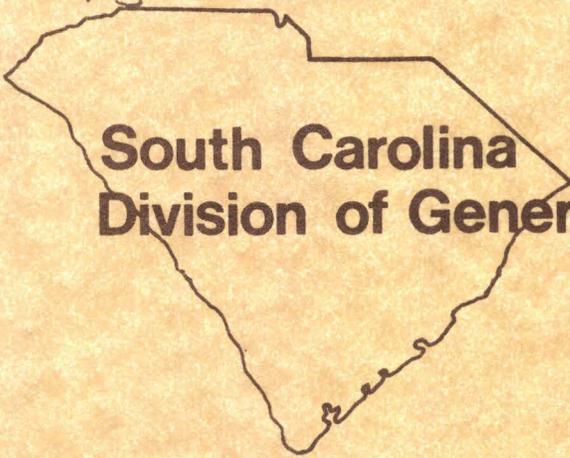


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**South Carolina
Division of General Services**

PROCUREMENT AUDIT AND CERTIFICATION

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STATE BOARD OF MEDICAL EXAMINERS
AGENCY

JULY 1, 1985 - JUNE 30, 1988
DATE

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BUDGET AND CONTROL BOARD
DIVISION OF GENERAL SERVICES
1201 MAIN STREET, SUITE 420
COLUMBIA, SOUTH CAROLINA 29201
(803) 737-3880

CARROLL A. CAMPBELL, JR.
GOVERNOR

GRADY L. PATTERSON, JR.
STATE TREASURER

EARLE E. MORRIS, JR.
COMPTROLLER GENERAL



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JESSE A. COLES, JR., Ph.D.
EXECUTIVE DIRECTOR

January 16, 1989

Mr. Richard W. Kelly
Division Director
Division of General Services
1201 Main Street, Suite 400
Columbia, South Carolina 29201

Dear Rick:

Attached is the final State Board of Medical Examiners audit report and recommendations made by the Office of Audit and Certification. Since no certification above the \$2,500.00 allowed by law was requested, and no action is necessary by the Budget and Control Board, I recommend that this report be presented to them for their information.

Sincerely,

A handwritten signature in dark ink, appearing to read "James J. Forth, Jr.", written over a horizontal line.

James J. Forth, Jr.
Assistant Division Director

Attachment

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STATE OF SOUTH CAROLINA
BUDGET AND CONTROL BOARD
DIVISION OF GENERAL SERVICES
1201 MAIN STREET, SUITE 420
COLUMBIA, SOUTH CAROLINA 29201
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JESSE A. COLES, JR., Ph.D.
EXECUTIVE DIRECTOR

January 16, 1989

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

We have examined the procurement policies and procedures of the State Board of Medical Examiners for the period July 1, 1985 through June 30, 1988. 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 internal 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 the State Board of Medical Examiners is responsible for establishing and maintaining a system of internal control over procurement transactions. In fulfilling

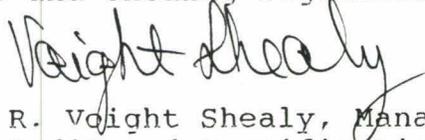
this responsibility, estimates and judgements by management are required to assess the expected benefits and related costs of control procedures. The objectives of a system are to provide management with reasonable, but not absolute, assurance of the integrity of the procurement process, that affected 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 due professional care. They would not, however, because of the nature of audit testing, necessarily disclose all weaknesses in the system.

The examination did, however, 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 the State Board of Medical Examiners in compliance with the South Carolina Consolidated Procurement Code and ensuing regulations.



R. Voight Shealy, Manager
Audit and Certification

SCOPE

Our examination encompassed a detailed analysis of the internal procurement operating procedures of the State Board of Medical Examiners 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.

We selected a random sample of sixty (60) transactions which exceeded \$500.00 each for the period July 1, 1985 - June 30, 1988, for compliance testing and performed other audit procedures that we considered necessary in the circumstances to formulate this opinion. Our review of the system included, but was not limited to, the following areas:

- (1) adherence to applicable laws, regulations and internal policy;
- (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) inventory and disposition of surplus property;
- (10) Minority Business Enterprise Utilization Plan.

SUMMARY OF AUDIT FINDINGS

Our audit of the procurement system for the State Board of Medical Examiners (the Board) produced findings and recommendations in the following areas.

	PAGE
I. <u>Compliance - Goods and Services, Consultants and Information Technology</u>	6
Eight procurements out of a sample of sixty were made without evidence of competition, or the appropriate sole source or emergency determinations prepared. Additionally, two printing jobs should have been combined and bid as one contract.	
II. <u>Procurement Procedures</u>	7
Our observation of procurement procedures and internal controls resulted in several recommendations for improvement.	
III. <u>Internal Procurement Procedures Manual</u>	8
Section 11-35-540(3) requires that all governmental bodies prepare an internal procurement operating procedures manual. The Division of General Services accepted a statement of intent to comply with the Consolidated Procurement Code from the Board in lieu of a full procedures manual. We have determined that a procedures manual should be developed.	

