



**SOUTH CAROLINA
OFFICE OF THE ADJUTANT GENERAL
LIMITED SCOPE PROCUREMENT AUDIT REPORT
SEPTEMBER 1, 2016 – OCTOBER 20, 2017**

**Office of Audit & Certification
Division of Procurement Services
July 30, 2018**

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CHAIRMAN, HOUSE WAYS AND MEANS COMMITTEE

GRANT GILLESPIE
EXECUTIVE DIRECTOR

THE DIVISION OF PROCUREMENT SERVICES

DELBERT H. SINGLETON, JR.
DIVISION DIRECTOR

(803) 734-8018

JOHN ST. C. WHITE
MATERIALS MANAGEMENT OFFICE

(803) 737-0600

FAX: (803) 737-0639

July 26, 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 Office of the Adjutant General (TAG)
Limited Scope Procurement Examination

John:

We have examined the procurement policies and procedures of TAG for the period September 1, 2016 through October 20, 2017 to determine whether, in all material respects, the internal controls of TAG's procurement system were adequate to ensure compliance with the South Carolina Consolidated Procurement Code and ensuing regulations.

The examination did not disclose any conditions which we believe need correction or improvement. In our opinion, TAG was in compliance with the South Carolina Consolidated Procurement Code and ensuing regulations for Indefinite Delivery Contracts (IDCs) in all material respects.

We previously conducted a procurement audit for the period July 1, 2012 through March 31, 2016. As that examination found no issues related to TAG's procurement system, other than IDCs, we recommended the requested increases in Supplies and Services also be approved.

Sincerely,

D. Crawford Milling, CPA, CGMA
Acting Director
Audit & Certification

INTRODUCTION

We conducted a limited scope examination of the internal procurement operating policies and procedures of TAG, as outlined in TAG'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 TAG's procurement system, related to IDCs, were adequate to ensure compliance with the South Carolina Consolidated Procurement Code and ensuing regulations.

The management of TAG 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 IDC 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 construction certification is warranted.

BACKGROUND

In May of 2016, we conducted a procurement examination for the period of July 1, 2012 through March 31, 2016 at the request of agency management. That examination concluded that the internal controls in TAG's procurement system were sufficient to ensure compliance with the SC Consolidated Procurement Code in all areas except Construction IDCs. The examination did, however, identify numerous issues with IDCs. This limited scope examination was conducted as a follow-up to determine if the issues identified related to IDCs had been corrected. Construction projects reviewed during the current examination period were performed under new management.

TAG did not have procurement certification during the examination period. Non-certified agencies have the following procurement authority:

<u>PROCUREMENT AREAS</u>	<u>CERTIFICATION LIMITS</u>
Supplies and Services	\$ 50,000 per commitment*
Information Technology	\$ 50,000 per commitment*
Construction Contracts	\$ 50,000 per commitment

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

During the examination TAG requested the following certification limits:

<u>PROCUREMENT AREAS</u>	<u>REQUESTED CERTIFICATION LIMITS</u>
Supplies and Services	\$ 100,000 per commitment*
Information Technology	\$ 50,000 per commitment*
Construction Contract Award	\$ 150,000 per commitment

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

SCOPE

We conducted our limited scope examination to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our objectives. Our examination included testing evidence about TAG's compliance with the South Carolina Consolidated Procurement Code for the period September 1, 2016 through October 20, 2017, the examination 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 objectives.

The scope of our examination included a review of the following:

All 54 indefinite delivery contracts for compliance with the Manual for Planning and Execution of State Permanent Improvements, Part II, for the examination period, with no exceptions.

Under the authority granted by SC Code Ann. §11-35-1210 and Reg. 19-445.2020, we reviewed TAG's request for procurement certification to determine whether or not to recommend procurement certification and at what level.

Reg. 19-445.2020 A. (2) states that the MMO shall review and report on the particular governmental body's entire internal procurement operation to include, but not limited to the following:

- a) Adherence to the Procurement Code and Regulations,
- b) Procurement staff and training,
- c) Adequate audit trails and purchase order register,
- d) Evidences of competition,
- h) File documentation of procurements,
- j) Adherence to any mandatory policies, procedures, or guidelines established by the appropriate CPOs,
- m) Adequacy of the governmental body's system of internal controls in order to ensure compliance with applicable requirements.

Reg. 19-445.2020 B. Limitations. (2) states that such certification as prescribed in subsection A may be subject to maintaining an adequate staff of qualified or certified procurement officers.

RESULTS OF EXAMINATION

Based on the procedures performed, our limited scope examination did not reveal any conditions which we believe need to be addressed in this report. In our opinion, the internal controls of the Office of The Adjutant General's procurement system are adequate to ensure compliance with the South Carolina Consolidated Procurement Code and ensuing regulations in all material respects related to Indefinite Delivery Contracts.

However, in evaluating TAG's continuing ability to comply with the Procurement Code and ensuing regulations related to construction, we requested the opinion of OSE staff regarding the collective qualifications of TAG's construction staff. We provided OSE staff with the qualifications and experience of TAG's construction staff as submitted by TAG in support of their procurement certification request. In the opinion and experience of OSE, TAG construction staff possess the collective qualifications to conduct compliant construction projects; however, TAG would need to designate a code official and be responsible for their own code compliance on construction projects greater than \$50,000. Based on that, OSE staff believe that granting increased construction procurement authority up to \$100,000 would likely allow TAG's staff to successfully expand its capacity to conduct compliant construction projects.

We previously conducted a procurement examination for the period July 1, 2012 through March 31, 2016. That examination concluded that the internal controls in TAG's procurement system were sufficient to ensure compliance with the SC Consolidated Procurement Code in all areas except Construction IDCs. Therefore, we recommended the requested increases in Supplies and Services also be approved.

CERTIFICATION RECOMMENDATION

Based on the procedures performed, our limited scope examination did not reveal any conditions which we believe need to be addressed in this report. In our opinion, the internal controls of the Office of The Adjutant General's procurement system are adequate to ensure compliance with the South Carolina Consolidated Procurement Code and ensuing regulations in all material respects related to Indefinite Delivery Contracts. However, due to the new responsibility of TAG staff for code compliance on construction projects over \$50,000, we recommend a limited increase in certification for construction contract awards.

We previously conducted a procurement examination for the period July 1, 2012 through March 31, 2016. That examination concluded that the internal controls in TAG's procurement system were sufficient to ensure compliance with the SC Consolidated Procurement Code in all areas except Construction IDCs. Therefore, we recommend the requested increases in Supplies and Services be approved.

Under the authority granted in Section 11-35-1210 of the South Carolina Consolidated Procurement Code, we recommend the Office of The Adjutant General be certified to make direct agency procurements for three years up to the following limits:

<u>PROCUREMENT AREAS</u>	<u>RECOMMENDED CERTIFICATION LIMITS</u>
Supplies and Services	\$ 100,000 per commitment*
Information Technology	\$ 50,000 per commitment*
Construction Contract Award	\$ 100,000 per commitment

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

Robin Devette Jacobs, CPA, CGMA, CNA, CNFA

Robin D. Jacobs, CPA, CGMA, CNA, CNFA
Audit Manager

D. Crawford Milling

D. Crawford Milling, CPA, CGMA
Acting Director
Audit & Certification