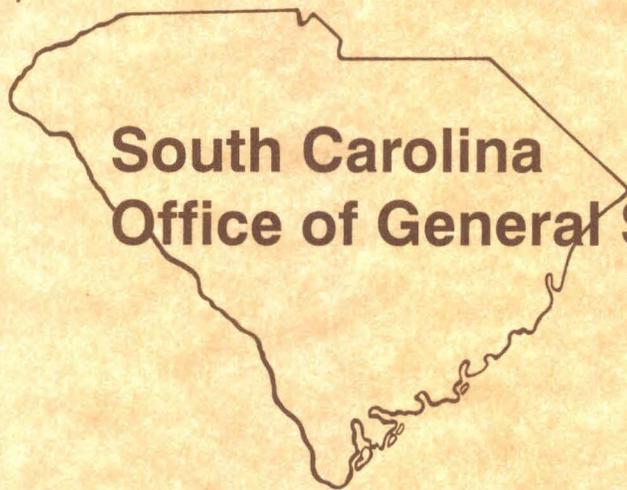


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**South Carolina
Office of General Services**

PROCUREMENT AUDIT AND CERTIFICATION

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**SOUTH CAROLINA DEPARTMENT OF
ALCOHOL AND OTHER DRUG ABUSE
SERVICES**

AGENCY

JULY 1, 1993 - MARCH 31, 1996

DATE

STATE OF SOUTH CAROLINA
State Budget and Control Board
OFFICE OF GENERAL SERVICES



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GOVERNOR

RICHARD A. BCKSTROM
STATE TREASURER

EARLE B. MORRIS, JR.
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CHAIRMAN, WAYS AND MEANS COMMITTEE

LUTHER P. CARTER
EXECUTIVE DIRECTOR

MATERIALS MANAGEMENT OFFICE
1201 MAIN STREET, SUITE 600
COLUMBIA, SOUTH CAROLINA 29201
(803) 737-0600
Fax (803) 737-0639

RAYMOND L. GRANT
ASSISTANT DIRECTOR

September 4, 1996

Ms. Helen T. Zeigler, Director
Office of General Services
1201 Main Street, Suite 420
Columbia, South Carolina 29201

Dear Helen:

I have attached the final audit report for the South Carolina Department of Alcohol and Other Drug Abuse Services. Since we are not recommending any certification above the basic \$5,000 allowed by the Code, no action is required by the Budget and Control Board. Therefore, I recommend that the report be presented to the Budget and Control Board as information.

Sincerely,

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

R. Voight Shealy
Interim Materials Management Officer

/tl

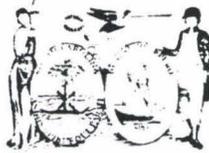
**SOUTH CAROLINA DEPARTMENT OF
ALCOHOL AND OTHER DRUG ABUSE SERVICES
PROCUREMENT AUDIT REPORT
JULY 1, 1994 - MARCH 31, 1996**

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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.

STATE OF SOUTH CAROLINA
State Budget and Control Board
OFFICE OF GENERAL SERVICES



DAVID M. BEASLEY, CHAIRMAN
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June 14, 1996

JOHN DRUMMOND
CHAIRMAN, SENATE FINANCE COMMITTEE

HENRY E. BROWN, JR.
CHAIRMAN, WAYS AND MEANS COMMITTEE

LUTHER F. CARTER
EXECUTIVE DIRECTOR

Mr. Raymond L. Grant
Materials Management Officer
Office of General Services
1201 Main Street, Suite 600
Columbia, South Carolina 29201

Dear Ray:

We have examined the procurement policies and procedures of the South Carolina Department of Alcohol and Other Drug Abuse Services for the period July 1, 1994 through March 31, 1996. 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 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 Alcohol and Other Drug Abuse Services 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.

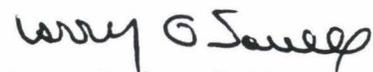
Because of inherent limitations in any system of internal control, errors or irregularities may occur and not be detected. Also, projection of any evaluation of the system to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or that the degree 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 Alcohol and Other Drug Abuse Services in compliance with the South Carolina Consolidated Procurement Code and ensuing regulations.

Sincerely,



Larry G. Sorrell, Manager
Audit and Certification

INTRODUCTION

We conducted an examination of the internal procurement operating policies and procedures of the South Carolina Department of Alcohol and Other Drug Abuse Services. Our on-site review was conducted March 29, 1996 through April 8, 1996 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 were in compliance with the South Carolina Consolidated Procurement Code and its ensuing regulations.

