

**SOUTH CAROLINA DEPARTMENT OF
PARKS, RECREATION AND TOURISM
PROCUREMENT AUDIT REPORT
OCTOBER 1, 2005 – DECEMBER 31, 2009**

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

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June 16, 2010

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 Department of Parks, Recreation & Tourism for the period October 1, 2005 through December 31, 2009. As part of our examination, we studied and evaluated the system of internal controls over procurement transactions to the extent we considered necessary.

The evaluation established a basis for reliance upon the system of internal controls to assure adherence to the Consolidated Procurement Code, State regulations and the South Carolina Department of Parks, Recreation & Tourism'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 Department of Parks, Recreation & Tourism 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 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 Department of Parks, Recreation & Tourism in compliance with the Consolidated Procurement Code and ensuing regulations.

Sincerely,

A handwritten signature in black ink, appearing to read "Robert J. Aycock, IV". The signature is fluid and cursive, written over the printed name.

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 Department of Parks, Recreation & Tourism. Our on-site review was conducted from February 9, 2010 through March 11, 2010, 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.

On June 21, 2006 the State Budget and Control Board granted the South Carolina Department of Parks, Recreation & Tourism the following procurement certifications over the \$50,000 basic limit allowed by law:

<u>PROCUREMENT AREAS</u>	<u>CERTIFICATION LIMITS</u>
Construction Contract Award	\$100,000 per commitment
Construction Contract Change Order	\$100,000 per change order
Architect/Engineer Contract Amendment	\$ 15,000 per amendment

The South Carolina Department of Parks, Recreation & Tourism requested \$100,000 in Supplies and Services certification and requested to remain at the current certification levels in all other areas. Our audit was performed primarily to determine if recertification is warranted.

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 Department of Parks, Recreation & Tourism, hereinafter referred to as the Department, 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 October 1, 2005 through December 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 October 1, 2005 through December 31, 2009 with exceptions noted in Section I of the report
- (2) Procurement transactions for the period October 1, 2005 through December 31, 2009 as follows:
 - a) Ninety-six payments each exceeding \$2,500 with exceptions noted in Sections II, V and VI of the report
 - b) Four-hundred twenty-four sequentially filed purchase orders reviewed against the use of order splitting and favored vendors with exceptions noted in Section III of the report
 - c) Procurement card transactions for the months of October and November 2009, with exceptions noted in Section II of the report
- (3) Four construction contracts and two professional service contracts for compliance with the Manual for Planning and Execution of State Permanent Improvements, Part II, with no exceptions.
- (4) 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	\$197,123	\$ 80,183
2006-2007	\$ 43,585	\$135,523
2007-2008	\$117,192	\$ 51,966
2008-2009	\$144,191	\$175,280

- (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 exceptions noted in Section V of the report
- (8) File documentation and evidence of competition with no exceptions
- (9) Other tests performed as deemed necessary with exceptions noted in Section IV of the report.

SUMMARY OF AUDIT FINDINGS

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Nine procurements made as sole sources were inappropriate.	
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The Department entered into a three year software maintenance agreement through a sole source determination without a written determination justifying the use of a multi-term contract.	
II. <u>Unauthorized Procurements</u>	
A. <u>Competitive Sealed Proposal</u>	10
The Department awarded a contract through a Request for Proposal without preparing a written determination justifying the use of an alternative bidding method. The scoring for costs appeared arbitrary.	
B. <u>Unauthorized Procurements</u>	11
Two procurements were not supported by evidence of solicitations of competition, sole source or emergency procurement determinations.	
C. <u>Unauthorized Procurement Card Transaction</u>	11
A single procurement card transaction exceeded \$2,500 without the card holder's transaction limit being approved by the Materials Management Officer violating a basic internal control of the program.	
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Our review of sequentially issued purchased orders identified use of a vendor for transactions less than the competitive limit giving the appearance of a favored vendor.	
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We tested four out of seventeen procurement transactions delegated back to the Department for the audit period by the Chief Procurement Officer finding exceptions on all four.	

