

SOUTH CAROLINA DEPARTMENT OF NATURAL RESOURCES

PROCUREMENT AUDIT REPORT

JULY 1, 2003 – JUNE 30, 2006

TABLE OF CONTENTS

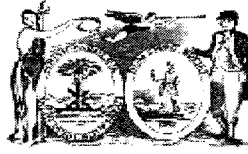
	<u>PAGE</u>
Transmittal Letter.....	1
Introduction.....	3
Scope.....	4
Results of Examination.....	5
Certification Recommendations.....	8
Department Response	9
Follow-up Letter	10

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

MARK SANFORD, CHAIRMAN
GOVERNOR

GRADY L. PATTERSON, JR.
STATE TREASURER

RICHARD ECKSTROM
COMPTROLLER GENERAL



HUGH K. LEATHERMAN, SR.
CHAIRMAN, SENATE FINANCE COMMITTEE

ROBERT W. HARRELL, JR.
CHAIRMAN, WAYS AND MEANS COMMITTEE

FRANK W. FUSCO
EXECUTIVE DIRECTOR

DELBERT H. SINGLETON, JR.
DIVISION DIRECTOR
(803) 734-2320

MATERIALS MANAGEMENT OFFICE
1201 MAIN STREET, SUITE 600
COLUMBIA, SOUTH CAROLINA 29201
(803) 737-0600
Fax (803) 737-0639

R. VOIGHT SHEALY
MATERIALS MANAGEMENT OFFICER

August 22, 2006

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 July 1, 2003 through June 30, 2006. 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 those 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, 2006 through August 1, 2006, 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 January 25, 2005, 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	\$ 250,000 per commitment
Consultant Services	\$ 250,000 per commitment
Information Technology	\$ 50,000 per commitment
Construction Services	\$ 25,000 per commitment
Construction Contract Change Order	\$ 25,000 per change order
Architect/Engineer Contract Amendment	\$ 5,000 per amendment

Our audit was performed primarily to determine if recertification is warranted.

Additionally, the Department requested the following increased certifications.

<u>PROCUREMENT AREAS</u>	<u>CERTIFICATION LIMITS</u>
Goods and Services	\$ 350,000 per commitment
Consultant Services	\$ 350,000 per commitment
Information Technology	\$ 50,000 per commitment
Construction Contract Award	\$ 50,000 per commitment
Construction Contract Change Order	\$ 25,000 per change order
Architect/Engineer Contract Amendment	\$ 5,000 per amendment

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 January 1, 2004 through June 30, 2006 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 July 1, 2003 through June 30, 2006
- (2) Procurement transactions for the period July 1, 2003 through June 30, 2006 as follows:
 - a) One hundred four payments each exceeding \$1,500
 - b) Three hundred ninety-six sequential purchase orders reviewed for order splitting and favored vendors
 - c) Procurement card transactions for February, March and April of 2006
- (3) Two 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 for the audit period
- (5) Approval of the most recent Information Technology Plan
- (6) Internal procurement procedures manual
- (7) File documentation and evidence of competition
- (8) Surplus property disposal procedures

RESULTS OF EXAMINATION

Inappropriate Sole Source Procurements

Two procurements were inappropriately declared sole sources.

<u>PO</u>	<u>Date</u>	<u>Description</u>	<u>Amount</u>
04-000292	08/01/03	Film processing	\$7,500
06-000237	07/12/05	Film processing	4,500

Section 11-35-1560 allows for sole source procurements where there is only one source for a required item.

We recommend the Department solicit competition in compliance with the Code on these items.

Overpayments

We noted the following overpayments.

<u>Item</u>	<u>Voucher</u>	<u>Description</u>	<u>Correct Amount</u>	<u>Overpayment</u>
1	16711 & 17741	Shipping	\$ 200	\$ 114
2	14665	Shipping	150	225
3	1249	Tree removal	3,900	150
4	10488	Sales tax	0	396

For item 1, the vendor quoted shipping for \$200. The partial shipments resulted in two invoices with shipping cost of \$166 and \$148 for a total of \$314, an increase of \$114 over the quoted amount. For item 2, the vendor quoted shipping of \$150 but invoiced the Department \$375, an increase of \$225 over the quoted amount. The Department issued purchase order 05003299 for the removal of trees that included six pine trees at \$650 each for item 3 for a total cost of \$3,900. The vendor invoiced the Department a cost of \$675 per tree thus resulting in an overpayment of \$150. For item 4, the Department added sales tax of \$396 to the purchase order even though sales tax did not apply for the commercial floating dock. The vendor's invoice did

not include sales tax. However, the Department added sales tax to the vendor's invoice and paid the sales tax to the vendor.

We recommend the Department reconcile invoices to the applicable purchase orders. Any discrepancies should be resolved, documented and authorized prior to payment.

