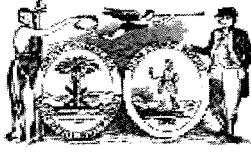


STATE OF SOUTH CAROLINA
State Budget and Control Board
PROCUREMENT SERVICES DIVISION

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GOVERNOR

GRADY L. PATTERSON, JR.
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COLUMBIA, SOUTH CAROLINA 29201
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R. VOIGHT SHEALY
MATERIALS MANAGEMENT OFFICER

March 24, 2003

Mr. Delbert H. Singleton Jr.
Director
Procurement Services Division
6th Floor-Wade Hampton Building
Columbia, South Carolina 29201

Dear Delbert:

I have attached the South Carolina Vocational Rehabilitation Department's procurement audit report and recommendations made by the Office of Audit and Certification. I concur and recommend the Budget and Control Board grant the South Carolina Vocational Rehabilitation a three-year certification as noted in the audit report.

Sincerely,

A handwritten signature in cursive script that reads "Voight Shealy".

R. Voight Shealy
Materials Management Officer

/jl

SOUTH CAROLINA VOCATIONAL REHABILITATION DEPARTMENT
PROCUREMENT AUDIT REPORT
OCTOBER 1, 1999 - DECEMBER 31, 2002

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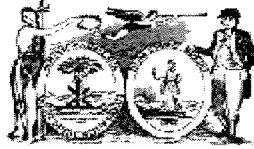
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R. VOIGHT SHEALY
MATERIALS MANAGEMENT OFFICER

March 12, 2003

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

Dear Voight:

We have examined the procurement policies and procedures of the South Carolina Vocational Rehabilitation Department for the period October 1, 1999 through December 31, 2002. As part of our examination, we studied and evaluated the system of internal control over procurement transactions to the extent we considered necessary.

The evaluation was to establish a basis for reliance upon the system of internal control to assure adherence to the Consolidated Procurement Code, State regulations and the Department's procurement policy. Additionally, the evaluation was used in determining the nature, timing and extent of other auditing procedures necessary for developing an opinion on the adequacy, efficiency and effectiveness of the procurement system.

The administration of the South Carolina Vocational Rehabilitation Department is responsible for establishing and maintaining a system of internal control over procurement transactions. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of control procedures. The objectives of a system are to provide management with reasonable, but not absolute, assurance of the

integrity of the procurement process, that affected assets are safeguarded against loss from unauthorized use or disposition and that transactions are executed in accordance with management's authorization and are recorded properly.

Because of inherent limitations in any system of internal control, errors or irregularities may occur and not be detected. Also, projection of any evaluation of the system to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or that the degree of compliance with the procedures may deteriorate.

Our study and evaluation of the system of internal control over procurement transactions, as well as our overall examination of procurement policies and procedures, were conducted with professional care. However, because of the nature of audit testing, they would not necessarily disclose all weaknesses in the system.

The examination did, however, disclose several conditions enumerated in this report which we believe need correction or improvement.

Corrective action based on the recommendations described in these findings will in all material respects place the South Carolina Vocational Rehabilitation Department in compliance with the Consolidated Procurement Code and ensuing regulations.

Sincerely,



Larry G. Sorrell, Manager
Audit and Certification

SCOPE

We conducted our examination in accordance with Generally Accepted Auditing Standards as they apply to compliance audits. Our examination encompassed a detailed analysis of the internal procurement operating procedures of the South Carolina Vocational Rehabilitation Department and its related policies and procedures manual to the extent we deemed necessary to formulate an opinion on the adequacy of the system to properly handle procurement transactions.

We selected judgmental samples from the period July 1, 2000 through December 31, 2002 of procurement transactions for compliance testing and performed other audit procedures we considered necessary to formulate this opinion. Specifically, the scope of our audit included, but was not limited to, a review of the following:

- (1) All sole source, emergency and trade-in sale procurements for the period October 1, 1999 through December 31, 2002
- (2) Procurement transactions from the period July 1, 2000 through December 31, 2002 as follows:
 - a) Seventy-three procurements each exceeding \$1,500
 - b) A block sample of one thousand purchase orders reviewed for order splitting and favored vendors
- (3) Three construction contracts and two professional services contracts for compliance with the Manual for Planning and Execution of State Permanent Improvements
- (4) Minority Business Enterprise Plan and reports
- (5) Information technology plans
- (6) Internal procurement procedures manual
- (7) Surplus property disposal procedures
- (8) File documentation and evidence of competition

RESULTS OF EXAMINATION

The Office of Audit and Certification performed an examination of the internal procurement policies and procedures of the South Carolina Vocational Rehabilitation Department, hereinafter referred to as the Department, for the period October 1, 1999 to December 31, 2002. Our on-site review was conducted January 21, 2003 through February 13, 2003 and was made under the authority described in Section 11-35-1230(1) of the South Carolina Consolidated Procurement Code and Regulation 19-445.2020.

