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South Carolina
Division of General Services

PROCUREMENT AUDIT AND CERTIFICATION

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S.C. DEPARTMENT OF MENTAL RETARDATION

AGENCY

AUGUST 26, 1986

DATE

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EXECUTIVE DIRECTOR

WILLIAM J. CLEMENT
ASSISTANT DIVISION DIRECTOR

August 26, 1986

Mr. Richard W. Kelly
Division Director
Division of General Services
300 Gervais Street
Columbia, South Carolina 29201

Dear Rick:

Attached is the final Department of Mental Retardation audit report and recommendations made by the Office of Audit and Certification. I concur and recommend the Budget and Control Board grant two (2) years certification as outlined in the audit report.

Sincerely,

William J. Clement
Assistant Division Director

kl
Attachment

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ASSISTANT DIVISION DIRECTOR

December 18, 1985

Mr. Richard W. Kelly
Assistant Director
Division of General Services
300 Gervais Street
Columbia, South Carolina 29201

We have examined the procurement policies and procedures of the South Carolina Department of Mental Retardation for the period of April 29, 1982 through May 31, 1985. As 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 Department 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 Department of Mental Retardation 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 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 Department of Mental Retardation in compliance with the South Carolina Consolidated Procurement Code and ensuing regulations.

R. Voight Shealy

R. Voight Shealy, Manager
Audit and Certification

INTRODUCTION

The Office of Audit and Certification conducted an examination of the internal procurement operating procedures and policies and related manual of the South Carolina Department of Mental Retardation.

Our on-site review was conducted June 17, 1985 through August 2, 1985, 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.

Additionally, our work was directed toward assisting the agency 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 of ethical behavior on the part of all persons engaged in the public procurement process.

BACKGROUND

Section 11-35-1210 of the South Carolina Consolidated Procurement 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 materials management office shall review the respective governmental body's internal procurement operation, shall certify 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.

Section 11-35-1230(1) of the South Carolina Consolidated Procurement Code states in part:

> In procurement audits of governmental bodies thereafter, the auditors from the materials management office shall review the adequacy of the system's internal controls in order to ensure compliance with the requirements of this code and the ensuing regulations.

The current certification limit of $600,000 for annual term contracts for pharmaceutical drugs expired September 13, 1985. The Budget and Control Board granted a six-month extension to the certification. Our audit was performed primarily to determine if recertification is warranted. Additionally, the Department requested increased certification limits as follows:

	Category	Requested Limit
1.	Goods and Services - State Object Code 0300 - Central Warehouse, Administration Division	$10,000
2.	Goods and Services - Repair Services, Building Supplies, Construction Supplies - Division of Engineering and Planning	$50,000

Category	Requested Limit
3. Term Contract for Pharmaceutical Drugs	$600,000 Total Amount Per Year
4. Construction	$30,000

SCOPE

Our examination encompassed a detailed analysis of the internal procurement operating procedures of the Department of Mental Retardation 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.

The Office of Audit and Certification statistically selected random samples for the period July 1, 1983 through May 31, 1985, of procurement transactions for compliance testing and performed other auditing procedures that we considered necessary in the circumstances to formulate this opinion. As specified in the Consolidated Procurement Code and related regulations, our review of the system included, but was not limited to, the following areas:

(1) adherence to provisions of the South Carolina Consolidated Procurement Code and regulations;

(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) disposition of surplus property;

(10) economy and efficiency of the procurement process;

(11) Minority Business Enterprise Utilization Plan review.

SUMMARY OF AUDIT FINDINGS

Our audit of the procurement system of the South Carolina Department of Mental Retardation (SCDMR) produced findings and recommendations in the following areas:

		PAGE
I.	Compliance - General	11
A.	Sole Source Procurements	11
	Procurements were made improperly as sole sources and others were made without prior approval. Also, procurements were reported as sole sources when they should not have been.	
B.	Emergency Procurements	14
	Procurements were not supported by evidence of competition, some were weakly justified and others should not have been reported.	
II.	Compliance - Goods and Services	19
A.	Procurements Made Without Competition	19
	The Department failed to obtain competition on two purchases.	
B.	Service Provider Contracts	20
	The contracts with the providers of services for the clients were not procured in compliance with the Code.	

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III. Compliance - Construction 22

A. Unauthorized Procurements

Two procurements exceeded the Department's certification.

