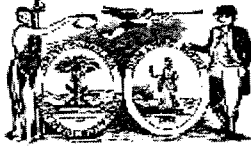


STATE OF SOUTH CAROLINA
State Budget and Control Board
PROCUREMENT SERVICES DIVISION

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R. VOIGHT SHEALY
MATERIALS MANAGEMENT OFFICER

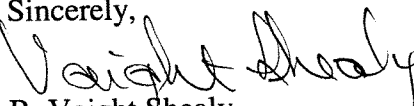
November 23, 2004

Mr. Delbert H. Singleton Jr.
Director
Procurement Services Division
6th Floor-Wade Hampton Building
Columbia, South Carolina 29201

Dear Delbert:

I have attached Department of Transportation's procurement audit report and recommendations made by the Office of Audit and Certification. I concur and recommend the Budget and Control Board grant the Department of Transportation a three-year certification as noted in the audit report.

Sincerely,


R. Voight Shealy
Materials Management Officer

/jl

**DEPARTMENT OF TRANSPORTATION
PROCUREMENT AUDIT REPORT
OCTOBER 1, 2001 - JUNE 30, 2004**

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R. VOIGHT SHEALY
MATERIALS MANAGEMENT OFFICER

October 22, 2004

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 Department of Transportation for the period October 1, 2001 through June 30, 2004. 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 Department. 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 Department of Transportation 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 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 one condition enumerated in this report which we believe needs correction or improvement.

Corrective action based on the recommendation described in the finding will in all material respects place the Department of Transportation 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 Department of Transportation. Our on-site review was conducted August 16, 2004 through September 28, 2004 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.

On February 14, 2002 the State Budget and Control Board granted the Department of Transportation, hereinafter referred to as the Department, the following procurement certifications.

<u>PROCUREMENT AREAS</u>	<u>CERTIFICATION LIMITS</u>
Goods and Services	\$ 250,000 per commitment
Consultants/Contractual Services	\$ 100,000 per commitment
Information Technology	\$ 100,000 per commitment
Construction	\$ 100,000 per commitment
Construction Contract Change Orders	\$ 100,000 per change order
Architect/Engineer Contract Amendment	\$ 25,000 per amendment

Our audit was performed primarily to determine if recertification is warranted. Additionally, the Department requested the following increased certification limits.

<u>PROCUREMENT AREAS</u>	<u>CERTIFICATION LIMITS</u>
Supplies	\$ 1,000,000 per commitment
Services	\$ 500,000 per commitment
Consultants	\$ 100,000 per commitment
Information Technology	\$ 100,000 per commitment
Construction	\$ 10,000,000 per commitment
Construction Contract Change Orders	25% of initial construction contract, aggregate amount
Architect/Engineer Contract Amendment	25% of initial Architect/Engineer contract, aggregate amount

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 Department and its related policies 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 July 1, 2002 through June 30, 2004 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 October 1, 2001 through June 30, 2004
- (2) Procurement transactions from the period July 1, 2002 to June 30, 2004 as follows:
 - a) One hundred and four payments exceeding \$1,500
 - b) A numerical block sample of five hundred purchase orders
 - c) Procurement card transactions for the months February and March of 2004
 - d) An additional sample of twelve sealed bids
- (3) Six major construction contracts, three minor construction contracts and two professional services contracts for compliance with the Manual for Planning and Execution of State Permanent Improvements
- (4) Minority Business Enterprise Plans and reports
- (5) Approval of most recent Information Technology Plan
- (6) Internal operating procurement procedures manual
- (7) File documentation and evidence of competition
- (8) Surplus property disposal procedures

RESULTS OF EXAMINATION

Purchasing Card Transactions Artificially Divided

The following transactions were artificially divided to circumvent the \$1,500 per purchase limit on the cards.

<u>Amount</u>	<u>Date</u>	<u>Area</u>	<u>Description</u>
\$ 854	03/19/04	Holly Hill Shop 950	Repair parts and accessories
<u>1,109</u>	03/19/04	Holly Hill Shop 950	Repair parts and accessories
<u>\$ 1,963</u>			
\$ 1,131	03/12/04	York Shop 950	Repair parts and accessories
288	03/12/04	York Shop 950	Repair parts and accessories
288	03/12/04	York Shop 950	Repair parts and accessories
36	03/12/04	York Shop 950	Repair parts and accessories
36	03/12/04	York Shop 950	Repair parts and accessories
<u>36</u>	03/12/04	York Shop 950	Repair parts and accessories
<u>\$1,815</u>			
\$1,090	02/05/04	York Shop 950	Repair parts and accessories
<u>1,090</u>	02/05/04	York Shop 950	Repair parts and accessories
<u>\$2,180</u>			
\$ 689	02/23/04	Lee Maintenance	Concrete for road bridge
138	02/23/04	Lee Maintenance	Concrete for road bridge
551	02/25/04	Lee Maintenance	Concrete for road bridge
345	02/25/04	Lee Maintenance	Concrete for road bridge
<u>394</u>	02/25/04	Lee Maintenance	Concrete for sidewalk
<u>\$ 2,117</u>			
\$ 531	03/02/04	Beaufort Maintenance	Asphalt
529	03/02/04	Beaufort Maintenance	Asphalt
524	03/02/04	Beaufort Maintenance	Asphalt
529	03/05/04	Beaufort Maintenance	Asphalt
<u>\$ 524</u>	03/08/04	Beaufort Maintenance	Asphalt
<u>\$ 2,637</u>			

