



**South Carolina
Forestry Commission**

INDEPENDENT PROCUREMENT AUDIT REPORT

**for the Audit Period:
January 1, 2019 to December 31, 2021**

**Office of Audit & Certification
Division of Procurement Services
October 11, 2022**

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ABBREVIATIONS

COTS	– Commercially Available Off-the-Shelf
CPO	– Chief Procurement Officer
DPS	– Division of Procurement Services
PI Manual	– Manual for Planning and Execution of State Permanent Improvements
ITMO	– Information Technology Management Office
MBE	– Minority Business Enterprise
MCC	– Merchant Category Code
MMO	– Materials Management Office
OCG	– Office of the Comptroller General
OSE	– Office of State Engineer
PCA	– Purchasing Card Administrator
P-Card	– Purchasing Card
PO	– Purchase Order
Procurement Code	– SC Consolidated Procurement Code and ensuing Regulations
SCFC	– The South Carolina Forestry Commission
SFAA	– State Fiscal Accountability Authority
SMBCC	– Small and Minority Business Contracting and Certification
SPO	– Surplus Property Office
State PO Policy	– State of South Carolina Statewide Purchase Order Policy
STL	– Single Transaction Limit

INTRODUCTION

DPS audited SCFC's internal procurement operating policies and procedures, as outlined in their internal Procurement Operating Procedures Manual, under § 11-35-1230 of the Procurement Code and Reg. 19-445.2020.

The primary objective of our audit was to determine whether, in all material respects, the internal controls of SCFC's procurement system are adequate to ensure compliance with the Procurement Code and ensuing regulations.

The management of SCFC is responsible for the agency's compliance with the Procurement Code. Those responsibilities include the following:

- Identifying the agency's procurement activities and understanding and complying with the Procurement Code
- Establishing and maintaining an effective organization structure and system of internal control over procurement activities that provide reasonable assurance that the agency administers its procurement programs in compliance with the Procurement Code
- Establishing clear lines of authority and responsibility for making and approving procurements
- Documenting the agency's procurement procedures and system of internal controls over its procurement activities in an internal procurement procedure manual
- Taking corrective action when instances of noncompliance are identified, including corrective action for the findings of this audit

Because of inherent limitations in any system of internal controls, errors or irregularities may occur and not be detected. 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 review and evaluation of the system of internal control over procurement transactions, as well as our overall audit of procurement policies and procedures, was conducted with professional care. However, because of the nature of audit testing, they would not necessarily disclose all weaknesses in the system.

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Our audit was also performed to determine if recertification under SC Code Ann. § 11-35-1210 is warranted.

On October 17, 2017 SFAA granted SCFC the following procurement certifications:

<u>PROCUREMENT AREAS</u>	<u>CURRENT CERTIFICATION LIMITS</u>
Supplies and Services	*\$200,000 per commitment
Major Fire Fighting Equipment	*\$1,000,000 per commitment
Consulting Services	*\$ 75,000 per commitment
Information Technology	*\$100,000 per commitment
Construction Contract Award	*\$100,000 per commitment

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

During the audit, the Agency did not request an increase in its certification limits.

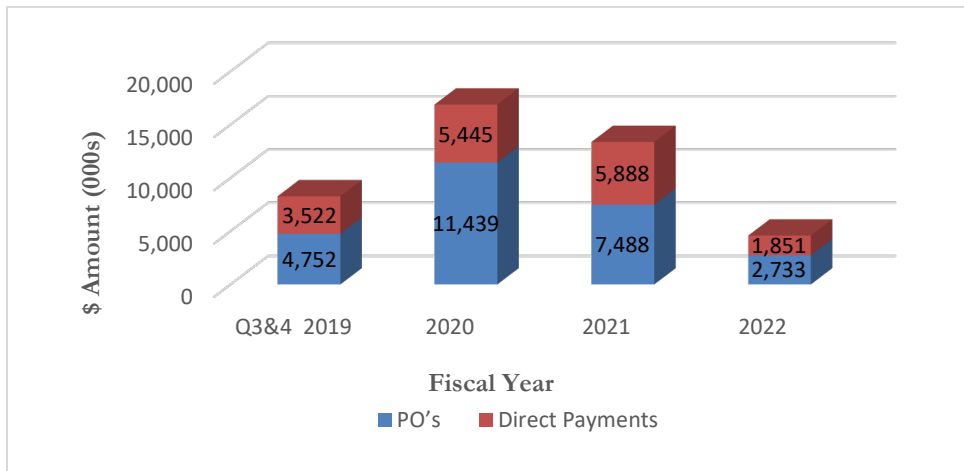
SCOPE

We conducted our audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. Our audit included testing, on a sample basis, evidence about SCFC’s compliance with the Procurement Code for the period January 1, 2019, through December 31, 2021, the audit period, and performing other procedures that we considered necessary in the circumstances. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

