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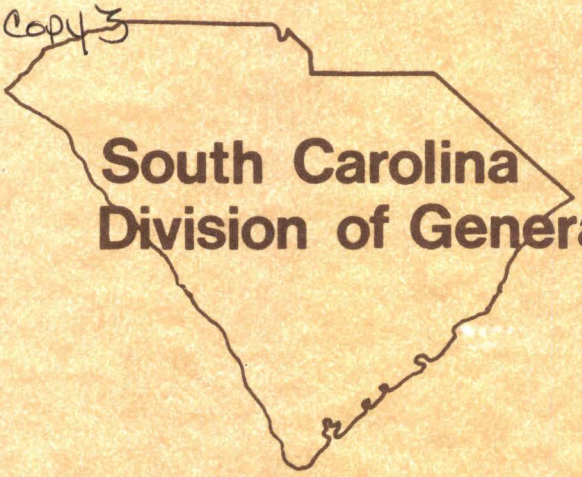

South Carolina
Division of General Services

PROCUREMENT AUDIT AND CERTIFICATION

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STATE DOCUMENTS

SOUTH CAROLINA
VOCATIONAL REHABILITATION DEPARTMENT

AGENCY

APRIL 1, 1989 - DECEMBER 31, 1991

DATE

STATE OF SOUTH CAROLINA

State Budget and Control Board

DIVISION OF GENERAL SERVICES

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RICHARD W. KELLY
DIVISION DIRECTOR

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

JAMES J. FORTH, JR.
ASSISTANT DIVISION DIRECTOR

August 3, 1992

Mr. Richard W. Kelly
Director
Division of General Services
1201 Main Street, Suite 420
Columbia, South Carolina 29201

Dear Rick:

I have attached the final Vocational Rehabilitation 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 three (3) year certification as noted in the audit report.

Sincerely,

James J. Forth, Jr.
Assistant Division Director

JJF/jlj

Attachment

SOUTH CAROLINA

VOCATIONAL REHABILITATION DEPARTMENT

PROCUREMENT AUDIT REPORT

APRIL 1, 1989 - DECEMBER 31, 1991

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JAMES J. FORTH, JR.
ASSISTANT DIVISION DIRECTOR

July 30, 1992

Mr. James J. Forth, Jr.
Assistant Division Director
Division of General Services
1201 Main Street, Suite 600
Columbia, South Carolina 29201

Dear Jim:

We have examined the procurement policies and procedures of the South Carolina Vocational Rehabilitation Department for the period April 1, 1989 - December 31, 1991. 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 and State 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 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 judgements 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 which we believe need correction or improvement.

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

R. Voight Shealy, CFE, Manager
Audit and Certification

INTRODUCTION

We conducted an examination of the internal procurement operating procedures and policies and related manual of the Vocational Rehabilitation Department. Our on-site review was conducted March 2-24, 1992, 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, hereinafter referred to as the 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 Division 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.

The Vocational Rehabilitation Department is currently certified to purchase rehabilitative equipment for handicapped clients using case service funds up to $15,000 per commitment. Also, the Department is certified for $15,000 to initiate change orders to previously approved construction contracts. The audit was scheduled to determine if recertification is warranted.

During the audit, we received a request from the Vocational Rehabilitation Department that it be recertified at the existing level. Additional certification was not requested.

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 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.

Specifically, our scope for this project included, but was not limited to, the following:

(1) All sole source and emergency procurements for the period 4/1/89 - 12/31/91

(2) A random sample of sixty expenditure transactions, each greater than $500.00 for the period 7/1/89 - 12/31/91

(3) A special review of twenty-five additional sealed bid files

(4) Block sample of five hundred purchase orders in numerical sequence

(5) Six out of thirty permanent improvement contracts for approvals and compliance with the Manual for Planning and Execution of State Permanent Improvements

(6) All purchase policies and procedures

(7) File documentation and evidence of competition

(8) Information Technology Plan approvals

(9) Minority Business Enterprise Plan approvals

(10) Disposition of surplus property

(11) Real Property Management Office approvals of leases

(12) Property management and fixed asset procedures

SUMMARY OF AUDIT FINDINGS

Our audit of the procurement system of the Vocational Rehabilitation Department, hereinafter referred to as the Department, produced findings and recommendations in the following areas:

