

**SOUTH CAROLINA**  
**VOCATIONAL REHABILITATION DEPARTMENT**  
**PROCUREMENT AUDIT REPORT**  
**JULY 1, 2005 – SEPTEMBER 30, 2008**

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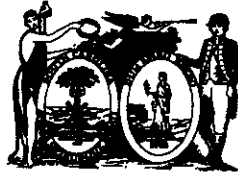
**NOTE:** The Department's responses to issues noted in this report have been inserted immediately following the items they refer to.

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*State Budget and Control Board*  
PROCUREMENT SERVICES DIVISION

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R. VOIGHT SHEALY  
MATERIALS MANAGEMENT OFFICER

March 18, 2009

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 Vocational Rehabilitation Department for the period July 1, 2005 through September 30, 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 was used to establish a basis for reliance upon the system of internal control to assure adherence to the South Carolina 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 recorded properly.

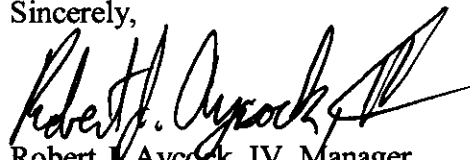
Because of inherent limitations in any system of internal control, errors or irregularities may occur and not be detected. Also, projection of any evaluation of the system to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or that the degree 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 Vocational Rehabilitation Department in compliance with the South Carolina Consolidated Procurement Code and ensuing regulations.

Sincerely,



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 Vocational Rehabilitation Department. Our on-site review was conducted November 19, 2008 through January 8, 2009 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 Operating Procedures Manual, were in compliance with the South Carolina Consolidated Procurement Code and ensuing regulations.

On January 24, 2006, the Budget and Control Board granted the South Carolina Vocational Rehabilitation Department the following procurement certifications:

<u>PROCUREMENT AREAS</u>	<u>CERTIFICATION LIMITS</u>
Goods and Services	\$ 50,000 per commitment
Case Service Funds	\$ 50,000 per commitment
Consultant Services	\$ 50,000 per commitment
Information Technology	\$ 50,000 per commitment
Construction Contract Award	\$ 50,000 per commitment
Construction Contract Change Order	\$ 25,000 per change order

Our audit was performed primarily to determine if recertification is warranted. Additionally, the South Carolina Vocational Rehabilitation Department requested the following increased certifications.

PROCUREMENT AREA

CERTIFICATION LIMITS

Supplies and Services

\*\$ 100,000 per commitment

Information Technology

\*\$ 100,000 per commitment

Construction Contract Award

\$ 100,000 per commitment

Construction Contract Change Order

\$ 50,000 per change order

Architect/Engineer Contract Amendment

\$ 15,000 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 Vocational Rehabilitation Department, hereinafter referred to as the 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 for the period July 1, 2005 through September 30, 2008 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 July 1, 2005 through September 30, 2008 with exceptions noted in Section I of the report
- (2) Procurement transactions for July 1, 2005 through September 30, 2008 as follows:
  - a) Eighty-six payments each exceeding \$2,500 with exceptions noted in Section II of the report
  - b) A block sample of five hundred sequential purchase orders from FY 2008 reviewed against the use of order splitting and favored vendors with no exceptions
  - c) Procurement card purchases for April, July and November 2007 with no exceptions
- (3) Four construction contracts and eight professional service 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 for the period July 1, 2005 through June 30, 2008 with no exceptions. The chart below contains the Department's annual goals and actual activity reported to The Governor's Office of Small and Minority Business Assistance.

<u>Fiscal Year Ending</u>	<u>MBE Annual Utilization Goals</u>	<u>Actual Utilization</u>
2006	\$ 185,199	\$ 43,783
2007	\$1,131,409	\$ 89,275
2008	\$1,298,984	\$626,429

- (5) Approval of the most recent Information Technology Plan with no exceptions.
- (6) Internal procurement procedures manual with no exceptions
- (7) Surplus property disposal procedures with no exceptions
- (8) File documentation and evidence of competition



## **SUMMARY OF AUDIT FINDINGS**

### **I. Sole Source, Emergency and Trade-in Sale Procurements**

#### **A. Inappropriate Sole Source Procurements**

Our review of sole source procurements for the audit period determined that hearing aid and prosthetic devices for clients were being declared sole source procurements from different vendors.

#### **B. Sole Sources Not Reported to MMO**

Our testing identified seven sole source procurements that were not reported to the Chief Procurement Officers.

### **II. Supplies and Services Procurements**

#### **A. Inadequate Separation of Duties**

Our audit identified procurements that were requested, authorized and approved for payment by the Department's Procurement Office.

#### **B. Procurement Not Competed**

A procurement identified by the Department as a grant, was not supported by solicitations of competition.

