

PROCUREMENT

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1. Background and Methodology

This section of our report provides an overview of procurement activity in South Carolina and describes the specific audit scope and approach that have been applied.

Introduction

Procurement is not simply buying—it is an essential activity necessary to acquire the resources to run the day-to-day operations of state government and to support the delivery of efficient and effective services to citizens. Procurement is a critical cross-cutting activity for the state because the effectiveness of programs and the resulting quality of the goods and services purchased affect every aspect of the operations of state government. While some consider purchasing to be a routine and straightforward process, in fact, the purchasing process is complex and those responsible for it must be experienced and skilled professionals in order to maximize value to the state.

The Materials Management Office (MMO) of the Office of General Services has responsibility for the management, direction, oversight, and administration of procurement policy and processes throughout the state. In addition to procuring goods and services directly, MMO is also responsible for the delegation of procurement authority to 40 other agencies statewide, and the certification, audit and review of their procurement policies, procedures, and practices.

Procurement Audit Objective

The objective of this performance audit of the State of South Carolina procurement system was to determine if the state's procurement policies, procedures, and practices result in the state's procuring quality goods and services:

- In the most economical and efficient manner
- At favorable prices
- In accordance with state statutes, regulations, and sound business practices

The performance audit did not include an evaluation of the state's compliance with the recently revised South Carolina Consolidated Procurement Code.

Inherent in the aforementioned objectives was a need to evaluate the state's policies and procedures to determine if improved or additional policies and procedures are necessary to address the nature and range of the state's procurement activities. Issues and opportunities for improvement specific to information technology procurement are

addressed in the **Information Technology** audit section of this report.

Procurement Audit Approach

Four principal approaches were used in evaluating the policies, procedures, and practices followed by the state in carrying out its procurement activities.

First, KPMG established as a benchmark the generally accepted purchasing policies as promulgated by the National Association of State Purchasing Officials (NASPO). This organization has published a list of key elements or attributes of statutory, regulatory, and procedural characteristics of preferable procurement policies. Appendix D provides a detailed comparison of these generally accepted policies with the current policies in use in South Carolina.

Second, in our review of South Carolina procurement activities, we identified the specific policies and procedures in use by MMO and reviewed them with both MMO and agency personnel. We did not conduct a detailed examination of actual purchasing processes in use by MMO or individual agencies to determine compliance with MMO or agency procurement policies and procedures.

During our analysis of the procurement policies being followed by the state, we conducted a series of interviews with MMO management and staff, as well as management and procurement programmatic staff in various agencies. We also conducted a focus group with representatives from four vendors that conduct business with the state. Finally, we distributed and analyzed a survey of procurement activity among agencies with procurement authorities in excess of the small purchase threshold.

Finally, in considering the state's procurement system, we identified the practices being followed by other governmental organizations and the private sector as a basis for comparison with the practices in place in South Carolina.

Procurement Audit Scope

These approaches provide a sound basis for an evaluation of the procurement policies and practices in use in the State of South Carolina. The performance audit included a limited review of selected procurement activities and practices of a number of agencies and departments, including:

- Materials Management Office, Office of General Services
- Office of General Services
- Office of the Lieutenant Governor

- Department of Juvenile Justice
- Department of Public Safety
- Clemson University
- University of South Carolina
- State Board for Technical and Comprehensive Education
- State Law Enforcement Division
- Medical University of South Carolina
- Department of Labor, Licensing, and Regulation
- Alcohol and Other Drug Abuse Services

During the course of this performance audit, we collected and reviewed a variety of information, some of which was compiled by agency staff. Although the information provided by agency staff personnel was reviewed for reasonableness and accuracy, it was not audited. Our performance audit was performed in accordance with *Government Auditing Standards* issued by the Comptroller General of the United States.

2. Procurement in South Carolina

This section of the report provides a framework for understanding various purchasing management alternatives and the desirability for competition in purchasing, as well as a summary of South Carolina's current procurement organization, distribution of responsibility, staffing, and activity levels.