		PAGE
I.	Compliance - Sole Source and Emergency Procurements We tested all of the Department's sole source and emergency procurements for the audit period and found the majority of them to be proper and accurately reported. However, we did note the following exceptions.	9
	A. Construction Related Emergencies Not Reported Eleven emergency procurements, subject to review by the State Engineer's Office (SEO) were not reported to the SEO.	9
	B. Construction Related Sole Source Not Reported The Department did not report to the SEO on their SE-550 form a construction sole source procurement.	10
	C. Unauthorized Sole Source Procurements The Department made two sole sources which were approved after the fact or not approved at all.	11

D. Inappropriate Sole Source 12

We disagree on the sole source procurement of a personal computer.

II. Compliance - Goods and Services, Consultants and Printing Services

A. Splitting Orders 12

Three orders could have been combined and competitively bid.

B. Printing Overages Exceeded Five Percent 13

The Department accepted and paid for printing overages which exceeded the five percent maximum allowed by the State Printing Manual.

C. Consultant Service 14

We noted one consultant contract which was not supported by competition or a sole source determination.

D. Unauthorized Procurement 14

One procurement of printing of brochures was unauthorized.

RESULTS OF EXAMINATION

I. Sole Source and Emergency Procurements

We examined the quarterly reports of sole source and emergency procurements and trade-in sales for the period April 1, 1989 through December 31, 1991. 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 noted the following problems:

A. Construction-Related Emergencies

We noted eleven emergencies which were subject to the State Engineer's Office (SEO) review that were not reported to the SEO. Also, a permanent improvement project (PIP) was not established for the major repairs performed due to Hurricane Hugo. The emergencies are as follows:

	Date	PO#	Description	Building	Amount
1.	10/26/89	90-12993	Reroofing	Florence Rehab	$48,514.00
2.	09/29/89	90-12489	Tree removal	Palmetto Center	3,800.00
3.	11/17/89	90-13535	Cut trees and stumps	Palmetto Center	15,000.00
4.	12/18/89	90-14090	Additional tree removal	Palmetto Center	6,500.00
5.	11/08/89	90-13168	Asbestos removal	Palmetto Center	18,500.00
6.	12/06/89	90-13168	Asbestos removal	Palmetto Center	4,000.00
7.	12/07/89	90-13875	Damage repairs	Palmetto Center	29,524.00
8.	01/03/90	90-13875	Additional repairs & roofing	Palmetto Center	1,898.46
9.	01/03/90	90-14340	New ceilings	Palmetto Center	9,277.44
10.	07/23/90	91-10814	Landscaping services	Hartsville Center	3,421.00
11.	12/18/91	92-13915	Install a shingle roof	Marlboro Center	3,058.14

Items 1-9 were emergencies related to Hurricane Hugo. Item 10 was an emergency for landscaping service. The building was completed but the city government would not allow occupancy until the landscaping was completed. Item 11 was an emergency to install a roof on a building in progress. The contractor declared bankruptcy during the job, and the Department had to install a roof on the building to protect the completed work until they reached a settlement with the surety company.

Section 1.3 of the Manual for Planning and Execution of State Permanent Improvements (Manual) defines a PIP as construction of new facilities and repairs on existing facilities which exceed $25,000. Additionally, Section 1.11 F(1) requires that emergency procurements be reported on the SEO form SE-560 within ten days of the contract being made.

The Department's personnel did not realize it was necessary to establish a PIP for Hugo repairs. They also did not realize that repairs exceeding $25,000 would be considered a PIP. Additionally, they were unaware of the requirement of reporting these procurements to the SEO.

Accordingly, we recommend that the Department personnel familiarize themselves with the Manual and establish a PIP for the Hugo emergencies. Also, we recommend that the Department report all these items to the SEO.

