

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

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R. VOIGHT SHEALY
MATERIALS MANAGEMENT OFFICER

January 9, 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 Vocational Rehabilitation Department 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

/gs

SOUTH CAROLINA
VOCATIONAL REHABILITATION DEPARTMENT
PROCUREMENT AUDIT REPORT
JANUARY 1, 2003 – JUNE 30, 2005

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R. VOIGHT SHEALY
MATERIALS MANAGEMENT OFFICER

December 19, 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 Vocational Rehabilitation Department for the period January 1, 2003 through June 30, 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 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, 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 Vocational Rehabilitation Department. 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 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 Vocational Rehabilitation Department. Our on-site review was conducted July 13, 2005 through August 10, 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 April 8, 2003, 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	*\$ 25,000 per commitment
Case Service Funds	*\$ 25,000 per commitment
Consultant Services	*\$ 25,000 per commitment
Information Technology	*\$ 25,000 per commitment
Construction Contract Award	\$ 25,000 per commitment
Construction Contract Change Order	\$ 25,000 per change order

Our audit was performed primarily to determine if recertification is warranted.

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 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, 2003 through June 30, 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 January 1, 2003 through June 30, 2005
- (2) Procurement transactions for the period July 1, 2003 through June 30, 2005 as follows:
 - a) Ninety-one procurements each exceeding \$1,500
 - b) A block sample of five hundred purchase orders
 - c) Procurement card transactions for the months of January, February and March of 2005
- (3) Three construction contracts and three 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

RESULTS OF EXAMINATION

Written Sole Source Determinations Not Prepared

The Department reported the purchases of hearing aids and artificial limbs as sole source procurements. Based on discussions with Department personnel, the sole source procurements were based on medical needs of the clients and were procured from multiple suppliers with multiple brands. The Department did not prepare the written determinations, as required by Section 11-35-1560, to support the sole source procurements.

We recommend the appropriate written determinations to justify sole source procurements be prepared.

Bidder's Preference Not Applied

A request for quotation was issued on December 15, 2003 for retaining wall and asphalt paving repairs. In determining the lowest responsible and responsible bidder, the Department did not calculate the resident vendor preference, as defined in Section 11-35-1524 (D) that was claimed. The failure to calculate the preference resulted in purchase order 04-12855 in the amount of \$12,100 not being issued correctly.

We recommend the Department comply with the applicable preferences in the Code.

Unauthorized Freight and Environmental Fee Charges

We noted unauthorized charges were paid on the following transactions.

<u>PO</u>	<u>Date</u>	<u>Description</u>	<u>Freight</u>	<u>Environmental Fee</u>
04-13291	02/13/04	Window envelopes	\$301.88	
05-07144	07/01/04	Linen services		\$96.95

The unauthorized freight charge was paid on PO 04-13291 without approval from the Purchasing Office. The original quotation required the bidder to include freight and the contract was awarded on that basis. The vendor added \$301.88 freight charges to the invoice and it was paid on voucher 585789. For PO 05-07144, the vendor routinely added an environmental fee of 7% to each invoice and the charges were paid. The environmental fee was not part of the original solicitation and award. We could not determine nor could the Department identify the basis of the environmental fee of 7% and the reason for the corresponding payments of the fee.

We recommend that discrepancies between purchase orders and invoices be forwarded to the Purchasing Office for reconciliation prior to payment. We also recommend the Department determine whether the overpayments should be recovered from the vendors.

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 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 Vocational Rehabilitation Department 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>
Goods and Services (A)	*\$ 25,000 per commitment
Case Service Funds	(A)
Consultant Services	*\$ 25,000 per commitment
Information Technology	*\$ 25,000 per commitment
Construction Contract Award	\$ 25,000 per commitment
Construction Contract Change Order	\$ 25,000 per change order

(A) The certification for goods and services includes case service funds.

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



Larry G. Sorrell, Manager
Audit and Certification



*Enabling eligible South Carolinians with disabilities
to prepare for, achieve, and maintain competitive employment.*

Larry C. Bryant, Commissioner

January 4, 2006

Mr. Larry G. Sorrell, Manager
Audit and Certification
MMO – Office of Procurement Services
1201 Main Street, Suite 600
Columbia SC 29201

RE: Audit Report Draft

Mr. Sorrell:

We have reviewed the Procurement Audit Report of the South Carolina Vocational Rehabilitation Department covering the period January 1, 2003, through June 30, 2005. We concur with all the findings and are taking the following steps to address the deficiencies noted in the report:

1. Written Sole Source Determinations not prepared: We will prepare written Sole Source Determinations to justify all sole source procurements.
2. Bidder's Preference not applied: We will accurately compute the bidder's preferences on future procurements.
3. Unauthorized Freight and Environmental Fee Charges: We will take steps to ensure strict adherence to amount of bids.

We would also like to express our appreciation for the professional and helpful manner in which this audit was conducted. The staff at MMO has always provided exceptional service to this Agency, and we consider them a partner in helping us comply with all aspects of the procurement code.

Sincerely,

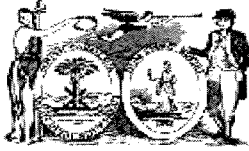
Larry C. Bryant
Commissioner

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R. VOIGHT SHEALY
MATERIALS MANAGEMENT OFFICER

January 9, 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 Vocational Rehabilitation Department to our audit report for the period of January 1, 2003 to June 30, 2005. 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,

Handwritten signature of Larry G. Sorrell in cursive.

Larry G. Sorrell, Manager
Audit and Certification

LGS/gs

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