Purchasing Management Alternatives

The design and implementation of state procurement systems varies widely. Governments face a number of critical choices in how they structure and manage their procurement systems. Any procurement system design involves trade-offs between flexibility and accountability. The following sections briefly describe some of these trade-offs and their implications for flexibility and control.

Centralization versus Decentralization

Typically, state governments have one central organization responsible for the management and oversight of all procurement activities for the state. In most cases, however, some level of procurement activity is delegated to some or all state agencies.

Under such delegation, states must also decide who is accountable and responsible for the actions of the individual agencies. The State of South Carolina carries out its procurement activities in a hybrid centralized/decentralized manner. MMO serves as the central procurement authority for the state with primary responsibility for:

- Development of procurement rules, regulations, and guidelines
- Development and execution of statewide contracts for a variety of goods and services
- Support to agencies in the definition and processing of procurements in excess of the agencies' procurement authority
- Audit and review of individual agency's procurement authority, processes, activities, and compliance with the South Carolina Consolidated Procurement Code
- Implementation of the Procurement Code and related solicitation, award, and contractual activities

All agencies and departments of state government have small purchase authority up to \$5,000. In addition, 40 individual departments and agencies have additional specific procurement authority as set by MMO. **Appendix A** summarizes the agencies and departments with authority in excess of the small purchase threshold and their specific procurement authority levels.

Standardization and Specifications Aiding Procurement Control

Establishing and detailing standards and specifications for commodities to be purchased can reduce costs and simplify purchasing for state agencies. Typically, the central procurement agency establishing and detailing standards and specifications for commodities to be purchased. Typically, the central procurement authority:

- Develops a standard of, or a specific design for, a given commodity, frequently in collaboration with other state agencies
- Communicates the design to state agencies
- Ensures that appropriate contracts are entered into to comply with these specific standards

MMO is responsible for the development and promulgation of appropriate standards for goods and services for the state. Working with other agencies, MMO establishes specific standards for a variety of goods and services.

Developing Methods to Increase Competition

Competition in state procurement is critical to decreasing costs and increasing the quality of the purchases made. However, state governments must develop appropriate procurement rules, regulations, policies, and procedures to ensure that competition occurs. Purchasing policy enhancements include:

- **Eliminating “buy local” policies** - These policies require states to buy products from in-state vendors even if the price is higher than out-of-state competitors. When this occurs, it simply raises costs to the states and, in turn, to the taxpayers. South Carolina has implemented a number of “buy local” and other preference policies.
- **Eliminating restrictive specifications** - Any restrictive specification of a commodity that is not absolutely necessary should be removed. Restrictive specifications place unnecessary restrictions on a commodity that may increase price because of reduced competition. South Carolina has a policy against restrictive specifications.
- **Enhancing competitive negotiations** - Effective purchasing policies should include using price and product quality as key competitive factors. When deciding which product to buy, bids should be evaluated on price and quality. South Carolina purchasing policies specifically support this type of evaluation.
- **Cooperative purchasing** - Cooperative purchasing involves arrangements between state and other governments to buy under the same contract. Such cooperative purchasing can lower the price of goods and services through increases in quantity.

South Carolina regulations allow some types of cooperative purchasing with other states and local governments, however they limit the ability of agencies to cooperatively purchase together through “piggybacking” on established contracts. Such “piggybacking” can provide the state with another potential source of supply if appropriately managed.

