AUDIT REPORT

BY

THE MATERIALS MANAGEMENT OFFICE

OF

THE STATE BUDGET AND CONTROL BOARD

REGARDING

THE SOUTH CAROLINA DEPARTMENT OF TRANSPORTATION'S
EXEMPTIONS FROM THE CONSOLIDATED PROCUREMENT CODE
UNDER SECTION 11-35-710(1)

October 15, 2012

Audit conducted pursuant to Section 57-1-490(B)
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Delbert H. Singleton, Jr., Esq.
Assistant Executive Director
State Budget & Control Board
Wade Hampton Building, 6th Floor
Capitol Complex
Columbia, South Carolina  29201

Dear Mr. Singleton:

We have completed our audit of the South Carolina Department of Transportation exemptions from the South Carolina Consolidated Procurement Code as required by Section 57-1-490. The South Carolina Department of Transportation’s administration is responsible for establishing and maintaining a system of internal controls over procurement transactions. The objectives of such a system are to provide management with reasonable, but not absolute, assurance that the procurement process is conducted with integrity; that transactions are executed in accordance with the law and with management’s authorization; and that transactions 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.

We performed the audit for the period July 1, 2011 through June 30, 2012. No exceptions were identified during the current audit within the scope of our review. No administrative penalties are warranted.

Sincerely,

R. Voight Shealy
Materials Management Officer
INTRODUCTION

Since its initial enactment, the South Carolina Consolidated Procurement Code has expressly exempted broad categories of DOT procurements from any aspect of the Consolidated Procurement Code. Those exemptions appear in Section 11-35-710 and have remained virtually unchanged since its initial enactment: The exemptions state:

The following exemptions are granted from this chapter: (1) the construction, maintenance, and repair of bridges, highways, and roads; vehicle and road equipment maintenance and repair; and other emergency-type parts or equipment utilized by the Department of Transportation or the Department of Public Safety;

Twenty-five years after granting these exemptions, the General Assembly asked the South Carolina Legislative Audit Council (LAC) to audit DOT’s management of the Department’s resources. The LAC performed that audit and issued its report in November 2006. The following legislative session, the General Assembly enacted Section 57-1-490, a law requiring a more specific audit, an annual audit of DOT’s use of its Procurement Code exemptions. An excerpt from that law states:

The Materials Management Office of the State Budget and Control Board annually must audit the department’s internal procurement operation to ensure that the department has acted properly with regard to the department’s exemptions contained in Section 11-35-710. The audit must be performed in accordance with applicable state law, including, but not limited to, administrative penalties for violations found as a result of the audit. The results of the audit must be made available by October fifteenth to the Department of Transportation, the Department of Transportation’s chief internal auditor, the Governor, the chairmen of the Senate Finance and Transportation Committees, and the chairmen of the House of Representatives Ways and Means and Education and Public works Committees. The cost and expenses of the audit must be paid by the department out of its funds.\(^1\)

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\(^1\) 2007 Act No. 114, Section 5 (codified in S.C. Code Ann. Section 57-1-490(B))
SCOPE

We conducted our review in accordance with Generally Accepted Auditing Standards as they apply to compliance audits. We conducted our on-site review from August 28 through September 6, 2012. We selected samples from the period July 1, 2011 through June 30, 2012, for compliance testing. We reviewed these samples and performed other audit procedures that we considered necessary to determine whether DOT acted properly with regard to the exemptions in 11-35-710(1). Our scope was limited to the application of the exemptions and did not include a review of the procurement processes used. Most of our samples were limited to contracts awarded under DOT’s exemptions since our last audit as follows:

1. Road Construction Contracts

   We sampled twenty-five out of one hundred ninety-eight, or 13%, of road construction contracts awarded since our last audit to determine if DOT acted properly with regard to the exemptions. We noted no exceptions.

2. Consultant and Design Related Professional Services

   We sampled six out of eleven, or 55%, of consultant and design related professional services contracts awarded to determine if DOT acted properly with regard to the exemptions. We noted no exceptions.

3. Procurements Identified as Exempt processed by the DOT Procurement Office for Non-Professional Services

   We sampled eighteen of ninety-four expenditures, or 19%, each exceeding $2,500 of non-professional services procurements relating to vehicle and road equipment maintenance and repair, and other emergency-type parts or equipment, and the procurement of non-professional services relating to specific projects contained within the right-of-way which were identified as exempt by DOT. We noted no exceptions.

4. Review of DOT Expenditure Files

   We selected a statistical sample of ninety-six expenditures each exceeding $2,500 from the general population of 17,336 transactions. We traced each transaction we identified as exempt back to the exempt listings provided to us by DOT to ensure exempt expenditures were properly identified and reported to us. We noted no exceptions.

