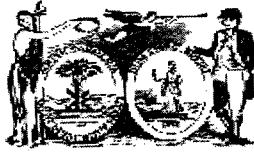


STATE OF SOUTH CAROLINA
State Budget and Control Board
PROCUREMENT SERVICES DIVISION

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STATE TREASURER

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FRANK W. FUSCO
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DELBERT H. SINGLETON, JR.
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MATERIALS MANAGEMENT OFFICE
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COLUMBIA, SOUTH CAROLINA 29201
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R. VOIGHT SHEALY
MATERIALS MANAGEMENT OFFICER

February 19, 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 Office of the Adjutant General'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 Office of the Adjutant General a three-year certification as noted in the audit report.

Sincerely,

A handwritten signature in black ink, appearing to read "Voight Shealy".

R. Voight Shealy
Materials Management Officer

/jl

**OFFICE OF THE ADJUTANT GENERAL
PROCUREMENT AUDIT REPORT**

OCTOBER 1, 1999 - DECEMBER 31, 2002

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R. VOIGHT SHEALY
MATERIALS MANAGEMENT OFFICER

January 31, 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 Office of the Adjutant General for the period October 1, 1999 through December 31, 2002. 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 Office. 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 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 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 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 on-site review was conducted January 2-10, 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 April 11, 2000, the State Budget and Control Board granted the Office of the Adjutant General, hereinafter referred to as the Office, the following procurement certifications.

<u>PROCUREMENT AREAS</u>	<u>CERTIFICATION LIMITS</u>
Goods and Services	\$25,000 per commitment
Consultant Services	\$25,000 per commitment

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

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

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 judgmental samples for the period July 1, 2000 through December 31, 2002 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, 1999 through September 30, 2002
- (2) Procurement transactions for the period July 1, 2000 through December 31, 2002 as follows:
 - a) Fifty-eight payments each exceeding \$1,500
 - b) Block sample of 300 sequential purchase orders reviewed for order splitting and favored vendors
- (3) Eight construction contracts and thirteen professional service contracts for compliance with the Manual for Planning and Execution of State Permanent Improvements
- (4) Minority Business Enterprise Plans and reports for the audit period
- (5) Information technology plans for the audit period
- (6) Internal procurement procedures manual review
- (7) File documentation and evidence of competition
- (8) Surplus property disposal procedures

RESULTS OF EXAMINATION

Inappropriate Sole Source Procurements

Three sole sources were inappropriate.

<u>PO</u>	<u>Date</u>	<u>Description</u>	<u>Amount</u>
1185	12/03/99	Salvage and clean up property	\$1,850
760	12/12/01	Floor wax and stripper	9,226
505	10/02/02	Floor wax and stripper	2,304

Section 11-35-1560 of the Code requires that sole source procurements only apply when there is only one source for the required supply, service, or construction items. In cases of reasonable doubt, competition must be solicited.

We recommend that procurements, which do not meet the definition of a sole source, be competed in accordance with the Code.

Emergency Procurements Made Without Competition

Two emergency procurements were not supported by competition.

<u>PO</u>	<u>Date</u>	<u>Description</u>	<u>Amount</u>
92	07/12/00	Circuit board	\$2,378
1661	04/11/01	Pump motor	4,173

Section 11-35-1570 of the Code requires that emergency procurements be made with as much competition as is practicable under the circumstances. The Office had adequate time to solicit competition on these procurements.

We recommend the Office obtain competition, when practicable, for emergency procurements.

Drug Free Workplace Certification Not Obtained

The Office did not obtain the drug free workplace certification for three sole source procurements that exceeded \$50,000.

<u>PO</u>	<u>Date</u>	<u>Description</u>	<u>Amount</u>
1372	02/01/01	Consultant	\$108,000
270	08/21/01	Consultant	108,000
471	09/28/01	Consultant	62,920

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 and emergency procurements are subject to this law.

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

Procurements Should Have Been Combined

We noted two purchase orders that should have been combined and competition solicited on the total value of \$2,248.