Additionally our work was directed toward assisting the Department in promoting the underlying purposes and policies of the Code as outlined in Section 11-35-20, which include:

- (1) to ensure the fair and equitable treatment of all persons who deal with the procurement system of this State
- (2) to provide increased economy in state procurement activities and to maximize to the fullest extent practicable the purchasing values of funds of the State
- (3) to provide safeguards for the maintenance of a procurement system of quality and integrity with clearly defined rules for ethical behavior on the part of all persons engaged in the public procurement process

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 Alcohol and Other Drug Abuse Services and its related policies to the extent we deemed necessary to formulate an opinion on the adequacy of the system to properly handle procurement transactions.

We selected judgmental samples for the period July 1, 1994 through March 31, 1996 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 July 1, 1994 through March 31, 1996
- (2) Procurement transactions for the period July 1, 1994 through March 31, 1996 as follows:
 - a) Fifty nine payments, each exceeding \$500
 - b) A block sample of 500 sequential vouchers
- (3) Minority Business Enterprise Plans and reports for the audit period
- (4) Information Technology Plans for Fiscal Years 1993/94 and 1995/98

SUMMARY OF AUDIT FINDINGS

Our audit of the procurement system of the South Carolina Department of Alcohol and Other Drug Abuse Services, hereinafter referred to as the Department or DAODAS, produced findings and recommendations as follows.

	<u>PAGE</u>
I. <u>Unauthorized Sole Source Procurements</u>	6
Four sole source procurements were made using copies of old sole source authorizations signed by the previous Director.	
II. <u>Procurements Made Without Competition</u>	7
Five transactions were not supported by evidence of solicitations of competition, sole source or emergency procurement determinations. Three of these contracts were unauthorized since each exceeded the Department's \$5,000 procurement authority.	
III. <u>Payments Without Evidence of Items Being Received</u>	8
Three payments were made without any evidence that the goods or services were received.	
IV. <u>Manual Needs Updating</u>	8
The last time the Department's Procurement Policies and Procedures Manual was updated was in 1984. The manual must be rewritten due to substantial changes in the Code and Regulations.	

RESULTS OF EXAMINATION

I. Unauthorized Sole Source Procurements

Sole source procurements were made using determinations which were prepared and authorized for prior sole sources by copying the determinations and attaching it to the purchase orders.

<u>PURCHASE ORDER</u>	<u>DESCRIPTION</u>	<u>AMOUNT</u>
Contract GH-96-ICA	Technical assistance in establishment and support of self-governed recovery residences	\$14,100
7382	Enhancement to general ledger software	12,000
7425	Modify software program	2,889
7441	Add new format to software	2,650

Section 11-35-1560 of the Procurement Code states in part, "A contract may be awarded for a supply, service or construction item without competition when,...the head of the purchasing agency,... determines in writing that there is only one source..." In all instances the authorizing signature was from a previous Director who was no longer at the Department at the time these sole source procurements were made. The sole source procurements referenced above were unauthorized as a result.

We recommend that sole source determinations be prepared or at least resigned each time a sole source procurement is made by someone with requisite authority. Ratification should be requested in accordance to Regulation 19-445.2015 from the Materials Management Officer on the first two transactions since the amount of the procurements exceeded the Department's procurement authority of \$5,000. The last two transactions cited may be ratified by the Director.

Department Response

We concur with the finding that DAODAS did not possess current sole source determinations for the four purchase orders noted. In the future, DAODAS shall maintain a current sole source determination for all procurements of this type.

II. Procurements Made Without Competition

We tested fifty-nine randomly selected transactions as well as performed other tests to determine compliance with the Procurement Code. We found five transactions that were not supported by any solicitations of competition, sole source or emergency procurement determinations.

<u>VOUCHER</u>	<u>DESCRIPTION</u>	<u>DATE/ PERIOD</u>	<u>AMOUNT</u>
1. 2240	Survey services	04-17-95	\$263,058
2. 1138	Consultant to process expense reports (year 1)	09/01/94-09/01/95	21,500
3. Contract	Second year of same service above	10/01/95-10/31/96	15,132
4. 133	Copier paper	08-01-95	1,977
5. 984	Training services	10-21-94	1,783

Item 1 for survey services was part of a federal grant to conduct face to face surveys within high risk groups of alcohol and drug abuse clients. This vendor was specified in a grant and should have been procured as a sole source. However, the Department failed to authorize the contract as a sole source making it unauthorized as a result.