B. Construction Related Sole Sources

The Department did not report a construction related sole source on purchase order 91-18351 for $15,621.82 to the SEO on their SE-550 form. In the process of building a storage building,

a storm damaged the structure. The Department did a sole source to the contractor to repair the damage.

Section 1.10 D(1) of the Manual requires that all construction related sole source procurements be reported to the SEO on form SE-550 within ten days.

Accordingly, we recommend that the Department report this item to the SEO.

C. Unauthorized Sole Source Procurements

The Department made two sole sources which were approved after the fact or not approved at all. They are as follows:

PO#	Sole Source Date	PO Date	Service Date	Amount	Services
92-35314	12/01/91	12/01/91	November 1991	$3,904.17	Client transportation
91-35314	06/26/91	05/01/91	May 1991	893.10	Client transportation

Section 11-35-1560 is very specific about who has the authority to determine a sole source. Since the Code is so specific, the determination must be approved prior to services being rendered. Therefore, these procurements are unauthorized.

The authorized person did not sign the sole source for 92-35314 until after services had been rendered. For 91-35314, the determination was never signed. According to the Procurement Director, these purchase orders and determinations are prepared after services are rendered since the amount is unknown until then.

We recommend that the Department have these purchases ratified in accordance with Regulation 19-445.2015. We also recommend that the Department procure this items under an annual sole source and report the expenditures as they occur.

D. Inappropriate Sole Source

Because they wanted to access a local area network at another agency, the Department sole sourced a personal computer on purchase order 91-13305 for $2,530.62. The other agency had recently procured the network from the same vendor after a request for proposal solicitation. However, the computer is available from several dealers.

Section 11-35-1560 of the South Carolina Consolidated Procurement Code requires that for a sole source to be appropriate only a single supplier must exist. Therefore, the Department has inappropriately applied the sole source definition.

Accordingly, we recommend that the Department avoid sole sourcing items that are available from more than one vendor.

II. Compliance - Goods and Services, Consultants and Printing Services

A. Splitting Orders

We noted one instance where a group of three procurements of forms should have been combined and competitively sealed bid instead of being handled under the Code's small purchase procedures. These purchase orders were all supported by the same three written informal quotations. Three separate requisitions were then submitted to the Procurement Director at different times. These purchases are as follows:

	PO#	PO Amount	Description
1.	92-13298	$1,820.00	Forms
2.	92-13523	1,035.00	Forms
3.	91-13540	283.65	Forms
		$3,138.65	

The Department allows sections or centers located out of town to obtain informal quotations on items and services. Then, these quotations are forwarded to the Procurement Director for review and the issuance of a purchase order authorization number.

Regulation 19-445.2100(a) states in part:

> Any procurement under this Regulation not exceeding $2,499.99 may be made by governmental bodies provided, however, that procurement requirements shall not be artificially divided by governmental bodies so as to constitute a small purchase under this Subsection. Procurements of supplies and services or construction initially estimated to exceed $2,499.99 shall not be made by the small purchase method, even though resulting awards do not exceed such amounts.

We recommend the sections and centers be notified of the above regulation and that they plan accordingly. Requirements should be combined when known and if the total estimate exceeds $2,500.00 requisitions should be forwarded to the Materials Management Office for competitive sealed bidding.

Furthermore, since the collective amounts of these procurements exceeded the Department's basic certification of $2,500.00 they were unauthorized and must be submitted to the State Materials Management Officer for ratification in accordance with Regulation 19-445.2015.

B. Printing Overages Exceeded Five Percent

We noted three contracts in our sample where the printing overages accepted and paid for exceeded the maximum allowance of five percent. They were as follows:

PO#	Voucher #	Line Item Quantity Ordered	Line Item Quanity Received	Line Item Overage	Line Item % Over
91-17256	463860	5,000	5,500	500	10.0
92-10255	484220	55,000	58,000	3,000	5.5
92-10544	483782	13,000	14,150	1,150	8.9

The South Carolina Printing Services Manual limits printing overages to a maximum of five percent.

We recommend that the Department adhere to the State's policy limiting the maximum overages that the State is willing to accept to five percent.

