u>
793	07/12/06	Inspection, recharging, maintenance, hydrostatic testing of fire extinguishers – 07/01/06 – 09/30/06	<u>560</u>
Total award			<u>\$69,450</u>

TAG RESPONSE

The Agency has submitted a request for ratification as noted in the audit report. We agree, in principle, with the comments included in the report, however, we feel some require further explanation. Two purchase orders (711 and 743) were issued, one for boiler repair and the other for boiler inspection subsequent to the repair. Industry standards dictate that the same contractor should not perform both services. Purchase order 777 was issued as a sole source and the vendor was the only authorized contractor who was fire suppression alarm equipment certified. Purchase order 759 was issued to purchase a repeater for repair of the fire alarm system. Purchase orders 758 and 781 were issued to conduct fire alarm system training for the current on board technician, supervisors and back-up technicians at two separate locations. It is the Agency's opinion that the above referenced purchase orders should not be a part of the exception as they have no relationship to ongoing maintenance, inspection, testing, service, etc. During our meeting in November, we were under the impression that all in attendance were in agreement that these items should not be included in the report. In any event, the Agency will strive to secure contracts for these services.

D. Purchase Orders With Total Value Greater Than \$10,000 With No Competition

These files have no evidence of competition. Since the total awards exceeded \$10,000, written solicitation of written quotes and advertisement in SCBO should have been made.

<u>PO</u>	<u>Date</u>	<u>Description</u>	<u>Amount</u>
660	07/12/06	BPA for monthly pesticide application at MTC Leesburg Rd – 07/01/06 – 09/30/06	\$ 1,350
682	10/12/06	Labor and material for pest control services at McEntire – 10/01/06 – 06/30/07	2,475
683	10/12/06	Labor and material for pest control services at McEntire – 10/01/06 – 06/30/07	1,665
705	10/20/06	BPA for pest control at MTC Leesburg Rd – 10/01/06 – 06/30/07, NTE \$2,500	3,600
767	10/26/06	Provide pest management services – USP&FO Columbia	<u>2,500</u>
Total award			<u>\$11,590</u>

<u>PO</u>	<u>Date</u>	<u>Description</u>	<u>Amount</u>
664	10/12/06.	BPA - Repairs to overhead and commercial steel doors, various facilities, NTE \$2,500 – 10/01/06 – 09/30/07	\$10,000
665	10/12/06	BPA - Repairs to overhead and commercial steel doors, various facilities, NTE \$2,500 – 10/01/06 – 09/30/07	10,000
732	07/12/06	BPA for service calls to repair and maintain roll up doors located at MTC – 07/01/06 – 09/30/06	1,278
735	07/12/06	BPA for service calls to all overhead roll up doors located at MTC – 07/01/06 – 09/30/06	<u>1,500</u>
Total award			<u>\$22,778</u>

We recommend TAG comply with section 11-35-1550 by not artificially dividing procurements avoiding competition and in some instances, exceeding its authority limits. TAG must submit ratification requests in accordance with Regulation 19-445.2015 to the Materials Manager Officer for the procurements that exceeded the certification limit of \$50,000.

#### TAG RESPONSE

Concur with exceptions. Procedures are being developed in an attempt to secure contracts for like or similar services.

#### III. Artificially Divided Procurement Card Transactions

We noted procurement card purchases of fire extinguishers made by one employee at TAG over a month without competition that should have been combined and competition solicited. Competition based on combined quantities should result in better pricing.

<u>Invoice Number</u>	<u>Invoice Date</u>	<u>Charge Date</u>	<u>Description</u>	<u>Amount (Excluding Tax)</u>
8980	09/06/06	09/29/06	1 – 5lb Fire extinguisher	\$ 196
			1 – K Class fire extinguisher	
8997	09/27/06	09/28/06	7 – 20lb Fire extinguishers	1,485
			5 – 10lb Fire extinguishers	
			1 - K Class fire extinguisher	

