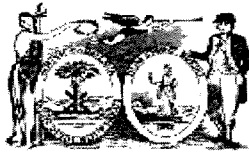


STATE OF SOUTH CAROLINA
State Budget and Control Board
PROCUREMENT SERVICES DIVISION

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R. VOIGHT SHEALY
MATERIALS MANAGEMENT OFFICER

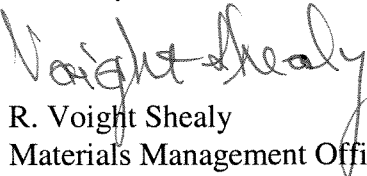
July 19, 2006

Mr. Delbert H. Singleton Jr.
Director
Procurement Services Division
6th 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 Motor Vehicles a three-year certification as noted in the audit report.

Sincerely,


R. Voight Shealy
Materials Management Officer

/gs

SOUTH CAROLINA DEPARTMENT OF MOTOR VEHICLES

PROCUREMENT AUDIT REPORT

JANUARY 1, 2004 – DECEMBER 31, 2005

TABLE OF CONTENTS

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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

April 28, 2006

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 Motor Vehicles for the period January 1, 2004 through December 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.

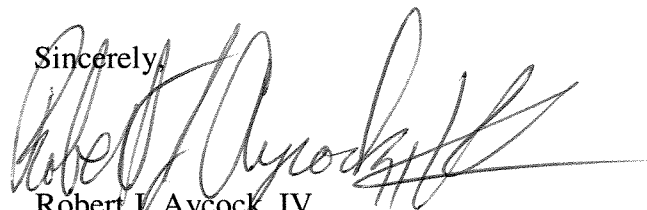
The administration of the South Carolina Department of Motor Vehicles is responsible for establishing and maintaining a system of internal control over procurement transactions. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related 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 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 Motor Vehicles. Corrective action based on the recommendations described in these findings will in all material respects place the South Carolina Department of Motor Vehicles in compliance with the Consolidated Procurement Code and ensuing regulations.

Sincerely,



Robert J. Aycock, IV
Audit Manager
Audit and Certification

INTRODUCTION

We conducted an examination of the internal procurement operating policies and procedures of the South Carolina Department of Motor Vehicles. Our on-site review was conducted February 8, 2006 through March 13, 2006 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 March 3, 2005 the Budget and Control Board granted the South Carolina Department of Motor Vehicles the following procurement certifications:

<u>PROCUREMENT AREAS</u>	<u>CERTIFICATION LIMITS</u>
Goods and Services	\$ 250,000 per commitment
Consultant Services	\$ 250,000 per commitment
Information Technology	\$ 50,000 per commitment

Our audit was performed primarily to determine if recertification is warranted. The Department requested to remain at the current certifications 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 Motor Vehicles 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 July 1, 2004 through December 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, 2004 through December 31, 2005.
- (2) Procurement transactions for July 1, 2004 through December 31, 2005 as follows:
 - a) Ninety eight payments exceeding \$1,500
 - b) A block sample of three-hundred fifty sequential purchase orders
 - c) Procurement card transactions for the months of July 2005, August 2005, and September 2005
- (3) Seven indefinite delivery 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 for the audit period
- (5) Approval of the most recent Information Technology Plan
- (6) Internal procurement procedures manual
- (7) Surplus property disposition
- (8) File documentation and evidence of competition

SUMMARY OF AUDIT FINDINGS

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

	<u>PAGE</u>
I. <u>Inappropriate Emergencies</u>	6
Two transactions reported as emergencies, we believe, were inappropriate.	
II. <u>Sole Source Reporting Errors</u>	7
Twelve sole source procurements were not included on the quarterly reports to the Materials Management Office. The sole source and emergency quarterly reports for the audit period were materially misstated.	
III. <u>Unauthorized Sole Source</u>	8
We noted one unauthorized sole source that requires ratification.	
IV. <u>Artificially Divided Procurement</u>	8
We noted four requisitions processed separately that should have been combined and processed as one procurement.	
V. <u>Low Offer Improperly Rejected</u>	9
We did not find sufficient documentation supporting rejection of a lower offer.	
VI. <u>Multi-Term Determinations</u>	9
We reviewed two multi-term procurements that were not supported by written determinations that authorized the use of multi-term contracts.	