C. Consultant Services

We noted one purchase, purchase order 91-19158 for $590.00 for consultant services for presentations made at a symposium, which was not supported by competition nor a sole source determination.

We remind the Department that any small purchase between $500.00 and $2,499.99 must meet the Code and regulations small purchase procedures for competition unless its a sole source, emergency or exempt procurement.

D. Unauthorized Purchase

We noted on purchase order number 91-14913 for $2,339.54 for the printing of brochures, the purchase was made by a section without the prior approval of the Purchasing Officer's authorization purchase order number. Since these brochures were ordered and shipped prior to the appropriate approvals, this was an unauthorized procurement.

This procurement must be submitted to the Department's Commissioner for ratification in compliance with Regulation 19-445.2015 A(1).

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 Vocational Rehabilitation Department in compliance with the South Carolina Consolidated Procurement Code.

Under the authority described in Section 11-35-1210 of the Procurement Code, subject to this corrective action, we recommend that the Vocational Rehabilitation Department be recertified to make direct agency procurements as follows for a period of three years as follows:

1) Purchases made by the Director of Purchasing from Case Service Funds specifically for handicapped clients in the areas of vocational rehabilitative equipment to a maximum of $15,000 per commitment.
2) Construction services change orders to contracts previously approved by the State Engineer's Office for $15,000 per commitment.

All other procurements are to remain at $2,500.00

James M. Stiles

James M. Stiles, CPPB
Audit Manager

Voight Shealy

R. Voight Shealy, CFE, Manager
Audit and Certification

South Carolina
Vocational Rehabilitation Department

JOE S. DUSENBURY, Commissioner

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

July 20, 1992

Mr. R. Voight Shealy, Manager
Audit and Certification
Division of General Services
1201 Main Street, Suite 600
Columbia, South Carolina 29201

Dear Voight:

This letter is in response to your recent audit of this Department and the findings reported in your letter of June 12, 1992. As always, we truly appreciate the professional manner in which this audit was conducted and the spirit of helpfulness displayed by the auditors involved. We would make the following comments about your findings and recommendations:

I. Compliance - Sole Source and Emergency Procurements

The audit noted a number of construction related emergencies and the need to report these to the State Engineer's Office on Form SE-550. This Agency's facilities sustained a lot of damage from Hurricane Hugo and the Agency responded to this situation as best it could under the circumstances. We were in constant communications with the State Engineer's Office, Insurance Reserve Fund, Materials Management Office, and FEMA. These were difficult times and a lot of quick decisions were necessary, but the State Engineer and his staff were intimately involved in every action taken by this Agency.

Also, in this section there was one finding that dealt with sole source procurements from Regional Transit Authorities which are quasi-governmental units. The reason this was reported after the fact was due to the Agency not having an exact amount or cost until the end of each month, but beginning July, 1992, we are following your auditors' suggestion that this be approved for the year on a blanket sole source.

We have reviewed all the audit findings in-depth and have taken steps to correct all deficiencies noted including discussions with specific divisions and individuals to assure that they understand the Agency's, as well as the State's, purchasing policies and procedures.

Again, we appreciate the manner in which this audit was conducted and as always, it is our intent to follow state regulations to the fullest extent of the law.

Sincerely,

J. S. Dusenbury
Commissioner

JSD:mrb

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JAMES J. FORTH, JR.
ASSISTANT DIVISION DIRECTOR

August 3, 1992

Mr. James J. Forth, Jr.
Assistant Division Director
Division of General Services
1201 Main Street, Suite 600
Columbia, South Carolina 29201

Dear Jim:

We have reviewed the response to our audit report of the Vocational Rehabilitation Department, covering the period April 1, 1989 - December 31, 1991. Combined with observations made during our exit conference and subsequent communication with Department officials, this review has satisfied the Office of Audit and Certification that the Department has corrected the problem areas found and that internal controls over the procurement system are adequate.

We, therefore, recommend that the certification limits for the Vocational Rehabilitation Department outlined in our audit report be granted for a period of three (3) years.

Sincerely,

Voight Shealy

R. Voight Shealy, Manager
Audit and Certification

RVS/jlj

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