



*Office of the Chief Internal Auditor*

## **Audit Report**

*South Carolina Department of  
Transportation's Maintenance Contract Management*

*January 5, 2011*

# **Table of Contents**

**Office of the Chief Internal Auditor**  
**Audit of SCDOT's Maintenance Contract Management**

January 5, 2011

**TABLE OF CONTENTS**

---

	<u>Page</u>
Transmittal Letter	i
Executive Summary	iii
Audit Findings and Recommendations	1
Department Response	10
Office of the Chief Internal Auditor Response	24
Department Response (Revised)	27

# ***Transmittal Letter***



**OFFICE OF THE CHIEF INTERNAL AUDITOR**

October 20, 2011

Commission of the South Carolina Department of Transportation

The Honorable Lawrence K. Grooms, Chairman  
South Carolina Senate Transportation Committee

The Honorable Hugh K. Leatherman, Sr., Chairman  
South Carolina Senate Finance Committee

The Honorable Phillip D. Owens, Chairman  
South Carolina House Education and Public Works Committee

The Honorable W. Brian White, Chairman  
South Carolina House Ways and Means Committee

Dear Gentlemen:

The Office of the Chief Internal Auditor has completed our compliance audit of SCDOT's Maintenance Contract Management as of January 5, 2011. In accordance with Section 57-1-360, we are transmitting to you this report on our performance audit.

We conducted this compliance audit in accordance with generally accepted governmental auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

Please don't hesitate to contact us if you have any questions or comments.

Respectfully submitted,

Robert W. Wilkes, Jr., CPA  
Chief Internal Auditor

# ***Executive Summary***

## EXECUTIVE SUMMARY

---

The Procurement Services Department of the South Carolina Department of Transportation (SCDOT), in compliance with Section 11-35 of the *South Carolina Code of Laws (South Carolina Consolidated Procurement Code)*, is responsible for the purchase and oversight of all supplies and services for the departments within SCDOT. SCDOT has been certified by the Materials Management Office (MMO) to purchase supplies up to \$1,000,000 per commitment and services up to \$500,000 per commitment. Any purchase exceeding SCDOT's certification level must be solicited by MMO unless SCDOT is granted delegated procurement authority. SCDOT has delegated procurement authority to its field locations for the purchase of supplies and services equaling \$10,000 or less. The purchasing card is used for purchases under \$2,500.

Procurement Services is responsible for procuring all large scale maintenance contracts in compliance with the *South Carolina Consolidated Procurement Code* and ensuring that SCDOT's field locations are also in compliance when making purchases of \$10,000 or less. Field locations are expected to utilize *SCDOT Procurement Policies and Procedures* and the *Purchasing Card Program Policy and Procedures Manual* when purchasing supplies and services.

The Office of the Chief Internal Auditor (OCIA) reviewed all large scale maintenance contract files in Procurement Services and selected a sample of local procurements completed by SCDOT's maintenance field locations to determine if Procurement Services and the field locations are in compliance with the *South Carolina Consolidated Procurement Code*. We assessed whether field locations are consistent when conducting local procurement transactions. We conducted this audit in accordance with Generally Accepted Government Auditing Standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. The evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives. We evaluated the processes and internal controls of SCDOT's procurement function. Our objectives were as follows:

- To ensure the process for packaging and advertising large scale maintenance contracts secured through Procurement Services is in compliance with the *South Carolina Consolidated Procurement Code*.
- To determine if there is consistency among the field locations for local procurement and to ensure the field locations are in compliance with the policies and procedures of Procurement Services.

Under the direction of Hershula Davis, Auditor, OCIA conducted procurement file reviews, interviewed employees, and evaluated internal controls.

---

## *Results and Recommendations*

---

## ***Large Scale Maintenance Contracts***

### **Finding 1:**

Some of the maintenance contract files did not have approval signatures. Per the *SCDOT Procurement Policies and Procedures*, “the requisition must have specific approval by the appropriate supervisory personnel and approval levels...” An unsigned requisition suggests that the process for packaging and advertising a contract was initiated by Procurement Services without the proper approval which creates a deficiency in the internal control process for approvals.

### **Recommendation 1:**

An approved copy of all requisitions should be kept in the contract file, and the process for packaging and advertising a contract should not be initiated without the proper signature approvals.

### **Finding 2:**

The contracts manager in the maintenance department has delegated authority to sign for the Assistant State Maintenance Engineer, the State Maintenance Engineer, and the Director of Maintenance. One individual should not have signature authority for three different levels of management above his/her position.

### **Recommendation 2:**

Signature authorization should only be delegated to individuals in management positions higher than the delegator to preserve the effectiveness of the approval process. However, when impractical, delegation should be limited to one level below the delegator. Furthermore, the delegator should be held responsible for the outcome of all approvals made on his or her behalf when delegation is granted to a lower level position.

## ***Local Procurement***

### **Finding 3:**

A field location purchased five STIHL brush cutters with a purchasing card within one month. Brush cutters are covered under the *Statewide Contract for Lawn and Landscape Equipment*, but STIHL is not one of the manufactures listed on this contract. Statewide term contracts are mandatory for all state agencies except under limited circumstances, as provided in Section 11-35-310(35) of the *South Carolina Consolidated Procurement Code*. Per Section 11-35-310(35), “if an agency is offered the same supplies, services, or information technology at a price that is at least ten percent less than the term contract price, it may purchase from the vendor offering the lower price after first offering the vendor holding the term contract the option to meet the lower price, and all decisions to purchase from the vendor offering the lower price must be documented by the procurement officer in sufficient detail to satisfy the requirements of an external audit.” SCDOT did not purchase STIHL brush cutters for the reason

provided in Section 11-35-310(35). Through inquiry, we were told that STIHL brush cutters were purchased because the brush cutters available on contract do not meet SCDOT's specifications; however, written documentation proving the brush cutters available on the contract do not meet SCDOT's specifications was not included in SCDOT's files or provided.

**Recommendation 3:**

Purchases from non-contract vendors should be documented in sufficient detail to explain the reason for a deviation from the law and attached to the purchasing card receipt.

**Finding 4:**

Per the *SCDOT Procurement Policies and Procedures*, "The authorized signatures on requisitions and purchase orders and procurement card receipts are to be original signatures of the person who is authorized and is listed in the security table which is maintained by the Procurement Office...If a Director, Division Head, Sub-Division Head, District Engineer Administrator, or Manager has delegated the authority to sign on his/her behalf, the security table must be updated to reflect this delegation of authority." We found the security table is not always utilized to record authorized signatures for persons responsible for signing requisitions, purchase orders, or procurement card receipts. Also, we found it is not always utilized to show individuals with delegated signature authority.

Through inquiry, we found when purchases between \$2,500 and \$10,000 are sent into Procurement Services for auditing purposes, signatures are not verified using the security table. When reviewing requisitions and other related documentation, OCIA found an instance where an individual in a field location who does not have delegated signature authority for a Resident Maintenance Engineer (RME) signed on the RME's behalf. Procurement Services reviewed this requisition and other related documentation, but did not indicate there were any issues with the signatures on the requisition or other related documentation.

OCIA found an instance where an individual signed on behalf of a RME but initialed by her signature of the RME's name instead of signing her full signature. Per the *SCDOT Procurement Policies and Procedures*, only full signatures, not initials, shall be used on requisitions, purchase orders, and purchasing card receipts.

**Recommendation 4:**

Procurement Services should verify that all signatures on requisitions and purchase orders are from authorized individuals by utilizing the security table. The security table should be updated to reflect accurate approval information. Only full signatures should be utilized on requisitions, purchase orders, and purchasing card receipts as stated in *SCDOT's Procurement Policies and Procedures*.

**Finding 5:**

Field locations do not always enter contract numbers in the contract field of the Statewide Purchase Order/Requisition/Tracking System (SPORTS) when creating requisitions. Through inquiry, we found it is

not a practice to amend a purchase order to reflect the contract number that was not entered into the contract field when creating the requisition. A report that shows purchases against a particular contract will not be complete if contract numbers are not entered into the contract field in SPORTS. Entering contract numbers in the contract field in SPORTS may prevent contract purchases from exceeding contract limits. Also, during OCIA's review of purchasing card purchases, it was noted that a few field locations attach a printout from SPORTS indicating that purchases made on contract were entered into SPORTS. Not all field locations are printing and attaching this document indicating a purchase on contract was entered into SPORTS when making purchases with the purchasing card. Per the *SCDOT Purchasing Card Program Policy and Procedures Manual*, it is the responsibility of the cardholder's liaison to ensure the cardholder has entered contract purchases into SPORTS. Accurate contract history can also be used as a guide in the future when contracting for the same good or service.

**Recommendation 5:**

Management should emphasize to field locations that contract numbers and contract purchases made with the purchasing card should always be entered into SPORTS to ensure contract reports are accurate and contract limits are not exceeded.

**Finding 6:**

Each purchasing card user is assigned a liaison. Per the *SCDOT Purchasing Card Program Policy and Procedures Manual*, a liaison is responsible for "collecting vendor and purchasing card receipts from cardholders and reconciling to Bank of America billing statements." Liaisons are to review, sign, and date each statement within five days of receiving the statement.

