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**South Carolina  
Division of General Services**

# PROCUREMENT AUDIT AND CERTIFICATION

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SOUTH CAROLINA  
DEPARTMENT OF YOUTH SERVICES

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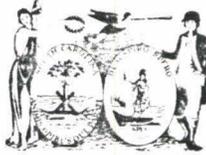
AGENCY

JANUARY 1, 1987 - DECEMBER 31, 1989

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DATE

STATE OF SOUTH CAROLINA  
*State Budget and Control Board*  
DIVISION OF GENERAL SERVICES



CARROLL A. CAMPBELL, JR., CHAIRMAN  
GOVERNOR

GRADY L. PATTERSON, JR.  
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DIVISION DIRECTOR

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

JAMES J. FORTH, JR.  
ASSISTANT DIVISION DIRECTOR

JAMES M. WADDELL, JR.  
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ROBERT N. McLELLAN  
CHAIRMAN, WAYS AND MEANS COMMITTEE

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

July 30, 1990

Mr. Richard W. Kelly  
Director  
Division of General Services  
1201 Main Street, Suite 420  
Columbia, South Carolina 29201

Dear Rick:

I have attached the procurement audit report of the Department of Youth Services and recommendations made by the Office of Audit and Certification. I concur and recommend the Budget and Control Board grant the agency a three (3) year certification as outlined in the audit report.

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

JJF/jm

Attachment

SOUTH CAROLINA DEPARTMENT OF YOUTH SERVICES  
PROCUREMENT AUDIT REPORT

JANUARY 1, 1987 - DECEMBER 31, 1989

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\*The agency's specific responses to items listed in the report have been inserted therein immediately following the items they refer to.

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**State Budget and Control Board**  
DIVISION OF GENERAL SERVICES



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

July 26, 1990

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 South Carolina Department of Youth Services for the period January 1, 1987 through December 31, 1989. 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 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 Youth Services is responsible for establishing and maintaining a system of internal control over procurement transactions. In fulfilling

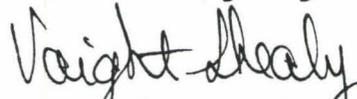
this responsibility, estimates and judgements by management are required to assess the expected benefits and related costs of control procedures. The objectives of a system are to provide management with reasonable, but not absolute, assurance of the integrity of the procurement process, that affected 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 Department of Youth Services in compliance with the South Carolina Consolidated Procurement Code and ensuing regulations.

  
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 Department of Youth Services.

Our on-site review was conducted February 26, 1990 through March 29, 1990 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, that the procurement system's internal controls were adequate and the procurement procedures, as outlined in the Department's Internal Procurement Operating Procedures Manual, were in compliance with the South Carolina Consolidated Procurement Code and its ensuing regulations.

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 Division of General Services shall review the respective governmental body's internal procurement operation, shall verify 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.

The Department is currently certified to make its procurements directly up to \$25,000 until November 10, 1990. The audit was performed primarily to determine if recertification is warranted.

During the audit, the Department requested the following increased certification limits:

<u>Category</u>	<u>Limit</u>
1. Goods and Services	\$50,000
2. Consultant Services	\$50,000
3. Information Technology	\$50,000
4. Construction	\$25,000

## SCOPE

Our examination encompassed a detailed analysis of the internal procurement operating procedures of the Department of Youth Services 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 random samples of procurement transactions for compliance testing and performed other audit 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:

- (1) 100% Sole source and emergency procurements (January 1, 1987 - December 1, 1989)
- (2) Purchase orders for the period July 1, 1987 through December 31, 1989:
  - a) Two hundred three randomly selected procurement transactions, each exceeding \$500
  - b) A block sample review of three hundred purchase orders in numerical sequence
- (3) Property management and fixed assets
- (4) Minority Business Enterprise Plan
- (5) Information Technology Plan
- (6) Procurement staff and training
- (7) Economy and efficiency of the procurement process

RESULTS OF EXAMINATION

We noted four instances of procurements made without proper competition. These were as follows:

<u>Purchase Order</u>	<u>Amount</u>	<u>Description</u>
000500-01	\$ 760.00	Pens
000378	1,450.00	Insurance
001633	1,721.00	Videodisc player
104580	2,998.00	Computer software

Items 1 and 2 were not supported by evidence of competition. Consolidated Procurement Code Regulation 19-445.2100, Subsection B, requires solicitation of verbal quotes from a minimum of two qualified sources for procurements from \$500.01 to \$1,499.99.

Item 3 was supported by only two quotations. Regulation 19-445.2100, Subsection B, requires solicitations of written quotations from a minimum of three qualified sources for procurements from \$1,500.00 - \$2,499.99.

Item 4 was not supported by evidence of competition. The Department erroneously thought this item was exempt. As a result, competition was not solicited. Regulation 19-445.2035, Subsection A, requires solicitation of sealed bids from a minimum of three qualified sources for procurements from \$2,500.00 to \$4,999.99.

The Department is in violation of the Code on the four procurements. We recommend that the Department review procurements more closely to insure that the competition requirements are met and properly documented.

