PROCUREMENT AUDIT AND CERTIFICATION
Dear Robbie:

I have attached the South Carolina Department of Disabilities and Special Need’s procurement audit report and recommendations made by the Office of Audit and Certification. I concur and recommend the Budget and Control Board grants the Department a three-year certification as noted in the audit report.

Sincerely,

R. Voight Shealy
Materials Management Officer
SOUTH CAROLINA DEPARTMENT OF
DISABILITIES AND SPECIAL NEEDS
PROCUREMENT AUDIT REPORT

OCTOBER 1, 1996 - JUNE 30, 1999
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NOTE: The Department’s responses to issues noted in the report have been inserted immediately following the issues they refer to.
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 Department of Disabilities and Special Needs for the period October 1, 1996 through June 30, 1999. 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 internal 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 Disabilities and Special Needs 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 which 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 Department of Disabilities and Special Needs in compliance with the Consolidated Procurement Code and ensuing regulations.

Sincerely,

Larry G. Sorrell, Manager
Audit and Certification
**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 Disabilities and Special Needs 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 systematic samples for the period October 1, 1996 through June 30, 1999 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 October 1, 1996 through June 30, 1999

2. Procurement transactions for the period July 1, 1997 through June 30, 1999 as follows:
   a) One hundred and ten payments exceeding $1,500
   b) A block sample of three hundred fifty purchase orders for order splitting and favored vendors
   c) An additional sample of seven written quotations and nine sealed bids

3. Nine construction contracts and one professional service contract 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 plans for the audit period

6. Internal procurement procedures manual review

7. Surplus property procedures

8. Real property lease approvals

9. Procurement file documentation and evidence of competition
RESULTS OF EXAMINATION

The Office of Audit and Certification performed an examination of the internal procurement policies and procedures and related manual of the South Carolina Department of Disabilities and Special Needs, hereinafter referred to as the Department, for the period October 1, 1996 through June 30, 1999. Our on site review was conducted September 14, 1999 through October 11, 1999 and was made under the authority described in Section 11-35-1230(1) of the South Carolina Consolidated Procurement Code and Regulation 19.445-2020.

On April 8, 1997, the Budget and Control granted the Department the following certifications:

<table>
<thead>
<tr>
<th>CATEGORIES</th>
<th>LIMITS</th>
</tr>
</thead>
<tbody>
<tr>
<td>Pharmaceutical Drugs</td>
<td>$1,000,000 total annual contracts</td>
</tr>
<tr>
<td>Pharmaceutical Services</td>
<td>$1,000,000 total annual contracts</td>
</tr>
<tr>
<td>Goods and Services</td>
<td>$100,000 per commitment</td>
</tr>
<tr>
<td>Consultant Services</td>
<td>$100,000 per commitment</td>
</tr>
<tr>
<td>Information Technology</td>
<td>$100,000 per commitment</td>
</tr>
<tr>
<td>Construction Services</td>
<td>$250,000 per commitment</td>
</tr>
</tbody>
</table>

Our audit was performed primarily to determine if recertification is warranted. Since our previous audit in 1996, the Department has maintained what we consider to be a professional, efficient procurement system. We did note, however, the following points which should be addressed by management.

Unauthorized Sole Source Procurements

The determinations justifying two sole source procurements were approved after the effective dates of the services.

<table>
<thead>
<tr>
<th>Service Start Date</th>
<th>Sole Source Date</th>
<th>Purchase Order Number</th>
<th>Amount</th>
<th>Service Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>10/05/98</td>
<td>11/06/98</td>
<td>1100233069</td>
<td>$1,911</td>
<td>Training Consultant</td>
</tr>
<tr>
<td>12/01/98</td>
<td>01/14/99</td>
<td>1100234689</td>
<td>$7,200</td>
<td>Training Consultant</td>
</tr>
</tbody>
</table>
Section 11-35-1560 of the Code requires that the head of the agency or a designee above the level of the procurement officer determines in writing that only one source exists for a needed supply or service. The determination must be authorized prior to each sole source procurement. Regulation 19-445.2015 defines an unauthorized procurement as an act obligating the State in a contract by any person without requisite authority.

We recommend the Department develop and implement procedures to identify service contracts prior to the effective dates. Ratification must be requested from the Department’s State Director or his designee in accordance with Regulation 19-445.2015 for each unauthorized procurement.

**DEPARTMENT RESPONSE**

The Department recognizes that the two sole sources identified were approved after the effective dates of service. Proper procurement procedures will be reviewed with designated personnel regarding the requirement that appropriate approvals must be obtained and approved prior to services being rendered. In accordance with Regulation 19-445.2015, the ratification documents for each unauthorized sole source are in the process of being approved by our State Director.

**Incorrect Source Selection Method**

Request for quotation 6-725-98Q was issued to procure bedroom furniture. Purchase order 6100145618 was issued for $25,083 that included freight. Since the total value exceeded $25,000, the solicitation should have been done as a competitive sealed bid, per Section 11-35-1520 of the Code, rather than the small purchase provisions found in Section 11-35.1550.

