

SOUTH CAROLINA
DEPARTMENT OF DISABILITIES AND SPECIAL NEEDS
PROCUREMENT AUDIT REPORT
APRIL 1, 2008 – DECEMBER 31, 2011

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February 20, 2013

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 of the South Carolina Department of Disabilities and Special Needs for the period April 1, 2008 through December 31, 2011. 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 used to establish a basis for reliance upon the system of internal controls to assure adherence to the South Carolina Consolidated Procurement Code, State regulations, and the Agency's procurement policies. Additionally, the evaluation was used in determining the nature, timing and extent of other auditing procedures necessary for developing an opinion on the adequacy, efficiency and effectiveness of the procurement system.

The administration of the South Carolina Department of Disabilities and Special Needs is responsible for establishing and maintaining a system of internal controls 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 recorded properly.

Because of inherent limitations in any system of internal controls, 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 controls 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 South Carolina Consolidated Procurement Code and ensuing regulations.

Sincerely,

A handwritten signature in black ink, appearing to read "Robert J. Aycock, IV". The signature is fluid and cursive, with a long horizontal stroke extending to the right.

Robert J. Aycock, IV, 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 was performed January 23, 2012 through March 9, 2012 and was made under Section 11-35-1230(1) of the South Carolina Consolidated Procurement Code and Section 19-445.2020 of the accompanying regulations.

The examination was directed principally to determine whether, in all material respects, the internal controls of the procurement system were adequate and the procurement procedures, as outlined in the Internal Procurement Policies and Procedures Manual, were in compliance with the South Carolina Consolidated Procurement Code and ensuing regulations.

On November 6, 2008 the State Budget and Control Board granted the South Carolina Department of Disabilities and Special Needs the following procurement certifications:

<u>PROCUREMENT AREAS</u>	<u>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

Our audit was performed primarily to determine if recertification is warranted. Additionally, the Department of Disabilities and Special Needs requested an increase in construction contract award with all other certification levels remaining the same.

<u>PROCUREMENT AREAS</u>	<u>REQUESTED 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	\$ 500,000 per commitment
Construction Contract Change Order	\$ 250,000 per change order
Architect/Engineer Contract Amendment	\$ 25,000 per amendment

SCOPE

We conducted our examination in accordance with Generally Accepted Auditing Standards as they apply to compliance audits. Our examination encompassed a detailed analysis of the internal procurement operating procedures of the South Carolina Department of Disabilities and Special Needs, hereinafter referred to as DDSN, 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 for the period November 1, 2009 through December 31, 2011 of procurement transactions for compliance testing and performed other audit procedures that we considered necessary to formulate this opinion. 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, 2008 through December 31, 2011 with no exceptions
- (2) Procurement transactions for the period November 1, 2009 through December 31, 2011 as follows:
 - a) One hundred payments each exceeding \$2,500 with exceptions noted in Section I
 - b) A block sample of six hundred and fifteen purchase orders from FY 2012 reviewed against the use of order splitting and favored vendors with no exceptions
 - c) Procurement card purchases for September, October and November, 2011 with exceptions noted in Section II of the report
- (3) Six construction contracts and three Architect/Engineer and Related Professional Service Contracts including five professional service indefinite delivery contracts for compliance with the Manual for Planning and Execution of State Permanent Improvements, Part II with no exceptions

- (4) Minority Business Enterprise Plans and reports with no exceptions noted with the following activity reported to the Governor's Office of Small and Minority Business Assistance:

<u>Fiscal Year</u>	<u>Goal</u>	<u>Actual</u>
FY08-09	\$ 1,169,520	\$46,431
FY09-10	\$ 936,820	\$80,455
FY10-11	\$ 982,374	\$162,119
FY11-12	\$1,253,287	N/A

- (5) Approval of the most recent Information Technology Plan with no exceptions
- (6) Internal procurement procedures manual with no exceptions
- (7) Surplus property disposition procedures with no exceptions
- (8) Ratification of unauthorized procurements with no exceptions
- (9) File documentation and evidence of competition with no exceptions
- (10) Other tests performed as deemed necessary with no exceptions

SUMMARY OF AUDIT FINDINGS

PAGE

I. Supplies and Services

A. Unauthorized Procurements

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In one case, DDSN issued a RFP resulting in a contract award with a total potential value of \$1,250,000 vastly exceeding its \$250,000 procurement authority. Further, DDSN was unable to provide conflict of interest and confidentiality statements, a signed bid document from the vendor and a written determination authorizing the use of a RFP.

In another case, payments totaling \$304,501.07 for linen services continued to be made to a vendor who was no longer under contract.

B. No Competition

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DDSN paid \$3,500 for catering services with no evidence of solicitations of competition. On another unrelated procurement, DDSN was unable to locate any supporting documentation for a biomedical waste removal contract in the amount of \$5,309.

II. Procurement Cards Receipts Not Signed by Cardholder

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Purchases by three cardholders included receipts which had not been signed by the cardholder.

RESULTS OF EXAMINATION

I. Supplies and Services

A. Unauthorized Procurements

DDSN issued a RFP on solicitation 80410082710 dated August 4, 2010 resulting in a contract award with a total potential value of \$1,250,000 over a five-year period to provide Medical Supplies and Billing Services for Eligible Medicare Part B Durable Medical Equipment, Prosthetics, Orthotics and Supplies (DMEPOS) to Eligible Medicare Part B consumers. Since DDSN's authority to award such contracts was limited to its Supplies and Services certification of \$250,000, DDSN vastly exceeded its procurement authority.