B. Construction Procurement Procedures 23

Two changes should be made to the Department's construction procurement procedures.

IV. General Transaction Control 24

Several exceptions noted on our previous audit were found again pertaining to late payments of invoices and discounts not taken.

RESULTS OF EXAMINATION

I. Compliance - General

A. Sole Source Procurements

Our examination of sole source procurements made by the Department for the quarters ending June, 1982 to March, 1985, indicated the following weaknesses:

1. Improper Sole Source Procurements

The following determinations do not adequately support sole source procurements and the transactions are questionable as such.

PO No.	Amount	Location	Justification
02-2975-83	$1,890.00	Midlands	After contacting four prospective suppliers, it has been determined that the vendor is the only supplier (bathroom partitions)
02-06-1574	$1,610.00	Midlands	same as above.
01-227-3	$1,149.00	Midlands	There are several other manufacturers of similar equipment but from past experience with other brands they do not have the reliability and accuracy required.
04-01-0323-84	$860.00	Coastal	The cushion is a polyurethane foam pressure molded...and bonded to the one piece cover. Self extinguishing and (M.U.S.S. - 302) flame retardant.

02-2853-84	$933.84	Midlands	Security officer uniforms must match and be compatible with existing uniforms in order to have standard appearance. Subject vendor specializes in uniforms and is recommended and considered the only vendor.
02-1121-84	$920.80	Midlands	same as above.
02-03-0915-84	$1,508.20	Midlands	same as above.
06-03-00440-4	$699.00	Pee Dee	...vendor is the sole manufacturer/ distributor for these items (Mattress and Wedge Pillow).
02-09-2902-84	$1,968.00	Midlands	...necessary to have requested furniture because its particular style and construction best serves our need for the staff development conference room.
02-05-1534-85	$592.50	Midlands	This is the only source in the area that has pre-treated, pre-cut lumber kits to make picnic tables.
04-09-2272-85	$549.00	Coastal	Agency informed by vendor in Columbia to purchase from Charleston distributor as only this disposal will fit in existing equipment.

06-09-D1244-5	$2,097.90	Pee Dee	We installed a small amount of this material in one dormitory approximately one year ago.... This order will allow us to furnish the one building with matching material. Future requirements will be procured competitively through the State Procurement Office.

It is clear from these transactions that the Department has not fully established the definition of a sole source procurement which is a unique item or service available from a single supplier. The regional offices must be required to seek more broad based competition.

2. Exempt Items Which Should Not Have Been Reported As Sole Sources

PO No.	Amount	Location	Description
02-2514-84	$803.60	Midlands	Books
02-2678-83	$983.00	Midlands	Educational assessment items.
04-03-1019-84	$545.00	Coastal	Books
04-05-1561-84	$520.00	Coastal	Subscriptions
02-11-3443-84	$700.00	Midlands	Copyrighted video cassettes used as specialized training...

Improper reporting exaggerates sole source activity for the Department and the State resulting in an overstatement of sole source procurements on the annual report to the General Assembly.

Conclusion

The Department should take immediate steps to curtail sole source activity and to accurately report these transactions to the Division of General Services. The central office should limit sole source procurement authority of regional offices. Amended reports should be filed to accurately show sole source procurement activity.

AGENCY RESPONSE

Comment: The department concurs that sole source procurements should be curtailed and that some of the sole source determinations were not appropriately justified. A meeting of all DMR purchasing officials has been held, and each deficiency was discussed as well as actions necessary to preclude similar deficiencies in the future.

The DMR procurement manual will be revised by July 1, 1986 to more fully define a sole source procurement and the criteria that must be met in each written determination made prior to procurement action.

Additionally, authority to make sole source determinations will be limited to regional superintendents and the Deputy Commissioner, Support Services. Amended reports will be submitted by June 15, 1986 to delete exempt items which should not have been reported as sole source. However, amended reports are not addressed in MMO letters that created the reporting requirement. DMR recommends that MMO publish guidelines on the format for submitting additions, deletions and changes to quarterly reports.

B. Emergency Procurements

Our examination of emergency procurements at the Department for the quarter ending June, 1982 to March, 1985, revealed the

following emergency procurements which have not been made in accordance with the Code:

1. No Evidence of Competition

During the period reviewed, the Department made emergency procurements totaling $458,263.57. We could not find evidence of competition for any of these.