On April 11, 2000, the Budget and Control Board granted the Department the following certification. The Department desires to continue these levels of certification.

<u>PROCUREMENT AREAS</u>	<u>CERTIFICATION LIMITS</u>
Goods and Services	\$25,000 per commitment
Consultant Services	\$25,000 per commitment
Information Technology	\$25,000 per commitment
Case Services Funds	\$25,000 per commitment
Construction Contract Award	\$25,000 per commitment
Construction Contract Change Order	\$25,000 per change order

Since our previous audit in 1999, the Department has maintained what we consider to be a professional, efficient procurement system. We did note, however, the following items which should be addressed by management.

Inappropriate Sole Sources

The Department reported the purchases of hearing aids and artificial limbs as sole source procurements. Based on discussions with Department personnel, the sole source procurements were based on medical needs of the clients and were procured from multiple suppliers with multiple brands. The Department did not prepare the written determinations, as required by Section 11-35-1560, to support the sole source procurements. The Department reported the following procurements as sole sources.

<u>Description</u>	<u>Dollar Value</u>	<u>Number of purchase orders</u>
Hearing aids	\$1,653,707	975
Artificial limbs	678,609	137

Section 11-35-1560 of the Code states, in part, “ A contract may be awarded for a supply, service, or construction item without competition when, under regulations promulgated by the Board, the chief procurement officer, the head of the purchasing agency, or a designee of either officer, above the level of the procurement officer, determines in writing that there is only one source for the required supply, service, or construction item.”

We recommend the Department solicit competition for these items. Competitive fixed price bidding, as defined in Section 11-35-1525, provides a method for the procurement for these items. We also recommend that appropriate written determinations to justify sole source procurements be prepared.

Evidence of Responsiveness

The following procurement files did not have evidence of responsiveness.

	<u>PO</u>	<u>Amount</u>	<u>Description</u>
1	OA03-10783	\$ 8,842	Newberry center HVAC replacement
2	OA02-12094	7,800	Walterboro center HVAC replacement
3	OA02-11771	14,201	Aiken Center HVAC replacement
4	OA03-11876	18,805	Spartanburg Center HVAC replacement
5	OA01-10292	11,660	Replace exterior doors on dorm
6	OA03-11598	11,500	Greenwood Center painting
7	OA02-11585	13,700	Printing software
8	OA02-10791	15,185	Forklift
9	OA01-11630	14,900	Construct picnic shelter
10	OA02-10606	10,721	Beaufort Center HVAC replacement
11	OA02-13805	9,353	Folder with table

The files did not contain documentation to confirm that the awarded vendors for items 1 through 6 attended the mandatory site visits. The mandatory site visits were a requirement of each solicitation. For items 4 through 11, the files did not contain sufficient documentation that the responses were received prior to the due date noted in the solicitations. Section 11-35-1550 includes the requirement that the award be made to the lowest responsive offeror. We could not determine the responsiveness of the vendors due to the lack of documentation.

We recommend the Department adequately document the responsiveness of vendors to all the requirements defined in a solicitation.

Noncompliance Procurements

Four procurements did not comply with the Code.

<u>Item</u>	<u>PO</u>	<u>Amount</u>	<u>Description</u>
1	OA02-10672	\$ 14,203	Walk-in freezer
2	OA01-16624	12,500	HVAC System
3	OA02-10025	11,950	HVAC System
4	OA02-10021	2,910	Van repairs

The Department solicited competition for items 1 through 3 but did not advertise the solicitations in the South Carolina Business Opportunities (SCBO). The files contained documentation that stated time was not available to advertise in SCBO. Advertisement in SCBO is a mandatory requirement for all procurements of \$10,000 or more that are not determined to be sole sources or emergencies. The van repairs for item 4 were not competed. Based on the information in the file, items 1-3 should have been declared emergencies per Section 11-35-1570. The repairs for item 4 should have been competed in accordance with Section 11-35-1550(2)(b) for purchase procedures.

