

SOUTH CAROLINA DEPARTMENT OF NATURAL RESOURCES

PROCUREMENT AUDIT REPORT

JANUARY 1, 2017 – OCTOBER 31, 2017

**Office of Audit & Certification
Division of Procurement Services
February 23, 2018**

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April 2, 2018

Mr. John St. C. White
Materials Management Officer
Division of Procurement Services
1201 Main Street, Suite 600
Columbia, South Carolina 29201

Re: South Carolina Department of Natural Resources (DNR)
Procurement Examination

John:

We have examined the procurement policies and procedures of DNR for the period January 1, 2017 through October 31, 2017 to determine whether, in all material respects, the internal controls of DNR's procurement system were adequate to ensure compliance with the South Carolina Consolidated Procurement Code and ensuing regulations.

The examination disclosed conditions enumerated in the report which we believe need correction or improvement. Corrective action based on the recommendations described in these findings will in all material respects place DNR in compliance with the South Carolina Consolidated Procurement Code and ensuing regulations.

Sincerely,

Crawford Milling, CPA, CGMA
Acting Director,
Audit and Certification

INTRODUCTION

We conducted an examination of the internal procurement operating policies and procedures of DNR, as outlined in DNR's Internal Procurement Operating Procedures Manual, under Section 11-35-1230(1) of the South Carolina Consolidated Procurement Code and Section 19-445.2020 of the accompanying regulations.

The primary objective of our examination was to determine whether, in all material respects, the internal controls of DNR's procurement system were adequate to ensure compliance with the South Carolina Consolidated Procurement Code and ensuing regulations.

The management of DNR is responsible for establishing and maintaining a system of internal controls 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 internal control relate to (1) financial reporting, (2) operations, and (3) compliance. Safeguarding of assets is a subset of these objectives. Management designs internal control to provide reasonable assurance that unauthorized acquisition, use, or disposition of assets will be prevented or timely detected and corrected.

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 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.

Our examination was also performed to determine if certification is warranted.

BACKGROUND

In 2011, we conducted a procurement examination for the period of July 1, 2006 through September 30, 2010 and recommended DNR be recertified with the understanding that a Procurement Director would be hired in the near future.

On June 14, 2011, the State Budget and Control Board granted DNR the following procurement certifications expiring June 14, 2014:

<u>PROCUREMENT AREAS</u>	<u>CERTIFICATION LIMITS</u>
Supplies and Services	*\$ 350,000 per commitment
Consultant Services	*\$ 350,000 per commitment
Construction Contract Change Order	\$ 25,000 per change order
Architect/Engineer Contract Amendment	\$ 5,000 per amendment

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

In 2015, we conducted a procurement examination for the period of July 1, 2010 through December 31, 2014, and determined that DNR had not hired a Procurement Director as expected. In February 2016, while the audit was being reviewed, DNR's newly appointed Procurement Director (hired February 17, 2016) inquired about the Agency's procurement certification. She was advised, via email, on February 25, 2016, that due to the prolonged vacancy in the Procurement Director's position and the turnover in procurement staff, certification would not be recommended. DNR was also advised that their procurement authority would be reduced to the basic amount allowed by law, \$50,000 in all areas, effective February 25, 2016.

In November 2016, we attempted to conduct a follow-up procurement examination for the period of January 1, 2015 through December 31, 2016. It was determined that the procurements reviewed were not a reflection of the current procurement staff and the audit was terminated.

On April 5 and October 26, 2017, DNR requested increases in their procurement certification and Audit and Certification initiated this examination on December 8, 2017 for that purpose.

BACKGROUND

During the examination DNR requested the following certification limits.

<u>PROCUREMENT AREAS</u>	<u>REQUESTED CERTIFICATION LIMITS</u>
Supplies and Services	*\$ 300,000 per commitment
Information Technology	*\$ 50,000 per commitment
Construction Contract Award	*\$ 100,000 per commitment
Construction Contract Change Order	\$ 25,000 per change order
Architect/Engineer Contract Amendment	\$ 5,000 per amendment

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

SCOPE

We conducted our examination to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our objectives. Our examination included testing, on a sample basis, evidence about DNR's compliance with the South Carolina Consolidated Procurement Code for the period January 1, 2017 through October 31, 2017, 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 objectives.