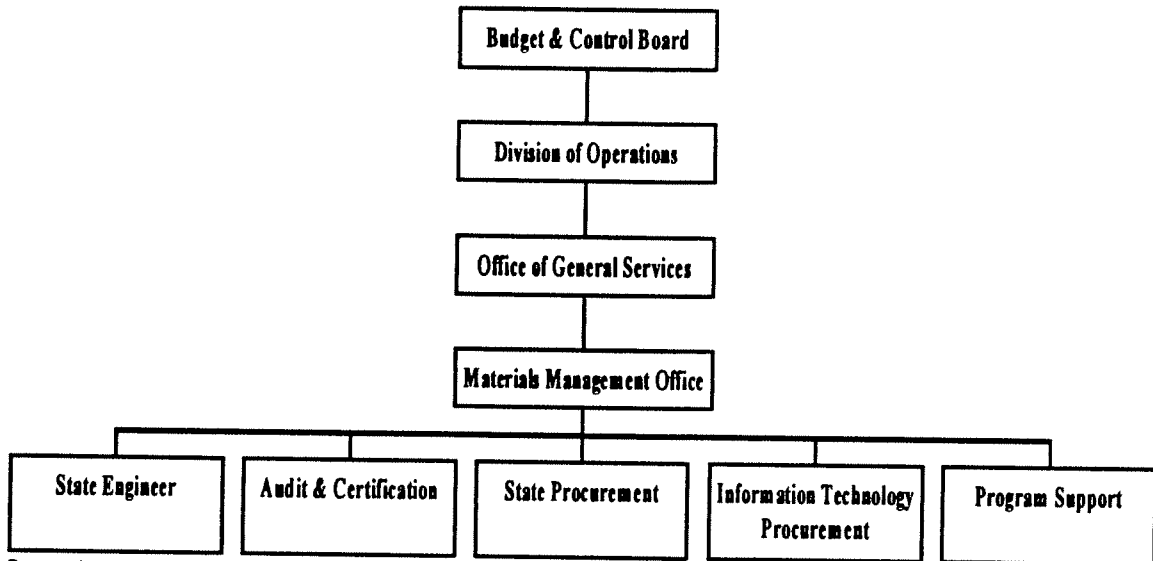
- **Planning and scheduling acquisitions** - The concepts of planning and scheduling tend to overlap. Planning is concerned with how to best acquire goods and services, and scheduling is concerned with when to acquire them. By planning for the needs of all departments, a centralized procurement activity can achieve significant savings through buying in larger quantities. The State of South Carolina achieves such savings by using statewide term contracts for the purchase of commodities when large volume purchasing opportunities are identified.

Procurement Organization

The procurement of goods and services to support the activities of the South Carolina state government is governed by the South Carolina Consolidated Procurement Code. Several state agencies are exempt from the Consolidated Procurement Code including the State Ports Authority, the Division of Public Railways of the Department of Commerce, the Public Service Authority, the Research Authority, and the General Assembly with its respective branches and committees.

Exhibit 2-1 presents a summary organization chart for MMO.

Exhibit 2-1 Organizational Structure



Source: Based on information provided by the Budget and Control Board - 6/23/97

The above organization is staffed as follows:

- **Materials Management Office:**
 - A Materials Management Officer, a Receptionist, and a State Printing Coordinator
- **State Engineer:**
 - An Office Director, 2 Administrative Staff, 4 Associate Engineers, and 5 Architects
- **Audit & Certification:**
 - An Audit & Certification Officer, 4 Auditors, and an Administrative Specialist
- **State Procurement:**
 - A State Procurement Officer, 2 Lead Team Members, 7 Procurement Team Members, and an Administrative Specialist
- **Information Technology Procurement:**
 - An Information Technology Officer, 1 Lead Team Member, 6 Procurement Team Members, and an Administrative Specialist

- Program Support:
 - A Program Support Manager, Public Information Specialist, Data Coordinator, 2 Data Entry Clerks, and 4 Administrative Specialists

Source: Based on information provided by the Budget and Control Board, adjusted according to the Materials Management Officer, 6/23/97

Distribution of Responsibility

While MMO has ultimate responsibility for the administration and management of all executive branch procurement activity throughout the state, as a matter of policy, significant procurement responsibility and authority has been delegated to various other departments and agencies. As stated above, as of July 1, 1997, a total of 40 agencies throughout South Carolina have some level of procurement authority above the \$5,000 small purchase level. **Appendix A** of this report summarizes these agencies and their delegated procurement authorities and limits.