Items 2 and 3 were back to back contracts to the same vendor to manage and process expense payments on federal grants. This should have been sent to the Materials Management Office since the contract value was over the Department's \$5,000 authority level.

Items 4 and 5 should have been competed in accordance to Section 11-35-1550 of the Code which requires three verbal solicitations of competition on purchases between \$1,500 and \$5,000.

We recommend the Department adhere to the requirements of the Procurement Code. The first three procurements must be sent to the Materials Management Officer for ratification in accordance to Regulation 19-445.2015 since each was unauthorized.

Department Response

We concur that the five noted vouchers contained no evidence of competition, sole source or emergency procurement determinations. The DAODAS shall make every effort to compete all procurements or properly document exceptions.

III. Payments Without Evidence of Items Being Received

Three payments were made without any signatures by Department employees indicating the receipt of items invoiced.

<u>VOUCHER</u>	<u>DATE</u>	<u>DESCRIPTION</u>	<u>AMOUNT</u>
1479	01-10-95	IT Equipment	\$65,958.12
2444	05-17-95	Printing	2,388.75
306	08-11-94	Software	1,785.00

Since the voucher packages were without evidence of the goods or services being received or to the Department's satisfaction, the payments should not have been made.

We recommend the Department not process payments on voucher packages without evidence that the goods or services were received to the satisfaction of the Department. This is usually accomplished by a signature on the invoice from the receiving party indicating that the items or goods were received.

Department Response

We concur that the three noted vouchers contained no evidence of receipt. The DAODAS has made it agency policy that evidence of receipt must be prepared for all transactions involving the receipt of goods. This policy is being monitored on a daily basis as a part of the payment process.

IV. Manual Needs Updating

The Department's Procurement Policies and Procedures Manual was last updated in 1984. In July 1993, substantial changes to the Code went into effect as part of the Governmental Accountability and Reform Act. Further, in February of 1995, the updated Procurement Code Regulations became effective. Since the Department's manual is not current, we recommend the manual be updated. Once this manual is completed, it must be sent to our Office for review and approval in accordance to Regulation 19-445.2005.

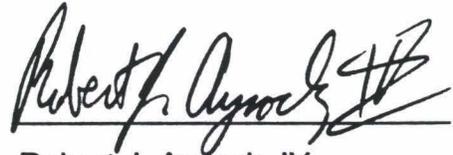
Department Response

The DAODAS is in the process of completely re-writing the agency's Procurement Policies and Procedures Manual. The new manual will contain new agency policy and current Procurement Code compliance information. In addition, DAODAS has assigned one employee to serve as the agency's procurement officer. DAODAS will also utilize the automated procurement module of the new network accounting package recently purchased. I am confident these changes in personnel and systems will enable DAODAS to obtain a high level of Code compliance.

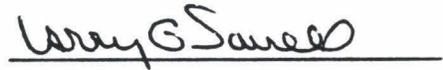
CONCLUSION

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 Alcohol and Other Drug Abuse Services in compliance with the South Carolina Consolidated Procurement Code.

The Department has not requested procurement certification above the basic limit of \$5,000 allowed by the South Carolina Procurement Code. Subject to the corrective action listed in this report, we recommend the Department be allowed to continue procuring goods and services, consultant services, construction and information technology up to that level allowed by the Code.

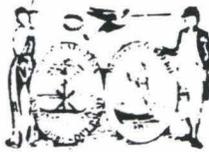


Robert J. Aycock, IV
Audit Manager



Larry G. Sorrell, Manager
Audit and Certification

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RAYMOND L. GRANT
ASSISTANT DIRECTOR

September 3, 1996

Mr. R. Voight Shealy
Interim 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 Alcohol and Other Drug Abuse Services to our audit report for July 1, 1994 - March 31, 1996. Also we have followed the Department's corrective action during and subsequent to our field work. We are satisfied that the Department has corrected the problem areas and the internal controls over the procurement system are adequate.

Additional certification was not requested. Therefore, we recommend the Department 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,

Handwritten signature of Larry G. Sorrell in cursive.

Larry G. Sorrell, Manager
Audit and Certification

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