The Procurement Code regulations, Section 19-445.2110, Subsection E, states as follows:

> The procedure used shall be selected to assure that the required supplies, services, or construction items are procured in time to meet the emergency. Given this constraint, such competition as is practicable shall be obtained. (Emphasis added)

The emergency procurement methodology is provided to streamline the competitive requirements of the Procurement Code, not eliminate them altogether, except in extreme cases. Time should have been available in many instances to, at least, make several phone calls to seek competition. Based on this requirement, many of these emergency procurements were handled improperly.

In our opinion, the following wording in the Department's purchasing policy and procedures manual contributed to this problem.

> ...The requirements of obtaining quotations or securing bids is waived to the extent necessary to reasonably assure that delivery of goods or services can meet the emergency need.

The Department should adhere to the Procurement Code regulations and require some competition where time permits. The purchasing policy and procedures manual should be rewritten to clarify the requirement.

AGENCY RESPONSE

Comment: DMR procurement officials have been advised to seek competition under emergency conditions when time permits. The DMR procurement manual will be revised by July 1, 1986 to include more specific instructions on solicitation of quotes or bids under emergency situations.

2. Inadequate Justifications

The following written determinations do not adequately justify emergency procurements and they are questionable as such:

PO No.	Amount	Justification/Determination
02-1753-85	$843.22	Emergency repairs required to safeguard conditions within old dorms. Post and "I" Beams impact protector. (Midlands)
02-08-2310-85	$929.56	same as above.
02-1834-85	$1,342.67	These parts were needed to repair heat in Laurel unit. (Midlands)
02-2052-85	$1,241.00	...is the only source for Peerless Pumps. This pump is necessary to operate steam heat equipment in the kitchen. (Midlands)
02-03-0880-85	$1,124.79	To get the spreader - feeder back into operation as quickly as possible without too much down time. (Midlands)
04-01-0180-85	$1,245.79	Needed to maintain moderate temperatures in the cottage...during the hot months in this area of the State. The windows in this cottage do not open. (Coastal)
04-02-0439-85	$2,975.84	same as above.

04-0724-84	$1,629.20	Needed to moderate temperatures in the infirmary during the hot months in this area of the State. The windows in the infirmary are the type that don't open. (Coastal)
03-2-0597-84	$965.40	Using one compressor to air-condition two dormitories with no backup compressor. (Whitten)
02-08-2403-85	$2,118.36	This pump is the emergency backup pump for all sewage in the lower half of the new dorm area. (Midlands)

The above transactions are examples of written justifications which fail to adequately justify the use of the emergency procurement method.

The Consolidated Procurement Code, Section 11-35-1570, states in part:

> "...A written determination of the basis for the emergency and the selection of the particular contractor shall be included in the contract file."

Based on these justifications, we do not concur with the emergency determinations. Justifications supporting emergency procurements must explain what happened to create the emergency.

Additionally, since most of these procurements could have been made through the small purchase method, particularly the seven that were less than $1,500 and only required two telephone quotes, they should not have been handled as emergencies.

AGENCY RESPONSE

Comment: Concur. DMR Purchasing officials agree that in several instances normal solicitation by telephone quotes would have precluded an emergency purchase. In other instances the reasons

given for the emergency determination were implied by the nature of the procurement but not explicitly stated. More complete justification will be required for future emergency purchases.

3. Emergency Procurements Not Exceeding $500.00

The following emergency procurements were less than $500.00. Competition is not required for these transactions so the use of emergency procurement methodology was improper.

PO No.	Amount	Justification/Determination
02-1860-85	$391.50	Dryer stopped working
03-12-6240-84	$289.00	Conference Table
04-09-2501-84	$30.50	Ambulance transportation
06-01-B0104-84	$150.57	50lbs. R-502 Freon
01-041-3	$37.39	Transparency Film

Department officials feel a need to be more restrictive than the Procurement Code by requiring emergency procurement justifications for transactions less than $500.00. If the decision is made to continue this practice, emergency procurements less than $500.00 should not be reported to the Division of General Services.

AGENCY RESPONSE

Comment: DMR requires emergency procurement determination for purchases under $500.00 for several reasons. The purchasing official may not know if the procurement price is fair and reasonable because of time constraints surrounding the emergency or because it was made by a person without procurement authority under emergency conditions (requiring ratification). In the future, DMR will not report procurements under $500.00 as emergencies.