## RESULTS OF EXAMINATION

### I. Sole Source, Emergency and Trade-in Sale Procurements

We tested sole source and emergency procurements made pursuant to Sections 11-35-1560 (Sole Source Procurements) and 11-35-1570 (Emergency Procurements) and section 11-35-3830 (Trade-in Sale Procurements) to determine the appropriateness of the procurement actions and the accuracy of the quarterly reports submitted to the chief procurement officers required by Section 11-35-2440. We noted the following exceptions:

#### A. Inappropriate Sole Source Procurements

Our review of sole source procurements for the audit period determined that hearing aid devices and prosthetic devices for clients were being declared sole source procurements. Although not documented, the Department based its declaration on efforts to provide clients access to local medical services and facilities while minimizing travel demands on those clients resulting in a number of different vendors receiving sole source contracts for the same devices and services. In some cases, follow up visits to medical facilities were required for equipment adjustments and further testing. The total amount reported as sole sources for the period 7/1/05 through 9/30/08 was \$1,494,936.03. The Procurement Code does not provide a provision that allows local access and minimal travel time to reach facilities as an adequate determination to restrict competition.

<u>Period</u>	<u>Description</u>	<u>Amount Reported as Sole Source</u>
07/01/05-09/30/05	Hearing Aids	\$ 140,484
	Prosthetic Devices	\$ 71,011
10/01/05-12/31/05	Hearing Aids	\$ 138,974
	Prosthetic Devices	\$ 110,739
01/01/06-03/31/06	Hearing Aids	\$ 135,979
	Prosthetic Devices	\$ 72,941
04/01/06-06/30/06	Hearing Aids	\$ 105,960
	Prosthetic Devices	\$ 59,079
07/01/06-09/30/06	Hearing Aids	0*
	Prosthetic Devices	\$ 40,717
10/01/06-12/31/06	Hearing Aids	\$ 3,290
	Prosthetic Devices	\$ 92,236
01/01/07-03/31/07	Hearing Aids	0*
	Prosthetic Devices	\$ 50,034
04/01/07-06/30/07	Hearing Aids	0*
	Prosthetic Devices	\$ 73,827
07/01/07-09/30/07	Hearing Aids	\$ 3,000
	Prosthetic Devices	\$ 25,630
10/01/07-12/31/07	Hearing Aids	0*
	Prosthetic Devices	\$ 53,274
01/01/08-03/31/08	Hearing Aids	0*
	Prosthetic Devices	\$ 100,407
04/01/08-06/30/08	Hearing Aids	0*
	Prosthetic Devices	\$ 115,084
07/01/08-09/30/08	Hearing Aids	0*
	Prosthetic Devices	<u>\$ 102,261</u>
Total		\$1,494,936

\*Prior to June 13, 2006, procurements exceeding \$1,500 required competition. Since that time competition begins at \$2,500. Currently, the Department pays \$1,650 each for the majority of hearing aid devices.

Section 11-35-1560 of the South Carolina Procurement 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 a 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. In cases of reasonable doubt, competition must be solicited.”

We recommend the Department discontinue declaring the purchase of hearing aid and prosthetic devices as sole sources and contact the Materials Management Office (MMO) of the Budget and Control Board for assistance in identifying methods for procuring these items such as Fixed Price Bidding.

#### DEPARTMENT RESPONSE

We have contacted John Stevens at MMO and we are working on a way to be able to procure prosthetics and hearing aids over \$2500 that will satisfy our client’s right to choice and to have the provider from their local area for repair and adjustment services.

One procurement inappropriately made as a sole source based the written determination on the fact that teachers were trained on a particular software and its continued use would allow a smooth transition and prevent retraining. Familiarity with software by users is not a permissible reason for declaring a sole source procurement.

<u>PO</u>	<u>Date</u>	<u>Description</u>	<u>Amount</u>
08-11799	01/22/08	Web Program	\$6,000

Per Regulation 19-445-2105, a sole source procurement is not permissible unless it is a unique item and only one supplier. Circumstances that could necessitate sole source procurements include 1) where the compatibility of equipment, accessories, or replacement parts

is the paramount consideration; 2) where a sole supplier's item is needed for trial use or testing and 3) where the item is one of a kind.

We recommend that competition be solicited in accordance with the Procurement Code.

**B. Sole Sources not Reported to MMO**

The following sole source procurements were not reported to the MMO.

<u>PO</u>	<u>Date</u>	<u>Description</u>	<u>Amount</u>
OA0910031	09/30/08	Signage	\$ 4,072
OA0910914	09/18/08	Independent Living Services	\$87,000
OA0923007	07/22/08	Employment Services	\$40,000
OA0923006	10/16/08	Independent Living Services	\$17,190
CHA-08111988	08/17/07	Speech Generating Device	\$ 9,869
08-11799	01/22/08	Web Program	\$ 6,000
08-12030	02/08/08	Transitional Employment Service	\$15,000

Section 11-35-2440 requires a governmental body to submit a quarterly record of all sole source and emergency contracts to the chief procurement officers.

