

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

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1201 MAIN STREET, SUITE 600
COLUMBIA, SOUTH CAROLINA 29201
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R. VOIGHT SHEALY
MATERIALS MANAGEMENT OFFICER

July 15, 2003

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

Dear Delbert:

I have attached the South Carolina Department of Revenue'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 South Carolina Department of Revenue a three-year certification as noted in the audit report.

Sincerely,

A handwritten signature in cursive script that reads "Voight Shealy".

R. Voight Shealy
Materials Management Officer

/jl

SOUTH CAROLINA DEPARTMENT OF REVENUE

PROCUREMENT AUDIT REPORT

JULY 1, 2000 – MARCH 31, 2003

TABLE OF CONTENTS

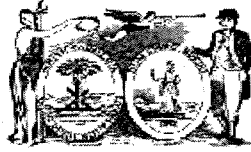
	<u>PAGE</u>
Transmittal Letter	1
Introduction	3
Scope	4
Results of Examination	5
Certification Recommendations	7
Agency Response	8
Follow-up Letter	9

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R. VOIGHT SHEALY
MATERIALS MANAGEMENT OFFICER

June 16, 2003

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 the South Carolina Department of Revenue for the period July 1, 2000 through March 31, 2003. 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 Department's procurement policy. 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 South Carolina Department of Revenue 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 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 Revenue 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 South Carolina Department of Revenue. Our on-site review was conducted April 17, 2003 through May 2, 2003 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 November 21, 2000 the State Budget and Control Board granted the South Carolina Department of Revenue, hereinafter referred to as the Department, the following procurement certifications.

PROCUREMENT AREAS

CERTIFICATION LIMITS

Goods and Services

\$25,000 per commitment

Consultant Services

\$25,000 per commitment

Information Technology

\$25,000 per commitment

Our audit was performed primarily to determine if re-certification is warranted. The Department requested to be re-certified at the current above limits.

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 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 judgmental samples for the period July 1, 2000 through March 31, 2003 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, 2000 through March 31, 2003
- (2) Procurement transactions for the period July 1, 2000 through March 31, 2003 as follows:
 - a) Eighty-five payments each exceeding \$1,500
 - b) A block sample of 224 sequential purchase orders from FY 03
 - c) Procurement card transactions for three months in FY 03
- (3) Minority Business Enterprise Plans and reports for the audit period
- (4) Information technology plans for audit period
- (5) Internal procurement procedures manual review
- (6) Surplus property disposal procedures
- (7) File documentation and evidence of competition

RESULTS OF EXAMINATION

Unauthorized Procurements

Two procurements were unauthorized as each exceeded the Department's procurement authority of \$25,000.

<u>PO</u>	<u>Date</u>	<u>Description</u>	<u>Amount</u>
438	01/09/01	Programming charges to upgrade SCnetFile system	\$46,996
154	10/10/02	Warehousing and shipping books for two years	28,412

Regulation 19.445.2015 defines an unauthorized procurement as an act obligating the State in a contract by any person without requisite authority to do so. Additionally, purchase order 154 was a multi-term contract for two years. The Department did not prepare the written justification for a multi-term contract, as required by Section 11-35-2030.

We recommend the Department submit a ratification request for each unauthorized procurement to the Materials Management Officer in accordance with Regulation 19-445.2015. We also recommend that the Department comply with the multi-term provisions of the Code.

Drug Free Workplace Certification Not Obtained

The Department did not obtain the drug free workplace certification on four sole source procurements.

<u>PO</u>	<u>Date</u>	<u>Description</u>	<u>Amount</u>
170	8/02/00	Consultant	\$59,000
174	8/03/00	Equipment maintenance	64,031
513	4/13/01	Software modules	86,625
133	8/17/01	Equipment maintenance	60,982

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. Sole source procurements are subject to this law.

We recommend the Department obtain the drug-free workplace certification on all sole source procurements greater than \$50,000.

Exempt Items Reported as Sole Source Procurements

The following software licenses/maintenance renewals were unnecessarily sole sourced and reported to the Materials Management Office.

<u>PO</u>	<u>Date</u>	<u>Description</u>	<u>Amount</u>
404	12/19/00	Software maintenance	\$12,500
497	03/27/01	Software maintenance	5,600
331	04/24/02	Software licenses	12,637

On April 22, 1986 the South Carolina Budget and Control Board approved an exemption for software license renewals after such software had been competitively bid as required by the Procurement Code. The software had been competitively bid through the Materials Management Office.

We recommend the Department discontinue the reporting of exempt items.

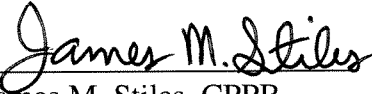
CERTIFICATION RECOMMENDATIONS

As enumerated in transmittal letter, corrective action based on the recommendations, described in this report, we believe, will in all materials respects place the South Carolina Department of Revenue in compliance with the South Carolina Consolidated Procurement Code and ensuing regulations.


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

<u>PROCUREMENT AREAS</u>	<u>RECOMMENDED CERTIFICATION LIMITS</u>
Goods and Services	*\$25,000 per commitment
Consulting Services	*\$25,000 per commitment
Information Technology	*\$25,000 per commitment

*This means the total potential purchase commitment to the State whether single year or multi-term contracts are used.



James M. Stiles, CPPB
Audit Manager



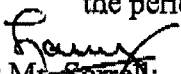
Larry G. Sorrell, Manager
Audit and Certification

State of South Carolina
Department of Revenue
301 Gervais Street, P.O. Box 125, Columbia, South Carolina 29214

July 15, 2003

Mr. Larry G. Sorrell
Manager, Audit and Certification
Materials Management Office
1201 Main Suite 600
Columbia SC 29201

RE: Letter, your office, subject: Procurement Report for the Department of Revenue for the period July 1, 2000 – June 30, 2003, dated June 16, 2003


Dear Mr. Sorrell:

Greetings. In response to your letter, referenced above, the Department's response follows:

I. Unauthorized Procurement

The ratification for these purchase orders were completed internally, however, no evidence was found where by they were submitted to the Materials Management Officer. We concur and will submit same to the Materials Management Officer for ratification.

II. Drug Free Work Place Certification Not Obtained

We concur as this was an oversight. All future procurements subject to this law will obtain certification.

III. Exempt Item Recorded as Sole Source

We concur and all future software license/maintenance renewals that have been previously competitively bid will not be sole sourced.

As always, my colleagues and I deeply appreciate your prompt courtesy and attention. I earnestly hope you will call upon me if I may be of any service.

Sincerely,

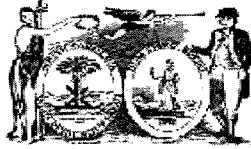

J. Glenn Beckham
Business Manager

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MATERIALS MANAGEMENT OFFICER

July 15, 2003

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

Dear Voight:

We have reviewed the response from the South Carolina Department of Revenue to our audit report for the period of July 1, 2000 – March 31, 2003. Also we have followed the Department's corrective action during and subsequent to our fieldwork. We are satisfied that the South Carolina Department of Revenue 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 South Carolina Department of Revenue the certification limits noted in our report for a period of three years.

Sincerely,

A handwritten signature in cursive script, appearing to read "Larry G. Sorrell".

Larry G. Sorrell, Manager
Audit and Certification

LGS/jl

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