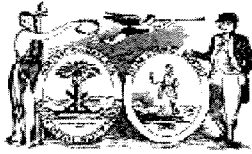


STATE OF SOUTH CAROLINA  
*State Budget and Control Board*  
**PROCUREMENT SERVICES DIVISION**

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R. VOIGHT SHEALY  
MATERIALS MANAGEMENT OFFICER

January 13, 2003

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

Dear Delbert:

I have attached the South Carolina Department of Public Safety'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 Public Safety 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  
PUBLIC SAFETY  
PROCUREMENT AUDIT REPORT  
JULY 1, 1999 - JUNE 30, 2002**



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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.

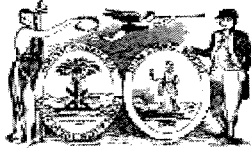


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R. VOIGHT SHEALY  
MATERIALS MANAGEMENT OFFICER

November 1, 2002

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 Public Safety for the period July 1, 1999 through June 30, 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 used to establish a basis for reliance upon the system of internal control to assure adherence to the South Carolina Consolidated Procurement Code, State regulations, and internal 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 Department of Public Safety 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 action based on the recommendations described in these findings will in all material respects place the Department of Public Safety in compliance with the South Carolina 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 Public Safety. Our review was conducted July 16, 2002 through August 5, 2002 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.

Section 11-35-1210 of the South Carolina Consolidated Procurement Code states:

The (Budget and Control) Board may assign differential dollar limits below which individual governmental bodies may make direct procurements not under term contracts. The Office of General Services shall review the respective governmental body's internal procurement operation, shall verify in writing that it is consistent with the provisions of this code and the ensuing regulations, and recommend to the Board those dollar limits for the respective governmental body's procurement not under term contract.

On January 27, 2000, the Budget and Control Board granted the Department of Public Safety the following procurement certifications.

<u>PROCUREMENT AREAS</u>	<u>CERTIFICATION LIMITS</u>
Goods and Services	\$ 50,000 per commitment
Information Technology	\$ 50,000 per commitment
Consultant Services	\$ 50,000 per commitment
Construction Contract Award	\$ 25,000 per commitment
Construction Contract Change Order	\$ 25,000 per change order
Architect/Engineer Contract Amendment	\$ 5,000 per amendment

Our audit was performed primarily to determine if re-certification is warranted. The Department of Public Safety requested to keep its current certification 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 of Public Safety 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, 1999 through June 30, 2002 of procurement transactions for compliance testing and performed other audit procedures that we considered necessary to formulate this opinion. 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, 1999 through March 31, 2002
- (2) Procurement transactions for the period July 1, 1999 through June 30, 2002 as follows:
  - a) One hundred one payments each exceeding \$1,500
  - b) A block sample of five hundred purchase orders reviewed against the use of order splitting and favored vendors
  - c) All procurement card transactions for the months of September 2001 and May 2002
- (3) Eight construction contracts and three professional service contracts for compliance with the Manual for Planning and Execution of State Permanent Improvements
- (4) Minority Business Enterprise Plans and reports
- (5) Information Technology Plan
- (6) Internal procurement procedures manual
- (7) Surplus property procedures
- (8) Blanket purchase agreements
- (9) File documentation and evidence of competition

## **RESULTS OF EXAMINATION**

### **Lease of Airplane**

The Department of Public Safety issued solicitation B20-127600-01 on March 22, 2000 to lease a high wing airplane with an estimated usage of 360 hours. The solicitation opened on March 30, 2000. Purchase order 200851, issued on April 3, 2000 for \$49,620, allowed for a 12 month lease at a rate of \$4,135 per month based on a yearly usage of 360 hours. The purchase order also made an allowance of \$55 per hour for any hours over the 360 hours. Purchase order 4180 was issued on June 22, 2001 for excess hours of 304.5 at \$55 per hour for a total of \$16,797. Each purchase order referenced solicitation B20-127600-01. The total value of the lease on the two purchase orders was \$66,417 (\$49,620 + \$16,797) for 664.4 hours. The total exceeded the Department's procurement authority of \$50,000 for goods and services, thus resulting in an unauthorized procurement as defined in Regulation 19-445.2015.