During OCIA's review of purchasing card purchases, OCIA noted instances in multiple field locations where liaisons had not signed purchasing card statements. Also, OCIA found instances in multiple field locations where liaisons did not reconcile cardholder receipts to the purchasing card statement within five days. Some of these reconciliations were completed several months after the purchasing card statement had been received. A liaison's failure to reconcile and sign a purchasing card statement or to review a purchasing card statement in a timely manner creates a deficiency in the effectiveness of this internal control.

Currently, existing liaisons and cardholders are not required to take a refresher course. A refresher course could explain to liaisons and cardholders the consequences for not following applicable rules or using purchasing cards to complete fraudulent transactions.

**Recommendation 6-A:**

All liaisons should sign the purchasing card statements showing they have reconciled them within five days as provided in the *SCDOT Purchasing Card Program Policy and Procedures Manual*. The liaison's reconciliation process should include an actual check of cardholder purchases to ensure purchases were appropriate.

**Recommendation 6-B:**

Liaisons should report to management any cardholder that has not turned in his/her purchasing card receipts. Liaisons should also be instructed in writing that if they suspect fraud by a cardholder, OCIA should be contacted immediately. This statement should inform liaisons of the importance of reviewing purchasing card statements because if fraud is found to have been perpetuated by one of their cardholders, the liaison could also be subject to disciplinary actions.

**Recommendation 6-C:**

Management should enact a policy which disciplines liaisons that do not review purchasing card statements and do not report cardholders who are violating purchasing card policies.

**Recommendation 6-D:**

Procurement Services should provide mandatory refresher training periodically to liaisons and cardholders. Procurement Services should also maintain and monitor the dates each liaison and cardholder receives training.

**Finding 7:**

During OCIA's review, OCIA noted instances in several field locations of cardholders being assigned as their liaisons' liaison. OCIA also noted instances of liaison assignments for employees in subordinate positions to cardholders. This type of liaison assignment may enable fraud to occur more because of collusion. OCIA investigated a cardholder and found the cardholder used her purchasing card to purchase over \$54,000 worth of unauthorized personal items. This cardholder's liaison was in a subordinate position. Because of the liaison's fear of job loss, the liaison did not report the cardholder's suspicious activities.

**Recommendation 7:**

Liaison assignments should be reviewed by an appropriate level of management. A cardholder should not be assigned as his/her liaison's liaison. A cardholder's liaison should not be his/her subordinate employee.

**Finding 8:**

Per the *SCDOT Purchasing Card Program Policy and Procedures Manual*, a cardholder is responsible for obtaining and signing all sales slips, receipts, etc. and providing them to the liaison for safekeeping and review immediately upon completion of a transaction with a vendor. During OCIA's review of purchasing cards, OCIA found several instances where the cardholder had not signed an invoice or sales receipt. Also, per the *SCDOT Purchasing Card Program Policy and Procedures Manual*, "if a receipt does not have a detailed description, the cardholder must fill out completely a Purchasing Card Transaction Detail Report to be attached to the receipt." OCIA found instances where receipts did not have detail

descriptions and the cardholders did not fill out this report or provide a detail description on their receipts.

**Recommendation 8:**

Cardholders should sign all purchasing card invoices and/or sales receipts and always provide detail descriptions of all purchases when descriptions are not provided on the receipts. Purchase descriptions will assist the liaisons and Procurement Services to determine whether these purchases were legitimate.

**Finding 9:**

Per the *SCDOT Procurement Policies and Procedures*, field locations must send all original documents to Procurement Services for review purposes for purchases from \$2,500 to \$10,000. Procurement Services is supposed to review the documents sent in by field locations to ensure the requisitions have proper approvals and written quotes were obtained when necessary. During OCIA's review of these documents, OCIA noted instances where field locations had not sent in the proper or complete documentation for Procurement Services to review. Also, Procurement Services failed to document or follow-up to obtain the proper or missing documentation.

**Recommendation 9:**

Procurement Services should ensure field locations send all required documentation by running a report of all purchase orders created in the field over \$2,500. Procurement Services should conduct a thorough review of all documents received by field locations for compliance with applicable laws and policies.

**Finding 10:**

The purchasing card is a method of purchasing and paying for contract and non-contract supplies with a total value of \$2,500 or less. Currently, written approval prior to making a purchase with the purchasing card is not required. OCIA noted several purchases for low dollar equipment items on the purchasing card. These include, brush cutters, chain saws, pole saws, etc. OCIA did not see any prior approval attached to most of these purchases. These items do not meet the agency's threshold of \$1,000 to be classified as fixed assets. The fixed asset listing provides an internal control for fixed assets. Not including fixed assets on a fixed asset listing, along with the lack of prior approval for these purchases creates an environment for possible misuse.

**Recommendation 10:**

The Director of Maintenance should require written approval for purchases equaling a certain dollar amount under \$2,500 and for low dollar equipment purchases. This would place better controls over what is purchased by cardholders. The Director of Maintenance should determine a dollar amount that requires prior written approval. The written approval should be included in the purchasing card file to be reviewed by the liaison and Procurement Services during the purchasing card review.

**Finding 11:**

During the review, OCIA found an instance where a cardholder used the purchasing card to purchase personal items. Included in the file was a credit to the purchasing card for these items and documentation that the purchasing card was accidentally used instead of the cardholder's personal credit card. Per the *SCDOT Purchasing Card Program Policy and Procedures Manual*, "the card should be maintained in a secure location and the card account number should be carefully guarded."

**Recommendation 11:**

Cardholders should be required to keep their purchasing cards in a secure locked area in their offices until needed.

**Finding 12:**

During the review, OCIA noted individuals with two to three purchasing cards. Per MMO's *South Carolina Purchasing Card Program Policy and Procedures Manual*, cardholders should be limited to one purchasing card per individual.

OCIA also noted a cardholder with a spending limit of \$25,000 which is above the field purchasing card limit of \$10,000 and the special circumstances limit of \$15,000. Per MMO's *South Carolina Purchasing Card Program Policy and Procedures Manual*, cardholder spending limits must be reviewed at least annually to determine that the spending authority is appropriate. Per the *WORKS' Card Status Report*, several cards have not been used in over a year.

OCIA also found two instances of cards being active for individuals who are no longer employed by SCDOT.

**Recommendation 12:**

Procurement Services should follow MMO's manual and limit each cardholder to one purchasing card. Procurement Services should also monitor the spending of its cardholders to determine the need for a purchasing card and the appropriate spending limit per MMO's manual and ensure all cards are terminated immediately for employees who are no longer employed by SCDOT. Procurement Services should especially assess the spending limit for cardholders who have been granted a special circumstances limit.

**Finding 13:**

Currently, each field location has a budget for operating expenses. Expenses are broken down into detail categories; such as, office supplies, gasoline, and highway maintenance contracts. The purchasing card is one of the detail categories within operating expenses, but does not have a budget and rightfully so. The purchasing card expenditures should be transferred into the proper categories within operating expenses to ensure the budget set for each category is being followed. Per the *SCDOT Purchasing Card Program Policy and Procedures Manual*, the department liaison is responsible for processing

departmental transfer requests periodically when purchases should be booked to an account other than the default account code assigned to the purchasing card. Based on OCIA's review, purchasing card expenditures are not transferred by field locations to operating expense categories.

**Recommendation 13:**

Field locations should complete purchasing card expenditure transfers as stated in the *SCDOT Purchasing Card Program Policy and Procedures Manual*. By making these transfers, management will be able to perform a more accurate analysis of how much is spent per operating expense category; as well as, assist management in establishing an accurate budget for each operating expense category. These transfers will make cardholders more accountable of the type of purchases made and the frequency of purchases made on the purchasing card. Accounting should ensure expenditures are being properly classified and transferred to the correct expense category.

**Finding 14:**

OCIA noted instances where field locations did not accurately record meal purchases during inclement weather as per Fiscal Procedure Memorandum 62, *Meals during an Emergency Event*. Per Fiscal Memorandum 62, the following documentation must be maintained: an itemized invoice for the meal, list of all employees, employee numbers, the nature of the event and copy of official notification of the emergency situation, dates and times employees were required to stay at their official headquarters, and designation of the meal being provided (breakfast, lunch, or dinner), and the time of day the meal is being provided. All of the required documentation was not attached to the purchasing card receipt. OCIA noted an instance when a field location went over the allowed per diem for a particular meal during inclement weather.

**Recommendation 14:**

Field locations should ensure that they abide by the guidelines for the purchase of meals for employees during an emergency event.

**Finding 15:**

Currently, the purchasing card review is conducted once a year and consists of the reviewer visiting the district offices to review purchasing card purchases. This review rarely consists of a physical observation of items purchased on the purchasing card, and the reviewer does not verify if the persons reviewing the purchasing card statements are the correct liaisons. A physical observation of items purchased can be used to ensure purchases were actually made for SCDOT purposes.