RESULTS OF EXAMINATION

I. Inappropriate Emergencies

The following transactions procured as emergencies, we believe, were inappropriate.

<u>Reference</u>	<u>Description</u>	<u>Amount</u>
Project R40-9552	Building renovation	\$551,177
PO 05-001021	Toner	9,328

The Department declared an emergency for a building renovation after a portion of ceiling tiles collapsed in a field office on September 29, 2005 making the building uninhabitable. The Department had already anticipated the need to make major renovations to this building and had moved a temporary modular office into place in June of 2005. At the time of the ceiling tile collapse, the modular office was not ready to occupy. However, the Department was able to up-fit the modular office and only had to close the field office for two business days. Although the ceiling tile collapse advanced the time frame for occupancy of the modular office, the renovation work on a vacant building did not appear to meet the definition of an emergency.

The emergency for toner was for printers at various DMV field offices. Based on the dollar amount awarded, the Department should have been able to obtain the appropriate level of competition, three written quotes, thus not having to declare an emergency since 18 days lapsed between the emergency declaration and the issuance of the purchase order.

Additionally, neither of these emergencies was reported to the Materials Management Office as required by Code Section 11-35-2440. Amended reports adding these transactions will have to be filed.

Section 11-35-1570 of the S.C. Consolidated Procurement Code allows for emergency procurements when an immediate threat to public health, welfare, critical economy and efficiency, or safety exists.

We recommend the Department limit emergency procurements to the criteria established in 11-35-1570 and regulation 19-445.2110.

DEPARTMENT RESPONSE

We concur that these two emergencies were inappropriate and will take extra measures in the future to follow proper emergency procurement procedures in accordance with Section 11-35-1570. The associated quarterly reports for these will be amended.

II. Sole Source Reporting Errors

We noted twelve sole sources that were not included on the quarterly reports to the Materials Management Office.

<u>PO</u>	<u>Description</u>	<u>Amount</u>
000045	Services	\$ 4,108
000158	Motion detectors	14,276
260001	CDLIS	265,000
000054	Microfilm reader	8,830
260007	Maintenance	37,965
000052	Maintenance	8,216
000001	Services	11,235
000006	Microfilm reader	4,194
000016	Video cameras	51,608
260192	Dealer decals	950,000
000214	Computer system	144,852
000003	Scanners	<u>33,902</u>
	Total	<u>\$1,534,186</u>

Section 11-35-2440(1) of Code states in part, “Any governmental body as defined in Section 11-35-310(18) shall submit quarterly a record listing all contracts made under Section 11-35-1560 (Sole Source Procurement) ... to the chief procurement officers.”

We recommend the Department maintain accurate records on sole source and emergency procurement reporting. On our previous audit, we cited the Department, then the Department of Public Safety, for failing to accurately report sole source and emergency procurements. On this audit, we found the reports to be materially misstated with sole sources being 43% under reported and emergencies being 44% under reported. As a repeat finding, we insist the Department develop a tracking system that will accurately capture sole source, emergency and

trade-in sale procurements for quarterly reporting purposes. Amended reports must be submitted to the Materials Management Office correcting the errors.

DEPARTMENT RESPONSE

We concur that these sole source procurements were not reported on the appropriate quarterly reports and will set up an internal tracking system to ensure all sole source procurements and other reportable procurements are reported on future quarterly reports. The associated quarterly reports for these will be amended.

III. Unauthorized Sole Source

The Department failed to provide a sole source determination authorizing purchase order 000003 for scanners in the amount of \$33,902 thereby making the procurement unauthorized.

We recommend ratification in accordance with Regulation 19-445.2015 be requested.

DEPARTMENT RESPONSE

We concur that this sole source was not justified nor reported on the appropriate quarterly report. We will request the Executive Director ratify this procurement.

IV. Artificially Divided Procurement

We noted four requisitions processed separately and authorized by the same person that should have been combined and processed as one procurement through a competitive solicitation. No competition was solicited.