V. Unauthorized Procurements

A. Reports of Unauthorized Procurements Not Submitted

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The Department failed to report unauthorized procurements to the Chief Procurement Officers.

B. Ratifications of Unauthorized Procurements

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Ratification of unauthorized procurements failed to address actions taken against the individual committing the act, one of the required elements of a ratification.

VI. Inappropriate Solicitations of Competition

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Two procurements were supported by downloaded internet catalog prices instead of solicitations of competition. The Department failed to apply a discounted price on one and the other was available on a mandatory State term contract.

RESULTS OF EXAMINATION

I. Sole Source Procurements

Section 11-35-1560 of the Code authorizes the use of sole source procurements when the written determination and basis for the proposed sole source procurement indicates there is only one source for the required supply, service, information technology, or construction item, and no other will be suitable or acceptable to meet the need. We noted the following exceptions:

A. Inappropriate Sole Source Procurements

The following procurements made as sole sources were inappropriate.

<u>PO</u>	<u>Date</u>	<u>Description</u>	<u>Amount</u>
747	01/23/07	Painting Restoration	\$ 5,600
90	07/13/09	Maintenance (AS400 & Printer)	\$ 8,334
346	09/30/09	Refuse Collection	\$ 8,615
194	07/30/07	Satellite Service	\$ 2,671
147	07/25/08	Satellite Service	\$ 3,911
72	07/08/09	Satellite Service	\$ 4,198
83	07/01/07	Satellite Service	\$20,503
85	07/10/06	Satellite Service	\$ 3,806
157	07/24/06	Satellite Service	\$ 2,800

The written determination for the procurement of Paint Restoration based its decision on the vendor's familiarity with the work and geographic closeness. We do not believe familiarity or proximity to be a valid reason not to compete a procurement. The written determination for Maintenance (AS400 Printer) was based on the justification that the vendor maintains spare parts and is the only company the agency is able to locate for parts. An advertisement could possibly reveal other vendors with the same ability to perform the services.

The written determination for the Refuse Collection was based essentially on management's frustration with vendors not responding timely to a bid solicitation as well as the subsequent re-bid. The Department settled for the sole source believing another bid would produce no competition. Failure of bidders to respond to a solicitation in a timely manner, albeit twice, does not justify a sole source. If the solicitation has been advertised, then the Code requirements have been met and a sole source determination would not be required.

The Department based its decision not to compete for Satellite Service on the vendor being the only provider of service without having to re-bid and purchase new equipment, referencing cost as a factor instead of appropriate sole source criteria. This was not a valid reason to forgo competition.

Section 11-35-1560 of the Code authorizes the use of sole source procurements when the written determination and basis for the proposed sole source procurement indicates there is only one source for the required supply, service, information technology, or construction item, and no other will be suitable or acceptable to meet the need.

We recommend the Department compete these procurements in the future.

DEPARTMENT RESPONSE

SCPRT is working to resolve these issues. SCPRT will also work to provide more definitive explanations of the determination of Sole Sources.

B. Determination for Multi-term Contract not Provided

The Department entered into a three year software maintenance agreement through a sole source determination totaling \$6,072.30 on purchase order 34 dated July 5, 2006 without a written determination justifying the use of a multi-term contract. Section 11-35-2030(1) of the Procurement Code states in part, "...Unless otherwise provided by law, a contract for supplies, services, or information technology must not be entered into for any a period of more than one year unless approved in a manner prescribed by regulation of the board." Paragraph (2) of that same section requires a written determination justifying the use of a multi-term contract. The default in the Code requires agencies to bid contracts annually. However, the

Code recognizes that in certain instances, extended term contracts may serve the best interests of the State by encouraging effective competition, especially when circumstances involve high start up costs for vendors.

We recommend the Department comply with the multi-term provisions of the Code.

DEPARTMENT RESPONSE

SCPRT agrees with this finding and will work to ensure better file documentation.