We recommend the Department consider the total potential value of an award, including any freight charges, when determining the appropriate solicitation method.

**DEPARTMENT RESPONSE**

After review of this exception, it was determined that the procurement official attempted to identify an estimated cost for the furniture being sought. It was not determined until after the quote process had been completed that the preliminary costs provided by the successful vendor’s sales representative did not include freight which appeared in the final quote. Procurement officials will be reminded to include all related costs when determining the appropriate solicitation method.
Procurement Not Advertised

Purchase order 21000478 was issued on 10/14/98 for $12,550 for copier maintenance. The solicitation was not advertised in the South Carolina Business Opportunities (SCBO). Section 11-35-1550(2)(d) of the Code requires that purchases from $10,000.01 to $25,000 be advertised in SCBO.

We recommend the Department comply with the advertising requirement of the Code for purchases from $10,000.01 to $25,000.

DEPARTMENT RESPONSE

The Department recognizes that this procurement was not properly advertised as required. Procurement officials have been reminded that all procurements above $10,000.01 must be advertised in accordance with Section 11-35-1550(2)(d) of the Code.

Overpayments

We noted four vouchers with overpayments.

<table>
<thead>
<tr>
<th>Item</th>
<th>Voucher</th>
<th>Date</th>
<th>PO</th>
<th>PO Amount</th>
<th>Overpayment</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>450876</td>
<td>11/5/97</td>
<td>2100000948</td>
<td>$ 1,569</td>
<td>$ 18</td>
<td>Surgical light</td>
</tr>
<tr>
<td>2</td>
<td>473110</td>
<td>4/28/98</td>
<td>1100227918</td>
<td>4,183</td>
<td>371</td>
<td>IT disks/manuals</td>
</tr>
<tr>
<td>3</td>
<td>530881</td>
<td>5/12/99</td>
<td>6100161799</td>
<td>5,442</td>
<td>227</td>
<td>Furniture</td>
</tr>
<tr>
<td>4</td>
<td>444817</td>
<td>9/30/97</td>
<td>6100136597</td>
<td>8,692</td>
<td>434</td>
<td>Hot water heater</td>
</tr>
</tbody>
</table>

On item 1, the purchase order stated that shipping charges would not apply as the item was delivered by the salesperson. The purchase order for item 2 allowed for freight charges of $25 but the invoice was $396, an increase of $371. The purchase order for item 3 had the freight terms as FOB destination, however the invoice included freight of $227. For item 4, the purchase order was issued for $8,200 plus sales tax of $492 for a total of $8,692. The invoice was for $8,692, the total amount of the purchase order, plus sales tax of $434 for a total of $9,126. Section 3.9.1(F)(2) of the Department’s internal procurement manual states, “a change order is required when vendor’s invoice exceeds the original quoted price by 10% or
exceeds $10." The Finance Department paid the amounts per the vendors' invoices without change orders.

We recommend the Finance Department reconcile any differences between the invoices and purchase orders before processing payments. Any discrepancies should be forwarded to the Purchasing Department for resolution.

**DEPARTMENT RESPONSE**

The Department's Finance Officer has researched each of the exceptions noted and has determined each to be valid. The Finance Office has requested a refund on each item noted and informed their staff as to the proper procedures to be followed regarding invoice payments.
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 Disabilities and Special Needs 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 Department be recertified to make direct agency procurements for three years up to the limits as follows.

<table>
<thead>
<tr>
<th>PROCUREMENT AREAS</th>
<th>RECOMMENDED CERTIFICATION LIMITS</th>
</tr>
</thead>
<tbody>
<tr>
<td>Pharmaceutical Drugs</td>
<td>$1,000,000 total annual contracts</td>
</tr>
<tr>
<td>Pharmaceutical Services</td>
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<td>*$ 100,000 per commitment</td>
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<tr>
<td>Consultant Services</td>
<td>*$ 100,000 per commitment</td>
</tr>
<tr>
<td>Information Technology</td>
<td>*$ 100,000 per commitment</td>
</tr>
<tr>
<td>Construction Contract Award</td>
<td>*$ 250,000 per commitment</td>
</tr>
<tr>
<td>Construction Contract Change Order</td>
<td>$ 50,000 per change order</td>
</tr>
<tr>
<td>Architect/Engineer Contract Amendment</td>
<td>$ 25,000 per change order</td>
</tr>
</tbody>
</table>

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

James M. Stiles, CPPB
Audit Manager

Larry G. Sorrell, Manager
Audit and Certification
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 Disabilities and Special Needs to our audit report for the period of October 1, 1996 – June 30, 1999. Also we have followed the Department’s corrective action during and subsequent to our fieldwork. 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 Department of Disabilities and Special Needs the certification limits noted in our report for a period of three years.

Sincerely,

Larry G. Sorrell, Manager
Audit and Certification

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