

**SOUTH CAROLINA DEPARTMENT OF MOTOR VEHICLES**

**PROCUREMENT AUDIT REPORT**

**APRIL 1, 2010 – DECEMBER 31, 2014**

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**NOTE:** The Department’s responses to issues noted in this report have been inserted immediately following the items they refer to.

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May 25, 2016

Mr. John St. C. White  
Materials Management Officer  
Division of Procurement Services  
1201 Main Street, Suite 600  
Columbia, South Carolina 29201

Dear John:

We have examined the procurement policies and procedures of the South Carolina Department of Motor Vehicles for the period April 1, 2010 through December 31, 2014. As part of our examination, we studied and evaluated the system of internal controls over procurement transactions to the extent we considered necessary.

The evaluation established a basis for reliance upon the system of internal controls to assure adherence to the Consolidated Procurement Code, State regulations and the Department's procurement policy. Additionally, the evaluation determined 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 Motor Vehicles is responsible for establishing and maintaining a system of internal controls 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 of internal controls 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 recorded properly.

Because of inherent limitations in any system of internal controls, 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 controls 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 Motor Vehicles in compliance with the Consolidated Procurement Code and ensuing regulations.

Sincerely,

A handwritten signature in black ink, appearing to read "Robert J. Aycok, IV". The signature is written in a cursive style with a large, stylized initial "R".

Robert J. Aycok, IV, Manager  
Audit and Certification

## INTRODUCTION

We conducted an examination of the internal procurement operating policies and procedures of the South Carolina Department of Motor Vehicles. Our onsite review was conducted from February 4 through March 5, 2015, 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 March 22, 2011, the State Budget and Control Board granted the South Carolina Department of Motor Vehicles the following procurement certifications:

### PROCUREMENT AREAS

Supplies and Services

Consultant Services

### CERTIFICATION LIMITS

\$ 250,000 per commitment

\$ 250,000 per commitment

Our audit was performed primarily to determine if recertification is warranted. Additionally, the South Carolina Department of Motor Vehicles requested the following increased certifications.

### PROCUREMENT AREAS

Supplies and Services

Consultant Services

Information Technology

### CERTIFICATION LIMITS

\$ 350,000 per commitment

\$ 350,000 per commitment

\$ 150,000 per commitment

## 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 Motor Vehicles, hereinafter referred to as the 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 samples for the period May 1, 2011 through December 31, 2014, 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 April 1, 2010 through December 31, 2014 with exceptions noted in Section I
- (2) Procurement transactions for the period May 1, 2011 through December 31, 2014 as follows:
  - a) Ninety eight payments each exceeding \$2,500 with exceptions noted in Section II
  - b) Two hundred forty four purchase orders reviewed against the use of order splitting and favored vendors with no exceptions
  - c) Procurement card transactions for the months of April, May and June 2014 with no exceptions
- (3) Two architect/engineer selections, two construction contracts and five construction Indefinite Delivery contracts for compliance with the Manual for Planning and Execution of State Permanent Improvements with no exceptions.
- (4) Minority Business Enterprise Plans and reports, with the following activity reported to the Governor's Office Division of Small and Minority Business Contracting and Certification:

<u>Fiscal Year</u>	<u>Goal</u>	<u>Actual</u>
2010/11	\$535,542	\$ 29,496
2011/12	\$274,952	\$427,771
2012/13	\$287,934	\$ 75,853
2013/14	\$ 74,146	\$ 25,574

- (5) Approval of the most recent Information Technology Plans with no exceptions
- (6) Internal procurement procedures manual with no exceptions
- (7) Surplus property disposition procedures with no exceptions
- (8) File documentation and evidence of competition with no exceptions
- (9) Other tests performed as deemed necessary with no exceptions

## SUMMARY OF AUDIT FINDINGS

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<p>Seven procurements made as sole sources were inappropriate.</p>	
II. <u>Justification for Multi-Term Contracts not provided</u>	8
<p>The Department did not have any evidence that multi-term determinations were done justifying two multi-year contracts.</p>	
III. <u>Insufficient Competition</u>	9
<p>The Department did not obtain written solicitation of written quotes nor advertise a procurement in the South Carolina Business Opportunities.</p>	



## RESULTS OF EXAMINATION

### I. Inappropriate Sole Sources

We tested sole source procurements made pursuant to Section 11-35-1560 of the Procurement Code to determine the appropriateness of the procurement actions and the accuracy of the quarterly reports submitted as required by Section 11-35-2440.

We noted the following inappropriate sole source procurements.

<u>Date</u>	<u>Purchase Order</u>	<u>Description</u>	<u>Amount</u>
10/27/14	4600379727	Vision Tester	\$ 6,358
03/18/14	4600323973	Vision Tester	\$ 6,794
08/01/13	4600274680	Vision Tester	\$ 6,794
02/11/13	4600233054	Vision Tester	\$ 3,175
01/08/13	4600223934	Vision Tester	\$ 3,175
10/27/11	4600129290	Vision Tester	\$22,386
08/25/11	4600055110	Vision Tester	\$ 4,840

The Department based the sole source determinations on the vendor being the only manufacturer and distributor for its product and that the vision tester was customized for the Department. The determinations did not address why these machines were unique or why other vision testers would not work. Similar vision testers are available on the open market. Specifications incorporating the Department's needs could be developed to competitively procure the vision testers.

