PROCUREMENT
AUDIT AND
CERTIFICATION

SOUTH CAROLINA COMMISSION
ON ALCOHOL AND DRUG ABUSE
AGENCY

JULY 1, 1986 - SEPTEMBER 30, 1988
DATE
November 3, 1989

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

Dear Rick:

Attached is the final South Carolina Commission on Alcohol and Drug Abuse procurement 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,

James J. Forth, Jr.
Assistant Division Director

/llj

Attachment
SOUTH CAROLINA COMMISSION ON ALCOHOL AND DRUG ABUSE
AUDIT REPORT

JULY 1, 1986 - SEPTEMBER 30, 1988
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November 1, 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 South Carolina Commission on Alcohol and Drug Abuse for the period July 1, 1986 through September 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 South Carolina Commission on Alcohol and Drug Abuse 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 South Carolina Commission on Alcohol and Drug Abuse 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 South Carolina Commission on Alcohol and Drug Abuse 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 sixty random samples of expenditure transactions which exceeded $500.00 each from the voucher records for the period July 1, 1986 - September 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;

SUMMARY OF AUDIT FINDINGS

Our audit of the procurement system for the South Carolina Commission on Alcohol and Drug Abuse (the Commission) produced findings and recommendations in the following areas.

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

Eleven procurements out of a sample of sixty were made without evidence of competition. One of these exceeded the Commission's procurement authority.

II. Compliance - Sole Source and Emergency Procurements

A. Restrictive Specification

The Commission made a sole source procurement for printing of a bimonthly newsletter based on a restrictive specification which eliminated competition.

B. Emergency Procurement Caused By Poor Planning

As a result of poor advanced planning the Commission was forced to use the emergency procurement source selection method to satisfy its requirements in two cases.
III. Minority Business Enterprise Utilization Plan

The Commission did not have an approved Minority Business Utilization Plan for fiscal year 1987/88 and does not have an approved plan for fiscal year 1988/89. The Commission also failed to file the required quarterly reports for those same fiscal years.

IV. Review of the Internal Procurement Procedures Manual

Our review of the Internal Procurement Procedures Manual revealed several areas that need to be added, changed or expanded.

V. Procurement Procedures

Our observation of procurement procedures and internal controls resulted in several recommendations for improvement.

VI. Procurement Training

The exceptions noted in this report indicate a need for training personnel in procurement and the Consolidated Procurement Code.
RESULTS OF EXAMINATION

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

Our examination of procurement activity at the Commission included a test of sixty (60) randomly selected transactions from the period July 1, 1986 through September 30, 1988. Eleven of these procurements were not supported by evidence of competition, or by sole source or emergency determinations.

<table>
<thead>
<tr>
<th>Item</th>
<th>Voucher</th>
<th>Voucher Amount</th>
<th>Item/Service Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>363</td>
<td>$ 694.00</td>
<td>Fidelity bonds</td>
</tr>
<tr>
<td>2</td>
<td>487</td>
<td>660.45</td>
<td>Printed catalogues</td>
</tr>
<tr>
<td>3</td>
<td>1224</td>
<td>588.00</td>
<td>Forms</td>
</tr>
<tr>
<td>4</td>
<td>1697</td>
<td>615.72</td>
<td>File cabinet, chair</td>
</tr>
<tr>
<td>5</td>
<td>336</td>
<td>997.50</td>
<td>Typewriter</td>
</tr>
<tr>
<td>6</td>
<td>351</td>
<td>605.71</td>
<td>Office supplies</td>
</tr>
<tr>
<td>7</td>
<td>1430</td>
<td>1,248.05</td>
<td>Maintenance, dictaphone</td>
</tr>
<tr>
<td>8</td>
<td>153</td>
<td>800.00</td>
<td>Maintenance, data module</td>
</tr>
<tr>
<td>9</td>
<td>1718</td>
<td>1,805.00</td>
<td>Software module</td>
</tr>
<tr>
<td>10</td>
<td>759</td>
<td>2,495.00</td>
<td>Software fees</td>
</tr>
<tr>
<td>11</td>
<td>88</td>
<td>30,012.00</td>
<td>Maintenance, computer</td>
</tr>
</tbody>
</table>

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." Items 1 through 8 above needed only documentation of two (2) telephone quotes to meet this requirement. However, this was not done.

