

SOUTH CAROLINA

DEPARTMENT OF DISABILITIES AND SPECIAL NEEDS

PROCUREMENT AUDIT REPORT

APRIL 1, 2005 – MARCH 31, 2008

TABLE OF CONTENTS

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

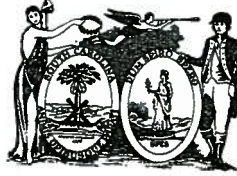
NOTE: The Department's responses to issues noted in this report have been inserted immediately following the items they refer to.

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

MARK SANFORD, CHAIRMAN
GOVERNOR

CONVERSE A. CHELLIS III, CPA
STATE TREASURER

RICHARD ECKSTROM, CPA
COMPTROLLER GENERAL



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

DANIEL T. COOPER
CHAIRMAN, WAYS AND MEANS COMMITTEE

FRANK W. FUSCO
EXECUTIVE DIRECTOR

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

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

R. VOIGHT SHEALY
MATERIALS MANAGEMENT OFFICER

September 24, 2008

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

Dear Voight:

We have examined the procurement policies and procedures for the South Carolina Department of Disabilities and Special Needs for the period April 1, 2005 through March 31, 2008. 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 established a basis for reliance upon the system of internal control to assure adherence to the Consolidated Procurement Code, State regulations and procurement policy of The South Carolina Department of Disabilities and Special Needs. Additionally, the evaluation determined the nature, timing and extent of other auditing procedures necessary for developing an opinion on the adequacy, efficiency and effectiveness of the procurement system.

The administration of the South Carolina Department of Disabilities and Special Needs is responsible for establishing and maintaining a system of internal control over procurement transactions. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of control procedures. The objectives of a system are to provide management with reasonable, but not absolute, assurance of the integrity of the procurement process, that affected assets are safeguarded against loss from unauthorized use or disposition and those transactions are executed in accordance with management's authorization and are recorded properly.

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

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

The examination did, however, disclose conditions enumerated in this report which we believe need correction or improvement. Corrective action based on the recommendations described in these findings will in all material respects place the South Carolina Department of Disabilities and Special Needs in compliance with the Consolidated Procurement Code and ensuing regulations.

Sincerely,



Larry G. Sorrell, Manager
Audit and Certification

INTRODUCTION

We conducted an examination of the internal procurement operating policies and procedures of the South Carolina Department of Disabilities and Special Needs. Our review, conducted June 17, 2008 through July 18, 2008, was made under Section 11-35-1230(1) of the South Carolina Consolidated Procurement Code and Section 19-445.2020 of the accompanying regulations.

On August 9, 2005, the State Budget and Control Board granted the South Carolina Department of Disabilities and Special Needs, hereafter referred to as the Department, the following procurement certifications:

PROCUREMENT AREAS

CERTIFICATION LIMITS

Pharmaceutical Drugs	\$ 1,000,000 Total Annual Contracts
Pharmaceutical Services	\$ 1,000,000 Total Annual Contracts
Goods and Services	\$ 250,000 per commitment
Consultant Services	\$ 250,000 per commitment
Information Technology	\$ 100,000 per commitment
Construction Contract Award	\$ 250,000 per commitment
Construction Contract Change Order	\$ 250,000 per change order
Architect/Engineer Contract Amendment	\$ 25,000 per amendment

Our audit was performed primarily to determine if recertification is warranted. The South Carolina Department of Disabilities and Special Needs requested to remain at its current certification levels.

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 Department of Disabilities and Special Needs and its related policies and procedures manual to the extent we deemed necessary to formulate an opinion on the adequacy of the system to properly handle procurement transactions.