II. Unauthorized Procurements

A. Competitive Sealed Proposal

The Department awarded a contract through a Request for Proposal on solicitation RFQ 90-0012 to procure American Battlefield protection program in the amount of \$39,800. Section 11-35-1530 of the Procurement Code allows the purchasing agency to use competitive sealed proposals when the agency determines in writing that a competitive sealed bid is not practicable or advantageous to the state. The Department failed to provide us with a written determination for the use of a competitive sealed proposal. As a result, the contract awarded pursuant to this solicitation is deemed illegal.

The Department used cost as one of its evaluation criterion with maximum assignable points of 10. The evaluation team individually assigned points resulting in arbitrary scores ranging from 0 to 10 points. For an evaluator to assign 0 points to a vendor's cost, that assignment might not be considered reasonable and could be a basis for protest. The Department may want to use a mathematical approach when assigning points to cost by using a pro-rated basis using the following formula: $(\text{Lowest Cost} / \text{Each Cost Individually}) \times \text{Maximum Points}$. This formula assigns maximum points to the proposal with the lowest cost since the ratio of lowest cost over lowest cost equals 1 times the maximum points available. As each higher cost is used in the formula's denominator, the resulting ratio times the maximum points objectively decreases the points assigned.

We recommend that in the future for bidding methods other than a competitive sealed bid, the Department's files contain written determinations authorizing the use of other methods of procurement.

Evaluators should be reasonable in their scoring of cost or the Department can consider using the objective approach.

DEPARTMENT RESPONSE

SCPRT agrees with this finding. One of the evaluators did not properly complete the evaluation form. This defect should have been detected in the review by procurement. SCPRT will review the evaluations more closely to avoid this issue in the future.

B. Unauthorized Procurements

The Department procured a maintenance agreement on a computer system in the amount of \$7,938 on purchase order 21 dated July 22, 2008. Also, the Department procured pest control services in the amount of \$4,740 on purchase order 744 dated June 12, 2009. Neither was supported by evidence of solicitations of competition, sole source or emergency procurements determinations resulting in them being illegal.

We recommend competition be solicited in accordance to the Procurement Code. Ratification must be requested as outlined in Regulation 19-445.2015.

DEPARTMENT RESPONSE

SCPRT agrees with the finding. SCPRT determined one purchase to be a sole source (PO#21) and the other an emergency purchase (PO#744). However, the proper form and determination was not completed and maintained in the file.

C. Unauthorized Procurement Card Transaction

The internal control spending limit established by the procurement card program as well as the Park Recreations and Tourism Purchasing Card Program Cardholder Manual sets the maximum spending limit at \$2,500 per card transaction. One procurement card transaction exceeded the \$2,500 limit made on November 2, 2009 for a domain name in the amount of \$3,385. Since the procurement card transaction exceeded the single transaction limit of \$2,500, the procurement was unauthorized as defined in Regulation 19-445.2015. The procurement card program requires the Materials Management Officer of the Budget and Control Board approve transaction limit increases over \$2,500. We did not see his approval.

We recommend the Department adhere to the internal control spending limit established by the Park Recreations and Tourism Purchasing Card Program Cardholder Manual. Ratification must be requested in accordance with Regulation 19-445.2015.

DEPARTMENT RESPONSE

SCPRT has one procurement card issued to a member of the marketing staff solely for the purchase and renewal of URL's. URL's can only be purchased and renewed via the internet. We have requested approval from MMO for this card to exceed the \$2,500 maximum spending limit.

III. Favored Vendor

Our review of sequentially issued purchased orders for the period 4/17/08 through 8/6/08 identified consistent use of a vendor for transactions less than the competitive limit giving the appearance of a favored vendor.