We recommend procurements be handled in compliance with the source selection methods allowed in the Code.

Excessive Purchase Orders and Payments

In our sample of one hundred purchase orders, OA03-11500 to OA03-11600, a total of thirty-four were less than \$100. Preparing individual purchase orders has been estimated to cost \$75-\$100 each by the National Association of State Procurement Officials. Regulation 19-445.2100 allows the use of blanket purchase agreement, which reduce the administrative costs for issuing individual purchase orders. Eliminating the corresponding payments further reduces administrative costs. Additionally, the State implemented a purchasing card program with the intent to increase the efficiency of the purchasing system by eliminating unnecessary steps and paperwork attributed to small purchases.

We recommend the Department consider implementing blanket purchase agreements and the purchasing card program.

Preferences

The informal written solicitations for procurements from \$10,000 to \$25,000 did not contain the preferences allowed in Section 11-35-1524 of the Code. The Code requires the use of preferences for resident vendors and end products made, manufactured or grown in South Carolina or the United States.

We recommend the written solicitations include the provisions for preferences.

Trade-In Sales

Purchase orders OA02-10791 and OA03-11426 included trade-in sales of \$4,500 and \$5,000 respectively. The trade-in sales were not reported to the Materials Management Office as required by Section 11-35-3830(3) of the Code. Additionally, the file on purchase order OA02-10791 for the trade-in sale of \$4,500 did not include the acquisition cost. Regulation 19-445.2150(G) requires the approval by the Materials Management Officer, ITMO, or the designee of either for the disposal of an item with an acquisition cost greater than \$5,000.

We recommend the Department comply with the reporting and approval requirements as defined in the Code and Regulation.

CERTIFICATION RECOMMENDATION

As enumerated in our transmittal letter, corrective action based on the recommendations described in this report, we believe, will in all material respects place the South Carolina Vocational Rehabilitation Department in compliance with the Consolidated Procurement Code and ensuing regulations.

Under the authority described in Section 11-35-1210 of the Procurement Code, subject to this corrective action, we will recommend the Department be recertified to make direct procurements for three years up to the limit as follows.

<u>PROCUREMENT AREAS</u>	<u>RECOMMENDED CERTIFICATION LIMITS</u>
Goods and Services	*\$25,000 per commitment
Consultant Services	*\$25,000 per commitment
Information Technology	*\$25,000 per commitment
Case Services Funds	*\$25,000 per commitment
Construction Contract Award	\$25,000 per commitment
Construction Contract Change Order	\$25,000 per change order

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



Melissa Rae Thurstin
Senior Auditor



Larry G. Sorrell, Manager
Audit and Certification



*Enabling eligible South Carolinians with disabilities to
prepare for, achieve, and maintain competitive employment.*

Larry C. Bryant, Commissioner

March 20, 2003

Materials Management Office
Mr. Larry Sorrell, Manager
1201 Main St. – Suite 600
Columbia, SC 29201

Larry:

I have reviewed the draft procurement audit report for the South Carolina Vocational Rehabilitation Department for the period of October 1, 1999 – December 31, 2002. I concur with the content of the report and its recommendations. We have taken action to implement all of the recommendations for improvements noted in the report.

We would like to thank you and Ms. Thurstin for all of your help and cooperation in this audit.

Sincerely,

W.M. Corder
Procurement Manager

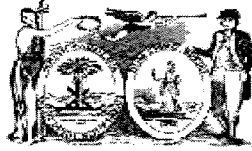
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R. VOIGHT SHEALY
MATERIALS MANAGEMENT OFFICER

March 24, 2003

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

Dear Voight:

We have reviewed the response from the South Carolina Vocational Rehabilitation Department to our audit report for the period of October 1, 1999 – December 31, 2002. Also we have followed the Department's corrective action during and subsequent to our fieldwork. We are satisfied that the South Carolina Vocational Rehabilitation Department has corrected the problem areas and the internal controls over the procurement system are adequate.

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

Sincerely,

A handwritten signature in cursive script, appearing to read "Larry G. Sorrell".

Larry G. Sorrell, Manager
Audit and Certification

LGS/jl

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