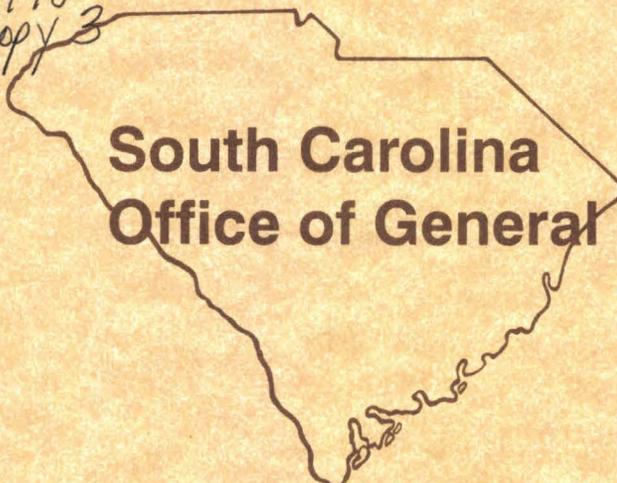


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PROCUREMENT AUDIT AND CERTIFICATION

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SOUTH CAROLINA VOCATIONAL
REHABILITATION DEPARTMENT

AGENCY

JANUARY 1, 1995 - DECEMBER 31, 1997

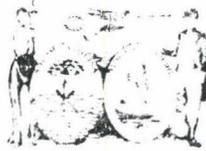
DATE

STATE OF SOUTH CAROLINA
State Budget and Control Board
OFFICE OF GENERAL SERVICES

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GOVERNOR

RICHARD A. ECKSTROM
STATE TREASURER

EARLE E. MORRIS, JR.
COMPTROLLER GENERAL



HELEN T. ZEIGLER
DIRECTOR

MATERIALS MANAGEMENT OFFICE
1201 MAIN STREET, SUITE 600
COLUMBIA, SOUTH CAROLINA 29201
(803) 737-0600
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VOIGHT SHEALY
ASSISTANT DIRECTOR

March 18, 1998

JOHN DRUMMOND
CHAIRMAN, SENATE FINANCE COMMITTEE

HENRY E. BROWN, JR.
CHAIRMAN, WAYS AND MEANS COMMITTEE

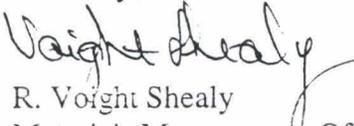
LUTHER F. CARTER
EXECUTIVE DIRECTOR

Ms. Helen T. Zeigler, Director
Office of General Services
1201 Main Street, Suite 420
Columbia, South Carolina 29201

Dear Helen:

I have attached the South Carolina Vocational Rehabilitation 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 Department a two year certification as noted in the audit report.

Sincerely,


R. Voight Shealy
Materials Management Officer

/tl

SOUTH CAROLINA DEPARTMENT VOCATIONAL REHABILITATION

PROCUREMENT AUDIT REPORT

JANUARY 1, 1995 - DECEMBER 31, 1997

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State Budget and Control Board
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VOIGHT SHEALY
ASSISTANT DIRECTOR

March 5, 1998

JOHN DRUMMOND
CHAIRMAN, SENATE FINANCE COMMITTEE

HENRY E. BROWN, JR.
CHAIRMAN, WAYS AND MEANS COMMITTEE

LUTHER F. CARTER
EXECUTIVE DIRECTOR

Mr. R Voight Shealy
Materials Management Officer
Office of General 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, 1995 through December 31, 1997. 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 ensure adherence to the Consolidated Procurement Code and Department 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 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.

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 review was conducted December 15, 1997 through January 8, 1998, 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 materials respects, the procurement system's internal controls were adequate and the procurement procedures, as outlined in the internal Procurement Operating Procedure Manual, were in compliance with the South Carolina Consolidated Procurement Code and its ensuing regulations.