AGENCY RESPONSE

All four noted exceptions involved procurements which were not supported by evidence of proper competition. The following is an explanation of the circumstances surrounding these procurements.

Item 1 - Pens @ \$760 - Proper competition was received on this item. However, due to administrative error, complete documentation indicating the receipt of these bids was not attached to the package as it should have been. Care has been taken to insure that all procurement packages are now properly completed so that evidence of compliance with the procurement code will be provided.

Item 2 - Insurance @ \$1,450 - Verbal quotes were obtained, but again evidence supporting this competition was not included in the procurement package. Greater attention is being provided to insure that procurement documents are properly completed.

Item 3 - Videodisc player @ \$1,721 - Written quotations were received by three qualified vendors. Through administrative error, one of these quotations was not included in the procurement package. Due care will be taken in the future to insure that evidence of competition is included in the procurement documentation.

Item 4 - Computer software @ \$2,998 - Materials which carry a copyright are exempt from the procurement code. Our staff incorrectly thought that this computer software contained a copyright provision. Therefore, proper procurement action was not taken. Our staff now clearly understands the procurement regulation as it applies to copyrights and will insure that future procurements of such material are properly handled.

No evidence has been found to suggest any intent to circumvent the procurement process. Administrative procedures have been strengthened to insure that evidence of competition is included in the procurement packages. The copyright issue as it applies to computer software has been clarified so that such misinterpretations will not be repeated.

No further corrective or administrative action is warranted in connection with this audit. These results confirm the agency's strong commitment to fiscal integrity and accountability. We will continue to strive for excellence and zero audit exceptions in the future.

CERTIFICATION RECOMMENDATIONS

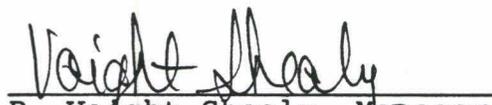
As enumerated in our transmittal letter, corrective action based on the recommendations in the body of this report, we believe, will in all material respects place the South Carolina Department of Youth Services in compliance with the State Consolidated Procurement Code and ensuing regulations.

The Office of Audit and Certification will perform a follow-up review in accordance with Section 11-35-1230(1) of the Procurement Code to determine if the proposed corrective action has been taken by the Department. Based on the follow-up review, and subject to this corrective action, we will recommend that the Department of Youth Services be recertified to make direct agency procurements for a period of three (3) years as follows:

<u>Procurement Area</u>	<u>Recommended Certification Limits</u>
I. Goods and Services	*\$50,000 per purchase commitment
II. Consultant Services	*\$50,000 per purchase commitment
III. Information Technology in accordance with the approved Information Technology Plan	*\$50,000 per purchase commitment
IV. Construction Services	*\$25,000 per purchase commitment

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

  
\_\_\_\_\_  
Marshall B. Williams, Jr. Supervisor  
Audit and Certification

  
\_\_\_\_\_  
R. Voight Shealy, Manager  
Audit and Certification



Richard E. McLawhorn  
Commissioner

# Youth Services

P.O. Box 7367/Columbia, S.C. 29202  
Telephone (803) 737-4362

June 29, 1990

Mr. R. Voight Shealy, Manager  
Office of Audit and Certification  
State Budget and Control Board  
Columbia, S.C. 29201

Dear Mr. Shealy:

My staff and I have reviewed the draft procurement audit for the Department of Youth Services. While I am very pleased with these positive results, we have thoroughly examined the circumstances surrounding the four discrepancies that were noted and have taken corrective action to insure that these errors are not repeated.

I am pleased that you plan to recommend increasing our internal procurement authorization. This change will be very helpful in streamlining the procurement process for our agency.

I appreciate the professional approach of your staff in conducting this audit. A major goal of any audit is to assist the agency in identifying and correcting potential problem areas, and your staff was certainly helpful in this regard. While my goal is for the agency to have zero audit exceptions, I feel that we have taken a major step in that direction as a result of the assistance provided by your staff.

In accordance with your recommendation, I will not request an exit conference. However, if you decide that we need to meet at some future time, please do not hesitate to contact me. Your auditors thoroughly briefed my staff at the conclusion of the audit. My written response to their findings is attached.

If you need anything further concerning this matter, please let me know. Thank you again for your cooperation and assistance.

Sincerely,

A handwritten signature in cursive script that reads "Rich".

Richard E. (Rich) McLawhorn  
Commissioner

STATE OF SOUTH CAROLINA  
**State Budget and Control Board**  
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JESSE A. COLES, JR., Ph.D.  
EXECUTIVE DIRECTOR

July 26, 1990

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 reviewed the response to our audit report of the Department of Youth Services covering the period of January 1, 1987 - December 31, 1989. Combined with observations made during our site visit, this review has satisfied the Office of Audit and Certification that the Department has corrected the problem areas found and that internal controls over the procurement system are adequate.

We, therefore, recommend that the certification limits for the Department of Youth Services outlined in the audit report be granted for a period of three (3) years.

Sincerely,

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

R. Voight Shealy, Manager  
Audit and Certification

VS/jm