<u>Requisition</u>	<u>Description</u>	<u>Amount</u>
402777	Steel lockers	\$ 572
402778	Steel lockers	572
402779	Steel lockers	572
402780	Steel lockers	<u>572</u>
	Total	<u>\$2,288</u>

The total of the steel lockers purchased was \$2,288 requiring a minimum of three verbal solicitations. Code Section 11-35-1550(1) under small purchases states procurement requirements shall not be artificially divided by governmental bodies.

We recommend the Purchasing Office more closely examine department requisitions to ensure procurements are not artificially divided thereby circumventing the competitive process.

DEPARTMENT RESPONSE

We concur that these procurements should have been combined into one procurement, solicited for bids and not divided into four procurements. We will take extra measures to ensure proper handling of future procurements of this nature.

V. Low Offer Improperly Rejected

The Department awarded solicitation number B04-224737 for shirts, parkers, belts and tennis shoes by line item to two different vendors. Two of the line items were not awarded to the low offer. We did not find adequate documentation supporting rejection of the low offer.

Section 11-35-1710 of the Code states in part, "The reasons for rejection, supported with documentation sufficient to satisfy external audit, shall be made a part of the contract file." The bid tabulation included a couple of notes but did not clearly state the reason for rejection of the low offer.

We recommend sufficient documentation justifying rejection of low offers be made a part of the procurement file.

DEPARTMENT RESPONSE

We concur that the low bid in this procurement was not awarded as indicated. We will take extra measures to properly review bids before awards are made.

VI. Multi-Term Determinations

We reviewed two multi-term procurements that were not supported by written determinations authorizing the use of multi-term contracts.

<u>Bid Number</u>	<u>Description</u>	<u>Amount</u>
05-402657	Tactical pants and shorts	\$17,520/year (5yrs)
05-401166	Printing	6,166/year (5yrs)

Code Section 11-35-2030(2), states that prior to the utilization of a multi-term contract, it shall be determined in writing by the appropriate governmental body:

- (a) that estimated requirements cover the period of the contract and are reasonably firm and continuing;
- (b) that such a contract will serve the best interests of the State by encouraging effective competition or otherwise promoting economies in state procurement.

We recommend the Department comply with Section 11-35-2030 by preparing the written determination prior to use of a multi-term contract.

DEPARTMENT RESPONSE

We concur these two procurements did not have proper documentation justifying the need for a multi-term contract. We will take extra measures in the future to ensure proper documentation is attached to such procurements.

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 Motor Vehicles in compliance with the Consolidated Procurement Code and ensuing regulations.

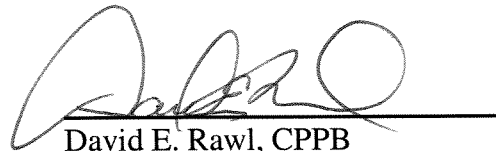
Under the authority described in Section 11-35-1210 of the Procurement Code, subject to this corrective action, we will recommend the South Carolina Department of Motor Vehicles be recertified to make direct agency procurements for three years up to the limits as follows:

PROCUREMENT AREAS

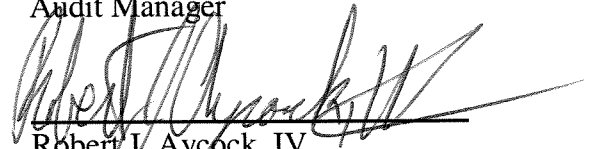
RECOMMENDED CERTIFICATION LIMITS

Goods and Services	*\$ 250,000 per commitment
Consultant Services	*\$ 250,000 per commitment
Information Technology	*\$ 50,000 per commitment

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



David E. Rawl, CPPB
Audit Manager



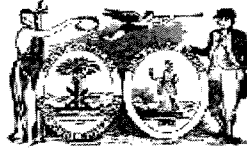
Robert J. Aycok, IV
Audit Manager
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R. VOIGHT SHEALY
MATERIALS MANAGEMENT OFFICER

July 19, 2006

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 Motor Vehicles to our audit report for the period of January 1, 2004 to December 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 Motor Vehicles 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 Motor Vehicles the certification limits noted in our report for a period of three years.

Sincerely,

A handwritten signature in black ink that reads "Robert J. Aycock, IV". The signature is written in a cursive style with a large, stylized initial 'R'.

Robert J. Aycock, IV
Audit Manager
Audit and Certification

RJA/gs

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