The level of distribution of procurement responsibility and authority in South Carolina varies widely and is significant. A number of agencies possess procurement authorities in excess of \$100,000. For example:

- The University of South Carolina has procurement authority of up to \$200,000 for goods, services, information technology, and consulting, and up to \$500,000 for construction
- The Department of Mental Health's limits are \$100,000 for goods and services, \$50,000 for information technology, and \$250,000 for consultant services
- The Department of Corrections has authority for up to \$100,000 for all goods, services, and information technology, and up to \$50,000 for consultants and construction

Staffing

As a result of the distributed nature of procurement activity throughout the state, procurement staff are distributed throughout state government both organizationally and geographically. KPMG conducted a high level procurement survey of all state agencies, requesting basic information on staffing, activity, and spending. Approximately 95 of these surveys were distributed and 84 were returned.

In addition to the 3 managers, 8 lead buyers, 14 buyers, and 27 support staff (including auditors, engineers, and architects) that make up MMO, the state has at least 339 additional employees who dedicate all or a significant portion of their time to procurement-related activities including solicitations, awards, protests, contract management, etc. Total staffing (in FTEs) exclusive of MMO includes:

- Managers - 79
- Buyers - 142
- Support staff - 92
- Other - 26 (includes interns, part time workers, and students)

Individual agencies' procurement-related staffing ranged from zero to two dedicated staff in many smaller agencies to more than thirty to forty FTEs in some of the largest agencies. Appendix B includes a detailed breakdown of procurement staffing by agency and labor category.

Procurement Activity

Procurement is a significant activity for the State of South Carolina. In fiscal year 1996-97, MMO was responsible for the solicitation and award of approximately \$683 million in taxpayers' funds for goods and services to the state. This total does not include awards for goods and services processed at the agency level under individual agency's delegated procurement authorities. Exhibit 2-2 on the following page presents a summary of MMO procurement activity for the past four fiscal years for both general goods and services and information technology related purchases.

Exhibit 2-2
Materials Management Office Workload

	State Procurement			Information Technology			
	1993-94	1994-95	1995-96	1993-94	1994-95	1995-96	1996-97
Requests for Quotations	134	131	88	186	196	183	145
Value	\$1,588,242	\$1,562,065	\$955,500	\$20,746,633	\$1,804,621	\$1,699,580	\$1,300,587
Invitations for Bid	461	471	512	215	154	162	134
Value	\$1,162,487,426	\$362,527,417	\$206,492,850	\$27,443,197	\$84,267,019	\$74,922,977	\$57,458,279
Requests For Proposals	97	117	103	36	23	26	54
Value	\$88,674,011	\$193,266,971	\$327,276,516	\$89,979,691	\$64,658,480	\$21,453,486	\$40,544,980
Total Contract Awards	1,347	1,268	1,194	437	373	371	333
Value	\$1,252,749,679*	\$557,356,453	\$534,724,866	\$138,169,521	\$150,730,120	\$98,076,043	\$99,303,846
Term Contracts	121	127	97	55	55	95	62
Value	\$83,285,198	\$286,005,584	\$61,395,022	\$28,262,720	\$47,938,971	\$43,626,906	\$29,305,706
Interagency Agreements	410	270	250	270	63	52	40
Value	\$23,504,845	\$31,225,687	\$18,071,400	\$20,291,139	\$17,956,761	\$6,161,414	\$15,254,008
Contracts Administered	3,260	3,173	2,485	1,151	1,050	974	1,076
Value	\$2,688,783,346	\$2,971,077,339	\$2,804,987,352	\$457,608,469	\$531,071,002	\$625,443,523	\$649,974,995
Protests Received	45	49	41	30	33	14	22
Hearings Held	14	20	19	16	9	8	13

* One contract worth \$1,000,000,000 was awarded for reinsurance.
Source: Materials Management Office

KPMG's survey of agency procurement activity also requested information related to the level of procurement activity within each agency. KPMG requested each agency provide information on the number of procurement transactions processed and the value of those transactions by type of contract (e.g., small purchase, Invitation for Bid (IFB), and Request for Proposal (RFP)). KPMG found that the overall quality and consistency of the information received from this request was mixed which disallowed a meaningful summarization and analysis of the data.