Since the procurements exceeded the purchase limit of \$1,500 established by the Department, each procurement was unauthorized as defined by Regulation 19-445.2015.

We recommend the Department comply with the approved policies of the purchasing card program. We also recommend more oversight be placed on purchasing card transactions. Ratification for these unauthorized procurements must be requested per Regulation 19-445.2015 from the Director of the Department or her designee as these procurements were within the Department's procurement authority.

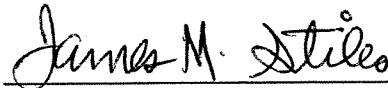
CERTIFICATION RECOMMENDATIONS

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 Department of Transportation in compliance with the Consolidated Procurement Code.

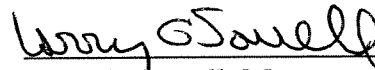
Under the authority described in Section 11-35-1210 of the Procurement Code, subject to this corrective action, we will recommend the Department of Transportation be re-certified to make direct agency procurements for three years up to the limits as follows:

<u>PROCUREMENT AREA</u>	<u>RECOMMENDED CERTIFICATION LIMITS</u>
Supplies	*\$ 1,000,000 per commitment
Services	*\$ 500,000 per commitment
Consultants	*\$ 100,000 per commitment
Information Technology	*\$ 100,000 per commitment
Construction Services	\$ 10,000,000 per commitment
Construction Contract Change Order	25% of initial construction contract, aggregate amount
Architect/Engineer Contract Amendment	25% of initial Architect/Engineer contract, aggregate amount

*The total potential purchase commitment whether single year or multi-term contract.



James M. Stiles, CPPB
Audit Manager



Larry G. Sorrell, Manager
Audit and Certification



South Carolina
Department of Transportation

955 Park Street, Room 502
Columbia, South Carolina 29201

Director of Procurement
Norma J. Hall, CPPPO
(803) 737-1483 ♦ Fax (803) 737-2046

Assistant Director of Procurement
Michael A. Burk, CPPPO
(803) 737-1481 ♦ Fax (803) 737-2046

November 22, 2004

Mr. Larry G. Sorrell
Manager
Audit and Certification
Procurement Services Division
Materials Management Office
1201 Main Street, Suite 600
Columbia, South Carolina 29201

Dear Larry:

We have reviewed the draft audit report and concur with the findings. We were very pleased with the outcome and have already taken corrective action on the one finding sighted in the audit where some purchase card transactions were artificially divided. These procurements are in the process of being ratified and we have put into place safeguards to help assure these infractions do not occur.

As you can see by the attached memorandum, we are requiring each cardholder to attend a training session at least once a year. These training sessions will be concurrent with the field management review we perform on purchases made with the procurement card. The training sessions will reinforce their initial training and will elaborate on any findings related to their management review.

As always, it was a pleasure working with your staff and both Mr. Jim Stiles and Ms. Melissa Thurstin were very helpful and professional.

Sincerely,

Norma J. Hall, CPPPO

Norma J. Hall, CPPPO
Director of Procurement

NJH/njh
Enclosure

cc: Ms. Elizabeth S. Mabry, Executive Director
Mr. W. Keith Bishop, Deputy Director of Finance and Administration
Mr. Doug MacFarlane, Director Contract Audit Services
Ms. Suzette Porter, Facilities Engineer, SCDOT
Mr. Jim Stiles, MMO, Audit and Certification
Ms. Melissa Thurstin, MMO, Audit and Certification

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November 23, 2004

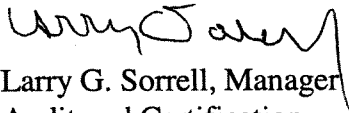
Mr. R. Voight Shealy
Materials Management Officer
Materials Management Office
1201 Main Street, Suite 600
Columbia, South Carolina 29201

Dear Voight:

We have reviewed the response from the Department of Transportation to our audit report for the period of October 1, 2001 – June 30, 2004. Also we have followed the Department's corrective action during and subsequent to our fieldwork. We are satisfied that the Department of Transportation has corrected the problem areas and the internal controls over the procurement system are adequate.

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

Sincerely,


Larry G. Sorrell, Manager
Audit and Certification

LGS/jl

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