Total Expenditures

During the audit period, the agency made expenditures as follows:

	\$ Amount (000s)				Total
	Q3,4 FY2019	FY2020	FY2021	Q1,2 FY2022	
POs ¹	4,752	11,439	7,488	2,733	26,414
Direct Pay ²	3,522	5,445	5,888	1,851	16,706
Total Spend	8,274	16,884	13,377	4,854	43,120



¹ **POs** represents all expenditures made with a Purchase Order. These are required for most contract purchases by the terms of the contract and is the preferred procurement instrument when a government unit orders or procures supplies or services from a vendor.

² **Direct Pays** are made without purchase order based on the State Purchase Order Policy. These may occur with purchases of supplies or services that are exempt from the Procurement Code or for such things as payment for P-Card purchases or purchases less than \$2500.

SUMMARY OF RESULTS

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Our testing of sole source and emergency procurements did not identify any compliance issues.	
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Note: The agency’s responses to issues raised in this report have been inserted immediately following the recommendations in the body of the report.

RESULTS OF AUDIT

I. Procurement Manual

We reviewed SCFC's internal procurement procedures manual that was in effect during the audit period to evaluate its effectiveness in documenting the agency's system of internal controls over procurement.

SCFC's procurement manual did not contain procedures for conducting the types of procurements commonly used by the agency to ensure compliance with key sections of the Procurement Code. Additionally, SCFC's internal procurement manual has not been approved by the CPO. Some key sections not addressed by SCFC's Procurement Manual are:

- Roles and responsibilities for required functions were not clearly assigned.
- Procurement and approval authority for specific types of procurements was not identified.
- There was no defined system for organizing and retaining procurement files.
- Data ownership was not assigned, nor was there a process for requesting or granting access to procurement files.
- Procedures for the purchase of COTS products per SC Regs. 19-445.2141.
- Policy for the acceptance of gifts or the definition of a gift.
- The source selection methods are included in the manual, but they do not include specific details that pertain to the agency such as which employee is responsible for each task and the process for relevant individuals to approve each step. (SC Code Ann. § 11-35-1510, 1520, 1530)
- The manual does not include the requirement/procedures for verifying IT Plan approval prior to solicitation for IT procurements greater than \$50,000

Recommendation: We recommend SCFC develop an internal procurement procedures manual as required by SC Code Ann. § 11-35-540 (3) and Reg. 19-445.2005, and that SCFC submit the manual to the DPS for approval. Procurement Services' website has a procurement manual checklist that may serve as a guide in revising the agency's manual. SCFC provided an updated procurement manual dated August of 2022 after the completion of field work. We commend SCFC for providing an updated manual.

Agency Response

We acknowledge and accept the finding that the Procurement Manual did not contain procedures for the application of key provisions of the Procurement Code. As noted in

RESULTS OF AUDIT

your recommendations, the manual was updated in August after the completion of the field work to include all requested requirements and resubmitted.

II. Supplies and Services

We audited expenditures exceeding \$10,000 made with POs, and expenditures made without a PO to assess compliance with the Procurement Code and did not identify any issues.

III. Sole Source Procurements and Emergency Procurements

Sole Source and emergency procurements made pursuant to SC Code Ann §§ 11-35-1560 and 1570, were evaluated to assess the appropriateness of the procurement actions and the accuracy of the quarterly reports required by § 11-35-2440. During the audit period SCFC reported 22 sole source procurements totaling approximately \$437k and four emergency procurements totaling approximately \$1.5M to DPS.

Our testing of sole source and emergency procurements did not identify any compliance issues.

IV. Construction

We tested construction, and architectural/engineer and related professional service contracts for compliance with the Procurement Code and the PI Manual.

Our testing of construction and related professional services did not identify any compliance issues.

V. P-Cards

The SCFC had 163 P-Cards in use during the audit period and spent approximately \$2.6M in 15,194 transactions. Based on the volume of usage, there is increased risk that misuse, or abuse of P-Cards will not be prevented or detected without adequate management oversight.