Section 11-35-1210, Certification, provides in part, (1) Authority, The board may assign differential dollar limits below which individual governmental bodies may make direct procurements not under term contracts. The Board certified DDSN in supplies and services procurements up to \$250,000. Procurements above the certification limits must be submitted to the chief procurement officer for processing.

Further, DDSN was unable to provide: (1) conflict of interest and confidentiality statements from the evaluators, (2) a signed offer from the awarded offeror, and (3) a written determination authorizing the use of a RFP over a competitive sealed bid.

Section 11-35-2430 of the Code requires in part, "All procurement records of governmental bodies shall be retained and disposed of in accordance with records retention guidelines and schedules approved by the Department of Archives and History after consultation with the Attorney General. All retained documents shall be made available to the Attorney General or a designee upon request and proper receipt therefor (sic)." Regulation 19-445.2005 (B) states, "Each governmental body must maintain procurement files sufficient to satisfy the requirements of external audit."

We recommend DDSN submit this contract for ratification to the Chief Procurement Officer in accordance with Regulation 19-445.2015. Further, DDSN must comply with the Code relating to the award of contracts and retention of procurement files.

Payments for linen services continued to be made to a vendor who was no longer under contract. DDSN awarded solicitation 4-1007-07 for linen services for the period February 1, 2007 through January 31, 2008 with the option to extend for two, one year periods finally expiring on January 31, 2010. However, DDSN continued paying this vendor under the expired contract until a new solicitation was issued in January, 2012. DDSN issued PO 4600103041 in the amount of \$163,000 for the period July 1, 2011 through June 30, 2012 against the expired contract. Expenditures for the period March 2010 through January 2012, under this expired contract totaled \$304,501.07 without any competition being obtained.

We recommend to prevent the purchase of services from expired contracts, that the statement of award include enough information for anyone to determine the total potential contract value. Ratification for the expenditures made after the contract expired will have to be requested in accordance with Regulation 19-445.2015 from the chief procurement officer.

B. No Competition

A procurement for catering services at the Coastal Center was not supported by evidence of solicitations of competition. DDSN paid \$3,500 on March 29, 2011 through a direct expenditure voucher (DEV). This type of direct expenditure is not one of the approved categories listed for DEV's in Chapter 3. 1. A. of DDSN's policies and procedures manual.

On another unrelated procurement, DDSN procured a biomedical waste removal contract authorized on PO4600108776 dated July 21, 2011 in the amount of \$5,309 at the Pee Dee Center without competition.

Section 11-35-1550 (2) of the Code requires solicitations of written quotes from a minimum of three qualified sources of supply for a small purchase over two thousand five hundred dollars but not in excess of ten thousand dollars.

We recommend DDSN comply with the competition requirements of the Procurement Code. DEVs must comply with DEV procedures in DDSN's policies and procedures manual.

II. Procurement Card Receipts Not Signed by Cardholder

We reviewed procurement card activity for September, October, and November, 2011. Purchases by three cardholders included receipts which had not been signed by the cardholder. Page 16 of the DDSN Purchasing Card Policy and Cardholders' Guide, Reconciliation Process-Item 1, states in part, "Cardholder will turn-in the signed Visa receipt and their (sic) State Visa Purchasing Card Form to their (sic) local purchasing department daily."

We recommend that all procurement card receipts be signed by cardholders prior to submission to the Purchasing Department as required by DDSN's Internal Purchasing Card Policy and Cardholders' Guide.

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 DDSN in compliance with the South Carolina Consolidated Procurement Code.

Under the authority described in Section 11-35-1210 of the Procurement Code, subject to this corrective action, we will recommend that DDSN be certified to make direct agency procurements for three years up to the following limits.

<u>PROCUREMENT AREAS</u>	<u>CERTIFICATION LIMITS</u>
Pharmaceutical Drugs	*\$1,000,000 per commitment
Pharmaceutical Services	*\$1,000,000 per commitment
Supplies and Services	*\$ 250,000 per commitment
Consultant Services	*\$ 250,000 per commitment
Information Technology	*\$ 100,000 per commitment
Construction Contract Award	\$ 500,000 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.



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April 11, 2013

Mr. Jimmy Aycock, IV
Manager Audit and Certification
Procurement Services Division
1201 Main Street Suite 600
Columbia, SC 29201

Reference: Audit Acceptance

Mr. Aycock,

The South Carolina Department of Disabilities and Special Needs (DDSN) concur with all your points addressed in the audit report. The agency has learned from the audit and will move forward from here. We understand the need to be as accurate as possible and show accountability when spending taxpayer dollars. As always, thanks for the guidance and assistance in helping us to "procure it the right way".

Sincerely,

A handwritten signature in black ink, appearing to read "Allen Mance, Jr.", is written over a horizontal line.

Allen Mance, Jr., CPPB
Director Procurement Services

cc: Tom Waring
Latitia Trezevant

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April 19, 2013

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

Dear Voight:

We have reviewed the response from the South Carolina Department of Disabilities and Special Needs to our audit report for the period of April 1, 2008 through December 31, 2011. We have followed-up on DDSN's corrective action during and subsequent to our fieldwork.

Therefore, we recommend the Budget and Control Board grant DDSN the certification limits noted in our report for a period of three years.

Sincerely,

Robert J. Aycock, IV, Manager
Audit and Certification

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