**Recommendation 15:**

The purchasing card reviewer should continuously monitor purchases using the WORKS system in addition to the annual review that is conducted. A selection of items purchased on purchasing cards should be chosen frequently to be physically observed by the purchasing card reviewer in order to

ensure that purchases were for SCDOT purposes. The purchasing card reviewer should also ensure liaisons are accurate.

**Finding 16:**

Per the *South Carolina Consolidated Procurement Code*, “purchases not in excess of \$2,500 may be accomplished without securing competitive quotations if prices are considered reasonable. When practical, a quotation must be solicited from other than the previous supplier before placing a repeat order.” However, if the purchaser is making multiple repeat purchases, a quote should be obtained from another vendor to ensure the best price is received. When this quote is acquired, the quote should be documented and attached to the requisition, sales receipt, or invoice. OCIA did not find this documentation during its review.

**Recommendation 16:**

Field locations should ensure the prices on items less than \$2,500 are fair and reasonable and attach written documentation to purchases when a quote has been obtained. Prices should be researched to confirm prices were fair and reasonable.

**Finding 17:**

OCIA reviewed field location files for consistency with procurement processes. Although, some consistency issues have been addressed in prior recommendations, OCIA found an additional issue among the field locations. OCIA noted that not all field locations utilize Procurement Services’ “Request for Informal Quotation Form.” This form is used to request informal quotes from potential vendors for goods and services. When reviewing field location files that do not use this form, it was sometimes difficult to determine if each potential vendor was solicited using the same description of good or service.

**Recommendation 17:**

All field locations should utilize Procurement Services’ Request for Informal Quotation Form to ensure there is no uncertainty about the solicitation descriptions each vendor receives.

## **Department Response**



South Carolina  
Department of Transportation

MEMORANDUM

Date: July 13, 2011

TO: Robin Wilkes, Jr. CPA, Chief Internal Auditor

FROM: Angela R Feaster, Deputy Secretary Finance & Administration  
Clem Watson, Chief Engineer for Operations

RE: Maintenance Contract Audit July 2011

*[Handwritten signature]*  
*KBE*  
*FOR*  
*JCW*

Please find attached SCDOT's response to the recent audit of maintenance contracts, procurement card usage, and procurement policies and procedures. SCDOT welcomes the opportunity to respond to the findings and take appropriate corrective actions where necessary.

We also request documentation for the findings referenced. This will allow SCDOT the opportunity to review the particular circumstances associated with the findings and ascertain if any special events were involved. Additional documentation will also afford SCDOT the training tools we may need to assist management and filed personnel in the oversight and management of the procurement process.

cc: Robert J. St. Onge, Jr. Secretary of Transportation  
John V. Walsh, PE, Deputy Secretary for Engineering



## *Large Scale Maintenance Contracts*

### **Finding 1:**

Some of the maintenance contract files did not have approval signatures. Per the SCDOT Procurement Policies and Procedures, “the requisition must have specific approval by the appropriate supervisory personnel and approval levels...” An unsigned requisition suggests that the process for packaging and advertising a contract was initiated by Procurement Services without the proper approval which creates a deficiency in the internal control process for approvals.

### **Recommendation 1:**

An approved copy of all requisitions should be kept in the contract file, and the process for packaging and advertising a contract should not be initiated without the proper signature approvals.

### **SCDOT Response:**

Purchase order commitments are not made from requisitions submitted for Agency or District-wide contracts. The requisition is used as a tracking number significant only to Procurement. As noted in the Procurement Policy and “Procedures Authorized Signature Approval Requirements, (d) Contract Purchases: *NOTE: All requisitions to establish contracts must be sent to the Procurement Office. After contracts are established Blanket Purchase Orders will be issued on an annual basis*” the intent of requisitions to establish contracts is informational only. Requisitions to establish BPOs are processed through the usual approval process after contract creation. Procurement has the authority to establish contracts as it deems appropriate for the efficient operation of the Department. The upcoming SCEIS system does not provide for “shopping carts” (read requisitions) to establish contracts. The establishment of shopping carts requires a funds check against budget and would adversely affect the various department’s ability to function.

### **Finding 2:**

The contracts manager in the maintenance department has delegated authority to sign for the Assistant State Maintenance Engineer, the State Maintenance Engineer, and the Director of Maintenance. One individual should not have signature authority for three different levels of management above his/her position.

### **Recommendation 2:**

Signature authorization should only be delegated to individuals in management positions higher than the delegator to preserve the effectiveness of the approval process. However, when impractical, delegation should be limited to one level below the delegator. Furthermore, the delegator should be held responsible for the outcome of all approvals made on his or her behalf when delegation is granted to a lower level position.

### SCDOT Response:

We concur with the recommendation. Steps have been taken internally to address this immediately. Signature authorization delegation has been limited to one level below the delegator. This should not be an issue once the SCEIS system takes effect due to the electronic approval structure submitted to the Procurement office.

### *Local Procurement*

#### **Finding 3:**

A field location purchased five STIHL brush cutters with a purchasing card within one month. Brush cutters are covered under the Statewide Contract for Lawn and Landscape Equipment, but STIHL is not one of the manufactures listed on this contract. Statewide term contracts are mandatory for all state agencies except under limited circumstances, as provided in Section 11-35-310(35) of the South Carolina Consolidated Procurement Code. Per Section 11-35-310(35), “if an agency is offered the same supplies, services, or information technology at a price that is at least ten percent less than the term contract price, it may purchase from the vendor offering the lower price after first offering the vendor holding the term contract the option to meet the lower price, and all decisions to purchase from the vendor offering the lower price must be documented by the procurement officer in sufficient detail to satisfy the requirements of an external audit.” SCDOT did not purchase STIHL brush cutters for the reason provided in Section 11-35-310(35). Through inquiry, we were told that STIHL brush cutters were purchased because the brush cutters available on contract do not meet SCDOT’s specifications; however, written documentation proving the brush cutters available on the contract do not meet SCDOT’s specifications was not included in SCDOT’s files or provided.

#### **Recommendation 3:**

Purchases from non-contract vendors should be documented in sufficient detail to explain the reason for a deviation from the law and attached to the purchasing card receipt.

### SCDOT Response:

The Procurement Code section referenced speaks only to price differences for the same supplies, services, or information technology and not to a products insufficiency to satisfy a particular need or function. There is no “deviation” from the law. There is no stated or implied requirement to document or justify going off contract to satisfy a need. Our inquiries to the appropriate State Procurement Officers tell us that common sense should be applied to the purchases but that documentation, while not inappropriate, is not required. Procurement does require the user to request permission to go off contract but does not require additional documentation of the file. The same would apply to a “field requisition” purchase not from the P. Card. This purchase off contract was approved by the Director of Procurement after discussion with the user.

#### **Finding 4:**

Per the SCDOT Procurement Policies and Procedures, “The authorized signatures on requisitions and purchase orders and procurement card receipts are to be original signatures of the person who is

authorized and is listed in the security table which is maintained by the Procurement Office...If a Director, Division Head, Sub-Division Head, District Engineer Administrator, or Manager has delegated the authority to sign on his/her behalf, the security table must be updated to reflect this delegation of authority.” We found the security table is not always utilized to record authorized signatures for persons responsible for signing requisitions, purchase orders, or procurement card receipts. Also, we found it is not always utilized to show individuals with delegated signature authority.

Through inquiry, we found when purchases between \$2,500 and \$10,000 are sent into Procurement Services for auditing purposes, signatures are not verified using the security table. When reviewing requisitions and other related documentation, OCIA found an instance where an individual in a field location who does not have delegated signature authority for a Resident Maintenance Engineer (RME) signed on the RME’s behalf. Procurement Services reviewed this requisition and other related documentation, but did not indicate there were any issues with the signatures on the requisition or other related documentation.

OCIA found an instance where an individual signed on behalf of a RME but initialed by her signature of the RME’s name instead of signing her full signature. Per the SCDOT Procurement Policies and Procedures, only full signatures, not initials, shall be used on requisitions, purchase orders, and purchasing card receipts.

**Recommendation 4:**

Procurement Services should verify that all signatures on requisitions and purchase orders are from authorized individuals by utilizing the security table. The security table should be updated to reflect accurate approval information. Only full signatures should be utilized on requisitions, purchase orders, and purchasing card receipts as stated in SCDOT’s Procurement Policies and Procedures.

**SCDOT Response:**

The SCEIS system’s roll mapping and security process will block any unauthorized/role mapped approvals from occurring. The shopping carts will not progress through the system without the proper electronic signatures. We are revising the Policy and Procedures manual to reflect those changes.

The Procurement Office requests OCIA provide additional information on this finding. The central office buyers generally know who has authority in their assigned districts. If a district grants additional signature authority they should notify procurement via a SPORTS 2 form to request an increase in signature authority. In the one example cited this could very well have not occurred. The Procurement Office’s verification of field purchases is an after-the-fact the review process and may occur after some time has passed. Failure on the part of the user to provide the necessary documentation will result in a notice of unauthorized purchase which should be attached to the file after “ratification” by upper management.

