PROCUREMENT AUDIT AND CERTIFICATION
Mr. Tony R. Ellis  
Division Director  
Division of General Services  
300 Gervais Street  
Columbia, South Carolina 29201

Dear Tony:

Attached is the final S. C. Vocational Rehabilitation Department audit report and recommendations made by the Audit and Certification Office. I concur and recommend the Budget and Control Board grant Vocational Rehabilitation two years certification as outlined in the audit report.

Sincerely,

Richard W. Kelly  
Director of Agency Services

Attachment
S. C. VOCATIONAL REHABILITATION DEPARTMENT

AUDIT REPORT

June 22, 1984
# TABLE OF CONTENTS

<table>
<thead>
<tr>
<th>Section</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>Transmittal Letter</td>
<td>1</td>
</tr>
<tr>
<td>Introduction</td>
<td>3</td>
</tr>
<tr>
<td>Background</td>
<td>4</td>
</tr>
<tr>
<td>Scope</td>
<td>5</td>
</tr>
<tr>
<td>Summary of Audit Findings</td>
<td>7</td>
</tr>
<tr>
<td>Results of Examination</td>
<td>8</td>
</tr>
<tr>
<td>Certification Recommendations</td>
<td>15</td>
</tr>
</tbody>
</table>
June 22, 1984

Mr. Richard W. Kelly  
Director of Agency Certification and  
Engineering Management  
Columbia, South Carolina 29201

We have examined the procurement policies and procedures of S. C. Vocational Rehabilitation Department for the period July 1, 1981 - December 31, 1983. As a part of our examination, we made a study and evaluation of the system of internal control over procurement transactions to the extent we considered necessary.

The purpose of such evaluation was to establish a basis for reliance upon the system of internal control to assure adherence to the Consolidated Procurement Code and State and department procurement policy. Additionally, the evaluation was used in determining the nature, timing and extent of other auditing procedures that were necessary for developing an opinion on the adequacy, efficiency and effectiveness of the procurement system.

The administration of S. C. 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, 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 due professional care. They would not, however, because of the nature of audit testing, necessarily disclose all weaknesses in the system.

The examination did disclose conditions enumerated in this report which we believe to be subject to correction or improvement.

Corrective action based on the recommendations described in these findings will in all material respects place S. C. Vocational Rehabilitation Department in compliance with the South Carolina Consolidated Procurement Code and ensuing regulations.

R. Voight Shealy
Director of Audit and Certification
INTRODUCTION

The Audit and Certification Section conducted an examination of the internal procurement operating procedures and policies and related manual of S. C. Vocational Rehabilitation Department.

Our on-site review was conducted February 14, 1984 through March 15, 1984, and was made under the authority as described in Section 11-35-1230(1) of the South Carolina Consolidated Procurement Code and Regulation 19-445.2020.

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.
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 Materials Management Office shall review the respective governmental body's internal procurement operation, shall certify in writing that it is consistent with the provisions of the 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 March 23, 1984, S. C. Vocational Rehabilitation Department requested certification to make procurements to a maximum of $10,000 per purchase for goods and services purchased from case service funds which are specifically for handicapped clients of the department. No additional certification was requested in any other area.
SCOPE

Our examination encompassed a detailed analysis of the internal procurement operating procedures of S. C. Vocational Rehabilitation Department and the 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.

The Audit and Certification team statistically selected random samples for the period July 1, 1981 - December 31, 1983, of procurement transactions for compliance testing and performed other auditing procedures that we considered necessary in the circumstances to formulate this opinion. As specified in the Consolidated Procurement Code and related regulations, our review of the system included, but was not limited to, the following areas:

1. adherence to provisions of the South Carolina Consolidated Procurement Code and Regulations;
2. procurement staff and training;
3. adequate audit trails and purchase order registers;
4. evidences of competition;
5. small purchase provisions and purchase order confirmations;
6. emergency and sole source procurements;
7. source selections;
8. file documentation of procurements;
9. reporting of Fiscal Accountability Act;
(10) disposition of surplus property;
(11) economy and efficiency of the procurement process;
(12) Minority Business Enterprise Utilization Plan approval.
### SUMMARY OF AUDIT FINDINGS

Our audit of the procurement system of S. C. Vocational Rehabilitation Department produced findings and recommendations in the following areas:

<table>
<thead>
<tr>
<th>I. Compliance - Sole Source &amp; Emergency Procurements</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>In a review of quarterly reports, we found the majority of these transactions to be proper and accurately reported, but we did encounter some exceptions.</td>
<td>8</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>II. Review of the Procurement Procedures Manual</th>
<th>9</th>
</tr>
</thead>
<tbody>
<tr>
<td>Our review of the current manual indicated several areas that needed to be added, changed or expanded.</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>III. Transaction Control</th>
<th>11</th>
</tr>
</thead>
<tbody>
<tr>
<td>Purchase order forms should be modified in order to state terms and conditions.</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>IV. Compliance - Consultants</th>
<th>12</th>
</tr>
</thead>
<tbody>
<tr>
<td>One purchase was made from another State agency without obtaining competition.</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>V. Compliance - Goods and Services</th>
<th>12</th>
</tr>
</thead>
<tbody>
<tr>
<td>A contract for lease of equipment was not rebid at anniversary date.</td>
<td></td>
</tr>
</tbody>
</table>