The scope of our examination included, but was not limited to, a review of the following:

- (1) All sole source, emergency and trade-in sale procurements for the audit period with no exceptions
- (2) Procurement transactions for the period January 1, 2017 through October 31, 2017 as follows:
 - a) Fifty-two payments each exceeding \$2,500 with no exceptions
 - b) One hundred fifty-two sequentially filed purchase orders reviewed for the use of order splitting and favoring vendors with no exceptions
 - c) Procurement card transactions during the audit period with exceptions noted in Section I
- (3) Minority Business Enterprise Plans and reports with exceptions noted in Section II. The following activity was reported to the Governor's Office Division of Small and Minority Business Contracting and Certification:

<u>Fiscal Year</u>	<u>Goal</u>	<u>Actual</u>
FY17-18	\$5,950,635	Not Reported

- (4) The most recent Information Technology Plan with no exceptions
- (5) Internal procurement and P-Card procedures manuals with exceptions noted in Section I
- (6) Surplus property disposition procedures with no exceptions
- (7) Ratification of unauthorized procurements with no exceptions
- (8) File documentation and evidence of competition with no exceptions
- (9) Other tests performed as deemed necessary with no exceptions

SUMMARY OF FINDINGS

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P-Card Program Administration procedures do not comply with the State P-Card policies and procedures.	
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Frequent purchases of similar items from two vendors should have been combined and competed.	
II. <u>Minority Business Enterprise Quarterly Progress Reports Not Submitted</u>	10
DNR did not submit the three quarterly progress reports required for the audit period to the Governor's Office of Small and Minority Business Contracting and Certification(SMBCC) as required by the Procurement Code.	

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 EXAMINATION

I. Procurement Cards

A. Program Administration

We reviewed DNR'S P-Card policies and procedures to ensure they comply with the South Carolina Purchasing Card Policy and Procedures and identified areas of non-compliance. DNR had 634 cardholders that spent approximately \$5,078,000 during the audit period through 20,675 transactions. Due to the volume of usage, there is enhanced risk of misuse without adequate attention to Program Administration and management oversight.

Purchase Approval Authority Delegated to Cardholders

DNR has delegated purchase approval authority to the cardholder (employee), in violation of State P-Card Policy. Page 1 of DNR's Procurement Card Manual states, "...The Department of Natural Resources has delegated purchase approval authority to the Cardholder (Employee)". Per the State P-Card Policy, V. Program Compliance, A. Internal Controls, 4. 'No Cardholder can provide approval for payment for his/her transactions or of the P-Card cardholder activity statements. Review and approval responsibilities cannot be delegated to someone else.'

Roles and Responsibilities Need Revision to Reflect Practice

Page 1 of DNR's Procurement Card Manual defines Division Liaison as "An employee in each division responsible for proper use of the Visa Purchasing Card within that division. Each cardholder (employee) is assigned a Division Liaison, and the liaison is responsible for auditing and reviewing transactions of individual cardholders (employees) and ensuring that purchase transactions are classified as appropriate department expenses." DNR's Division Liaisons are not auditing and reviewing cardholders transactions as required by the Agency's Procurement Card Manual.

There is one Division Liaison for each of four divisions in DNR. The risk associated with each Division Liaison having responsibility for auditing and reviewing the transactions of over a hundred cardholders each month is excessive. While the practice is to have the cardholders' supervisors approve

RESULTS OF EXAMINATION

transactions, there was not a process to have the statements reviewed by the Liaisons for prohibited transactions, purchases in excess of STLs, use of blocked MCC codes, or transaction splitting.

Additional review of the DNR's Procurement Card Manual revealed the manual does not have a section for Cardholder Supervisors Responsibilities as it did for Division Liaisons and Cardholders (Employee). We recommend that a section be added clearly delineating their responsibilities, including transaction review and approval, and training.

We recommend DNR develop and implement P-Card procedures to address Program Administration that comply with the State P-Card Policies and Procedures, Section III. A. 1. Specifically, DNR should revise and clarify its delegation of purchase approval authority to the cardholder to prevent a cardholder from approving their own transaction(s); develop and implement procedures to ensure adequate review of cardholder transactions by assigning responsibility for review and approval of transactions to either the cardholders' supervisors so that reviewers are only responsible for a reasonable number of cardholders to review; and assign responsibility for a documented review of the monthly statements by the Division Liaisons for the purpose of ensuring compliance with assigned STLs, prohibited transactions, including split transactions, and the CG's blocked MCC code listing.

Documenting Approval of Card Assignments

We also reviewed the assignment of cards to approved individuals. While we did see Division Deputy Directors initialing the request forms, there was not a specific space designated for that approval of the form.