**Finding 5:**

Field locations do not always enter contract numbers in the contract field of the Statewide Purchase Order/Requisition/Tracking System (SPORTS) when creating requisitions. Through inquiry, we found it is not a practice to amend a purchase order to reflect the contract number that was not entered into the

contract field when creating the requisition. A report that shows purchases against a particular contract will not be complete if contract numbers are not entered into the contract field in SPORTS. Entering contract numbers in the contract field in SPORTS may prevent contract purchases from exceeding contract limits. Also, during OCIA's review of purchasing card purchases, it was noted that a few field locations attach a printout from SPORTS indicating that purchases made on contract were entered into SPORTS. Not all field locations are printing and attaching this document indicating a purchase on contract was entered into SPORTS when making purchases with the purchasing card. Per the SCDOT Purchasing Card Program Policy and Procedures Manual, it is the responsibility of the cardholder's liaison to ensure the cardholder has entered contract purchases into SPORTS. Accurate contract history can also be used as a guide in the future when contracting for the same good or service.

**Recommendation 5:**

Management should emphasize to field locations that contract numbers and contract purchases made with the purchasing card should always be entered into SPORTS to ensure contract reports are accurate and contract limits are not exceeded.

**SCDOT Response:**

The OCIA recommendation to enter contract number on P Card purchases in SPORTS will no longer be an issue due to the statewide system, SCEIS which will require the contract number on purchases. It is important to note; however, that SCEIS does not provide any ability to relate P. Card purchases to contracts. As SCEIS comes on board, the P. Card Manual will be updated to remove the requirement that contract numbers be entered. Also, we have found that the amount of contract related purchases utilized on the P. Card are statistically insignificant. In the past we did not amend field purchase orders to correct that type of information due to the cost of processing the paper v. the benefit derived.

**Finding 6:**

Each purchasing card user is assigned a liaison. Per the SCDOT Purchasing Card Program Policy and Procedures Manual, a liaison is responsible for "collecting vendor and purchasing card receipts from cardholders and reconciling to Bank of America billing statements." Liaisons are to review, sign, and date each statement within five days of receiving the statement.

During OCIA's review of purchasing card purchases, OCIA noted instances in multiple field locations where liaisons had not signed purchasing card statements. Also, OCIA found instances in multiple field locations where liaisons did not reconcile cardholder receipts to the purchasing card statement within five days. Some of these reconciliations were completed several months after the purchasing card statement had been received. A liaison's failure to reconcile and sign a purchasing card statement or to review a purchasing card statement in a timely manner creates a deficiency in the effectiveness of this internal control.

Currently, existing liaisons and cardholders are not required to take a refresher course. A refresher course could explain to liaisons and cardholders the consequences for not following applicable rules or using purchasing cards to complete fraudulent transactions.

**Recommendation 6-A:**

All liaisons should sign the purchasing card statements showing they have reconciled them within five days as provided in the SCDOT Purchasing Card Program Policy and Procedures Manual. The liaison's reconciliation process should include an actual check of cardholder purchases to ensure purchases were appropriate.

**Recommendation 6-B:**

Liaisons should report to management any cardholder that has not turned in his/her purchasing card receipts. Liaisons should also be instructed in writing that if they suspect fraud by a cardholder, OCIA should be contacted immediately. This statement should inform liaisons of the importance of reviewing purchasing card statements because if fraud is found to have been perpetuated by one of their cardholders, the liaison could also be subject to disciplinary actions.

**Recommendation 6-C:**

Management should enact a policy which disciplines liaisons that do not review purchasing card statements and do not report cardholders who are violating purchasing card policies.

**Recommendation 6-D:**

Procurement Services should provide mandatory refresher training periodically to liaisons and cardholders. Procurement Services should also maintain and monitor the dates each liaison and cardholder receives training.

**SCDOT Response:**

We do not disagree with the recommendations 6-A through 6-C as they are already a part of the policy. It is up to District/Division management to police the P. Card processes and personnel under their authority. 6-D recommends mandatory refresher liaison training classes which are currently held tri-annually. We will work with the districts and division offices to inform them of the training schedule and encourage participation.

**Finding 7:**

During OCIA's review, OCIA noted instances in several field locations of cardholders being assigned as their liaisons' liaison. OCIA also noted instances of liaison assignments for employees in subordinate positions to cardholders. This type of liaison assignment may enable fraud to occur more because of collusion. OCIA investigated a cardholder and found the cardholder used her purchasing card to purchase over \$54,000 worth of unauthorized personal items. This cardholder's liaison was in a subordinate position. Because of the liaison's fear of job loss, the liaison did not report the cardholder's suspicious activities.

**Recommendation 7:**

Liaison assignments should be reviewed by an appropriate level of management. A cardholder should not be assigned as his/her liaison's liaison. A cardholder's liaison should not be his/her subordinate employee.

**SCDOT Response:**

We agree that a liaison should not be subordinate to the card holder. However, we do not see a conflict for a cardholder to be assigned as a liaison's liaison. With many districts and offices having a limited number of individuals who can fulfill the liaison function, we believe greater management involvement in reviewing purchases and statements would help insure P-Card purchases are appropriate. P-Card policies will be reviewed and revised to appropriately reflect proper management oversight.

**Finding 8:**

Per the SCDOT Purchasing Card Program Policy and Procedures Manual, a cardholder is responsible for obtaining and signing all sales slips, receipts, etc. and providing them to the liaison for safekeeping and review immediately upon completion of a transaction with a vendor. During OCIA's review of purchasing cards, OCIA found several instances where the cardholder had not signed an invoice or sales receipt. Also, per the SCDOT Purchasing Card Program Policy and Procedures Manual, "if a receipt does not have a detailed description, the cardholder must fill out completely a Purchasing Card Transaction Detail Report to be attached to the receipt." OCIA found instances where receipts did not have detail descriptions and the cardholders did not fill out this report or provide a detail description on their receipts.

**Recommendation 8:**

Cardholders should sign all purchasing card invoices and/or sales receipts and always provide detail descriptions of all purchases when descriptions are not provided on the receipts. Purchase descriptions will assist the liaisons and Procurement Services to determine whether these purchases were legitimate.

**SCDOT Response:**

We agree that all card holders should follow the policy and procedures. It is the liaison's responsibility to ensure this occurs and it is ultimately the managers' responsibility to monitor that compliance. P-Card policies will be reviewed and revised to appropriately reflect proper management oversight. SCDOT requests examples of the OCIA findings so follow-up can occur with the offices.

**Finding 9:**

Per the SCDOT Procurement Policies and Procedures, field locations must send all original documents to Procurement Services for review purposes for purchases from \$2,500 to \$10,000. Procurement Services is supposed to review the documents sent in by field locations to ensure the requisitions have proper approvals and written quotes were obtained when necessary. During OCIA's review of these documents, OCIA noted instances where field locations had not sent in the proper or complete documentation for Procurement Services to review. Also, Procurement Services failed to document or follow-up to obtain the proper or missing documentation.

**Recommendation 9:**

Procurement Services should ensure field locations send all required documentation by running a report of all purchase orders created in the field over \$2,500. Procurement Services should conduct a thorough review of all documents received by field locations for compliance with applicable laws and policies.

**SCDOT Response:**

Procurement's verification of field purchases is an after-the-fact review process, which may take some time to complete. Our policy is to review every field purchase to check compliance with the purchase limit policy. It often takes several attempts to receive all of the documentation required. If the field cannot supply the documentation unauthorized procurement ratification is required. This should then be attached to the file. Repeated violations can result in revocation of purchasing authority by that individual. Refresher training is the most often required result unless flagrant disregard is observed. We feel we already comply with the recommendation. SCDOT requests the specific examples from OCIA so we may address the findings in more detail.

**Finding 10:**

The purchasing card is a method of purchasing and paying for contract and non-contract supplies with a total value of \$2,500 or less. Currently, written approval prior to making a purchase with the purchasing card is not required. OCIA noted several purchases for low dollar equipment items on the purchasing card. These include, brush cutters, chain saws, pole saws, etc. OCIA did not see any prior approval attached to most of these purchases. These items do not meet the agency's threshold of \$1,000 to be classified as fixed assets. The fixed asset listing provides an internal control for fixed assets. Not including fixed assets on a fixed asset listing, along with the lack of prior approval for these purchases creates an environment for possible misuse.

**Recommendation 10:**

The Director of Maintenance should require written approval for purchases equaling a certain dollar amount under \$2,500 and for low dollar equipment purchases. This would place better controls over what is purchased by cardholders. The Director of Maintenance should determine a dollar amount that requires prior written approval. The written approval should be included in the purchasing card file to be reviewed by the liaison and Procurement Services during the purchasing card review.

**SCDOT Response:**

We disagree with the recommendation because the Department has policies and procedures in place for Property Control through Departmental Directive 8, Fiscal Procedure Memorandum 69, and Supply and Equipment Management Procedure B-1. The threshold limit for non-expendable property approvals (fixed assets) is set at \$1,000 or greater. Written approval for the purchase of fixed assets above this amount is already required. In addition, the purchase of fixed assets using a procurement card is currently prohibited.