<u>Invoice Number</u>	<u>Invoice Date</u>	<u>Charge Date</u>	<u>Description</u>	<u>Amount (Excluding Tax)</u>
8995	09/27/06	09/29/06	5 – 20lb Fire extinguishers 1 – K Class fire extinguisher 3 – 10lb Fire extinguishers	1,069
8998	09/28/06	09/28/06	3 – 10lb Fire extinguishers 2 - 5lb Fire extinguishers	294
8959	10/04/06	10/06/06	9 – 20lb Fire extinguishers	1,260
9011	10/04/06	10/09/06	9 – 20lb Fire extinguishers	1,260
9002	10/10/06	10/11/06	3 – 10 lb Fire extinguishers 1 - K Class fire extinguisher	274
9005	10/11/06	10/12/06	1 – K Class fire extinguisher 2 – 10lb Fire extinguishers 2 – 5lb Fire extinguishers	396
9006	10/11/06	10/12/06	4 – 5lb Fire extinguishers	180
9016	10/13/06	10/18/06	2 – 20lb Fire extinguishers 2 – 10lb Fire extinguishers 2 – 5lb Fire extinguishers	506
9014	10/13/06	10/18/06	7 – 10lb Fire extinguishers 2 – 5lb Fire extinguishers	226
9044	10/20/06	10/23/06	1 – 20lb Fire extinguisher	<u>140</u>
Total award				<u>\$7,286</u>

We recommend TAG comply with Section 11-35-1550 by not artificially dividing procurements and avoiding competition on its procurement card purchases.

#### TAG RESPONSE

Concur with exceptions. Procedures are being developed in an attempt to secure a contract for these type supplies.

#### IV. Sole Source and Emergency Procurements

##### A. Inadequate Justifications for Sole Source and Emergency Procurements

The following procurements did not have adequate justification to support the transactions.

<u>PO</u>	<u>Date</u>	<u>Description</u>	<u>Amount</u>
1702	07/12/05	Sole source for software license	\$ 516,844
89	07/12/05	Sole source for test cups for drug screen	4,500
364	09/07/05	Sole source for solar powered obstruction lights	3,874
1468	05/25/06	Sole source to replace two transformers	9,271

<u>PO</u>	<u>Date</u>	<u>Description</u>	<u>Amount</u>
1420	05/17/06	Sole source to repair and return transformer	3,279
379	06/05/06	Sole source for firefighting gear	7,203
521	09/29/06	Sole source for maintenance for barriers	6,200
1189	03/15/05	Emergency for food products and supplies	750,000

Section 11-35-1560 of the Code for sole source procurements states in part:

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 officer, above the level of the procurement officer, determines in writing that there is only one source for the required supply, service, information technology, or construction item. In cases of reasonable doubt, competition must be solicited.

The emergency procurement resulted from poor planning by allowing an existing contract to expire without having sufficient time to re-solicit another contract. Continued delays caused almost a year to lapse before another contract was competitively bid.

We recommend TAG comply with the Code in determining sole source and emergency procurements.

#### TAG RESPONSE

We generally agree with exceptions. In the future, we will ensure that justifications contain sufficient factual information so that a knowledgeable and objective decision can be made.

#### B. Sole Source and Emergency Procurements Not Reported

The following sole source and emergency procurements were not reported to the Materials Management Office.

<u>PO</u>	<u>Date</u>	<u>Description</u>	<u>Amount</u>	<u>Unreported</u>
104	07/19/05	Emergency to remove water from carpet	\$ 2,186	\$ 2,186
1189	03/15/05	Emergency for food products and supplies	750,000	425,000
1235	03/23/06	Emergency for interim janitorial services	13,792	13,792
110001	09/08/05	Emergency for refrigerated trailer lease	23,501	<u>23,501</u>
Total unreported emergencies				<u>\$464,479</u>

<u>PO</u>	<u>Date</u>	<u>Description</u>	<u>Amount</u>	<u>Unreported</u>
1702	07/12/05	Sole source for software license	\$516,844	\$516,844

Section 11-35-2440 states in part, "A governmental body as defined in Section 11-35-310(18) shall submit quarterly a record listing all contracts made pursuant to Section 11-35-1560 (Sole Source Procurement) or Section 11-35-1570 (Emergency Procurements) to the chief procurement officers.