Furthermore, the Department issued purchase order 200885 on May 3, 2000 for \$14,413 as a sole source procurement to paint the airplane with the South Carolina Highway Patrol identification items that included paint, stripes, and decals. At the expiration of the lease, the Department issued purchase order 1347 on November 27, 2001 for \$15,060 as a sole source procurement to include \$13,281 to strip and repaint the airplane. Since the procurement for the paint was made a month after the procurement of the lease, the Department could have included the painting requirements in the original solicitation.

We recommend the Department solicit competition based on the combined needs. The Department must request ratification of the unauthorized procurement of \$66,417 from the Materials Management Officer in accordance with Regulation 19-445.2015.

### **DEPARTMENT RESPONSE**

We concur. On future procurements competition will be solicited based on the combined needs of the requestor. Under separate cover a request for ratification of the unauthorized procurement is being forwarded to the Materials Management Officer to cover the \$66,417 procurement.

### **Procurements Without Competition**

The following purchase orders for different types of video crew personnel were issued without seeking competition.

<u>PO</u>	<u>Date</u>	<u>Amount</u>
2260	3/19/02	\$3,225
2261	3/19/02	2,925
2263	3/19/02	\$ 925
2288	3/21/02	2,475
2289	3/21/02	2,700
2311	3/25/02	330
2315	3/25/02	390

The amount each crewmember was paid was based on a rate schedule set up by the Department. Since each job was defined and a rate already established, the Department could solicit a fixed price bid as defined in Section 11-35-1525 of the Code.

We recommend the Department solicit competition for these services.

**DEPARTMENT RESPONSE**

We concur and have forwarded a request to the Materials Management Office to establish a term contract for a Freelance Video Production Crew for the CJA Distance Learning program.

**Procurement With Inadequate Competition**

The Department issued informal quotation Q01-133643 for hand tools. The estimated value on the requisition was \$28,260 and purchased on purchase order 01-001759 for \$28,746. Based on the total value being greater than \$25,000, a formal solicitation should have been used.

We recommend the Department solicit formal competition for all procurements anticipated to exceed \$25,000.

**DEPARTMENT RESPONSE**

It is the Department's policy to solicit formal competition for all procurements with an anticipated value of \$25,000 and we will continue this procedure to ensure Code compliance. This employee has been counseled about the importance of Code compliance and all future procurements exceeding the sealed bid threshold will be reviewed by the Procurement Manager for compliance.

**Misapplied Preference**

The Department allowed a vendor's claim for the South Carolina end product preference resulting in the vendor being awarded the contract. This occurred on purchase order 02 003264 in the amount of \$18,768 for printers. The vendor's claim resulted from a note included in the response which stated that the toner for the printers were produced in South Carolina. However,

Section 11-35-1524 (B)(1) of the Code defines “made” as to assemble, fabricate or process component parts into a finished end-product, the value of which assembly, fabrication or processing is a significant portion of the value of the finished end-product. We fail to see how toner is a significant portion of the value of the printer.

We recommend the Department apply the South Carolina end product preference in accordance to the Code.

**DEPARTMENT RESPONSE**

The Department has revised the procedures for application of the preference and in the future will ensure that the claim represents a significant portion of the value prior to accepting the vendor’s claim for South Carolina end product preference.

Overpayment of Invoices

Two invoices were overpaid.

<u>Voucher</u>	<u>Description</u>	<u>Amount Paid</u>	<u>Contract Amount</u>	<u>Overpayment</u>
9593	Fill dirt	\$7,419	\$7,341	\$78
8043	Alcohol sniffers flashlights	28,391	28,290	101

The Department’s payment tolerance policy allows minor invoice variations to be paid without delay. However, the policy does not allow for any variations on bid, quote or contract prices. The policy specifically states in part, “Price differences noted on purchase orders that do not state “bid, contracts or quote” are allowed within 10% of the unit price listed on the purchase order but not to exceed \$100 per purchase order.” The purchase order for the fill dirt referred to quote Q00-135380. The flashlights were procured as a sole source contract.