Conclusion

The Department should take appropriate action to ensure that the competitive requirements of the Code are met, including those for emergency procurements. The procurement procedures manual should be changed to require such competition as is practicable under the circumstances is sought. Emergency procurements should be avoided when small purchase methods will satisfy the Department's needs. Emergency procurements should be avoided where those needs are predictable. Finally, amended reports should be filed to accurately show emergency procurement activity.

II. Compliance - Goods and Services

A. Procurements Made Without Competition

Our examination of transactions in the area of goods and services revealed that the following procurements in excess of $500 were not made in compliance with the Consolidated Procurement Code and the regulations.

Voucher	PO No.	Amount	Description
17039	06-11D1-5344	$682.50	Swimming Pool Services
11051	01-05001984	$546.24	File Cabinet

In accordance with the Procurement Code, purchases from $500.01 to $1,499.99 require the solicitation of two verbal quotations from two qualified sources of supply. Future transactions should be processed correctly.

AGENCY RESPONSE

Comment: The circumstances surrounding two purchases made without competition have been investigated. The purchase of swimming pool services for Pee Dee clients was improperly authorized by the recreational staff and ratification action was taken. The purchase of a special file cabinet for the central office without documenting a second oral solicitation was apparently an oversight on the part of the buyer and the reviewing official. Both have been admonished and action taken to insure that vendor quotations are properly documented and reviewed prior to issuance of a purchase order.

B. Service Provider Contracts

The Department contracts with county mental retardation boards in the counties which have such boards for the provision of services to eligible clients. The South Carolina Code of Laws, Section 44-21-840, requires that county mental retardation boards be the service delivery body of mental retardation services funded by State appropriations. Twenty-seven counties are covered by such boards. In the remaining nineteen counties, the Department contracts with private providers for these services. We found that these contracts with private providers have not been awarded in accordance with the Procurement Code. To complicate matters, there are no written procedures for the procurement of these services.

In our opinion, all of these contracts are covered by the Procurement Code. Since there is a legislative mandate for the Department to contract with county boards for the provision of these services, no procurement action is required where this applies. However, the contracts with private providers are procurement actions which must be made in accordance with the Code.

We recommend that the Department work with the Materials Management Office to develop an appropriate methodology for procuring such services in accordance with the Procurement Code and regulations.

Current contracts that exceed the Department's authority of $2,500 must be ratified in accordance with Section 19-445.2015, Subsection A, of the regulations.

Future procurements should be made in accordance with the Code.

AGENCY RESPONSE

Comment: DMR has appointed a task force for identifying, selecting, and procuring community program vendors. The task force has compiled descriptions of each program classification, sample contracts, and a list of existing contracts showing vendors and sponsors. Further work by the task force has been suspended pending the outcome of a request for exempt status of these services. The request package was delivered to the MMO on January 30, 1986 for presentation to the Budget and Control Board. If the request for exemption is not approved, DMR will work with MMO staff to develop appropriate methodology for procuring provider services in those counties not represented by Mental Retardation Boards.

Comment: If it is determined that these health care contracts were intended to be included within the scope of the procurement code, ratification will be requested. It appears, however, that if exemption status is granted as requested, this recommendation is rendered mute.

Comment: If it is determined that procurement of provider services was intended to be included within the provisions of the code and the DMR request for exemption is therefore denied, future procurements of these services will be made in accordance with the code.

III. Compliance - Construction

A. Unauthorized Procurements

In our review of fifty-six transactions in the construction area, we found most of them to be proper and accurately reported. However, we did encounter the following exceptions.

The two procurements listed below exceeded the Department's certification of $2,500. Further, they were not advertised in South Carolina Business Opportunities nor filed with the State Engineer.

P.O. No.	Amount
611121594	$4,800.00
309121304	$4,095.00

Section 11-35-3020(2)(a) of the Code requires that all invitations for bids be filed with the State Engineer's Office and be formally advertised in the official state government publication.

As these procurements exceeded the authority of the Department, they must be ratified in accordance with Section 19-445.2015(A) of the regulations.