Additionally, our work was directed toward assisting the South Carolina Vocational Rehabilitation Department in promoting the underlying purposes and policies of the Code as outlined in Section 11-35-20, which include:

- (1) to ensure the fair and equitable treatment of all persons who deal with the procurement system of this State
- (2) to provide increased economy in state procurement activities and to maximize to the fullest extent practicable the purchasing value of funds of the State
- (3) to provide safeguards for the maintenance of a procurement system of quality and integrity with clearly defined rules for ethical behavior on the part of all persons engaged in the public procurement process

BACKGROUND

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 is consistent with the provisions of this code and the ensuing regulations, and recommend to the Board those dollar limits for the respective government body's procurement not under term contract.

On May 24, 1995, the Budget and Control Board granted the South Carolina Vocational Rehabilitation Department the following procurement certifications:

<u>Category</u>	<u>Limit</u>
Goods and Services	\$25,000
Consultants Services	\$25,000
Information Technology in accordance with the approved Information Technology Plan	\$25,000
Case Services Funds	\$25,000
Construction Service change orders to contracts previously approved by the State Engineer's Office	\$15,000

Our audit was performed primarily to determine if recertification is warranted. The South Carolina Vocational Rehabilitation Department requested to remain at the current certification limits.

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 January 1, 1995 through December 31, 1997, 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, 1995 - December 31, 1997
- (2) Procurement transactions for the period January 1, 1995 - December 31, 1997 as follows:
 - a) One hundred ten judgmentally selected procurement transactions
 - b) An additional sample of four sealed bids and twelve quotations
 - c) A block sample of five hundred purchase orders reviewed for order splitting and favored vendors
- (3) Five construction contracts and four related professional service selections were reviewed 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) Information technology plan and approval for the period July 1, 1995 - June 30, 1998
- (6) Internal procurement procedures manual review
- (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 Vocational Rehabilitation Department, herein after referred to as the Department, produced findings and recommendations as follows.

PAGE

I. General Procurement Exceptions

A. Splitting of Orders

Orders were split to circumvent the competitive requirements of the Code and regulations.

B. Procurement Without Competition

One procurement was not supported by competition.

II. Sole Source Procurements

A. Sole Source Reporting Errors

We noted seven transactions that were needlessly reported on the quarterly reports of sole source procurements. One sole source was not reported.

B. Drug-Free Workplace Certification

The Department did not obtain the certification for sole source procurements greater than \$50,000.

RESULTS OF EXAMINATION

I. General Procurement Exceptions

A. Splitting of Orders

The Department issued numerous purchase orders for the data processing office that should have been combined as evidenced by the dates of the purchase orders and quotes. The needs should have combined before forwarding to the procurement office. Additionally, the Department inappropriately used the same verbal quotes, as noted by the dates, to support the competitive requirements of the Code for the same items listed in items 1 through 8 and 11.

<u>Item</u>	<u>PO</u>	<u>PO Date</u>	<u>Description</u>	<u>PO Amount</u>	<u>Date of Quote</u>
1	97-14560	01/13/97	Computer system	\$2,440	01/14/97
	97-14683	01/15/97	Computer system	2,440	01/14/97
	97-14675	01/20/97	Computer system	<u>2,488</u>	01/14/97
				Total	<u>\$9,760</u>
2	97-15200	02/07/97	Computer system	\$4,889	02/05/97
	97-15356	02/10/97	Computer system	2,440	02/05/97
	97-15359	02/12/97	Computer system	3,175	02/05/97
	97-15442	02/14/97	Computer system	2,400	02/05/97
	97-15446	02/19/97	Computer system	3,600	02/05/97
	97-15495	02/21/97	Computer system	<u>3,050</u>	02/05/97
				Total	<u>\$19,554</u>
3	97-15195	02/07/97	Laser printer	\$3,894	02/05/97
	97-15353	02/10/97	Laser printer	3,894	02/05/97
	97-15363	02/12/97	Laser printer	1,947	02/05/97
	97-15439	02/14/97	Laser printer	3,894	02/05/97
	97-15444	02/19/97	Laser printer	3,894	02/05/97
	97-15566	02/21/97	Laser printer	<u>1,947</u>	02/05/97
				Total	<u>\$19,470</u>
4	97-15627	02/24/97	4 gig Hard drive	\$4,894	02/24/97
	97-15689	02/26/97	4 gig Hard drive	4,647	02/24/97
	97-15670	02/28/97	4 gig Hard drive	4,894	02/24/97
	97-15791	03/03/97	4 gig Hard drive	<u>4,894</u>	02/24/97
				Total	<u>\$19,329</u>
5	97-16201	03/19/97	Laser printer	\$2,301	03/10/97
	97-16207	03/21/97	Laser printer	1,917	03/10/97
	97-16476	03/26/97	Laser printer	1,534	03/10/97