<u>PO #</u>	<u>PO Date</u>	<u>PO Amount</u>	<u>Description</u>
1005	04/17/08	\$ 2,137.54	Beach Balls
1041	04/28/08	171.25	(4) Men's Oxford Shirts
1042	04/28/08	809.07	Assorted Pencils
1100	06/02/08	2,658.04	Square Coasters
1116	05/21/08	1,123.31	Promotional Items
1141	05/30/08	2,568.00	Business Card Magnets
1148	06/02/08	2,550.28	Lip Balm
1154	06/03/08	1,797.07	Auto Billboards
1190	06/13/08	2,531.96	Lunch Totters
1204	06/19/08	2,427.00	USB Pin
1205	06/19/08	803.12	Promotional Notebooks
1206	06/19/08	2,483.43	Picture Billboard
1221	06/30/08	796.68	Assorted Pencils
1222	06/30/08	1,433.33	Business Card Magnets
1215	07/01/08	<u>2,646.82</u>	Ball Point Pens
		\$26,936.90	

Section 11-35-1550 (2)(a) states in part,

Purchases not in excess of two thousand five hundred dollars. Small purchases not exceeding two thousand five hundred dollars may be accomplished without securing competitive quotations if the prices are considered reasonable. ... The purchases must be distributed equitably among qualified suppliers. When practical, a quotation must be solicited from other than the previous supplier before placing a repeat order.

We recommend, for procurements less than the competition threshold, the Department distribute business equitably among qualified suppliers.

DEPARTMENT RESPONSE

SCPRT agrees with this finding and have reviewed the issue with staff. SCPRT will combine purchases and bid when possible.

IV. Delegated Procurement Authority

We tested four out of seventeen procurement transactions delegated back to the Department by the Chief Procurement Officer (CPO) during the audit period that were anticipated to exceed the Department's procurement certification. The delegations from the CPO state in part "...all of the procurement procedures of the Consolidated Procurement Code apply..." We noted the following exceptions.

Solicitation IFB 09-0016 dated March 5, 2009 for security services at Myrtle Beach State Park awarded in the amount of \$67,538 did not contain evidence that the procurement was advertised in the South Carolina Business Opportunities (SCBO). Section 11-35-1550(3) requires all competitive procurements above ten thousand dollars to be advertised at least once in SCBO.

Solicitation IFB 06-037 dated April 11, 2006 for land clearing at Hunting Island State Park awarded in the amount of \$84,000 did not contain a bid tabulation. Section 11-35-1520 (5) *Bid Opening* of the Code states in part, "The amount of each bid, and other relevant information as may be specified by regulation, together with the name of each bidder, must be tabulated. The tabulation must be open to public inspection at all time". Furthermore the Department could not provide us a copy of the vendor's Drug-Free Workplace Certification. Section 44-107-30 of the South Carolina Code of Laws requires a written certification on any contract of \$50,000 or more stating that the vendor provides a drug-free workplace.

Solicitation RFP 09-0014 dated January 6, 2009 for fabrication of Keowee/Jocassee Gorges Exhibit awarded in the amount of \$60,750 did not contain a bidder's right to protest statement nor did it contain the vendor's Drug-Free Workplace Certification. Section 11-35-1520(10) of the Code requires the invitation for bids and the notice of award or notice of intent to award to contain a statement of a bidder's right to protest pursuant to Section 11-35-4210(1).

Solicitation IFB 10-0017 dated October 10, 2009 for refuse collection at Hunting Island awarded in the amount of \$79,245 did not contain the vendor's Drug-Free Workplace Certification. Section 44-107-30 of the South Carolina Code of Laws requires a written certification on any contract of \$50,000 or more stating that the vendor provides a drug-free workplace.

We recommend the Department comply with the sections of the Procurement Code and South Carolina Code of Laws cited.

DEPARTMENT RESPONSE

SCPRT agrees with this finding. Several procurements delegated to the department did not have required forms or documents as stated in the procurement code.

V. Unauthorized Procurements

A. Reports of Unauthorized Procurements Not Submitted

The Department failed to report unauthorized procurements to the Chief Procurement Officers. Effective as of the first Monday in September, 2007, Regulation 19-445.2015 requires a quarterly record of unauthorized contracts to be submitted to the Chief Procurement Officers.