AGENCY RESPONSE

Comment: The procurement for landscaping the Conway community residence was discussed with the State Engineer prior to award as part of permanent improvement project "Eight-bed Community Residence-Conway." Five bids were solicited and the contract was properly tabulated and awarded in the amount of $4,800.00 as reflected on the SE Form 610 submitted to the state engineer as required for PIP projects. The procurement was not advertised in the South Carolina Business Opportunities (SCBO) newspaper for two reasons:

1. The building was to be dedicated in honor of a Representative from Horry County two weeks from its acceptance.

2. Contacts with landscaping contractors disclosed none who subscribed to the SCBO.

The turnaround roadway construction was also accomplished as part of a PIP project, "Community Residence at Laurens." Due to an oversight caused by the expediency of need, the contract was not advertised in the SCBO. The residence is located on a rural highway and around a bend of this roadway. Because of a "close call" in backing a vehicle onto the highway, the turnaround was needed to alleviate the obvious traffic hazard. Again, five proposals were solicited and a contract in the amount of $4,095.00 was awarded to the low bidder.

Ratification by the State Engineer was requested May 1, 1986 in a letter which describes the circumstances surrounding these competitively procured services which exceeded the award authority of the department.

B. Construction Procurement Procedures

We reviewed the Department's procurement manual as it pertains to construction and recommend the following changes.

1. The manual gives authority for procurements over $2,500 to the Director of Engineering and Planning for repair service, renovation service, and construction service. Until certification is granted in the construction area, all procurements in excess of $2,500 must be routed through the Office of the State Engineer. The Department has no authority to proceed with construction related procurements greater than $2,500. This should be made clear in the manual.

2. The manual states that the Director of Engineering and Planning will select the five architectural and engineering firms to be interviewed by the selection committee. The Code requires that the five firms be selected by the selection committee, not a single

individual. The manual should be revised to more accurately indicate the actual procedure which is in compliance with the Procurement Code.

AGENCY RESPONSE

Comment: The manual will be changed by July 1, 1986 to reflect DMR's certification limits and appropriate routing for procurement approval.

Comment: Chapter IV of the manual will be revised by July 1, 1986 to reflect precisely the procedure in use that is in compliance with the Procurement Code.

IV. General Transaction Control

Our examination of the voucher packages at the Central Office revealed a number of exceptions, which we encountered during our previous audit, are still occurring. These areas of concern are:

1. Untimely payment of vouchers resulting in:
   a. possible levy of late payment interest charges; and
   b. lost cash discounts.
2. Failure to take discounts when available.

1. Untimely Payment of Invoices Resulting in:

A. Possible Levy of Late Payment Interest Charges.

The following vouchers were issued in excess of forty-five (45) days from the invoice date.

Voucher	Amount	Invoice Date	Due Date	Date Paid
4582	$1,186.00	08/31/84	10/10/84	10/26/84
14600	$707.87	02/05/85	03/05/85	05/02/85
16439	$970.00	04/18/85	04/28/85	06/10/85

11350	$1,000.00	12/10/84	01/09/85	03/07/85
7297	$606.50	10/31/84	11/30/84	12/17/84

Section 17 of the Procurement Code, as amended, states in part:

> "(A) Beginning January 1, 1983, all vouchers for payment of purchases of goods or services shall be delivered to the Comptroller General's office within thirty work days from receipt of the goods or services whichever is received later by the agency. After the thirtieth work day, the Comptroller General shall levy an amount not to exceed fifteen percent per annum from the funds available to the agency, such amount to be applied to the unpaid balance to be remitted to the vendor."

The Department should take the appropriate steps to ensure that regional offices forward all payment information to the central office and that Finance processes payments in the time allowed. Otherwise, interest penalties may result.

B. Untimely Processing of Vouchers Resulting in Lost Cash Discounts.

The following vouchers were not processed in a timely manner resulting in available cash discounts being lost.

Voucher	Discount Terms	Invoice Date	Date Paid	Lost Discount
6207	2% 10 net 30	10/18/84	12/05/84	$71.61
6207	2% 10 net 30	10/29/84	12/05/84	$26.33
13867	1% net 30	04/02/85	04/19/85	$1.31
13867	1% net 30	03/28/85	04/19/85	$10.82
1779	2% 10 net 30	07/24/84	08/29/84	$25.50
			TOTAL	$135.57

2. Vouchers Paid Timely But Discounts Not Taken

The following vouchers were paid within the vendors' alloted time frame for taking cash discounts but they were not taken. Additionally, the voucher review stamp by the Accounts Payable Department was initialed by the processing clerk as taking the discount, when in fact this was not the case.