Establishment of the recommended process would in some cases contradict the current policies and procedures in place. The Director of Maintenance through its Quality Management Team currently

verifies during inspections that each county has a system in place to account for non-expendable property less than \$1,000.00 and verifies the accuracy of that system.

**Finding 11:**

During the review, OCIA found an instance where a cardholder used the purchasing card to purchase personal items. Included in the file was a credit to the purchasing card for these items and documentation that the purchasing card was accidentally used instead of the cardholder's personal credit card. Per the SCDOT Purchasing Card Program Policy and Procedures Manual, "the card should be maintained in a secure location and the card account number should be carefully guarded."

**Recommendation 11:**

Cardholders should be required to keep their purchasing cards in a secure locked area in their offices until needed.

**SCDOT Response:**

In the day-to-day operation of the Department, it is impractical to attempt to put cards under lock and key at all times. SCDOT agrees that it is the responsibility of the card holder to secure the P-Card and only use for SCDOT business as cited in the policy noted above. However, we feel a stronger deterrent to unauthorized use is regular management review of P-Card purchases which will add additional assurance that all purchases are legitimate and warranted. SCDOT documents instances of accidental personal use and find the instances to be few and without individual repeats.

**Finding 12:**

During the review, OCIA noted individuals with two to three purchasing cards. Per MMO's South Carolina Purchasing Card Program Policy and Procedures Manual, cardholders should be limited to one purchasing card per individual.

OCIA also noted a cardholder with a spending limit of \$25,000 which is above the field purchasing card limit of \$10,000 and the special circumstances limit of \$15,000. Per MMO's South Carolina Purchasing Card Program Policy and Procedures Manual, cardholder spending limits must be reviewed at least annually to determine that the spending authority is appropriate. Per the WORKS' Card Status Report, several cards have not been used in over a year.

OCIA also found two instances of cards being active for individuals who are no longer employed by SCDOT.

**Recommendation 12:**

Procurement Services should follow MMO's manual and limit each cardholder to one purchasing card. Procurement Services should also monitor the spending of its cardholders to determine the need for a purchasing card and the appropriate spending limit per MMO's manual and ensure all cards are terminated immediately for employees who are no longer employed by SCDOT. Procurement Services should especially assess the spending limit for cardholders who have been granted a special circumstances limit.

### **SCDOT Response:**

SCDOT is in the process of revising our procurement card program to come into compliance with the MMO policy where possible. Some cards are issued for emergency use only and will have no usage. If management decides this is not required we will close them. SCDOT has permission to use a card with a high dollar limit to pay for annual DHEC permits. Cards are terminated when procurement is advised of the employee's separation from service or change in assignment. Procurement Services works with the field locations to determine the needs. Procurement periodically reviews the usage and attempts to adjust where practical. The basic primus of the P. Card program at SCDOT has been to transfer as much Field PO usage under \$2,500.00 per purchase to the P. Card. The cost to process a field PO was identified early on as \$135.00 per PO. BAC uses \$85.00 as a national average. The cost using the P. Card is calculated to be \$25.00 per transaction. We average around 74,000 transactions annually on the P. Card. Using the BAC average we save approximately \$4,440,000.00 annually if we can use the P. Card v. field POs. SCDOT hesitates to restrict the field's ability to use the P. Card but does stress appropriate oversight of the program by management, Procurement, and Quality Management Teams.

### **Finding 13:**

Currently, each field location has a budget for operating expenses. Expenses are broken down into detail categories; such as, office supplies, gasoline, and highway maintenance contracts. The purchasing card is one of the detail categories within operating expenses, but does not have a budget and rightfully so. The purchasing card expenditures should be transferred into the proper categories within operating expenses to ensure the budget set for each category is being followed. Per the SCDOT Purchasing Card Program Policy and Procedures Manual, the department liaison is responsible for processing departmental transfer requests periodically when purchases should be booked to an account other than the default account code assigned to the purchasing card. Based on OCIA's review, purchasing card expenditures are not transferred by field locations to operating expense categories.

### **Recommendation 13:**

Field locations should complete purchasing card expenditure transfers as stated in the SCDOT Purchasing Card Program Policy and Procedures Manual. By making these transfers, management will be able to perform a more accurate analysis of how much is spent per operating expense category; as well as, assist management in establishing an accurate budget for each operating expense category. These transfers will make cardholders more accountable of the type of purchases made and the frequency of purchases made on the purchasing card. Accounting should ensure expenditures are being properly classified and transferred to the correct expense category.

### **SCDOT Response:**

Currently our cards are assigned based on the category of operating expense. For example the 950 cards are for parts used to repair vehicles and equipment; 990 cards are for miscellaneous shop supplies; and 301 for office supplies. When and if a transfer is required the liaison contacts our office for assistance with this. We do not believe the Cost/Benefit ratio will support the need to make those manual transfers above what is currently provided. Perhaps BAC could offer further guidance on this.

**Finding 14:**

OCIA noted instances where field locations did not accurately record meal purchases during inclement weather as per Fiscal Procedure Memorandum 62, Meals during an Emergency Event. Per Fiscal Memorandum 62, the following documentation must be maintained: an itemized invoice for the meal, list of all employees, employee numbers, the nature of the event and copy of official notification of the emergency situation, dates and times employees were required to stay at their official headquarters, and designation of the meal being provided (breakfast, lunch, or dinner), and the time of day the meal is being provided. All of the required documentation was not attached to the purchasing card receipt. OCIA noted an instance when a field location went over the allowed per diem for a particular meal during inclement weather.

**Recommendation 14:**

Field locations should ensure that they abide by the guidelines for the purchase of meals for employees during an emergency event.

**SCDOT Response:**

We concur with the recommendation. As an added control, the Director of Maintenance through its Quality Management Team will include a review of office records during their inspection to ensure that all units are following Fiscal Procedure Memorandum 62 and keeping the appropriate documentation.

**Finding 15:**

Currently, the purchasing card review is conducted once a year and consists of the reviewer visiting the district offices to review purchasing card purchases. This review rarely consists of a physical observation of items purchased on the purchasing card, and the reviewer does not verify if the persons reviewing the purchasing card statements are the correct liaisons. A physical observation of items purchased can be used to ensure purchases were actually made for SCDOT purposes.

**Recommendation 15:**

The purchasing card reviewer should continuously monitor purchases using the WORKS system in addition to the annual review that is conducted. A selection of items purchased on purchasing cards should be chosen frequently to be physically observed by the purchasing card reviewer in order to ensure that purchases were for SCDOT purposes. The purchasing card reviewer should also ensure liaisons are accurate.

**SCDOT Response:**

The purpose of the review is to ascertain the compliance with the policy and procedures and identify any anomalies that are evident. The review personnel do not have mechanical expertise to determine whether or not particular parts are used on the assigned equipment. The Quality Teams are already looking at the types of items purchased with the P. Card to ensure that these are logical purchases. We are also checking purchases of chain saws, weed eaters, etc to ensure that they are included in the units' inventory control system and that these items are present. However, we do not check automotive parts or purchases of materials such as lumber etc.

### **Finding 16:**

Per the South Carolina Consolidated Procurement Code, “purchases not in excess of \$2,500 may be accomplished without securing competitive quotations if prices are considered reasonable. When practical, a quotation must be solicited from other than the previous supplier before placing a repeat order.” However, if the purchaser is making multiple repeat purchases, a quote should be obtained from another vendor to ensure the best price is received. When this quote is acquired, the quote should be documented and attached to the requisition, sales receipt, or invoice. OCIA did not find this documentation during its review.

### **Recommendation 16:**

Field locations should ensure the prices on items less than \$2,500 are fair and reasonable and attach written documentation to purchases when a quote has been obtained. Prices should be researched to confirm prices were fair and reasonable.

### **SCDOT Response:**

The OCIA has quoted only a portion of the SC Consolidated Procurement Code in making their determination and only that portion that supports their position. The complete section 11-35-1550 (2) (a) states:

2) Competition and Price Reasonableness.

(a) Purchases not in excess of two thousand five hundred dollars. Small purchases not exceeding two thousand five hundred dollars may be accomplished without securing competitive quotations if the prices are considered reasonable. The purchasing office must annotate the purchase requisition: "Price is fair and reasonable" and sign. The purchases must be distributed equitably among qualified suppliers. When practical, a quotation must be solicited from other than the previous supplier before placing a repeat order. The administrative cost of verifying the reasonableness of the price of purchase "not in excess of" may more than offset potential savings in detecting instances of overpricing. Action to verify the reasonableness of the price need be taken only when the procurement officer of the governmental body suspects that the price may not be reasonable, comparison to previous price paid, or personal knowledge of the item involved.

Field locations are required to state the fair and reasonable clause. We do recommend and encourage the field units to periodically check the prices competitively and we instruct them to document those checks when and if taken. Most field offices will get prices on large purchases under the \$2500.00 limit as a matter of good business. There have been a few instances where we required the field to verify competitive pricing but have found no flagrant violations.