Solicitation Not Advertised

The Department attempted to purchase a boat motor from the state term contract vendor. However, the state term contract vendor was unable to meet the delivery requirements. In order to meet its needs, the Department solicited written quotes from three vendors and issued purchase order 2005001539 to the lowest bidder for \$12,017. The Department did not comply with Section 11-35-1550 (2)(d) of the Code that requires written solicitation of written quotes, and advertisement in the South Carolina Business Opportunities plus the application of preferences as defined in Section 11-35-1524.

We recommend the Department comply with the competitive requirements of the Code.

Artificially Divided Procurements

We noted two instances where items should have been combined and processed through competitive solicitations. No competition was solicited.

<u>Item</u>	<u>Date</u>	<u>Description</u>	<u>Amount</u>
1	3/27/06	Agricultural products	\$1,438
	3/28/06	Agricultural products	<u>1,497</u>
		Total	<u>\$2,935</u>

<u>Item</u>	<u>Date & Requisition</u>	<u>Description</u>	<u>Amount</u>
2	04/12/06; 21361	Fertilizer	\$1,242
	04/12/06; 21362	Fertilizer	<u>994</u>
		Total	<u>\$2,236</u>

For item one, the procurement card purchases were made for the same type of products one day apart. For item two, separate requisitions were submitted to the Procurement Department. Since the total value of these transactions exceeded \$1,500, the requirements should have been combined and competition solicited per Section 11-35-1550 (2)(b).

We recommend the Purchasing Department more closely examine department requisitions to ensure procurements are not artificially divided thereby circumventing the competitive process.


CERTIFICATION RECOMMENDATIONS

As enumerated in our 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.

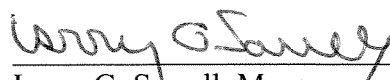
Under the authority described in Section 11-35-1210 of the Procurement Code, subject to this corrective action, we will recommend the South Carolina Department of Natural Resources be re-certified to make direct agency procurements for three years up to the limits as follows.

<u>PROCUREMENT AREAS</u>	<u>RECOMMENDED CERTIFICATION LIMITS</u>
Goods and Services	*\$350,000 per commitment
Consultant Services	*\$350,000 per commitment
Information Technology	*\$ 50,000 per commitment
Construction Services	\$ 50,000 per commitment
Construction Contract Change Order	\$ 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.



David E. Rawl, CPPB
Audit Manager



Larry G. Sorrell, Manager
Audit and Certification

South Carolina Department of
Natural Resources



John E. Frampton
Director
Carole Collins
Deputy Director for
Outreach and Support Services

August 29, 2006

Mr. Larry Sorrell, Manager
Materials Management Office
Audit and Certification

Mr. Sorrell:

The Department of Natural Resources has reviewed the "Draft" Procurement Audit Report in detail and concurs with the auditor's findings as presented. DNR has taken the necessary steps based upon these findings; to correct any deficiencies noted in the report and will ensure that staff is made aware of any procedural issues also noted.

Again, I appreciate the professional manner in which this audit was conducted and certainly enjoyed working your staff of auditors during this process.

Sincerely,

A handwritten signature in black ink, appearing to read "William T. Pace, Jr.", written over a horizontal line.

William T. Pace, Jr.
Support Services Manager
SC Department of Natural Resources

Cc: John E. Frampton
Director

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

MARK SANFORD, CHAIRMAN
GOVERNOR

GRADY L. PATTERSON, JR.
STATE TREASURER

RICHARD ECKSTROM
COMPTROLLER GENERAL



HUGH K. LEATHERMAN, SR.
CHAIRMAN, SENATE FINANCE COMMITTEE

DANIEL T. COOPER
CHAIRMAN, WAYS AND MEANS COMMITTEE

FRANK W. FUSCO
EXECUTIVE DIRECTOR

DELBERT H. SINGLETON, JR.
DIVISION DIRECTOR
(803) 734-2320

MATERIALS MANAGEMENT OFFICE
1201 MAIN STREET, SUITE 600
COLUMBIA, SOUTH CAROLINA 29201
(803) 737-0600
Fax (803) 737-0639

R. VOIGHT SHEALY
MATERIALS MANAGEMENT OFFICER

August 30, 2006

Mr. R. Voight Shealy
Materials Management Officer
Materials Management Office
1201 Main Street, Suite 600
Columbia, South Carolina 29201

Dear Voight:

We have reviewed the response from the South Carolina Department of Natural Resources to our audit report for the period of July 1, 2003 to June 30, 2006. Also we have followed the Department's corrective action during and subsequent to our fieldwork. We are satisfied that the South Carolina Department of Natural Resources has corrected the problem areas and the internal controls over the procurement system are adequate.

Therefore, we recommend the Budget and Control Board grant the South Carolina Department of Natural Resources the certification limits noted in our report for a period of three years.

Sincerely,

Handwritten signature of Larry G. Sorrell in cursive.

Larry G. Sorrell, Manager
Audit and Certification

LGS/gs

Total Copies Printed	11
Unit Cost	<u>.45</u>
Total Cost	<u>4.95</u>