5. Review of DOT Capital Improvements

   We sampled eight of seventy-nine, or 10%, of the capital improvement projects awarded to determine if DOT acted properly with regard to the exemptions. We noted no exceptions.
To understand the standard we used for evaluating DOT's contracts, we refer to the first DOT exemption audit report dated October 15, 2008\(^2\), to determine the breadth of DOT's exemption for construction, maintenance, and repair of bridges, highways, and roads. The report states in part:

**CONSTRUCTION INCLUDES DESIGN**

Section 11-35-710(1) provides DOT an exemption for "the construction, maintenance, and repair of bridges, highways, and roads". The exemption must be read in conjunction with the definitions provided by the Procurement Code. The following four definitions are relevant.

"Construction" means the process of building, altering, repairing, remodeling, improving, or demolishing a public infrastructure facility, including any public structure, public building, or other public improvements of any kind to real property. It does not include the routine operation, routine repair, or routine maintenance of an existing public infrastructure facility, including structures, buildings, or real property.\(^3\)

"Services" means the furnishing of labor, time, or effort by a contractor not required to deliver a specific end product, other than reports which are merely incidental to required performance. This term includes consultant services other than architectural, engineering, land surveying, construction management, and related services. This term does not include employment agreements or services as defined in Section 11-35-310(1)(d).

"Architect-engineer and land surveying services" are those professional services associated with the practice of architecture, professional engineering, land surveying, landscape architecture, and interior design pertaining to construction, as defined by the laws of this State, as well as incidental services that members of these professions and those in their employ may logically or justifiably perform, including studies, investigations, surveys, evaluations, consultations, planning, programming conceptual designs, plans and specifications, cost estimates, inspections, shop drawing reviews, sample recommendations, preparation of operating and maintenance manuals, and other related services.

"Construction management services" are those professional services associated with a system in which the using agency directly contracts with a professional construction manager to provide that group of management activities required to plan, schedule, coordinate, and manage the design and construction plan of a state project in a manner that contributes to the control of time, cost, and quality of construction as specified in the construction management contract.

Read together, these definitions clearly distinguish construction services from non-construction services, both those related to construction and those not. Narrowly looking at these definitions, DOT's exemption does not extend to any non-construction services because the term construction does not include


\(^3\) 11-35-310(7) In 2008, the definition of construction was amended. 2008 Act No. 174.
architectural and engineering, construction management, and land surveying services. However, for reasons stated in the October 15, 2008, audit report, MMO applies a broader definition of construction to DOT's exemption. MMO interprets that exemption to include construction related professional design services, as defined by law.
RESULTS OF EXAMINATION

The South Carolina Department of Transportation (DOT) has very broad exemptions from the Consolidated Procurement Code (Procurement Code). In 2007, the General Assembly enacted a law that requires the Materials Management Office (MMO) to audit DOT annually with regard to DOT's application of these exemptions. With this report, MMO has completed its fifth annual audit under this law.

DOT exemptions from the Procurement Code provide for procurements of all contracts for construction, maintenance, and repair of bridges, highways, and roads; vehicle and road equipment maintenance and repair; and other emergency-type parts or equipment. Our testing of DOT's internal procurement operation of procurement transactions for the period July 1, 2011 through June 30, 2012 to ensure that DOT acted properly with regard to its exemptions resulted in no exceptions being identified.
CONCLUSION

Section 57-1-490(B) of the South Carolina Code of Laws requires the Materials Management Office of the State Budget and Control Board to annually audit the South Carolina Department of Transportation’s internal procurement operation to ensure that the department has acted properly with regard to its exemptions contained in Section 11-35-710. The audit must be performed in accordance with applicable state law, including, but not limited to, administrative penalties for violations found as a result of the audit. The results of the audit must be made available by October fifteenth to the Department of Transportation Commission, the Department of Transportation’s chief internal auditor, the Governor, the chairmen of the Senate Finance and Transportation Committees, and the chairmen of the House of Representatives Ways and Means and Education and Public Works committees.

Our audit found DOT acted properly with regard to its exemptions contained in Section 11-35-710 in all material respects. No administrative penalties are warranted.

J. Lane Warren, CFE, CBM
Audit Manager

Robert J. Aycock, IV, CPM, Manager
Audit and Certification
October 9, 2012

Mr. Robert J. Aycock, IV, Manager,
Audit and Certification
Materials Management Office
1201 Main Street, Suite 600
Columbia, SC 29201

RE: Procurement Audit required by Section 57-1-490 (B)

Dear Mr. Aycock:

We are in receipt of the draft report from the 2012 exemption audit conducted in compliance with Section 57-1-490 (B) that was recently concluded by your able and capable staff. We appreciate the consideration displayed and the professional manner in which your team conducted the audit.

We are pleased that no exceptions were noted and concur with the findings of the audit. We are committed to continuing to follow the able direction that has been offered and are looking forward to continued cooperation between the South Carolina Department of Transportation (SCDOT) and the Materials Management Office of the Budget and Control Board.

Thank you for your guidance and assistance with the audit.

Sincerely,

Sherry D. Barton
Chief Procurement Officer

SDB: clb

ec: Lane Warren, Audit Manager, Materials and Management Office
Christy A. Hall, SCDOT Deputy Secretary for Finance and Administration