We recommend the Department adhere to its payment tolerance policy.

**DEPARTMENT RESPONSE**

We concur. The Procurement and Accounting Sections are developing a new procedure for payment tolerance. This policy will ensure that payments adhere to the terms and conditions of the procurement. The accounting office will make sure the payment tolerance policy is applied accurately. When said policy is completed a copy will be sent to Audit and Certification for their files. Resolution of the two cited procurements follow: 5-A Voucher 9593 – Fill Dirt: The buyer secured a credit from the vendor for \$82.01 overcharge. 5-B Voucher 8043 – Alcohol Sniffer Flashlights: The buyer secured a credit of \$101.60 for the freight charges from the vendor.

### Sole Source and Emergency Reporting Errors

Our testing of the Department's sole source and emergency reports revealed a number of reporting errors. Most of the reporting errors occurred through issuance of change orders. We attribute most of these errors to the Department relying on a manual system to identify and report these transactions. Given the Department's volume of procurement transactions, the automated system needs to be modified to identify change orders to sole source and emergency procurements.

We recommend the Department modify its automated system to identify change orders to sole source and emergency procurements. Amended reports should be filed by the Procurement Office correcting the reporting errors noted during the audit.

#### **DEPARTMENT RESPONSE**

We concur with the auditor's findings on the inadequacies of the current manual system for tracking and reporting sole sources and emergencies. The Procurement staff is working ITO to identify the needs for this reporting and determine what the current system can provide. Until this process is completed we have implemented new procedures that will provide checks and balances in the reporting process to ensure change orders are reported accurately.

### Inappropriate Sole Source

Purchase order 200561 was issued for printing and publication of a trooper magazine in the amount of \$4,500. The Department justified the procurement as a sole source based on testing and evaluation to set standards for bid specifications. Regulation 19-445.2105 (B) states in part, "Sole source procurement is not permissible unless there is only a single supplier. The following are examples of circumstances which could necessitate sole source procurement: (2) where a sole supplier's item is needed for trial use or testing." We do not recognize the vendor as a sole supplier of printing services.

We recommend the Department only procure items for testing and evaluation as sole sources from vendors that are determined to be sole suppliers.

#### **DEPARTMENT RESPONSE**

We agree this vendor is not a sole source of printed materials. The Department's use of the sole source was to determine the quality of materials and the printing standards to establish specifications to comply with Highway Patrol's needs. After numerous discussions with printers it was determined the only way to develop the specifications for future bids would be to print a copy of the publication and as a result a sole source for one publication was issued. The Department will not use sole source procurement for this type of purchase in the future.

**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 Public Safety 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 Public Safety be re-certified to make direct agency procurements for three years up to the limits as follows:

<u>PROCUREMENT AREAS</u>	<u>CERTIFICATION LIMITS</u>
Goods and Services	\$ *50,000 per commitment
Information Technology	\$ *50,000 per commitment
Consultant Services	\$ *50,000 per commitment
Construction Contract Award	\$ 25,000 per commitment
Construction Contract Change Order	\$ 25,000 per change order
Architect/Engineer Contract Amendment	\$ 5,000 per amendment

\*The total potential purchase commitment whether single year or multi-term contracts are used.



Robert J. Aycock, IV  
Audit Manager



Larry G. Sorrell, Manager  
Audit and Certification



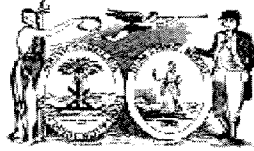


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R. VOIGHT SHEALY  
MATERIALS MANAGEMENT OFFICER

January 13, 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 Public Safety to our audit report for the period of July 1, 1999 – June 30, 2002. Also we have followed the Department's corrective action during and subsequent to our fieldwork. Additionally, we will conduct an interim review no later than December 31, 2003. We are satisfied that the South Carolina Department of Public Safety 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 Public Safety the certification limits noted in our report for a period of three years.

Sincerely,

Handwritten signature of Larry G. Sorrell in cursive.

Larry G. Sorrell, Manager  
Audit and Certification

LGS/jl

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