KPMG's survey also highlighted the importance of automation to procurement activities. Automation is a critical element of effective and efficient procurement. The KPMG survey requested that each agency provide summary information regarding the use of automated procurement systems and their basic capabilities. KPMG noted that the consistency and level of data received on the survey was directly related to the level of sophistication in the agency's procurement system. The results of the 84 returned surveys revealed that 56 agencies utilize some form of automated procurement system, while 28 continue to process procurement transactions manually.

KPMG found little consistency among the 56 agencies with automated procurement systems. State agencies individually determine what automated systems to employ based solely up on their internal needs. As a result, the automation of procurement across state government is a patchwork of commercial and custom systems that are unable to communicate with one another or with MMO's SCAPS system. **Appendix C** presents a summary of survey data related to procurement automation, including the type of system in use and the various procurement processes that are automated.

Performance Measurement

Currently, MMO conducts quality reviews and performance assessments of its activities on an on-going basis. Users receive customer satisfaction surveys after each procurement and the results are tabulated and shared with MMO managers and staff. In addition, MMO managers track specific performance measures related to such items as response and turn-around times for individual processes by staff member and unit. These measures are used to ensure that customers' expectations are met.

Similar performance measures do not exist to assess and evaluate individual agencies with distributed procurement authority. While some agencies have implemented their own measures, MMO does not have the ability, systems, or manpower to assess agency level procurement activities. The only significant review of agency level activity is a triennial audit of procurement policies, procedures, and practices conducted by the MMO's Audit and Certification Branch. A successful triennial audit outcome is required in order for an agency to retain and/or increase its distributed procurement authority.