Program Administration

We reviewed SCFCs P-Card Policy and Procedures for compliance with the State P-Card Policy and identified areas of non-compliance.

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A. Insufficient P-Card Manual

We reviewed SCFC P-Card Manual dated May 2021 which was in effect during the audit period for compliance with State P-Card Policy and identified areas of non-compliance as follows:

- No procedures for the development of documented Level I and II training programs and a documented record and acknowledgement of training for employees with program responsibility
- No procedures for approval and use of blocked MCCs.
- No procedures for monitoring accounts for inactivity and promptly closing accounts that are no longer needed.
- No procedures that require a written designation of the PCA to the State P-Card Coordinator.
- No procedures for an annual independent audit of the P-Card program.
- No mention of the requirements for a monthly P-Card Statement Certification to be submitted to the OCG
- The manual does not explicitly state that there can be only one card per cardholder.
- No procedures for authorizing P-Card STL limits in excess of \$2,500 and authorizing P-Card STL above the no competition limit.

State P-Card Policy III. A. 1 lists key requirements agencies must include in their internal P-Card manuals.

Recommendation: We recommend SCFC revise its internal P-Card Manual to include the key requirements outlined in the State P-Card Policy. Procurement Services' website has a P-Card Manual Checklist that may be of assistance in revising the manual. SCFC provided an updated P-Card Manual dated September 2022 after the completion of field work. We commend SCFC for providing an updated manual.

Agency Response

We acknowledge and accept the finding for the insufficient P-Card Manual. As noted in your recommendations, the manual was updated in September after the completion of the field work to include all requested requirements and resubmitted.

B. Independent Audit of P-Cards Not Performed

SCFC did not perform independent audits of P-Card activity as required by Section V. 6. of the State P-Card Policy.

RESULTS OF AUDIT

Recommendation: We recommend that SCFC develop and implement procedures to require independent audits of the P-Card program are conducted, at least annually, including program administration and transaction testing. We further recommend that these audits be performed by individuals not associated with the P-Card program.

Agency Response

We acknowledge and accept the finding for the independent Audit of P-Cards not performed. The P-Card Administrator and Accounting Coordinator will begin conducting quarterly audits of the P-Cards on January 1, 2023. An annual internal audit of the P-Cards will be conducted by the Agency's Privacy Officer beginning July 1, 2023.

VI. Unauthorized or Illegal Procurements

We tested unauthorized or illegal procurements to determine compliance with the Procurement Code. All reported unauthorized or illegal procurements were properly resolved.

VII. Surplus Property

We tested asset disposals to determine compliance with the Procurement Code and State policies and procedures. Our testing of asset disposals did not identify any compliance issues.

VIII. MBE Reports

We requested copies of SCFC's annual MBE utilization plans and quarterly progress reports to assess compliance with the Procurement Code.

SCFC submitted three annual MBE utilization plans to SMBCC after established due dates as required by SC Code Ann. § 11-35-5240.

Recommendation: We recommend SCFC develop and implement procedures, including management review, for submitting annual utilization plans and quarterly progress reports to the SMBCC as required by SC Code Ann. § 11-35-5240.

RESULTS OF AUDIT

Agency Response

We acknowledge and accept the findings of the MBE Reports. Due to the inability to obtain reports from SCEIS/Citrix to complete yearly Utilization Plan in a timely manner the reports were filled later than the July deadline. In the future a request for an extension will be submitted to the MBE office should reports not be available to complete and file the Utilization Plan by the required date.

CERTIFICATION RECOMMENDATION

We found SCFC's system of internal controls over its procurement process was not adequate to ensure compliance with the Procurement Code as described in the audit report and made recommendations for improvement. With the implementation of the recommended corrective actions, SCFC's procurement process will be adequate to ensure compliance with the Procurement Code.

As provided in SC Code Ann. § 11-35-1210, we recommend that SCFC's procurement authority to make direct agency procurements be re-certified up to the following limits for three years:

<u>PROCUREMENT AREAS</u>	<u>RECOMMENDED CERTIFICATION LIMITS</u>
Supplies and Services ³	*\$ 200,000 per commitment
Major Fire Fighting Equipment ⁴	*\$1,000,000 per commitment
Information Technology ⁵	*\$ 100,000 per commitment
Construction Contract Award	*\$ 100,000 per commitment

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

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³ Supplies & Services includes non-IT consulting services.

⁴ For commodity codes 065,071,072,073,760 & 765.

⁵ Information Technology includes consultant assistance for any aspect of information technology.