We selected samples for the period July 1, 2006 through March 31, 2008 of procurement transactions for compliance testing and performed other audit procedures that we considered necessary to formulate this opinion. Specifically, the scope of our audit included, but was not limited to, a review of the following:

- (1) All sole source, emergency and trade-in sale procurements for the period April 1, 2005 through March 31, 2008
- (2) Procurement transactions for the period July 1, 2006 through March 31, 2008 as follows:
 - a) One-hundred and three payments each exceeding \$2,500
 - b) Two hundred sequentially filed purchase orders reviewed against the use of order splitting and favored vendors
 - c) Procurement card transactions for the months of October and November 2007.
- (3) Six construction contracts and five A&E and Related Professional Service Contracts for compliance with the Manual for Planning and Execution of State Permanent Improvements
- (4) Minority Business Enterprise Plans and reports for the audit period with the following activity reported to the MBE Office

<u>Fiscal Year</u>	<u>Goal</u>	<u>Actual</u>
2005-2006	\$ 300,000	\$ 1,278,247
2006-2007	2,181,793	1,070,769
2007-2008	2,307,946	436,005

- (5) Approval of most recent Information Technology Plan
- (6) Internal procurement procedures manual
- (7) Surplus property disposition procedures
- (8) File documentation and evidence of competition

RESULTS OF EXAMINATION

Inadequate Written Determinations for Sole Source and Emergency Procurements

The Department failed to provide adequate written determinations for the following procurements.

<u>PO</u>	<u>Date</u>	<u>Description</u>	<u>Amount</u>
2100005686	05/23/06	Emergency for water damage service	\$ 2,917
J16-9778(W)	06/14/06	Emergency repair for existing chiller	15,160
3800003057	02/27/07	Emergency repair of main boiler	3,196
3800004986	06/29/06	Emergency air conditioner repair	13,557
6100245777	04/05/07	Emergency replacement of water heater	2,606
1100270346	10/26/05	Sole source consumer treatment	52,743
1100273927	09/12/06	Sole source consulting services	12,500
1100279538	10/15/07	Sole source consulting services	12,500

In a declaratory judgment issued against Greenville County School District in *Sloan v. School District of Greenville County*, No. 98-CP-23-2816 (Greenville, S.C., Ct. Common Pleas, July 15, 2003), the Court stated in part in regards to a written emergency determination that:

The Code requires a written determination to afford the District and the public sufficient information to intelligently and objectively review the decision. The decision to use the emergency exception must be sufficiently detailed to satisfy an audit, and it must be made available to the public. The purpose of the determination is to provide the basis of the decision to the school board and to the public. If the determination provides, in sufficient detail, the information necessary for the school board and the public to make an intelligent, objective review of these decisions, then it has accomplished its purpose. The Court is empowered to determine whether the written determination is sufficiently detailed to accomplish this purpose.

In our opinion, these written determinations do not meet the standard of the Procurement Code as clarified by the State Supreme Court.

We recommend the Department prepare its written determinations as required in the Code by providing sufficient, factual details that allow intelligent, objective reviews of the decisions.

DEPARTMENT RESPONSE

Future sole source and emergency procurements will be market researched more carefully and documented more thoroughly with factual details. This action will provide for more stringent determinations.

No Competition

Three procurements were not supported by solicitations of competition, sole source or emergency determinations, contract references or exemptions.

<u>PO</u>	<u>Date</u>	<u>Description</u>	<u>Amount</u>
1100275397	01/22/07	Insurance bond total value	\$5,372
6100249858	08/29/07	Radios 2-way	3,098
4100013948	01/23/08	Heart monitor	4,216

Section 11-35-1550 of the Code requires solicitation of written quotes from a minimum of three qualified sources of supply and documentation of the quotes attached to the requisition for purchases between \$2,500 and \$10,000.

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

DEPARTMENT RESPONSE

Exceptions have been noted and corrections to the process made. In the future procurements will be cancelled and quotes obtained.

Inappropriate Solicitations of Competition

The following two procurements were supported by downloaded internet catalog prices to support competition requirements in Section 11-35-1550 (2) (b).

<u>PO</u>	<u>Date</u>	<u>Description</u>	<u>Amount</u>
6100240847	09/01/06	Chairs	\$2,575
4100013647	11/04/06	Pneumococcal vaccine	2,652

The chairs were supported by internet prices from two vendors with the award going to the vendor that provided a written quote. The vaccine was supported by an internet price from the awarded vendor

and two verbal quotes. Typically, catalog prices from the internet are representative of commercially available retail pricing, but are not always representative of the discount prices possible to customers such as the State.