RESULTS OF EXAMINATION

I. Compliance - Goods and Services, Consultants and Information Technology

Our examination of procurement activity at the Board of Medical Examiners included a test of sixty (60) randomly selected transactions from the period July 1, 1985 through June 30, 1988. We noted the following exceptions.

<u>Item</u>	<u>FY</u>	<u>Voucher #</u>	<u>Amount</u>	<u>Item/Service Description</u>
(1)	86/87	006	\$ 605.71	Janitorial and paper product
(2)	86/87	020	1,940.00	Security system lease
(3)	86/87	055	574.56	Typewriter ribbons
(4)	86/87	230	830.73	Vehicle repair
(5)	86/87	470	2,245.95	Dictating/transcribing equipment
(6)	86/87	422	730.20	Printing services
(7)	86/87	592	1,858.50	Paper shredder
(8)	87/88	174	2,102.00	Laserjet printer

Items (1) through (5) above, were made without evidence of competition or a sole source or emergency procurement determination. We remind the Board that all procurement contracts greater than \$500.00 must be awarded by one of the source selection methods outlined in Section 11-35-1510 of the Code.

Item number (6) above was for the printing of medical licenses for \$730.20. Only one quote was obtained for this service. Regulation 19-445.2100, Subsection E, Item 2, which covers procurements from \$500.01 to \$1,499.99, requires "Solicitations of verbal or written quotes from a minimum of two qualified sources of supply."

Item numbers (7) and (8) above, were procurements of equipment with a cost of \$1,858 and \$2,102 respectively. Regulation 19-445.2100, Subsection B, Item 3, which covers procurements from \$1,500.00 to \$2,499.99 requires that "solicitation of written quotations from three qualified sources of supply shall be made and documented..." These two procurements did not meet this requirement.

The Board should comply with these regulations. When competition is solicited, documentation should be maintained as evidence.

Additionally, voucher numbers 507 and 508, fiscal year 87/88, were payments for two printing jobs contracted on the same day. Each job was slightly less than \$500.00, therefore no competition was solicited. However, these two jobs should have been combined and bid as one procurement.

Regulation 19-445.2100, Subsection A, states in part... "procurement requirements shall not be artificially divided by governmental bodies as to constitute a small purchase..."

We recommend the procurement actions be combined where logical.

II. Procurement Procedures

During our review, we noted the following areas that need to be addressed to tighten the procurement procedures of the Board.

- (1) All purchases, except those specifically addressed in the internal procurement procedures manual, should be supported by a purchase order.

- (2) All invoices or receiving reports should be signed off for items or services received by an authorized person prior to payment.
- (3) A state contract purchase should be so noted by referencing the contract number on the purchase order.
- (4) An informal quotation form or written quotations should accompany a copy of the purchase order in the voucher file.

III. Internal Procurement Procedures Manual

The Board has on file with the Materials Management Office a statement of intent dated May 31, 1983, to comply with the requirements of Procurement Code Section 11-35-540(3), which requires the development of an internal procurement operating procedures manual.

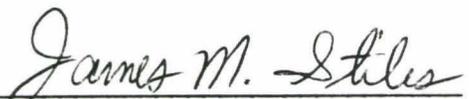
The statement of intent was acceptable in lieu of a formal procedures manual at the inception of the Procurement Code. This document allowed small agencies additional time to prepare a more comprehensive manual. As a result of our recent audit of the Board's procurement activity, we have determined that a procedures manual should be developed.

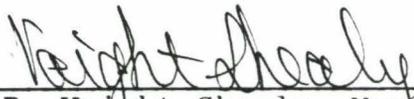
This manual should incorporate the most current internal procedures and follow the recommended outline which we have provided.

CONCLUSION

As enumerated in our transmittal letter, corrective action based on the recommendations described in the findings in the body of this report, we believe, will in all material respects place the State Board of Medical Examiners in compliance with the South Carolina Consolidated Procurement Code and ensuing regulations.

In accordance with Code Section 11-35-1230(1) the Board should take this corrective action prior to December 31, 1988. Subject to this corrective action and because additional certification was not requested, we recommend that the State Board of Medical Examiners be allowed to continue procuring all goods and services, information technology and consulting services up to the basic level as outlined in the Procurement Code.


James M. Stiles, PPB
Audit Supervisor


R. Voight Shealy, Manager
Audit and Certification



STEPHEN S. SEELING
EXECUTIVE DIRECTOR

State Board of Medical Examiners
of South Carolina
P.O. Box 12245
1220 Pickens Street
Columbia, South Carolina 29211