<u>Item</u>	<u>PO</u>	<u>PO Date</u>	<u>Description</u>	<u>PO Amount</u>	<u>Date of Quote</u>
	97-16697	04/07/97	Laser printer	<u>\$3,068</u>	03/10/97
			Total	<u>\$8,820</u>	
6	97-16570	03/31/97	Laser printer	\$ 3,854	03/10/97
	97-16608	04/02/97	Laser printer	5,781	03/25/97
	97-16676	04/04/97	Laser printer	<u>9,635</u>	03/25/97
			Total	<u>\$19,270</u>	
7	97-16490	03/28/97	Motherboard	\$ 4,860	03/25/97
	97-16569	03/31/97	Computer system	1,830	03/25/97
	97-16520	05/14/97	Computer system	<u>4,520</u>	03/25/97
			Total	<u>\$11,210</u>	
8	97-17149	04/23/97	Computer system	\$2,260	04/21/97
	97-17244	04/25/97	Computer system	<u>4,520</u>	04/21/97
			Total	<u>\$6,780</u>	
9	97-17549	05/12/97	Computer system	\$1,695	05/02/97
	97-17514	05/14/97	Computer monitors	<u>4,872</u>	05/02/97
			Total	<u>\$6,567</u>	
10	97-18550	06/02/97	Base unit 28 gig	\$4,652	05/27/97
	97-18549	06/11/97	Hard drive 4 gig	<u>3,261</u>	05/27/97
			Total	<u>\$7,913</u>	
11	98-10197	07/02/97	8 Meg memory	\$4,857	06/27/97
	98-10195	07/07/97	8 Meg memory	<u>4,857</u>	06/27/97
			Total	<u>\$9,714</u>	
12	98-11038	08/08/97	Hard drive 28 gig	\$2,420	08/07/97
	98-11086	08/11/97	Hard drive 4 gig	4,820	08/07/97
	98-11141	08/13/97	Hard drive 4 gig	4,820	08/07/97
	98-11203	08/15/97	Hard drive 4 gig	4,820	08/07/97
	98-11219	08/18/97	Controller card	<u>3,650</u>	08/07/97
			Total	<u>\$20,530</u>	

The Department's certification for information technology is \$25,000. The total value of the procurements for items 5 and 6 is \$28,090, an amount that exceeds its certification, thus making the total procurement unauthorized as defined in Regulation 19-445.2015.

We recommend that Department personnel combined similar needs known at the same time into single requisitions. The procurement office can combine similar requisitions and solicit

competition based on the total value. The practice of splitting of orders must be stopped. The Department needs to consider establishing a term contract for information technology when the anticipated needs can be determined. The Commissioner must submit a request for ratification for items 5 and 6 the Materials Management Officer. The request must include each of the criteria as noted in Regulation 19-445.2015(A)(3).

B. Procurement Without Competition

Purchase order 97-10957 for \$2,872 was issued on April 26, 1996 to procure a wireless audio system. The purchase order referenced a contract that was established by the Materials Management Office (MMO) on February 3, 1995. However, the wireless audio system was not included in the contract from MMO. The Department should have solicited competition or, if applicable, justified the procurement as a sole source.

We recommend procurements be made in compliance with the Code. The Department needs to confirm that items referenced on a contract are valid.

II. Sole Source Procurements

A. Sole Source Reporting Errors

The Department unnecessarily reported seven exempt procurements as sole sources and failed to report one sole source procurement.

