

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

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R. VOIGHT SHEALY  
MATERIALS MANAGEMENT OFFICER

June 28, 2002

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 South Carolina Disabilities and Special Need'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 Disabilities and Special Needs a three-year certification as noted in the audit report.

Sincerely,

A handwritten signature in black ink that reads "Voight Shealy".

R. Voight Shealy  
Materials Management Officer

/jl

**SOUTH CAROLINA DEPARTMENT OF  
DISABILITIES AND SPECIAL NEEDS  
PROCUREMENT AUDIT REPORT  
JULY 1, 1999 - MARCH 31, 2002**

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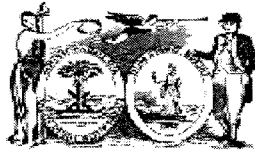
NOTE: The Department's responses to issues noted in this report have been inserted immediately following the items they refer to.

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R. VOIGHT SHEALY  
MATERIALS MANAGEMENT OFFICER

May 30, 2002

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 July 1, 1999 through March 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 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 internal 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 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 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 Department of Disabilities and Special Needs in compliance with the South Carolina 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 Department of Disabilities and Special Needs. Our review was conducted April 8 through 25, 2002 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.

Section 11-35-1210 of the South Carolina Consolidated Procurement Code states:

The (Budget and Control) Board may assign differential dollar limits below which individual governmental bodies may make direct procurements not under term contracts. The Office of General Services shall review the respective governmental body's internal procurement operation, shall verify in writing that it is consistent with the provisions of this code and the ensuing regulations, and recommend to the Board those dollar limits for the respective governmental body's procurement not under term contract.

On January 27, 2000, the Budget and Control Board granted The Department of Disabilities and Special Needs the following procurement certifications.

<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	\$ 100,000 per commitment
Information Technology	\$ 100,000 per commitment
Consultant Services	\$ 100,000 per commitment
Construction Contract Award	\$ 250,000 per commitment
Construction Contract Change Order	\$ 50,000 per change order
Architect/Engineer Contract Amendment	\$ 25,000 per amendment

Our audit was performed primarily to determine if re-certification is warranted. The Department of Disabilities and Special Needs requested an increase to a level IV construction

certification as outlined in the Manual for Planning and Execution of State Permanent Improvements as follows.

PROCUREMENT AREAS

RECOMMENDED CERTIFICATION LIMITS

Construction Contract Award	\$ 250,000 per commitment
Construction Contract Change Order	\$ 250,000 per change order
Architect/Engineer 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 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 judgmental samples for the period July 1, 1999 through March 31, 2002 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, 1999 through March 31, 2002
- (2) Procurement transactions for the period July 1, 1999 through March 31, 2002 as follows:
  - a) One hundred twelve payments each exceeding \$1,500
  - b) A block sample of two hundred twenty-three sequential purchase orders reviewed for order splitting and favored vendors
  - c) Additional sample of seventeen solicitations
  - d) All procurement card transactions for the July and August of 2001
- (3) Fifteen construction contracts and four professional service contracts for compliance with the Manual for Planning and Execution of State Permanent Improvements
- (4) Minority Business Enterprise Plans and reports
- (5) Information Technology Plan
- (6) Internal procurement procedures manual
- (7) Surplus property procedures
- (8) Blanket purchase agreements
- (9) File documentation and evidence of competition



## **RESULTS OF EXAMINATION**

### **Inappropriate Change Orders**

Purchase order 85603 for permanent improvement project J16-9698 included two change orders that were inappropriate. The contract, originally issued to install sprinkler heads in closets in the amount of \$22,535, was modified by adding \$42,989 in change orders that were not within the scope of the original contract. Change order number three was issued to install two new fire hydrants and replace one other fire hydrant plus add four new gate valves between the city water main and the existing backflow preventer. Change order number four added labor and material to disconnect existing fire protection piping serving the existing backflow preventer and install a valve. Competition was not sought on the change orders. With all change orders issued, the final contract value more than tripled over the initial solicitation.

