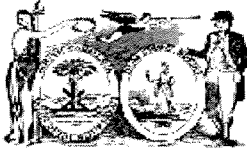


STATE OF SOUTH CAROLINA  
*State Budget and Control Board*  
PROCUREMENT SERVICES DIVISION

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GOVERNOR

GRADY L. PATTERSON, JR.  
STATE TREASURER

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MATERIALS MANAGEMENT OFFICE  
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COLUMBIA, SOUTH CAROLINA 29201  
(803) 737-0600  
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R. VOIGHT SHEALY  
MATERIALS MANAGEMENT OFFICER

July 19, 2005

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

Dear Delbert:

I have attached the 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 Department of Disabilities and Special Needs 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**  
**DEPARTMENT OF DISABILITIES AND SPECIAL NEEDS**  
**PROCUREMENT AUDIT REPORT**  
**APRIL 1, 2002 – MARCH 31, 2005**

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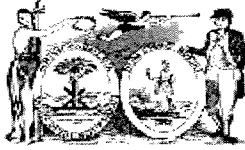
NOTE: The Department's responses to issues noted in this report have been inserted immediately following the items they refer to.

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R. VOIGHT SHEALY  
MATERIALS MANAGEMENT OFFICER

July 14, 2005

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 Department of Disabilities and Special Needs for the period April 1, 2002 through March 31, 2005. 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 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, assurances 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 conditions enumerated in this report that we believe need correction or improvement by the South Carolina Department of Disabilities and Special Needs. 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 on-site review was conducted April 22, 2005 through June 1, 2005 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 procurement system's internal controls 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 its ensuing regulations.

On August 13, 2002, the 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
Goods and Services	\$ 100,000 per commitment
Consultant Services	\$ 100,000 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 requested the following increased certification.

<u>PROCUREMENT AREAS</u>	<u>CERTIFICATION LIMITS</u>
Pharmaceutical Drugs	\$1,000,000 total annual contracts
Pharmaceutical Services	\$1,000,000 total annual contracts

PROCUREMENT AREAS

CERTIFICATION LIMITS

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

## 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 a judgmental sample for the period April 1, 2002 through March 31, 2005 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, 2002 through December 31, 2004
- (2) Procurement transactions for the period April 1, 2002 through March 31, 2005 as follows:
  - a) Ninety-eight payments each exceeding \$1,500
  - b) A block sample of one-hundred ninety-one numerical purchase orders
  - c) Procurement card transactions for the months of August, September and October of 2003
- (3) Thirteen construction contracts and four 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
- (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



## SUMMARY OF AUDIT FINDINGS

Our audit of the procurement system of the South Carolina Department of Disabilities and Special Needs, hereinafter referred to as the Department, produced the following findings and recommendations.

	<u>PAGE</u>
<u>Non Compliance Procurements</u>	7
Eight procurements were not supported by evidence of compliance with the Code and Regulations.	
<u>Emergency Procurements Without Competition</u>	8
Five emergency procurements were not supported by solicitations of competition.	
<u>Inappropriate Sole Source</u>	8
One procurement made as a sole source should have been competed.	
<u>Trade-in Sale Not Approved or Reported</u>	9
The Department failed to obtain trade-in approval on a commercial dishwasher.	
<u>Payment Does Not Agree to Contract</u>	9
We reviewed a payment on a medical equipment repair service contract and could not reconcile the payment with the contract.	

## RESULTS OF EXAMINATION

### Non Compliance Procurements

Eight procurements not supported by evidence of solicitations of competition, sole source or emergency procurement justifications or exempt.

<u>Item</u>	<u>PO</u>	<u>Description</u>	<u>Amount</u>
1	1100266445	Software	\$30,000
2	3100003633	Engine	7,298
3	4100070665	Bus repairs	4,850
4	1100260394	Custodial services	3,428
5	1100260514	Equipment maintenance agreement	3,934
6	1100264585	Equipment maintenance agreement	3,276
7	1100259333	Conference facilities	1,985
8	1100257343	Reconfigure office cubicles	1,916

The Department intended to process a sole source authorization to purchase a new version of an existing software system for item 1 but failed to complete the sole source process. The engine and bus repairs for items 2 and 3 began as procurements less than \$1,500 requiring no competition. However, after repairs began, the extent of the repairs proved more extensive than originally estimated. The custodial services for item 4 covered one month. The procurement resulted as a stop-gap measure from a cancelled state contract at the request of the Department while a new state contract was being competed. The Department failed to secure competition for the interim contract period that began in May of 2003 and ended in January of 2004. The total value of the interim contract was approximately \$33,297. The equipment maintenance agreements for items 5 and 6 were referred to as exemptions. However, the exemption applies to software license renewals after the software has been competitively bid. The Department failed to document exemption procedures used to exempt a procurement of conference facilities for item 7. The Department failed to solicit competition to reconfigure office cubicles for item 8.