### **Finding 17:**

OCIA reviewed field location files for consistency with procurement processes. Although, some consistency issues have been addressed in prior recommendations, OCIA found an additional issue among the field locations. OCIA noted that not all field locations utilize Procurement Services’ “Request for Informal Quotation Form.” This form is used to request informal quotes from potential vendors for goods

and services. When reviewing field location files that do not use this form, it was sometimes difficult to determine if each potential vendor was solicited using the same description of good or service.

**Recommendation 17:**

All field locations should utilize Procurement Services' Request for Informal Quotation Form to ensure there is no uncertainty about the solicitation descriptions each vendor receives.

**SCDOT Response:**

We recommend that field offices use the Informal Quote form and 3085 recap form to document quotes. This is emphasized in training as an aide to insure all bidders receive the same information. This is not a requirement at this time. The SC Consolidated Procurement Code only requires that the written quotes themselves be provided.

---

***Office of the Chief Internal Auditor Response***

---



OCIA issues the following response to the Management Response for the Maintenance Contract Management Audit. During OCIA's three years existence, this is the first time we felt the need to issue a response. OCIA's procedures provide for management discussion before the audit is issued. During our exit interview, we encourage management to review our findings and our proposed recommendations. We have our work papers available for management to review. We incorporate suggestions that we deem to be appropriate. The report is then issued to management for their response. OCIA allowed thirty days for management to respond but received no additional requests for supporting documentation. Once the responses were received, OCIA determined that some responses were misleading and nonresponsive. We attempted to meet with senior management but they failed to respond. Therefore, OCIA issues this response.

The response to Recommendation 10 is misleading. Management's response concerns fixed assets and does not address the items in the recommendation. OCIA requests better purchasing controls be placed on items that have a life of more than one year but cost less than \$1,000 such as a chain saw. The implied control of an inventory is not a substitute for proper purchasing controls. Even the reliance on the inventory may be an issue. SCDOT was unable to provide serial numbers to police on two chainsaws that were stolen indicating that whatever inventory procedure in place may be inadequate.

The response to Recommendation 12 also caused some concern. The first issue in this finding involved multiple purchasing cards per an employee. SCDOT issues multiple cards to simplify account coding. Good business practices would have employees code their purchases, receive management approval, and then be processed by the accounts payable department before the card is replenished. However, SCDOT automatically replenishes a purchasing card without verification of either coding for account distribution or management approval. In fact, OCIA tested the distribution process after receiving management's response to Recommendation 12 and the related response to Recommendation 13 and found over \$5,667,000 that remained in a category called "Procurement Card Purchases." These expenditures had not been coded and allocated to an object code to allow managerial review of a budget to actual comparison. The response involving the \$25,000 credit limit does not address the recommendation or the situation OCIA discussed with management.

Comparing the SCDOT cost of processing a field purchase order of \$135 to the national average of \$85 as stated in Response 12, seems to reveal that SCDOT spends 59% more to process a purchase order. This may be attributed to our system's inefficiency. The reduction in processing costs from \$85 to \$25 requires examination. Essentially, certain internal controls related to purchase orders are removed to reduce processing costs. These controls should be replaced with different internal controls developed for this type of procurement. Systems should not be implemented without diligent review of the internal controls. Also, the reported savings of approximately \$4,440,000 should be supported. OCIA did not suggest restricting purchasing card usage with adequate internal controls.



Overall, the major issue with management’s response is the tone. Internal audit standards and policies call for a strong supportive tone at the top. Management should support positive change. Statements such as “while not inappropriate, is not required” suggest indifference to improving processes to adopt best practices. Senior management should set the proper tone at the top and should insist that all SCDOT focus on best practices and full cooperation with OCIA.



***Department Response (Revised)***



South Carolina  
Department of Transportation

MEMORANDUM

Date: October 13, 2011  
TO: Robin Wilkes, Jr. CPA, Chief Internal Auditor  
FROM: Angela R Feaster, Deputy Secretary Finance & Administration   
RE: Maintenance Contract Audit July 2011

Please find attached SCDOT's response to the audit of maintenance contracts, procurement card usage, and procurement policies and procedures. SCDOT welcomes the opportunity to respond to the findings and take appropriate corrective actions where necessary.

If pertinent, I also request documentation for some of the findings referenced. This will allow SCDOT the opportunity to review the particular circumstances associated with the findings and ascertain if any special events were involved. Additional documentation will also afford SCDOT the training tools we may need to assist management and field personnel in the oversight and management of the procurement process.

cc: Robert J. St. Onge, Jr. Secretary of Transportation  
John V. Walsh, PE, Deputy Secretary for Engineering



## *Large Scale Maintenance Contracts*

### **Finding 1:**

Some of the maintenance contract files did not have approval signatures. Per the SCDOT Procurement Policies and Procedures, “the requisition must have specific approval by the appropriate supervisory personnel and approval levels...” An unsigned requisition suggests that the process for packaging and advertising a contract was initiated by Procurement Services without the proper approval which creates a deficiency in the internal control process for approvals.

### **Recommendation 1:**

An approved copy of all requisitions should be kept in the contract file, and the process for packaging and advertising a contract should not be initiated without the proper signature approvals.

### **SCDOT Response:**

Purchase order commitments are not made from requisitions submitted for Agency or District-wide contracts. The requisition is used as a tracking number significant only to Procurement. As noted in the Procurement Policy and “Procedures Authorized Signature Approval Requirements, (d) Contract Purchases: *NOTE: All requisitions to establish contracts must be sent to the Procurement Office. After contracts are established Blanket Purchase Orders will be issued on an annual basis*” the intent of requisitions to establish contracts is informational only. Requisitions to establish BPOs are processed through the usual approval process after contract creation. Procurement has the authority to establish contracts as it deems appropriate for the efficient operation of the Department. The upcoming SCEIS system does not provide for “shopping carts” (read requisitions) to establish contracts. The establishment of shopping carts requires a funds check against budget and would adversely affect the various department’s ability to function.

### **Finding 2:**

The contracts manager in the maintenance department has delegated authority to sign for the Assistant State Maintenance Engineer, the State Maintenance Engineer, and the Director of Maintenance. One individual should not have signature authority for three different levels of management above his/her position.

### **Recommendation 2:**

Signature authorization should only be delegated to individuals in management positions higher than the delegator to preserve the effectiveness of the approval process. However, when impractical, delegation should be limited to one level below the delegator. Furthermore, the delegator should be held responsible for the outcome of all approvals made on his or her behalf when delegation is granted to a lower level position.

**SCDOT Response:**

We concur with the recommendation. Steps have been taken internally to address this immediately. Signature authorization delegation has been limited to one level below the delegator. This should not be an issue once the SCEIS system takes effect due to the electronic approval structure submitted to the Procurement office.

*Local Procurement*

**Finding 3:**

A field location purchased five STIHL brush cutters with a purchasing card within one month. Brush cutters are covered under the Statewide Contract for Lawn and Landscape Equipment, but STIHL is not one of the manufactures listed on this contract. Statewide term contracts are mandatory for all state agencies except under limited circumstances, as provided in Section 11-35-310(35) of the South Carolina Consolidated Procurement Code. Per Section 11-35-310(35), “if an agency is offered the same supplies, services, or information technology at a price that is at least ten percent less than the term contract price, it may purchase from the vendor offering the lower price after first offering the vendor holding the term contract the option to meet the lower price, and all decisions to purchase from the vendor offering the lower price must be documented by the procurement officer in sufficient detail to satisfy the requirements of an external audit.” SCDOT did not purchase STIHL brush cutters for the reason provided in Section 11-35-310(35). Through inquiry, we were told that STIHL brush cutters were purchased because the brush cutters available on contract do not meet SCDOT’s specifications; however, written documentation proving the brush cutters available on the contract do not meet SCDOT’s specifications was not included in SCDOT’s files or provided.

**Recommendation 3:**

Purchases from non-contract vendors should be documented in sufficient detail to explain the reason for a deviation from the law and attached to the purchasing card receipt.

**SCDOT Response:**

This purchase off contract was approved by the Director of Procurement after discussion with the user. It is management’s belief that the contract item was insufficient for our needs. We do not believe there is no “deviation” from the law. We agree that better documentation would have supported this decision.

**Finding 4:**

Per the SCDOT Procurement Policies and Procedures, “The authorized signatures on requisitions and purchase orders and procurement card receipts are to be original signatures of the person who is authorized and is listed in the security table which is maintained by the Procurement Office...If a Director, Division Head, Sub-Division Head, District Engineer Administrator, or Manager has delegated the authority to sign on his/her behalf, the security table must be updated to reflect this delegation of authority.” We found the security table is not always utilized to record authorized signatures for persons responsible for signing requisitions, purchase orders, or procurement card receipts. Also, we found it is not always utilized to show individuals with delegated signature authority.