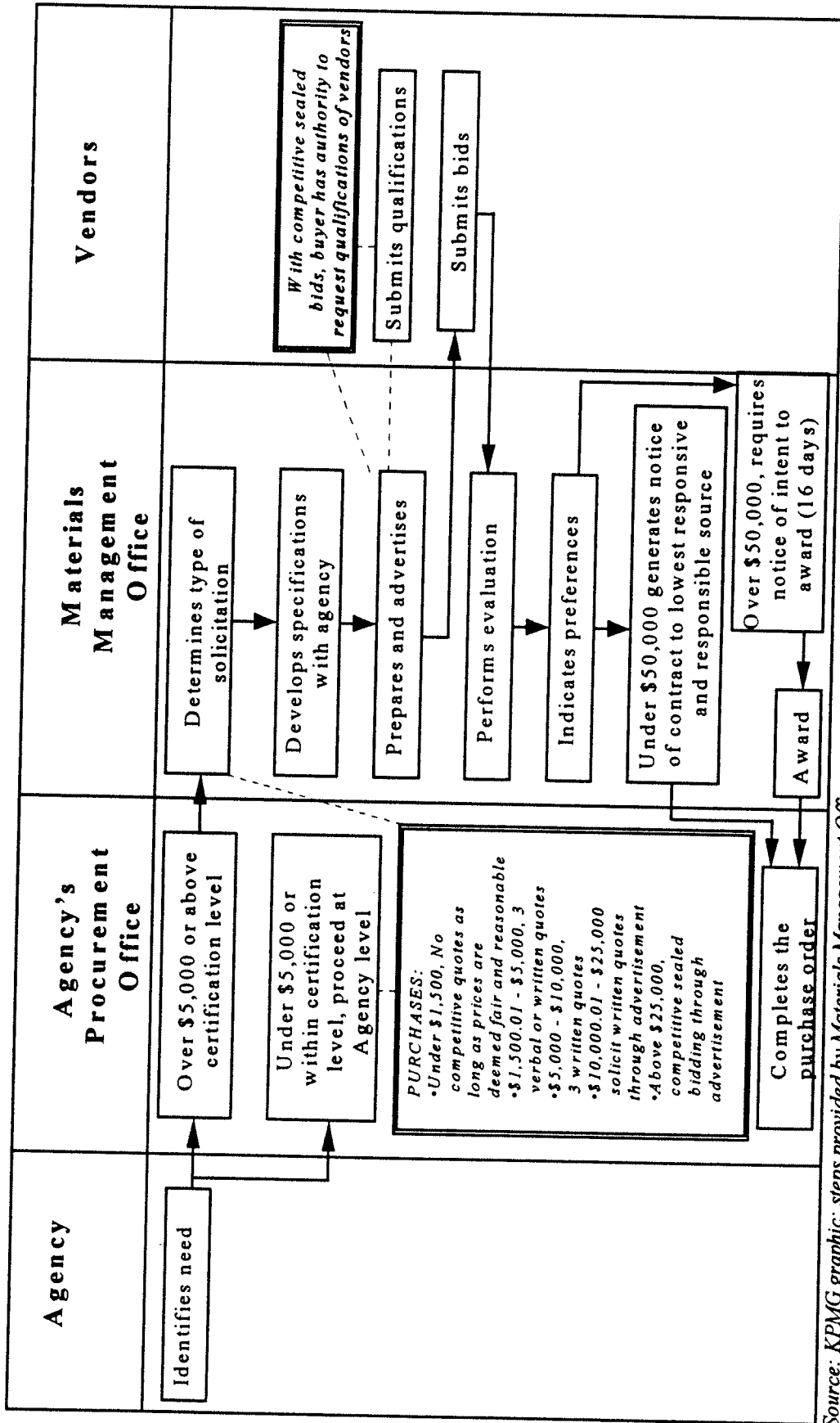
Process Overview

The state, through MMO and individual agencies, procures goods and services through two basic processes, bids and proposals. Bids are generally used to purchase goods for which the state has identified some specific industry or other generally accepted specification. For example, such commodities as gasoline, clothing, and office equipment may be purchased through the bid process. Exhibit 2-3 on the following page provides a summary level flowchart of bids processed through MMO. Individual agencies with procurement authority over \$5,000 for goods and services may utilize their own internal processes that may differ from the MMO process.

The request for proposal (RFP) process is generally used when the acquisition involves goods or services for which there may not be an established standard or for which the assessment of potential vendors must incorporate factors—such as quality and the ability to meet delivery requirements—other than price and performance history. Typical acquisitions through the RFP process might include accounting and consulting services, legal representation, and systems automation services. Exhibit 2-4 provides a flowchart overview of the RFP process in use by MMO.