Voucher	Discount Terms	Invoice Date	Date Paid	Lost Discount
2559	2% - 30 days	08/21/84	09/13/84	$33.85
2132	2% - 30 days	08/01/83	08/26/83	$11.80
4979	2% - 30 days	09/27/83	10/18/83	$18.26
5180	1% - 30 days	10/09/84	11/05/84	$16.51
14819	2% - 30 days	04/12/85	05/10/85	$27.41
2325	1% - 30 days	08/15/84	09/13/84	$55.57
			TOTAL	$163.40

As a result, funds have been expended unnecessarily. Due to the recurrence of transaction control problems we recommend the following be implemented:

1. Reaffirm to all regional offices the importance of processing invoices in a timely manner with the necessary documentation attached.
2. Develop a procedure whereby invoices which allow cash discounts can be expedited with full advantage to the department and the State.
3. Develop a procedure to standardize the documentation requirements of the voucher package to ensure good internal control and compliance to the Department's own internal policies.

4. Spot-check work performed in Accounts Payable to ensure compliance with internal procedures.

AGENCY RESPONSE

Comment: In a memorandum to the regional superintendents the Deputy Commissioner, Fiscal Affairs has reaffirmed the importance of processing invoices promptly with appropriate documents attached as set forth in the department's finance and accounting manual.

Comment: DMR has a process for expediting invoices. The Director of Finance has been instructed to insure that all potential discounts are considered and taken whenever it is cost effective to do so.

Comment: The department's voucher documentation requirements are set forth in its finance and accounting manual. Regional finance officials will continue to be reminded that compliance with the provisions of the manual is essential and that all incomplete voucher packages will be returned.

Comment: The department's finance staff, the Deputy Commissioner for Support Services, and staff within the Comptroller General's office will continue to spot check products of the department's accounts payable function. In addition, we are recommending by copy of this reply to Internal Audit that the IA staff spot check the work performed in accounts payable in conjunction with other reviews.

CERTIFICATION RECOMMENDATIONS

As enumerated in our transmittal letter, corrective action based on the recommendations in the body of this report, we believe, will in all material respects place the Department of Mental Retardation in compliance with the South Carolina Consolidated Procurement Code and ensuing regulations.

The exceptions enumerated in this report are reflective of noncompliance to the Code and regulations in the regional offices. We did not have any exceptions to the Code and regulations in the various areas that certification was requested.

Under the authority described in Section 11-35-1210 of the Procurement Code, subject to the corrective action, we recommend that the Department of Mental Retardation be certified to make direct agency procurements up to the following limits:

Procurement Areas	Recommended Certification Limits
Pharmaceutical Drugs	$600,000 Total Annual Contract(s)
Goods and Services, Central Warehouse Only for Object Codes 0300 Except for Quarterly Food Procurement Object Code 0318	*$10,000 Per Purchase Commitment

Goods and Services, Division of Engineering and Planning Only for Repair Services, Building Supplies, Construction Supplies.	*$25,000 Per Purchase Commitment
Construction Services	*$25,000 Per Purchase Commitment

*This limit means the total potential purchase commitment to the State whether single-year or multi-year contracts are used.

Larry G. Sorrell
Audit Manager

R. Voight Shealy, Manager
Audit and Certification

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RICHARD W. KELLY
ASSISTANT DIVISION DIRECTOR

May 28, 1986

Mr. Richard W. Kelly
Assistant Division Director
Division of General Services
300 Gervais Street
Columbia, South Carolina 29201

Dear Rick:

We have returned to the Department of Mental Retardation to determine the progress made toward implementing the recommendations in our audit report covering the period April 29, 1982 through May 31, 1985. During this visit, we followed up on each recommendation made in the audit report through inquiry, observation and limited testing.

The Audit and Certification Section observed that the Department of Mental Retardation has made substantial progress toward correcting the problem areas found and improving the internal controls over the procurement system. We feel that, 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.

We therefore, recommend that the certification limits as outlined in the audit report, be granted for a period of two (2) years.

Sincerely,

R. Voight Shealy

R. Voight Shealy, Manager
Audit and Certification

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