Through inquiry, we found when purchases between \$2,500 and \$10,000 are sent into Procurement Services for auditing purposes, signatures are not verified using the security table. When reviewing requisitions and other related documentation, OCIA found an instance where an individual in a field location who does not have delegated signature authority for a Resident Maintenance Engineer (RME) signed on the RME's behalf. Procurement Services reviewed this requisition and other related documentation, but did not indicate there were any issues with the signatures on the requisition or other related documentation.

OCIA found an instance where an individual signed on behalf of a RME but initialed by her signature of the RME's name instead of signing her full signature. Per the SCDOT Procurement Policies and Procedures, only full signatures, not initials, shall be used on requisitions, purchase orders, and purchasing card receipts.

**Recommendation 4:**

Procurement Services should verify that all signatures on requisitions and purchase orders are from authorized individuals by utilizing the security table. The security table should be updated to reflect accurate approval information. Only full signatures should be utilized on requisitions, purchase orders, and purchasing card receipts as stated in SCDOT's Procurement Policies and Procedures.

**SCDOT Response:**

The SCEIS system's role mapping and security process will block any unauthorized/role mapped approvals from occurring. The shopping carts will not progress through the system without the proper electronic signatures. We are revising the Policy and Procedures manual to reflect those changes.

**Finding 5:**

Field locations do not always enter contract numbers in the contract field of the Statewide Purchase Order/Requisition/Tracking System (SPORTS) when creating requisitions. Through inquiry, we found it is not a practice to amend a purchase order to reflect the contract number that was not entered into the contract field when creating the requisition. A report that shows purchases against a particular contract will not be complete if contract numbers are not entered into the contract field in SPORTS. Entering contract numbers in the contract field in SPORTS may prevent contract purchases from exceeding contract limits. Also, during OCIA's review of purchasing card purchases, it was noted that a few field locations attach a printout from SPORTS indicating that purchases made on contract were entered into SPORTS. Not all field locations are printing and attaching this document indicating a purchase on contract was entered into SPORTS when making purchases with the purchasing card. Per the SCDOT Purchasing Card Program Policy and Procedures Manual, it is the responsibility of the cardholder's liaison to ensure the cardholder has entered contract purchases into SPORTS. Accurate contract history can also be used as a guide in the future when contracting for the same good or service.

**Recommendation 5:**

Management should emphasize to field locations that contract numbers and contract purchases made with the purchasing card should always be entered into SPORTS to ensure contract reports are accurate and contract limits are not exceeded.

**SCDOT Response:**

The OCIA recommendation to enter contract number on P Card purchases in SPORTS will no longer be an issue due to the statewide system, SCEIS which will require the contract number on purchases. It is important to note; however, that SCEIS does not provide any ability to relate P. Card purchases to contracts. As SCEIS comes on board, the P. Card Manual will be updated to remove the requirement that contract numbers be entered.

**Finding 6:**

Each purchasing card user is assigned a liaison. Per the SCDOT Purchasing Card Program Policy and Procedures Manual, a liaison is responsible for “collecting vendor and purchasing card receipts from cardholders and reconciling to Bank of America billing statements.” Liaisons are to review, sign, and date each statement within five days of receiving the statement.

During OCIA’s review of purchasing card purchases, OCIA noted instances in multiple field locations where liaisons had not signed purchasing card statements. Also, OCIA found instances in multiple field locations where liaisons did not reconcile cardholder receipts to the purchasing card statement within five days. Some of these reconciliations were completed several months after the purchasing card statement had been received. A liaison’s failure to reconcile and sign a purchasing card statement or to review a purchasing card statement in a timely manner creates a deficiency in the effectiveness of this internal control.

Currently, existing liaisons and cardholders are not required to take a refresher course. A refresher course could explain to liaisons and cardholders the consequences for not following applicable rules or using purchasing cards to complete fraudulent transactions.

**Recommendation 6-A:**

All liaisons should sign the purchasing card statements showing they have reconciled them within five days as provided in the SCDOT Purchasing Card Program Policy and Procedures Manual. The liaison’s reconciliation process should include an actual check of cardholder purchases to ensure purchases were appropriate.

**Recommendation 6-B:**

Liaisons should report to management any cardholder that has not turned in his/her purchasing card receipts. Liaisons should also be instructed in writing that if they suspect fraud by a cardholder, OCIA should be contacted immediately. This statement should inform liaisons of the importance of reviewing purchasing card statements because if fraud is found to have been perpetuated by one of their cardholders, the liaison could also be subject to disciplinary actions.

**Recommendation 6-C:**

Management should enact a policy which disciplines liaisons that do not review purchasing card statements and do not report cardholders who are violating purchasing card policies.

**Recommendation 6-D:**

Procurement Services should provide mandatory refresher training periodically to liaisons and cardholders. Procurement Services should also maintain and monitor the dates each liaison and cardholder receives training.

**SCDOT Response:**

We agree with the recommendations 6-A through 6-C as they are already a part of the policy. It is up to District/Division management to police the P. Card processes and personnel under their authority. 6-D recommends mandatory refresher liaison training classes which are currently held tri-annually. We will work with the districts and division offices to inform them of the training schedule and encourage participation.

**Finding 7:**

During OCIA's review, OCIA noted instances in several field locations of cardholders being assigned as their liaisons' liaison. OCIA also noted instances of liaison assignments for employees in subordinate positions to cardholders. This type of liaison assignment may enable fraud to occur more because of collusion. OCIA investigated a cardholder and found the cardholder used her purchasing card to purchase over \$54,000 worth of unauthorized personal items. This cardholder's liaison was in a subordinate position. Because of the liaison's fear of job loss, the liaison did not report the cardholder's suspicious activities.

**Recommendation 7:**

Liaison assignments should be reviewed by an appropriate level of management. A cardholder should not be assigned as his/her liaison's liaison. A cardholder's liaison should not be his/her subordinate employee.

**SCDOT Response:**

We agree that a liaison should not be subordinate to the card holder. However, we do not see a conflict for a cardholder to be assigned as a liaison's liaison. With many districts and offices having a limited number of individuals who can fulfill the liaison function, we believe greater management involvement in reviewing purchases and statements would help insure P-Card purchases are appropriate. P-Card policies will be reviewed and revised to appropriately reflect proper management oversight.

**Finding 8:**

Per the SCDOT Purchasing Card Program Policy and Procedures Manual, a cardholder is responsible for obtaining and signing all sales slips, receipts, etc. and providing them to the liaison for safekeeping and review immediately upon completion of a transaction with a vendor. During OCIA's review of purchasing cards, OCIA found several instances where the cardholder had not signed an invoice or sales receipt. Also, per the SCDOT Purchasing Card Program Policy and Procedures Manual, "if a receipt does not have a detailed description, the cardholder must fill out completely a Purchasing Card Transaction Detail Report to be attached to the receipt." OCIA found instances where receipts did not have detail descriptions and the cardholders did not fill out this report or provide a detail description on their receipts.

**Recommendation 8:**

Cardholders should sign all purchasing card invoices and/or sales receipts and always provide detail descriptions of all purchases when descriptions are not provided on the receipts. Purchase descriptions will assist the liaisons and Procurement Services to determine whether these purchases were legitimate.

**SCDOT Response:**

We agree that all card holders should follow the policy and procedures. It is the liaison's responsibility to ensure this occurs and it is ultimately the managers' responsibility to monitor that compliance. P-Card policies will be reviewed and revised to appropriately reflect proper management oversight.

**Finding 9:**

Per the SCDOT Procurement Policies and Procedures, field locations must send all original documents to Procurement Services for review purposes for purchases from \$2,500 to \$10,000. Procurement Services is supposed to review the documents sent in by field locations to ensure the requisitions have proper approvals and written quotes were obtained when necessary. During OCIA's review of these documents, OCIA noted instances where field locations had not sent in the proper or complete documentation for Procurement Services to review. Also, Procurement Services failed to document or follow-up to obtain the proper or missing documentation.

**Recommendation 9:**

Procurement Services should ensure field locations send all required documentation by running a report of all purchase orders created in the field over \$2,500. Procurement Services should conduct a thorough review of all documents received by field locations for compliance with applicable laws and policies.

**SCDOT Response:**

Procurement's verification of field purchases is an after-the-fact review process, which may take some time to complete. Our policy is to review every field purchase to check compliance with the purchase limit policy. It often takes several attempts to receive all of the documentation required. If the field cannot supply the documentation unauthorized procurement ratification is required. This should then be attached to the file. Repeated violations can result in revocation of purchasing authority by that individual. Refresher training is the most often required result unless flagrant disregard is observed. We feel we already comply with the recommendation.

**Finding 10:**

The purchasing card is a method of purchasing and paying for contract and non-contract supplies with a total value of \$2,500 or less. Currently, written approval prior to making a purchase with the purchasing card is not required. OCIA noted several purchases for low dollar equipment items on the purchasing card. These include, brush cutters, chain saws, pole saws, etc. OCIA did not see any prior approval attached to most of these purchases. These items do not meet the agency's threshold of \$1,000 to be classified as fixed assets. The fixed asset listing provides an internal control for fixed assets. Not including fixed assets on a fixed asset listing, along with the lack of prior approval for these purchases creates an environment for possible misuse.