We recommend the Department comply with the competition requirements of the Code for these types of items.

## DEPARTMENT RESPONSE

Each procurement listed was done based on the facts and understanding at the time of purchase. The Department accepts the decisions given by the auditors and have made notations on why those procurements were not in compliance. Judgment calls and previous experience were used in making the decisions at the time.

### Emergency Procurements Without Competition

Five emergencies were not supported by solicitations of competition.

<u>PO</u>	<u>Description</u>	<u>Amount</u>
3100001214	Medical supplies	\$11,489
31000000384	Medical supplies	6,515
31000000894	Medical supplies	4,557
3100000325	Bread products	4,000
4200060515	Bread products	4,000

Section 11-35-1570 of the Code states in part

Notwithstanding any other provision of this code, the chief procurement officer, the head of a purchasing agency, or a designee of either officer may make or authorize others to make emergency procurements only when there exists a threat to public health, welfare critical economy and efficiency or safety under emergency conditions as defined in regulations promulgated by the Board provided that such emergency procurements shall be made with as much competition as is practicable under the circumstances.

While we do not question the emergency conditions, we believe that at least informal solicitations of competition should have been made.

We recommend the Department solicit at least informal solicitations of competition under emergency conditions when time allows.

## DEPARTMENT RESPONSE

The emergency procurements were made based on the knowledge and system the current vendors had on our requirements.

### Inappropriate Sole Source

One procurement made as a sole source should have been competed.

<u>PO</u>	<u>Description</u>	<u>Amount</u>
4100031743	Window components	\$14,730

Section 11-35-1560 of the Code allows sole source procurements where there exists a unique item available from a single supply. The window components come from a particular manufacturer; however, the components could be competed among a dealer network.

We recommend the Department solicit competition for this type item.

#### DEPARTMENT RESPONSE

The Department agrees that the procurement of the window components could have been solicited from dealers and will comply with the requirement for future similar procurements.

#### Trade-in Sale Not Approved or Reported

The Department procured a commercial grade dishwasher on purchase order 4100018232 in the amount of \$35,136. The solicitation and award included a provision for the removal and disposal of the old dishwasher. Section 11-35-3830 of the Code defines the criteria for trade-in sales including the approval requirements and the quarterly reporting to the Materials Management Office (MMO) of trade-in sales. Regulation 19-445.2150 (G) requires that trade-in sales with an original unit cost exceeding \$5,000 be referred to the Materials Management Office, the ITMO or a designee of either office for disposition. The Department did not submit a request for the approval nor was the trade-in reported to MMO.

We recommend the Department comply with the Code and Regulation for trade-in sales.

#### DEPARTMENT RESPONSE

All purchases for replacement equipment will be screened for trade-in status.

#### Payment Does Not Agree to Contract

We reviewed a payment on a medical equipment repair service contract and could not reconcile the payment with the contract. The contract required the vendor to invoice labor at \$45 per hour and parts at cost plus 25% for parts. The labor rate on the invoice was \$52.09 and the vendor did not show cost and the corresponding mark up on parts. Since the contract period covers five years, overpayments could be significant.

We recommend the Department review all of the invoices and require the vendor to supply cost information. Payments that can not be reconciled to contract terms should not be made.

DEPARTMENT RESPONSE

All payments will be reconciled before sending invoices to Accounts Payable for payment. Delivery receipts will insure payment matches goods and/or services received.

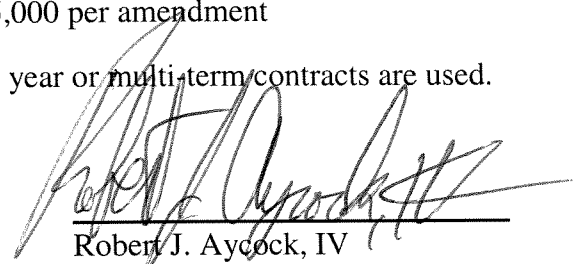
**CERTIFICATION RECOMMENDATIONS**

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
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

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



Robert J. Aycock, IV  
Audit Manager



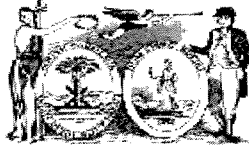
Larry G. Sorrell, Manager  
Audit and Certification

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R. VOIGHT SHEALY  
MATERIALS MANAGEMENT OFFICER

July 19, 2005


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 Department of Disabilities and Special Needs to our audit report for the period of April 1, 2002 – March 31, 2005. Also we have followed the Department's corrective action during and subsequent to our fieldwork. We are satisfied that the South Carolina 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 South Carolina Department of Disabilities and Special Needs the certification limits noted in our report for a period of three years.

Sincerely,

  
Larry G. Sorrell, Manager  
Audit and Certification

LGS/jl

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