We recommend the Department submit amended reports to the MMO.

**DEPARTMENT RESPONSE**

Amended activity reports have been submitted to correct the reporting errors.

**II. Supplies and Services Procurements**

**A. Inadequate Separation of Duties**

Our audit identified procurements that were requested, authorized and approved for payment by the Department's Procurement Office.

<u>Paid Date</u>	<u>Description</u>	<u>PO #</u>	<u>Amount</u>
06/28/07	Assembly Unit	OA0711985	\$13,256
04/10/07	Vertical Baler	OA0712141	\$ 6,660
08/24/07	Vehicle	OA0810438	\$19,421
03/07/08	Fitness Equipment	OA0811400	\$ 4,570
05/12/08	Tables	OA0811853	\$ 4,733
03/26/08	Notcher	OA0811946	\$ 9,950
06/06/08	Chairs	OA0813063	\$ 2,551
12/19/06	L-Sealer	OA0711219	\$ 4,725
10/11/06	Portable Radios	OA0710683	\$ 3,080
09/30/08	Signage	OA0910031	\$ 4,072
07/14/08	Defibrillators	OA0813209	\$49,275
03/02/08	Conveyer	OA0711522	\$ 6,147
10/23/07	Pallet Jack	OA0810435	\$ 4,383
06/04/08	Desk/Files	OA0812660	\$10,700
02/19/08	Pallet Jack	OA0811351	\$ 4,383
02/13/08	Pad Transfer Machine	OA0811434	\$ 5,400

Good internal controls dictate that adequate separation of duties exist between procurements and approval of payments. This separation helps ensure independent reviews of different steps in the procurement process.

We recommend that adequate separation of duties exist between procurements and approval of payments.

#### DEPARTMENT RESPONSE

Policy and procedural changes have been made to document the receipt of items by the field offices is required before paying a bill. The person approving the PO will not be the same person that recognizes receipt.

**B. Procurement not Competed**

A procurement identified by the Department as a grant, was not supported by solicitations of competition.

<u>Paid Date</u>	<u>Description</u>	<u>PO #</u>	<u>Amount</u>
10/17/06	Distribution of SCVRD Public Information	OA0710191	\$25,000

The procurement provided for the distribution of South Carolina Vocational Rehabilitation Department (SCVRD) public information materials to increase the number of applicants for SCVRD services to individuals living with spinal cord injury. Section 11-35-310 (19) of the Procurement Code states,

“Grant” means the furnishing by the State or the United States government of assistance, whether financial or otherwise, to a person to support a program authorized by law. It does not include an award, the primary purpose of which is to procure specified end products, whether in the form of supplies, services, information technology, or construction. A contract resulting from such an award must not be considered a grant but a procurement contract.

Based on the Procurement Code’s definition of a grant, the procurement for services to distribute public information materials did not qualify as such and should have been competed.

We recommend that future procurements for services of this nature be competed in accordance with the competitive procedures of the Procurement Code.

**DEPARTMENT RESPONSE**

Procurements for grant funding will be properly competed.

**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 Vocational Rehabilitation Department in compliance with the Consolidated Procurement Code.

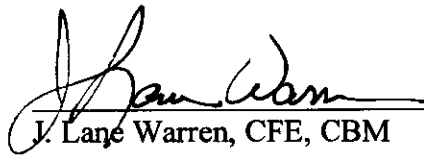
Under the authority described in Section 11-35-1210 of the Procurement Code, subject to this corrective action, we will recommend the South Carolina Vocational Rehabilitation Department be re-certified to make direct agency procurements for three years up to the following limits.


**PROCUREMENT AREAS**

**CERTIFICATION LIMITS**

Supplies and Services	*\$ 100,000 per commitment
Information Technology	*\$ 100,000 per commitment
Construction Contract Award	\$ 100,000 per commitment
Construction Contract Change Order	\$ 50,000 per change order
Architect/Engineer Contract Amendment	\$ 15,000 per amendment

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

  
\_\_\_\_\_  
J. Lane Warren, CFE, CBM  
Audit Manager

  
\_\_\_\_\_  
Robert J. Aycock, IV, Manager  
Audit and Certification

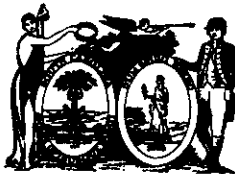


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R. VOIGHT SHEALY  
MATERIALS MANAGEMENT OFFICER

June 1, 2009

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 July 1, 2005 to September 30, 2008. 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 black ink, appearing to read 'Robert J. Aycock IV'.

Robert J. Aycock IV, Manager  
Audit and Certification

RJA/gs

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Unit Cost	<u>\$ .67</u>
Total Cost	<u>\$7.37</u>