We recommend TAG comply with sole source and emergency reporting requirements. Amended reports should be submitted to the Materials Management Office for these transactions.

TAG RESPONSE

Reports have been corrected and submitted.

C. Other Reporting Exceptions

Four procurements reported as sole sources were exempt from the Code meaning sole source procedures were unnecessary.

<u>PO</u>	<u>Date</u>	<u>Description</u>	<u>Amount</u>
570	09/29/06	Software maintenance renewal	\$ 6,793
774	11/17/05	Educational software	7,542
845	12/05/05	Books	1,800
1385	05/04/06	Software maintenance renewal	<u>2,058</u>
Total			<u>\$18,193</u>

We recommend amended reports be filed removing these transactions.

TAG RESPONSE

Reports have been corrected and submitted.



V. General Procurement Exceptions

A. Overpayments

TAG improperly paid shipping charges that were not allowed by the purchase orders.

<u>PO</u>	<u>Voucher</u>	<u>Description</u>	<u>Shipping</u>
459	2295	60K controller bundle	\$ 115
1012	4147	Line impact printer	168
1513	7374	SQL server software	15

We recommend TAG adhere to payment terms as noted on purchase orders.

TAG RESPONSE

It was discovered that the SABAR procedures automatically enters FOB Destination on all purchase orders. The procedure has now been changed to allow the requestor to enter FOB Origin if shipping charges are applicable. Credit against future work has been received from the vendor on purchase order 459 and 1012. Contract with the State authorizes shipping.

B. Procurement Manual Needs Updating

On June 13, 2006, the Senate bill S 572 revising the South Carolina Consolidated Procurement Code became law. The procurement regulations were revised on May 25, 2007. As a result, TAG needs to update its Procurement Procedures Manual to reflect changes to the Code and regulations.

We recommend TAG update its manual and submit it to our office for review in accordance with Section 11-35-540.

TAG RESPONSE

We are currently revising the manual and will submit it for approval not later than April 1, 2008.

C. Blanket Purchase Agreements

TAG's procurement procedures manual requires vendors to sign terms and conditions for blanket purchase agreements. The agreements for purchase orders 592, 615, 690, 868, and 873 did not have vendor signatures.

We recommend TAG comply with its procedures for blanket purchase agreements.

TAG RESPONSE

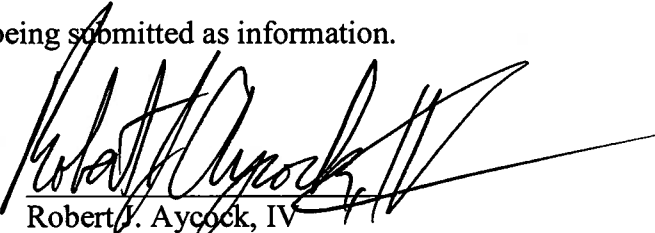
Concur. Procedures are being revised to delete this requirement.

## CERTIFICATION RECOMMENDATIONS

We must state our concern over the variety and number of exceptions noted during the audit. We have identified weaknesses of internal controls that must be corrected in order to safeguard against non-compliance to the Code and the operating procedures of the Office of the Adjutant General.

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

The Office of the Adjutant General 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.

  
Robert J. Aycock, IV  
Audit Manager

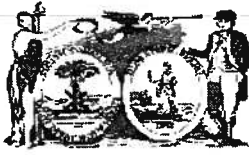
  
Larry G. Sorrell, Manager  
Audit and Certification

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

April 16, 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 Office of the Adjutant General to our audit report for the period of July 1, 2005 to December 31, 2006. Also we have followed the Office's corrective action during and subsequent to our fieldwork. We are satisfied that the Office of the Adjutant General has corrected the problem areas and the internal controls over the procurement system are adequate.

Additional certification was not requested. Therefore, we recommend the Office 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,

A handwritten signature in black ink, appearing to read "Larry G. Sorrell".

Larry G. Sorrell, Manager  
Audit and Certification

LGS/gs

Total Copies Printed	11
Unit Cost	<u>\$ 1.01</u>
Total Cost	<u>\$11.11</u>