We recommend the Department submit a record of unauthorized procurements to the Materials Management Office on a quarterly basis in accordance to the Regulation.

DEPARTMENT RESPONSE

SCPRT agrees with this finding. The procurement officer was not aware of the regulation change in reporting unauthorized (ratified) purchases to the Chief Procurement Officer. SCPRT will report any unauthorized/ratified purchases on a quarterly basis.

B. Ratifications of Unauthorized Procurements

We reviewed ratifications of unauthorized procurements to determine if the ratifications were properly executed in accordance with Regulation 19-445.2015. None addressed actions taken against the individual committing the act, one of the required elements of a ratification. Discretion of appropriate action is left up to the person ratifying the procurement. But this action needs to be addressed in the ratification.

We recommend the Department adhere to Regulation 19-445.2015 by addressing the required elements of the ratification.

DEPARTMENT RESPONSE

SCPRT agrees with this finding. SCPRT requires an employee who makes an unauthorized purchase ratify the purchase to the Agency Director. However, the letters of ratification did not properly address the action taken against the individual committing the act. SCPRT will ensure the request for ratification contains the action taken for the unauthorized purchase.

VI. Inappropriate Solicitations of Competition

The following procurements were supported by downloaded internet catalog prices to support competition requirements in Section 11-35-1550(2)(b).

<u>PO</u>	<u>Date</u>	<u>Description</u>	<u>Amount</u>
138	08/06/08	Gas Grills & Tanks	\$3,531
1134	05/29/08	LCD Projector	\$2,972

Section 11-35-1550(2)(b) of the Code requires for purchases from \$2,500.01 to \$10,000 solicitations of written quotes from a minimum of three qualified source of supplies. Downloading of a catalog page from the internet with no direct contact with a vendor does not meet the definition of a solicitation. Typically, catalog prices from the internet are representative of commercially available retail pricing, but are not

always representative of the discount prices possible to customers such as the State. For instance, on PO 138 the Department solicited one quote with that vendor offering an additional 10% discount over its internet catalog price and used two other internet catalog quotes to support the competition requirement with no person being solicited resulting in no additional discounts being offered.

Additionally, the quote showed the price before the 10% discount was applied. The PO did not take the discount causing the Department to miss out on a \$327 discount.

We recommend direct communication with catalog vendors to confirm best available pricing to the State.

The LCD projector procured on PO 1134 was available on a State term contract. Section 11-35-310 (35) makes State term contracts mandatory to all governmental bodies covered by the Code. Further, according to the May, 2008 State term contract pricelist, the projector's price was \$2,075. By not using the State term contract, the Department overpaid by \$897 (\$2,972 - \$2,075).

We recommend the Department use State term contracts.

DEPARTMENT RESPONSE


SCPRT agrees with this finding. SCPRT inappropriately used internet catalog prices to support competition requirements.

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 Department of Parks, Recreation and Tourism 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 Parks Recreation and Tourism be re-certified to make direct agency procurements for three years, up to the following limits:

<u>PROCUREMENT AREAS</u>	<u>CERTIFICATION LIMITS</u>
Supplies and Services	\$100,000 per commitment
Construction Contract Award	\$100,000 per commitment
Construction Contract Change Order	\$100,000 per change order
Architect/Engineer Contract Amendment	\$ 15,000 per amendment


Allen R. Townsend, CBM
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ELEANOR KITZMAN
EXECUTIVE DIRECTOR

April 27, 2011

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 Parks, Recreation & Tourism to our audit report for the period of October 1, 2005 to December 31, 2009. Also, we have followed the Department's corrective action during and subsequent to our fieldwork. We are satisfied that the Department of Parks, Recreation & Tourism 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 Parks, Recreation & Tourism the certification limits noted in our report for a period of three years.

Sincerely,



Robert J. Aycock, IV, Manager
Audit and Certification

RJA/gs

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