-7-
RESULTS OF EXAMINATION

I.  Compliance - Sole Source & Emergency Procurements

We examined the quarterly reports of sole source and emergency procurements and all available supporting documents for the period July 31, 1981 - December 31, 1983. This review was performed to determine the appropriateness of the procurement actions taken and the accuracy of the reports submitted to the Division of General Services as required by Section 11-35-2440 of the Code. We found the majority of these transactions to be proper and accurately reported, but we did encounter the following problems:

SOLE SOURCE PROCUREMENTS

<table>
<thead>
<tr>
<th>P. O. #</th>
<th>Amount</th>
<th>Exception</th>
</tr>
</thead>
<tbody>
<tr>
<td>83-17043</td>
<td>1,190.00</td>
<td>These procurements were for pre-recorded 16mm films which are exempted from the Code and should not be reported.</td>
</tr>
<tr>
<td>83-17051</td>
<td>655.00</td>
<td></td>
</tr>
<tr>
<td>84-12025</td>
<td>1,350.50</td>
<td></td>
</tr>
<tr>
<td>83-10245</td>
<td>605.00</td>
<td>These procurements were justified as sole source procurements in the purchasing files but were never reported to the Division of General Services as required by the Code.</td>
</tr>
<tr>
<td>83-10214</td>
<td>1,664.00</td>
<td></td>
</tr>
<tr>
<td>83-11033</td>
<td>2,222.00</td>
<td></td>
</tr>
<tr>
<td>83-11688</td>
<td>631.00</td>
<td></td>
</tr>
<tr>
<td>83-11689</td>
<td>4,236.00</td>
<td></td>
</tr>
<tr>
<td>83-10240</td>
<td>740.00</td>
<td></td>
</tr>
<tr>
<td>83-13573</td>
<td>695.00</td>
<td></td>
</tr>
<tr>
<td>83-14525</td>
<td>64,950.00</td>
<td></td>
</tr>
</tbody>
</table>

EMERGENCY PROCUREMENTS

83-1582  1,034.31  This emergency purchase was not reported to General Services.

There were no sole source or emergency procurements reported for the period 07/01/81 - 12/31/81 although some were documented in the purchasing files which indicated such activity did occur.
The Case Services section is responsible for reporting sole source and emergency procurement in their area to the purchasing director. These reports are in the form of a computer printout. However, most transactions forwarded to purchasing are exempted items such as hospital or doctors services or purchases less than $500. This reporting system should be refined to eliminate such transactions. The purchasing officer should combine the sole source procurement transactions as defined in the Code from case services with those from central purchasing and report them together to General Services.

Further, we recommend that the procurement section make a more concerted effort to insure that all sole source and emergency purchases are reported.

II. Review of the Procurement Procedures Manual

S. C. Vocational Rehabilitation Department has submitted a draft copy of their Internal Procurement Operating Procedures Manual for review to determine if their written procedures are consistent with the Consolidated Procurement Code and its regulations.

Our review of the current manual revealed that the following areas need to be added, changed or expanded:

In addition to the reference to the South Carolina ethical standards, a copy of the Code of Ethics as adopted by the National Association of Purchasing Management or similar national organization should be included in the manual appendix.
An organizational chart in the appendix section of the manual would clarify further the responsibility of procurement personnel.

Most areas of the Consolidated Procurement Code have been adequately addressed in the manual through a policy statement or procedural write-up. A number of additional sections, however, need to be addressed initially, expanded and/or updated.

1. Lease/Purchase of Equipment
2. Unauthorized Procurements
3. Professional Development
4. Exempted Commodity List
5. Sample Submission
6. Property Control Procedures
7. Changes to Purchase Orders
8. Confirmation Purchases
9. Blanket Agreements/Orders (when applicable)
10. Quarterly Reporting Procedures
11. Purchasing Procedures for Case Services

Additionally, a copy of the agency's Information Technology and Minority Business Plans, along with their appropriate approvals, should be included or its location referenced in the manual.

Other Needed Minor Changes or Additions

a. References to the "Emergency Regulations" should be changed to "Permanent".

b. Clarification of the distinction between Vendor Complaints and Grievances.

c. Exhibit of Vocational Rehabilitation Purchase Order/Requisition.

d. Exhibit of Property Disposal Form.

e. Exhibit of Vendor Complaint Form.

f. Sole Source and Emergency Determination documents.
III. Transaction Control

S. C. Vocational Rehabilitation Department currently uses a purchase order form which was adopted from State Purchasing's requisition form. This form was not intended to be used as a formal purchase order.

The Department has modified the form to be used both as the requisition and as the formal purchase order. In its present form, however, we believe it does not constitute a proper contract document between the department and the vendor.