Section 11-35-1560 (B) states in part, "...Any decision by a governmental body that a procurement be restricted to one potential vendor must be accompanied by an explanation as to why no other will be suitable or acceptable to meet the need."

Since other sources are available we recommend the Department develop specifications and solicit competition for this item.

Department Response

The agency concurs. For future purchases we will solicit this commodity for bids. However, as background information, SCDMV has been using this model eye machine since we were a division of the SC Department of Public Safety and we have continued the use this model since the agencies split in 2003. The SCDMV feels that it is in the best interest of the citizens of South Carolina and the department to maintain consistency in our eye machines across the State. We employ more than 800 customer service representatives in 67 field offices who frequently move from office to office. Purchasing varying vision testers would create an unacceptable training challenge and customers taking eye tests on differing equipment from office to office or within offices can create a perception of inequality and inconsistency. Since DMV, up to this point, has been a non-appropriated agency, we have replaced eye machines across the State as funds have allowed and to maintain consistency, we have replaced machines with the same models. SCDMV truly believes that maintaining the same eye machines statewide, is in the best interest of the State and of the department.

II. Justification for Multi-Term Contracts not provided

The Department failed to provide determinations justifying the following multi-year contracts

<u>Contract #</u>	<u>Date</u>	<u>Description</u>	<u>Amount</u>
4400002996	09/27/10	Decals	\$31,500
4500003127	12/06/10	Handicap Placards	\$28,757

The Department entered into multi-year agreements without written determinations justifying the use of a multi-term contracts. Both contracts had a provision allowing for a four year extension at the end of the initial one year contract term.

Section 11-35-2030(1) of the Procurement Code states in part, "...Unless otherwise provided by law, a contract for supplies, services, or information technology must not be entered into for any a period of more than one year unless approved in a manner prescribed by regulation of the board." Paragraph (2) of that same section requires a written determination justifying the use of a multi-term contract.

We recommend prior to entering into a contract for more than one year the Department prepare a written determination as required by the Code.

Department Response

The agency concurs. If the intent is to enter into a multi-term contract, the proper determination will be prepared and attached to the solicitation packet. The Procurement Department staff will incorporate additional measures to ensure this type of error does not occur again.

III. Insufficient Competition

The Department purchased a HVAC system on purchase order 4600283271 in the amount of \$14,179. Procurement Code section 11-35-1550(c) requires written solicitations of written quotes, bids or proposals and the solicitation must be advertised at least once in the South Carolina Business Opportunities when soliciting competition over ten thousand dollars up to fifty thousand dollars. The file contained no evidence that this procurement was advertised or that written solicitation of written quotes were made. The Department awarded the contract after receiving three quotes.

We recommend the Department comply with the Procurement Code competition requirements.

Department Response

The agency concurs. Even though three quotes were obtained, the procurement did not include a written solicitation and was not advertised in SCBO. Therefore, this procurement should have been declared an emergency. SCDMV will ensure that the State's Procurement Code competition requirements are always followed.

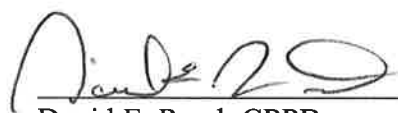
## CERTIFICATION RECOMMENDATIONS

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 Department of Motor Vehicles in compliance with the Consolidated Procurement Code.

Under the authority described in Section 11-35-1210 of the Procurement Code, subject to this corrective action, we will recommend the Department of Motor Vehicles be certified to make direct agency procurements for three years up to the following limits.

<u>PROCUREMENT AREAS</u>	<u>RECOMMENDED CERTIFICATION LIMITS</u>
Supplies and Services	*\$ 350,000 per commitment
Consultant Services	*\$ 350,000 per commitment
Information Technology	*\$ 150,000 per commitment

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

  
\_\_\_\_\_  
David E. Rawl, CPPB  
Senior Auditor

  
\_\_\_\_\_  
Robert J. Aycock, IV, Manager  
Audit and Certification

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July 26, 2016

Mr. John St. C. White  
Materials Management Officer  
Division of Procurement Services  
1201 Main Street, Suite 600  
Columbia, South Carolina 29201

Dear John:

We have reviewed the response from the Department of Motor Vehicles to our audit report for the period of April 1, 2010 through December 31, 2014. In our opinion, the Department of Motor Vehicles complies with the South Carolina Consolidated Procurement Code, State regulations, and the Department's procurement policies and procedures in all material respects and the internal procurement operating procedures are adequate to properly handle procurement transactions. Therefore, we recommend the State Fiscal Accountability Authority grant the Department of Motor Vehicles the certification limits noted in our report for a period of three years.

Sincerely,

Robert J. Aycock, IV, Manager  
Audit and Certification

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