We recommend change orders be limited to the scope of the original solicitation.

## **DEPARTMENT RESPONSE**

Upon reviewing the project procurement of the project in question, we concur that the change orders cited did not pertain to the original scope of work. The original scope of work was broadened due to the Fire Marshall's inspection of the original work performed under this project. DDSN's Engineering Division executed the change orders to ensure the health and safety of the clients occupying the buildings under renovation. DDSN will ensure all future change orders are directly related to the original procurement.

### **Unauthorized Contract**

The Department entered into a fire protection agreement on permanent improvement project J16-9735 at \$36,000 per year for five years for a total potential commitment of \$180,000. The contract was for annual inspection and maintenance. The Department's procurement certification limit for goods and services purchases is \$100,000 total potential commitment. However, the contract was procured through Article 9 of the Code using construction procurement procedures where the Department's certification limit is \$250,000. Since the fire protection contract is for inspection and maintenance, it does not fall under the definition of construction and should have been procured through Article 5 of the Code as goods and services, not Article 9 of the Code for construction. Because the contract exceeded the Department's

certification limit for goods and services, the contract is unauthorized as defined in Regulation 19-445.2015.

We recommend the Department properly categorize its procurements and adhere to its certification limits. The Department must request ratification of the unauthorized procurement in accordance with Regulation 19-445.2015 from the Division of Procurement Services.

**DEPARTMENT RESPONSE**

Ratification of the purchase of fire protection agreement has been submitted for approval to the Division of Procurement Services. The Department's procurements are categorized and written reminders have been passed on to staff making errors. We believe in-house training and communication will prevent future occurrences in this area.

**Minority Business Enterprise Plan**

The Department failed to prepare and submit an annual Minority Business Enterprise Plan to the Office of Small Minority Business Assistance as required by Section 11-35-5240 for the fiscal year ending June 30, 2002.

We recommend the Department comply with the requirements of the Code by preparing and submitting its annual plan.

**DEPARTMENT RESPONSE**

The Procurement Division erred in not preparing a MBE plan for the period mentioned. No intentional disregard for support of minority business was intended. We do understand that the plan is required by state law and DDSN will submit all future plans on time.

**Reporting of Sole Source and Emergency Procurements**

The Department did not report two sole source procurements and two emergency procurements.

<u>Reference</u>	<u>Description</u>	<u>Amount</u>	<u>Type</u>
PIP J16-9687	Relocate thermostats	\$ 3,308	Sole source
PO 87315	Preventive maintenance contract	10,733	Sole source
PO 310001047	Repair whirlpool tubs	16,366	Emergency
PO 310001041	Funeral service	2,530	Emergency

We recommend amended reported be filed correcting the reporting errors.

**DEPARTMENT RESPONSE**

DDSN has amended its sole source reports by adding PIP J16-9687 and PO 87315. We have also amended our emergency procurement reports by including PO 310001047 and PO310001041.

**Written Determinations Not Prepared**

The Department did not prepare the written determinations supporting the multi-term contracts on solicitations 4-882-02, 4-885-02, 1-889-02, 4-894-02, and 2-897-02 as required by Section 11-35-2030. The written determination to support request for proposal 1-902-02 as required by Section 11-35-1530(1) was not prepared.

We recommend the Department comply with the Code for multi-term solicitations and request for proposals.

**DEPARTMENT RESPONSE**

DDSN will prepare the applicable determinations in the future.

## 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 Department of Disabilities and Special Needs 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 Department of Disabilities and Special Needs be re-certified to make direct agency procurements for three years up to the limits as follows:

<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
Information Technology	\$ *100,000 per commitment
Consultant Services	\$ *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

\*The 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

June 28, 2002

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, 1999 – March 31, 2002. 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,

A handwritten signature in cursive script that reads 'Larry G. Sorrell'.

Larry G. Sorrell, Manager  
Audit and Certification

LGS/jl

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