<u>Item</u>	<u>PO</u>	<u>Quarter Reported</u>	<u>Amount</u>	<u>Description</u>
1	96-14179	12/95	\$4,956	Software
2	96-23224	03/96	2,514	Software
3	96-23227	03/96	2,266	Software
4	96-23239	06/96	2,512	Software
5	97-23317	06/97	2,672	Software
6	97-23319	06/97	2,234	Software
7	98-23222	09/97	1,746	Software
8	96-12287	N/A	7,078	Printer cartridges

We recommend amended reports be filed to delete items 1 through 7 and add item 8.

B. Drug-Free Work Place Certification

Thirteen sole source procurements greater that \$50,000 each were not supported by the required drug-free workplace certification. Section 44-107-10 et. seq. of the South Carolina

Code of Laws requires on any contract of \$50,000 or more that the recipient certify they maintain a drug-free workplace.

We recommend the Department obtain the drug-free workplace certification on future sole source procurements that exceed \$50,000.

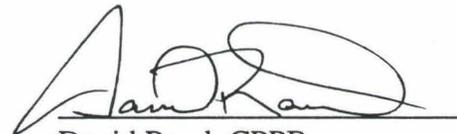
CERTIFICATION RECOMMENDATIONS

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.

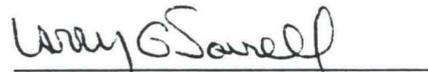
Under the authority described in Section 11-35-1210 of the Consolidated Procurement Code, subject to this corrective action, we will recommend the South Carolina Vocational Rehabilitation Department be re-certified to make direct agency procurements for two years up to the limits as follows.

<u>PROCUREMENT AREAS</u>	<u>RECOMMENDED CERTIFICATION LIMITS</u>
Goods and Services	*\$25,000
Consultants Services	*\$25,000
Information Technology	*\$25,000
Case Services Funds	*\$25,000
Construction Service change orders to contracts previously approved by the State Engineer's Office	*\$15,000

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



David Rawl, CPPB
Senior Audit



Larry G. Sorrell, Manager
Audit and Certification

South Carolina Vocational Rehabilitation Department

P. CHARLES LaROSA JR., COMMISSIONER



1410 Boston Avenue • Post Office Box 15 • West Columbia, South Carolina 29171-0015

March 17, 1998

Mr. Larry G. Sorrell
Audit and Certification
Materials Management Office
1201 Main Street, Suite 600
Columbia, South Carolina 29201

Dear Mr. Sorrell:

We have reviewed the Audit Report of the department for the period of January 1, 1995 through December 31, 1997, and concur with the findings as reported. We believe it is important to note the circumstances that led to finding "A" of your report.

During the period of the audit, the agency was involved in a project to equip all VR counselors throughout the state with computer equipment and an automated case management system. In so doing, the Information Systems Division had to procure these devices out of each location's budget and there were about 30 primary office locations. Because of the magnitude of this initiative and the budget considerations, we approached this task on a per office basis; orders for data processing equipment were grouped by office and the installation was handled on the same basis. This methodology lead to the conditions as you reported, but there was no conscious effort to split orders for any other reason than this by-office approach.

We have since given the Information Systems Division their own budget for these purposes and instituted policies that assure that all future procurements will be consistent with the intent of the procurement code. Also, steps have been taken to strengthen controls in the other areas mentioned to assure that these findings will not be repeated. We appreciate the professionalism and spirit of helpfulness demonstrated by you and your staff during this audit process.

Sincerely,

A handwritten signature in cursive script that reads "P. Charles LaRosa Jr.".

P. Charles LaRosa
Commissioner

STATE OF SOUTH CAROLINA
State Budget and Control Board
OFFICE OF GENERAL SERVICES



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VOIGHT SHEALY
ASSISTANT DIRECTOR

March 18, 1998

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, 1995 - December 31, 1997. Also we have followed the Department's corrective action during and subsequent to our field work. We are satisfied that the 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 period of two years.

Sincerely,

Handwritten signature of Larry G. Sorrell in cursive.

Larry G. Sorrell, Manager
Audit and Certification

LGS/tl

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