<u>PO</u>	<u>Date</u>	<u>Description</u>	<u>Amount</u>
1042	02/19/02	Drum spill kit	\$1,124
1043	02/19/02	Drum spill kit	<u>1,124</u>
Total			<u>\$2,248</u>

Section 11-35-1550(1) of the Code states, in part, “procurement requirements must not be artificially divided by governmental bodies so as to constitute a small purchase.” The Office avoided the competitive requirements of the Code by submitting two requisitions rather than combining the needs on one requisition.

We recommend the Purchasing Department examine requisitions for evidence of splitting of orders that would circumvent the competitive process.

Tolerance Policy

The change order policy of the Office allows for a 10% variance on an invoice payment over the purchase order amount without the Purchasing Officer’s review and approval. Additionally, the policy does not have a maximum limit of the 10% variance. Because of this policy, the Office paid more than originally quoted on three procurements.

<u>PO</u>	<u>Voucher</u>	<u>Amount</u>	<u>Overpayment</u>
128	1132	\$ 4,995	\$ 74
1117	5881	18,266	1,821
1412	6551	7,511	<u>388</u>
Total			<u>\$2,283</u>

We recommend the Office review its tolerance policy with emphasis on establishing a maximum dollar amount on the 10% variance. We also recommend the allowable maximum

dollar amount not exceed \$100 and that any increase greater than \$100 be forwarded to the Procurement Officer for review.

Trade-in Credit Not Requested

Purchase order 341 was issued on 9/10/01 for a HVAC compressor and stated that a credit of \$1,200 would be allowed when the old compressor was returned. The compressor was returned, however, the Office has not requested the credit.

We recommend the Office request the credit. We also recommend the Office review its procedures to identify the weakness that resulted in the credit not being requested and take the appropriate corrective action.

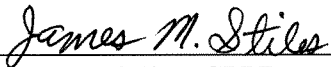
CERTIFICATION RECOMMENDATIONS

As enumerated in our transmittal letter, corrective action based on the recommendations described in this report, will in all material respects place the Office of the Adjutant General 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 Office of the Adjutant General be recertified 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
Consultant Services	*\$25,000 per commitment
Information Technology	*\$25,000 per commitment
Construction Contract Award	\$25,000 per commitment
Construction Contract Change Order	\$25,000 per change order

*Total potential purchase commitment whether single year or multi-term contracts are used.



James M. Stiles, CPPB
Audit Manager



Larry G. Sorrell, Manager
Audit and Certification

The State of South Carolina
Military Department



OFFICE OF THE ADJUTANT GENERAL
1 NATIONAL GUARD ROAD
COLUMBIA, S.C. 29201-4766

STANHOPE S. SPEARS
MAJOR GENERAL
THE ADJUTANT GENERAL

TAG-DSO-DP

February 14, 2003

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

Dear Mr. Sorrell:

Our office has looked in detail at the findings and observations identified in your draft procurement audit report for this agency. We consider any finding, comment or discussion during an audit or other review to be constructive and very beneficial to us in performing our jobs more efficiently. We concur with your report and have implemented or are in the process of implementing corrective action, as appropriate. We are also in the process of initiating or changing procedures to ensure that these type deficiencies are not repeated. Further, in regards to the "Trade-in Credit Not Requested" comment, we have received a \$1200.00 credit memo from the vendor (copy attached) and are taking action to apply it to the correct account.

I would like to personally thank your staff, Jim and David, for their professionalism and dedication displayed during the audit. It is a pleasure to work with them. I appreciate their efforts.

Sincerely,

A handwritten signature in cursive script that reads 'Tony Jennings'.

TONY JENNINGS
Procurement Manager
Office of the Adjutant General

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State Budget and Control Board
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R. VOIGHT SHEALY
MATERIALS MANAGEMENT OFFICER

February 19, 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 Office of the Adjutant General to our audit report for the period of October 1, 1999 – September 30, 2002. Also we have followed the Office's corrective action during and subsequent to our fieldwork. We are satisfied that the Office 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 Office of the Adjutant General 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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