Also without the terms and conditions stated on the form, the Agency is assuming an unnecessary liability.

We believe the form will be acceptable as a formal purchase order with the below listed changes.

1. Change top right corner to read "Purchase Order number" and delete same from top left portion of form.

2. State at top center of form that it is "State of South Carolina - Purchase Order". The department name should be listed below.

3. Add terms and conditions similar to those on the state purchase order form to the reverse side of the form.

4. Mail out purchase order form to vendor when applicable.
IV. Compliance - Consultants

S. C. Vocational Rehabilitation Department commissioned a documentary film in the amount of $900 from another state agency without obtaining competitive bids. Agency management though competition between state agencies or department was not required.

Section 11-35-4830 of the Code, as amended, states: "Any public procurement unit may sell to, acquire from, or use any supplies belonging to another public procurement unit or external procurement activity in accordance with the requirements of Articles 5 and 15."

S. C. Vocational Rehabilitation Department by not soliciting competitive bids may not have obtained the best price for the service provided.

The Code states that state agencies and departments are to be treated only as another bidder or vendor and quotes or bids must be obtained in accordance with the provisions of the Code.

V. Compliance - Goods & Services

Our examination of a sample of transactions in the area of goods and services revealed the following procurement was not made in compliance with the Consolidated Procurement Code and regulations:

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
<th>Voucher #</th>
</tr>
</thead>
<tbody>
<tr>
<td>Rental of IBM OS 6/430 Information Processor</td>
<td>$1,723</td>
<td>518616</td>
</tr>
</tbody>
</table>
S. C. Vocational Rehabilitation Department considered this procurement in compliance with the Code as there was a contract in effect prior to July 31, 1981. A rubber stamp notation is on the face of the invoice as follows: "Contract in effect prior to July 31, 1981, and applicable state laws have been complied with".

This contract was entered into prior to the inception of the Consolidated Procurement Code and is basically an open end contract with no specified term. Generally, the department will "rollover" this contract from year to year without soliciting a new proposal.

Section 11-35-2030 of the Consolidated Procurement Code and regulation 19-445.2135 address the conditions for the use of multi-term contracts. Specifically, this section of the Code states in part, "Unless otherwise provided by law, a contract for supplies or services shall not be entered into for any period of more than one year unless approved in a manner prescribed by regulation of the board ...." These require that a multi-term contract determination and finding be prepared justifying why a multi-year contract is advantageous to the State, that the contract was originally solicited as a multi-year agreement and that the contract has specific guidelines for establishing charges and rate increases for subsequent years within the life of the agreement.
Further, Section 17 of the Appropriations Act for fiscal year 1983/84 requires the following:

Any contract entered into prior to July 30, 1981, by a governmental body as defined in Item (18) of Section 11-35-310 of the 1976 Code and which is proposed to be renewed must be renewed in accordance with the provisions of the South Carolina Consolidated Procurement Code (Chapter 35 of Title 11 of the 1976 Code).

This contract and others like it should be resolicited at the end of the current contract year(s).
CERTIFICATION RECOMMENDATIONS

As enumerated in our transmittal letter, corrective action based on the recommendations described in the findings contained in the body of this report, we believe, will in all material respects place S. C. Vocational Rehabilitation Department in compliance with the South Carolina 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 recommend S. C. Vocational Rehabilitation Department be certified to make direct agency procurements as follows:

Purchases made by the Director of Purchasing from Case Service funds specifically for handicapped clients in the area of vocational rehabilitative equipment of $10,000 per commitment.

All other procurements are to remain at $2,500.

Marshall B. Williams, Jr.
Audit Manager.

R. Voight Shealy
Director, Audit and Certification
Mr. Richard W. Kelly
Director of Agency Services
S. C. Budget and Control Board
Division of General Services
300 Gervais Street
Columbia, South Carolina 29201

Dear Mr. Kelly:

This letter is in response to the draft audit and certification report issued by your office. We were pleased with the audit results and have implemented the recommendations made in the audit report.

Thank you for your cooperation, as well as your staff, throughout this process.

Sincerely yours,

Joe S. Dusenbury
Commissioner

JSD/jam
February 26, 1985

Mr. Richard W. Kelly  
Director of Agency Certification  
and Engineering Management  
Columbia, South Carolina  29201  

Dear Rick:

We have returned to the South Carolina Vocational Rehabilitation Department to determine the progress made toward implementing the recommendations in our audit report covering the period of July 31, 1981 - December 31, 1983. During this visit, we followed up on each recommendation made in the audit report through inquiry, observation and limited testing.

The Audit and Certification Section observed that the Vocational Rehabilitation Department has corrected the problem areas found in the audit thus strengthening the internal controls over the procurement system. We feel that the system's internal controls are adequate to ensure that procurements are handled in compliance with the Consolidated Procurement Code and ensuing regulations.

We, therefore, recommend that the certification limits for the Vocational Rehabilitation Department, as outlined in the audit report, be granted for a period of two (2) years.

Sincerely,

R. Voight Shealy  
Director of Audit and Certification