**Recommendation 10:**

The Director of Maintenance should require written approval for purchases equaling a certain dollar amount under \$2,500 and for low dollar equipment purchases. This would place better controls over what is purchased by cardholders. The Director of Maintenance should determine a dollar amount that requires prior written approval. The written approval should be included in the purchasing card file to be reviewed by the liaison and Procurement Services during the purchasing card review.

**SCDOT Response:**

We disagree with the recommendation. The current threshold limit for non-expendable property approvals (fixed assets) is set at \$1,000 or greater. We do not believe that cost to implement this control would be beneficial.

Establishment of the recommended process would in some cases contradict the current policies and procedures in place. The Director of Maintenance through its Quality Management Team currently verifies during inspections that each county has a system in place to account for non-expendable property less than \$1,000.00 and verifies the accuracy of that system.

**Finding 11:**

During the review, OCIA found an instance where a cardholder used the purchasing card to purchase personal items. Included in the file was a credit to the purchasing card for these items and documentation that the purchasing card was accidentally used instead of the cardholder's personal credit card. Per the SCDOT Purchasing Card Program Policy and Procedures Manual, "the card should be maintained in a secure location and the card account number should be carefully guarded."

**Recommendation 11:**

Cardholders should be required to keep their purchasing cards in a secure locked area in their offices until needed.

**SCDOT Response:**

In the day-to-day operation of the Department, it is impractical to attempt to put cards under lock and key at all times. SCDOT agrees that it is the responsibility of the card holder to secure the P-Card and only use for SCDOT business as cited in the policy noted above. However, we feel a stronger deterrent to unauthorized use is regular management review of P-Card purchases which will add additional assurance that all purchases are legitimate and warranted. SCDOT documents instances of accidental personal use and find the instances to be few and without individual repeats.

**Finding 12:**

During the review, OCIA noted individuals with two to three purchasing cards. Per MMO's South Carolina Purchasing Card Program Policy and Procedures Manual, cardholders should be limited to one purchasing card per individual.

OCIA also noted a cardholder with a spending limit of \$25,000 which is above the field purchasing card limit of \$10,000 and the special circumstances limit of \$15,000. Per MMO's South Carolina Purchasing Card Program Policy and Procedures Manual, cardholder spending limits must be reviewed at least annually to determine that the spending authority is appropriate. Per the WORKS' Card Status Report, several cards have not been used in over a year.

OCIA also found two instances of cards being active for individuals who are no longer employed by SCDOT.

**Recommendation 12:**

Procurement Services should follow MMO's manual and limit each cardholder to one purchasing card. Procurement Services should also monitor the spending of its cardholders to determine the need for a purchasing card and the appropriate spending limit per MMO's manual and ensure all cards are terminated immediately for employees who are no longer employed by SCDOT. Procurement Services should especially assess the spending limit for cardholders who have been granted a special circumstances limit.

**SCDOT Response:**

SCDOT is in the process of revising our procurement card program to come into compliance with the MMO policy where possible. Some cards are issued for emergency use only and will have no usage. If management decides this is not required we will close them. Cards are terminated when procurement is advised of the employee's separation from service or change in assignment. Currently, employee clearance procedures are being formulated to ensure that all relative SCDOT cards, equipment, badges, etc. are being retrieved upon separation from SCDOT. Procurement Services works with the field locations to determine the needs. Procurement periodically reviews the usage and attempts to adjust where practical.

**Finding 13:**

Currently, each field location has a budget for operating expenses. Expenses are broken down into detail categories; such as, office supplies, gasoline, and highway maintenance contracts. The purchasing card is one of the detail categories within operating expenses, but does not have a budget and rightfully so. The purchasing card expenditures should be transferred into the proper categories within operating expenses to ensure the budget set for each category is being followed. Per the SCDOT Purchasing Card Program Policy and Procedures Manual, the department liaison is responsible for processing departmental transfer requests periodically when purchases should be booked to an account other than the default account code assigned to the purchasing card. Based on OCIA's review, purchasing card expenditures are not transferred by field locations to operating expense categories.

**Recommendation 13:**

Field locations should complete purchasing card expenditure transfers as stated in the SCDOT Purchasing Card Program Policy and Procedures Manual. By making these transfers, management will be able to perform a more accurate analysis of how much is spent per operating expense category; as well as, assist management in establishing an accurate budget for each operating expense category. These transfers will

make cardholders more accountable of the type of purchases made and the frequency of purchases made on the purchasing card. Accounting should ensure expenditures are being properly classified and transferred to the correct expense category.

**SCDOT Response:**

For background, currently a procurement card's expenditure allocation is based on the majority of the expected use of the card. For instance, an administrative office may purchase office supplies which will be shown as "0301 office supplies" and may also purchase small office equipment which may be shown as "0355 Procurement Card purchase". Also the field offices and shops procurement cards are assigned based on the category of the majority of the operating expense - 990 & 950 shop supplies, office supplies, shop inventory items.

With the implementation of SCEIS we are examining the need for the various cards and also the ability to transfer lump sum categorized expense to more detailed expense line. This transfer will depend upon SCDOT's ability to access and use detailed information from Bank of America and SCEIS.

**Finding 14:**

OCIA noted instances where field locations did not accurately record meal purchases during inclement weather as per Fiscal Procedure Memorandum 62, Meals during an Emergency Event. Per Fiscal Memorandum 62, the following documentation must be maintained: an itemized invoice for the meal, list of all employees, employee numbers, the nature of the event and copy of official notification of the emergency situation, dates and times employees were required to stay at their official headquarters, and designation of the meal being provided (breakfast, lunch, or dinner), and the time of day the meal is being provided. All of the required documentation was not attached to the purchasing card receipt. OCIA noted an instance when a field location went over the allowed per diem for a particular meal during inclement weather.

**Recommendation 14:**

Field locations should ensure that they abide by the guidelines for the purchase of meals for employees during an emergency event.

**SCDOT Response:**

We concur with the recommendation. As an added control, the Director of Maintenance through its Quality Management Team will include a review of office records during their inspection to ensure that all units are following Fiscal Procedure Memorandum 62 and keeping the appropriate documentation.

**Finding 15:**

Currently, the purchasing card review is conducted once a year and consists of the reviewer visiting the district offices to review purchasing card purchases. This review rarely consists of a physical observation of items purchased on the purchasing card, and the reviewer does not verify if the persons reviewing the purchasing card statements are the correct liaisons. A physical observation of items purchased can be used to ensure purchases were actually made for SCDOT purposes.

**Recommendation 15:**

The purchasing card reviewer should continuously monitor purchases using the WORKS system in addition to the annual review that is conducted. A selection of items purchased on purchasing cards should be chosen frequently to be physically observed by the purchasing card reviewer in order to ensure that purchases were for SCDOT purposes. The purchasing card reviewer should also ensure liaisons are accurate.

**SCDOT Response:**

SCDOT will review the various aspects of the WORKS system to determine if better oversight can be provided. However, currently Quality Teams are already looking at the types of items purchased with the P. Card to ensure that these are logical purchases. We are also checking purchases of chain saws, weed eaters, etc to ensure that they are included in the units' inventory control system and that these items are present.

**Finding 16:**

Per the South Carolina Consolidated Procurement Code, "purchases not in excess of \$2,500 may be accomplished without securing competitive quotations if prices are considered reasonable. When practical, a quotation must be solicited from other than the previous supplier before placing a repeat order." However, if the purchaser is making multiple repeat purchases, a quote should be obtained from another vendor to ensure the best price is received. When this quote is acquired, the quote should be documented and attached to the requisition, sales receipt, or invoice. OCIA did not find this documentation during its review.

**Recommendation 16:**

Field locations should ensure the prices on items less than \$2,500 are fair and reasonable and attach written documentation to purchases when a quote has been obtained. Prices should be researched to confirm prices were fair and reasonable.

**SCDOT Response:**

Field locations are required to state the fair and reasonable clause. We do recommend and encourage the field units to periodically check the prices competitively and we instruct them to document those checks when and if taken. Most field offices will get prices on large purchases under the \$2500.00 limit as a matter of good business. There have been a few instances where we required the field to verify competitive pricing but have found no flagrant violations.

**Finding 17:**

OCIA reviewed field location files for consistency with procurement processes. Although, some consistency issues have been addressed in prior recommendations, OCIA found an additional issue among the field locations. OCIA noted that not all field locations utilize Procurement Services' "Request for Informal Quotation Form." This form is used to request informal quotes from potential vendors for goods and services. When reviewing field location files that do not use this form, it was sometimes difficult to determine if each potential vendor was solicited using the same description of good or service.

**Recommendation 17:**

All field locations should utilize Procurement Services' Request for Informal Quotation Form to ensure there is no uncertainty about the solicitation descriptions each vendor receives.

**SCDOT Response:**

We recommend that field offices use the Informal Quote form and 3085 recap form to document quotes. This is emphasized in training as an aide to insure all bidders receive the same information. This is not a requirement at this time. However, SCDOT will review making the use of this form a requirement in the future.