

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

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DELBERT H. SINGLETON, JR.
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R. VOIGHT SHEALY
MATERIALS MANAGEMENT OFFICER

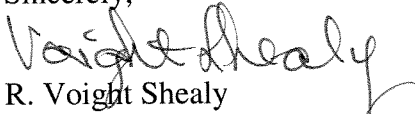
October 8, 2003

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 Natural Resources' 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 Natural Resources a three-year certification as noted in the audit report.

Sincerely,


R. Voight Shealy
Materials Management Officer

/jl

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SOUTH CAROLINA DEPARTMENT OF NATURAL RESOURCES

PROCUREMENT AUDIT REPORT

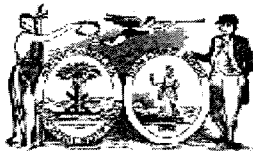
OCTOBER 1, 2000 – JUNE 30, 2003

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R. VOIGHT SHEALY
MATERIALS MANAGEMENT OFFICER

August 27, 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 Natural Resources for the period October 1, 2000 through June 30, 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 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 South Carolina Department of Natural Resources 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 Natural Resources 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 Natural Resources. Our review, conducted June 27, 2003 through August 1, 2003, 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 13, 2001, the State Budget and Control Board granted the South Carolina Department of Natural Resources, hereinafter referred to as the Department, the following procurement certifications.

<u>PROCUREMENT AREAS</u>	<u>CERTIFICATION LIMITS</u>
Goods and Services	\$ 50,000 per commitment
Consultant Services	\$ 50,000 per commitment
Information Technology	\$ 50,000 per commitment
Construction Services	\$ 25,000 per commitment
Construction Contract Change Orders	\$ 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 has 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 samples for the period October 1, 2000 through June 30, 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 October 1, 2000 through June 30, 2003
- (2) Procurement transactions for the period October 1, 2000 through June 30, 2003 as follows:
 - a) One hundred seven payments each exceeding \$1,500
 - b) Three hundred sequential purchase orders reviewed for order splitting and favored vendors
 - c) Three months of procurement card transactions
- (3) Four construction contracts and two 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 plans for the audit period
- (6) Internal procurement procedures manual
- (7) File documentation and evidence of competition
- (8) Surplus property disposal procedures

RESULTS OF EXAMINATION

Unable to Reconcile Purchase Order with Invoices

We were unable to reconcile the following purchase orders with the corresponding paid invoices.

<u>Purchase Order</u>	<u>Description</u>	<u>Amount</u>
2001000130	Magazine subscription management services	\$120,000
2001000284	Resale items	10,000
2001003496	Hydrilla treatment services	403,104
2002000021	Specialty products for resale	25,000
2002000079	Magazine subscription management services	108,000
2002000598	Aerial photos for resale	50,276
2002001869	Hydrilla treatment services	328,500
2002002053	Materials for pole shed	2,805
2002030093	HVAC Preventive maintenance agreement	20,000
2003000101	Trout feed	60,000
2003000919	Dragline services	27,000
2003001025	Three quarter inch surge stone	20,0000
2003001396	Printing services	5,773
2003030841	Buoy chain	5,628

Several purchase orders did not have sufficient detail to allow for reconciliation with the invoices. Some invoices did not have sufficient detail to reconcile to the items listed on the purchase orders. Without such information, the Department has a higher risk of paying incorrect amounts that occurred on two of the items cited above. On purchase order 2002002053, the sales tax was paid twice. Freight was overpaid on purchase order 2003030841.

We recommend purchase orders include sufficient information from the solicitation to allow for reconciliation with invoices. Any discrepancies should be reconciled and adequately documented in sufficient detail to satisfy internal or external audit prior to payment.

Insufficient Competition

On purchase order 2002001261 in the amount of \$9,520 for concrete finishing services, the

Department obtained three written quotes. The Department requested the low bidder to supply another vendor that could quote the job. The low bidder submitted a written quote of \$9,520 that included a schedule of three payments at \$3,173.33 each for a total of \$9,519.99. The written quote from the suggested vendor was on a similar format as the low bidder for \$14,982.50 with a schedule of 3 payments at \$3,173.33 each for a total of \$9,519.99. We do not accept the quote from the suggested vendor of \$14,982.50 as being valid.

We recommend the Department support procurements with valid quotes.

On purchase order 2001031284, the Department solicited three written quotes for diesel engine repairs and made the award for \$3,000. The Department issued two changes orders that resulted in the total repairs of \$11,654. The Department should have declared and reported the increase as an emergency procurement.

We recommend the Department comply with the Code when issuing change orders for repairs.

Services Subject to Code

The Department processed the following procurements as exempt from the Code referring to the exemption for articles available for commercial resale. We believe the procurements are not exempt and are subject to the competition requirements of the Code.

<u>Purchase Order</u>	<u>Description</u>	<u>Amount</u>
2001000130	Magazine subscription management services	\$120,000
2002000079	Magazine subscription management services	98,000
2003000031	Magazine subscription management services	100,000

The vendor is providing subscription management services for the South Carolina Wildlife Magazine. Since this cost is not a raw material cost of producing the magazine, the service does not fit the exemption category.

We recommend the Department procure this service in accordance with the provisions of the Code.

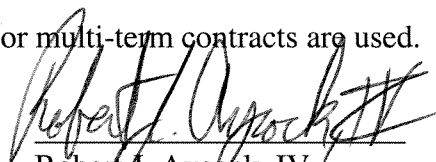
CERTIFICATION RECOMMENDATIONS

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 Natural Resources 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 Natural Resources 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	*\$50,000 per commitment
Consulting Services	*\$50,000 per commitment
Information Technology	*\$50,000 per commitment
Construction Services	\$25,000 per commitment
Construction Contract Change Orders	\$25,000 per change order
Architect/Engineer Contract Amendment	\$ 5,000 per amendment

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



Robert J. Aycock, IV
Audit Manager



Larry G. Sorrell, Manager
Audit and Certification

South Carolina Department of Natural Resources



John E. Frampton
Director

September 25, 2003

Mr. Larry G. Sorrell, Manager
Audit and Certification
Division of General Services
300 Gervais Street
Columbia, South Carolina 29201

Dear Mr. Sorrell:

I have reviewed in detail the audit report for the South Carolina Department of Natural Resources for the period October 1, 2000 through June 30, 2003, and have given special consideration to the audit findings and recommendations as outlined on pages 5 and 6 of the report.

I concur with all recommendations and have instructed my Director of Administrative Services to take the necessary action to implement the recommendations immediately, and I am confident these deficiencies will be corrected.

I appreciate your team's work in reviewing our purchasing procedures and assure you that we at DNR take pride in adhering to the rules, regulations, established procedures and statutes. We take our deficiencies very seriously and will work toward the goal of conformance in all areas.

I look forward to your follow-up to determine complete compliance.

Sincerely,

A handwritten signature in black ink, appearing to read "John E. Frampton".

John E. Frampton
Director

CC: Carole Collins
William T. Pace, Jr.