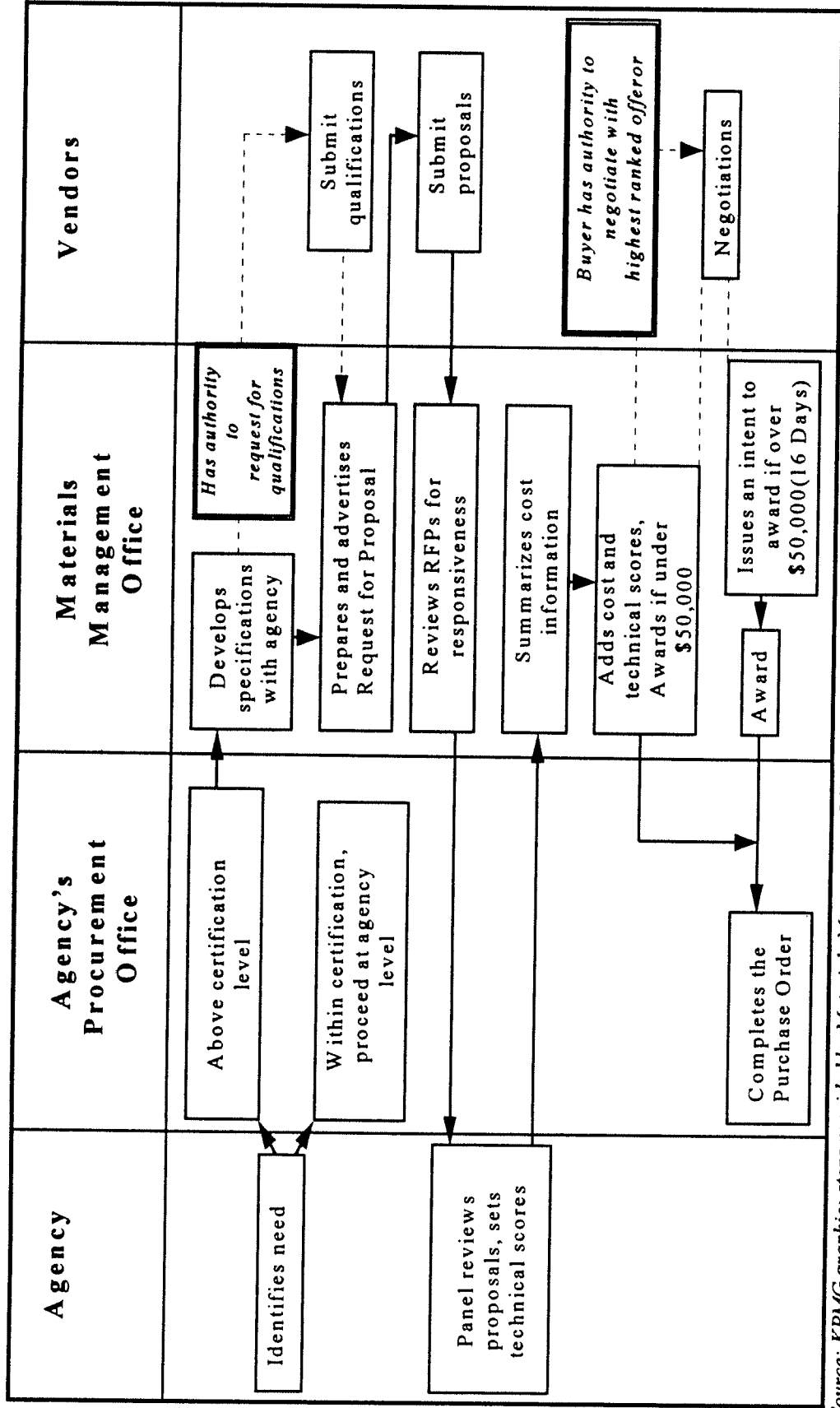
Individual agencies with procurement authority over \$5,000 for goods and services may utilize their own internal processes that may differ from the MMO RFP process, although all procurement processes are governed by Sections 11-35-1520 and 11-35-1530 of the Code and subject to review and approval by MMO.

Exhibit 2-3
Materials Management Work Flow—Bid Process



Source: KPMG graphic; steps provided by Materials Management Office

Exhibit 2-4
Materials Management Office Work Flow—Request for Proposal Process



Source: KPMG graphic; steps provided by Materials Management Office

3. Findings and Recommendations

The performance audit of the procurement function of the State of South Carolina identified several opportunities to enhance the efficiency, effectiveness, and economy of the state's procurement of goods and services. Audit findings and recommendations are grouped into three issue areas:

- Opportunities to reduce costs
- Opportunities to improve financial and management information
- Opportunities to increase technical knowledge and expertise

Each issue is supported by specific findings and recommendations that address how the state can improve its procurement activity. Several of the findings and recommendations discussed are interrelated and cut across the statewide procurement practices, policies and procedures at the central procurement office level and extend into the agencies' procurement offices.

Elements of Effective Procurement

An overview of our framework for evaluating the state's procurement system is presented in this section. An effective procurement system is based on a solid foundation of strong core skills and systems, including:

- Leadership and planning
- Customer service
- Integrated systems
- Skilled human resources

As illustrated in Exhibit 3-1 on the following page, these elements are interdependent; the existence of effective policies, practices, and procedures in one element can enhance the overall efficiency, economy, or effectiveness of the entire procurement process. Each of these interrelated elements' policies and practices needs to be properly planned, established, and fostered in the procurement culture in order to support a sound procurement system.