We recommend the form be revised to require approval by the Deputy Directors, and assigning responsibility for retaining the forms while the card is active. We also recommend the P-Card Coordinator issue a standard form for use by the divisions to simplify compliance.

RESULTS OF EXAMINATION

No Independent Audits of Procurement Cards Performed

No independent audits of procurement card activity were being performed at least annually by the Agency. Section III of the South Carolina Purchasing Card Policy and Procedures Manual requires the Agency to create a provision for audit or other independent review of all areas of program administration and transactions at least annually.

We recommend that DNR develop and implement procedures to ensure compliance with the South Carolina Purchasing Card Policy and Procedures Manual regarding independent annual audits of the procurement card program.

Implementation of all of the recommendations related to program administration, along with increased management oversight of the P-Card program, is necessary to reduce risk to an acceptable level and bring the program into compliance with the State P-Card Policy.

Agency Response

Program Administration – SC DNR will review the recommendations as stated and will revise the program procedures to be compliant with the State P-Card policies and procedures.

B. Artificially Divided Procurements

We tested procurement card transactions for the audit period and identified 107 recurring purchases of similar items made by multiple cardholders from two vendors totaling \$108,856.46. The majority of the 107 purchases identified were for fertilizer and nitrogen to maintain dove fields. Although individual purchases were less than the competitive threshold of \$2,500, procurements should have been combined and competed based upon the frequency of purchases and dollars spent. DNR's purchase of fertilizer and nitrogen to maintain dove fields is a recurring annual need. Therefore, the Agency's annual usage for these products should be estimated and competition solicited.

RESULTS OF EXAMINATION

Section 11-35-1550 (Small Purchase Procedures; when Competitive Bidding Required) of the Procurement Code states, "Procurement requirements must not be artificially divided by governmental bodies so as to constitute a small purchase pursuant to this section."

Based upon the frequency of purchases and dollars spent, we recommend DNR solicit competition for nitrogen and fertilizer according to the competitive requirements of the South Carolina Consolidated Procurement Code.

Agency Response

Artificially Divided Procurements – SC DNR will solicit competition for nitrogen and fertilizer according to the competitive requirements of the SC Consolidated Procurement Code.

II. Minority Business Enterprise Quarterly Progress Reports Not Submitted

DNR failed to submit quarterly progress reports to the Division of Small and Minority Business Contracting and Certification(SMBCC) for the audit period (1/1/17 – 10/31/17). Section 11-35-5240(2) of the Procurement Code requires progress reports to be submitted to SMBCC no later than thirty days after the end of each fiscal quarter. Additionally, Section 1.10 (Minority-Owned Businesses) of DNR's Internal Procurement Policies and Procedures Manual states, "DNR, in an effort to assist minority-owned businesses, has developed a Minority Business Enterprise (MBE) utilization plan which affords qualified MBEs the opportunity to fully participate in the procurement process. DNR's MBE plan is on file in the Procurement Services Office, as required by Section 11-35-5210 of the Code. This agency will report quarterly those expenditures made to MBEs by the first and no later than the fifteenth of each month after each quarter."

We recommend DNR comply with Section 11-35-5240 of the South Carolina Consolidated Procurement Code and Section 1.10 of the Agency's Internal Procurement Policy and Procedures by

RESULTS OF EXAMINATION

developing and implementing procedures to ensure timely submission of quarterly progress reports to SMBCC.

Agency Response

SC DNR will submit all quarterly reports as required to the Governor's Office of Small and Minority Business Contracting and Certification (SMBCC) as required by the Procurement Code going forward. Report submission will be beginning with the most recent quarter of January 1, 2018.

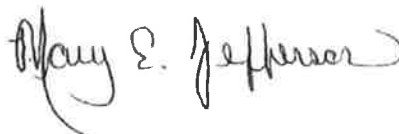
CERTIFICATION RECOMMENDATIONS

As enumerated in our transmittal letter, corrective action based on the recommendations described in this report, we believe, will in all material respects place DNR in compliance with the South Carolina 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 South Carolina Department of Natural Resources be certified to make direct agency procurements to the following limits for three years.

<u>PROCUREMENT AREAS</u>	<u>RECOMMENDED CERTIFICATION LIMITS¹</u>
Supplies and Services	*\$ 300,000 per commitment

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



Mary E. Jefferson
Senior Auditor



Crawford Milling, CPA, CGMA
Acting Director
Audit and Certification

¹ On January 25, 2018, DNR's Manager of Construction Services position became vacant.