We recommend direct communication with catalog and internet vendors to confirm best available pricing to the State.

DEPARTMENT RESPONSE

The Department changed its practices after the agency was cited for using the internet. The Department has passed on this information from the auditors to its procurement personnel.

Unauthorized Sole Source Procurements

Two sole source procurements were unauthorized as defined in Regulation 19-445.2015.

<u>PO</u>	<u>Date</u>	<u>Description</u>	<u>Amount</u>
2100001976	09/20/05	Maintenance inspection service	\$8,225
1100279408	10/03/07	Medical manager billing system	2,247

The Department identified the Deputy State Director as the authority to approve sole source procurements; however purchase order 2100001976 was approved by a Facility Administrator. The other sole source procurement was authorized after the issuance of purchase order 1100279408. Regulation 19-445.2105.C requires the determination be authorized prior to contract execution.

We recommend the Department review its operating procedures to identify the deficiencies and take the appropriate corrective action.

DEPARTMENT RESPONSE

The Department has made corrective action by having procurement training sessions with its procurement personnel and instructed them to use the procedures as outlined in its procurement manual.

Improper Contract Award

The Department failed to obtain a written response from the awarded vendor for the following contract.

<u>PO</u>	<u>Date</u>	<u>Description</u>	<u>Amount</u>
6100251388	10/08/07	Replace HVAC	\$5,057

Section 11-35-1550(2)(b) requires the solicitation of written quotes from a minimum of three qualified sources of supply and documentation of the quotes for purchases between of \$2,500 to \$10,000. The file did not contain a written quote from the vendor that was awarded the contract but did contain the notation “verbal commitment” by the awarded vendor’s name. That does not meet the requirements of the code.

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

DEPARTMENT RESPONSE

Exception has been noted and correction made to assure three written quotes for purchases over \$2,500.00 to \$10,000.00.

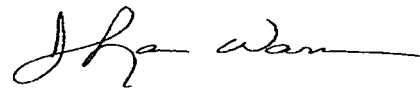
CERTIFICATION RECOMMENDATIONS

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 Department of Disabilities and Special Needs 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 South Carolina Department of Disabilities and Special Needs be recertified to make direct agency procurements for three years up to the limits as follows:

<u>PROCUREMENT AREAS</u>	<u>RECOMMENDED CERTIFICATION LIMITS</u>
Pharmaceutical Drugs	\$ 1,000,000 Total Annual Contracts
Pharmaceutical Services	\$ 1,000,000 Total Annual Contracts
Supplies and Services	*\$ 250,000 per commitment
Consultant Services	*\$ 250,000 per commitment
Information Technology	*\$ 100,000 per commitment
Construction Contract Award	\$ 250,000 per commitment
Construction Contract Change Order	\$ 250,000 per change order
Architect/Engineer Contract Amendment	\$ 25,000 per amendment

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



J. Lane Warren, CFE
Audit Manager



Larry G. Sorrell, Manager
Audit and Certification

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

MARK SANFORD, CHAIRMAN
GOVERNOR

CONVERSE A. CHELLIS III, CPA
STATE TREASURER

RICHARD ECKSTROM, CPA
COMPTROLLER GENERAL



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

DANIEL T. COOPER
CHAIRMAN, WAYS AND MEANS COMMITTEE

FRANK W. FUSCO
EXECUTIVE DIRECTOR

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

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

R. VOIGHT SHEALY
MATERIALS MANAGEMENT OFFICER

October 10, 2008

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 Department of Disabilities and Special Needs to our audit report for the period of April 1, 2005 to March 31, 2008. Also we have followed the Department's corrective action during and subsequent to our fieldwork. We are satisfied that the Department of Disabilities and Special Needs 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 Department of Disabilities and Special Needs the certification limits noted in our report for a period of three years.

Sincerely,

A handwritten signature in blue ink that reads "Larry G. Sorrell".

Larry G. Sorrell, Manager
Audit and Certification

LGS/gs

Total Copies Printed	11
Unit Cost	\$.44
Total Cost	<u>\$4.84</u>