(803) 734-8901

J. ERNEST LATHAM, M.D., PRES., GREENVILLE
527 MILLS AVE., 29605: PH. 233-3901
SPENCER C. DISHER, JR., M.D., V. PRES., ORANGEBURG
P.O. BOX 1266, 29116: PH. 534-3503
R. PATTEN WATSON, M.D., SEC., COLUMBIA
1333 TAYLOR ST., 5-B, 29201: PH. 254-3501
VERNON E. MERCHANT, JR., M.D., ANDERSON
1221 N. FANT ST., 29621: PH. 226-6246
JAMES C. HOLLER, JR., M.D., ROCK HILL
1317 EBENEZER RD., 29730: PH. 327-1174
C. DAYTON RIDDLE, JR., M.D., GREENVILLE
701 GROVE RD., 29605: PH. 242-7878
MRS. ESTHER H. TECKLENBURG, SULLIVAN'S ISLAND
924 MIDDLE ST., 29482: PH. 883-9247
JAMES S. GARNER, JR., M.D., MULLINS
P.O. BOX 609, 29574: PH. 464-7111
JAMES R. EDINGER, D.O., ORANGEBURG
P.O. BOX 468, 29115: PH. 534-0053
STEPHEN I. SCHABEL, M.D., CHARLESTON
MEDICAL UNIVERSITY, 29425: PH. 792-4033

December 6, 1988

Mr. R. Voight Shealy, Manager
Procurement Audit and Certification
Division of General Services
1201 Main Street, Suite 420
Columbia, SC 29201

Dear Mr. Shealy:

The S.C. State Board of Medical Examiners is in receipt of your recent correspondence and draft report of our procurement audit for the period July 1, 1985 through June 30, 1988. Let me say at the outset that we appreciate the opportunity to learn more about the procurement code and sincerely welcome recommendations that can enhance our performance in this area. This is the first audit of its kind to be performed in this agency, and we feel that the findings enumerated in this report indicate that we have made progress in our compliance with the procurement code from one audit fiscal year to the next. We will continue to strive to comply with procurement regulations in the future, and have already implemented various changes in our internal procedures to accomplish this goal. The responses below are itemized according to sections I, II, and III of the audit report's "Results of Examination".

I. Compliance - Goods and Services, Consultants and Information Technology:

Each of the transactions noted in this section as exceptions related to a lack of documentation that proper bidding procedures were followed. We have instituted an internal policy mandating the use of a new bid quotation form which will ensure that bidding requirements for such purposes are satisfied. This form is available for your inspection.

II. Procurement Procedures:

- (1) All purchases, except those specifically addressed in the internal procurement procedures manual, shall be supported by a purchase order.
- (2) All invoices or receiving reports shall bear a signature of an authorized staff member, showing proof that the goods ordered were received.

- (3) In the case where an item is purchased on state contract, this contract number will be so noted in the documentation which is attached to the payment voucher.
- (4) A bid quotation form has been designed and implemented to accomodate all purchases up to \$ 2,499.99, and a copy of this form will be included in the documentation which is attached to the payment voucher.

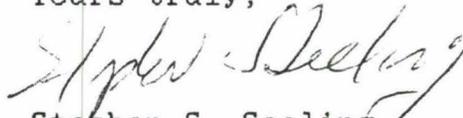
III. Internal Procurement Procedures Manual:

We are currently in the process of developing an internal procurement procedures manual, using the recommended outline which has been supplied to us by your office. We anticipate the completion of this manual prior to December 31, 1988 as requested.

In closing, we would like to express our appreciation to Mr. Jim Stiles, Auditor, and commend him for the manner in which the audit was conducted. His task was accomplished with minimum disruption to the work of our agency, and his helpful suggestions and advice have aided us in understanding more fully our role in compliance with the procurement code. We view this audit as a learning experience, and are happy to have the opportunity to learn more about the role of the South Carolina Consolidated Procurement Code in the governing of our state.

Please do not hesitate to call on us if you should have any further questions concerning this audit.

Yours truly,


Stephen S. Seeling
Executive Director

STATE OF SOUTH CAROLINA
BUDGET AND CONTROL BOARD
DIVISION OF GENERAL SERVICES
1201 MAIN STREET, SUITE 420
COLUMBIA, SOUTH CAROLINA 29201
(803) 737-3880

CARROLL A. CAMPBELL, JR.
GOVERNOR

GRADY L. PATTERSON, JR.
STATE TREASURER

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COMPTROLLER GENERAL



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ROBERT N. McLELLAN
CHAIRMAN,
HOUSE WAYS AND MEANS COMMITTEE

JESSE A. COLES, JR., Ph.D.
EXECUTIVE DIRECTOR

January 13, 1989

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 returned to the State Board of Medical Examiners to determine the progress made toward implementing the recommendations in our audit report covering the period July 1, 1985 - June 30, 1988. During this visit, we followed up on each recommendation made in the audit report through inquiry, observation and limited testing.

We observed that the Board has made substantial progress toward correcting the problem areas found and improving the internal controls over the procurement system. With the changes made, the system's internal controls should be adequate to ensure that procurements are handled in compliance with the Consolidated Procurement Code and ensuing regulations.

Additional certification was not requested. Therefore, we recommend that the Board be allowed to continue procuring all goods and services, construction, information technology and consulting services up to the basic level as outlined in the Procurement Code.

Sincerely,

A handwritten signature in cursive script that reads "Voight Shealy".

R. Voight Shealy, Manager
Audit and Certification

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