Regulation 19-445.2100, Subsection B, Item 3, which covers procurements from $1,500.00 to $2,499.99 requires "Solicitation of written quotations from three qualified sources of supply shall be made and documented..." Items 9 and 10 above fall into this category.
Section 11-35-1520 of the Procurement Code states, "Contracts amounting to $2,500.00 or more shall be awarded by competitive sealed bidding except as otherwise provided in Section 11-35-1510." Regulation 19-445.2035 specifies that for procurements above $10,000.00, competitive sealed bids must be solicited from a minimum of ten qualified source. Otherwise, if appropriate, these procurements must be supported by sole source or emergency procurement determinations. Item 11 above falls into this category.

Further, the Commission's procurement limit is $2,500.00, meaning item 11 is an unauthorized procurement. As such, the Commission Director must request ratification of this procurement from the Director of the Division of General Services. In accordance with Regulation 19-445.2015, the request must specify the facts and circumstances surrounding the act, what corrective action is being taken to prevent recurrence, action taken against the individual committing the act, and documentation that the price is fair and reasonable.

We recommend that the competition requirements of the Code be adhered to for all future procurements.

II. Compliance - Sole Source Procurements

We examined all sole source and emergency procurements, the supporting documents and the quarterly reports of this activity for the period July 1, 1986 through July 1, 1988, for the purpose of determining the appropriateness of the procurement actions taken and the accuracy of the reports submitted to the Division
of General Services. We found the majority of these transactions to be appropriate, however, we noted the following exceptions.

A. Restrictive Specifications

The Commission made a sole source procurement for printing its bimonthly newsletter. The total potential commitment was $18,000 since there was a one-year extension option. The sole source was justified by the Commission based on performance, quality and other characteristics needed to meet its requirements.

One of the specifications listed in the contract is a requirement that the vendor be within a ten mile proximity of the Commission to allow for accessibility and to keep travel costs at a minimum. This requirement effectively limits competition to only one vendor. The specification was restrictive and unreasonable. The sole source procurement was inappropriate.

Finally, a multi-term determination was not prepared in accordance with Section 11-35-2030 to justify the use of a multiple year contract.

We recommend that the optional extension not be exercised. The Materials Management Officer has ruled in a protest hearing that for a contract to be effective for more than one year it must be supported by a multi-term determination. Unrestricted specifications should be developed and a competitive solicitation should be processed through the State Materials Management Office to establish a contract for these printing services. If a multiple year contract is used a multi-term determination must be prepared to justify the use of any contract that exceeds twelve months.
B. Emergency Procurements Caused by Poor Planning

As a result of poor advanced planning of procurement needs, the Commission was forced to use the emergency procurement source selection method to satisfy its requirements on the following transactions.

<table>
<thead>
<tr>
<th>P.O.</th>
<th>Amount</th>
<th>Quarter Ending</th>
<th>Determination/Justification</th>
</tr>
</thead>
<tbody>
<tr>
<td>3053</td>
<td>$2,841.56</td>
<td>6/87</td>
<td>Training manuals</td>
</tr>
<tr>
<td>3077</td>
<td>8,841.00</td>
<td>6/87</td>
<td>Printing</td>
</tr>
</tbody>
</table>

Poor planning for supply needs is not a justification for emergency procurements. This situation should be avoided with proper advanced planning, scheduling and accurate inventory management. The Commission should exercise more care in the future to reduce emergency procurements resulting from poor planning.

III. Minority Business Enterprise Utilization Plan

The Commission did not have an approved Minority Business Enterprise Utilization Plan (MBE) for fiscal year 1987/88 and does not have an approved plan for fiscal year 1988/89. Additionally, the required quarterly reports of minority business activity for these years have not been submitted to the Office of Small and Minority Business Assistance.

Section 11-35-5240 of the Procurement Code requires that all governmental bodies covered by the Code obtain approval of MBE plans from the Office of Small and Minority Business Assistance of the Governor's Office. Additionally, item (2) of this same section of the Code requires that progress reports be
submitted to the Governor's Office not later than ten days after the end of each fiscal quarter.

We recommend that the Commission file with the Governor's Office an MBE plan for the current fiscal year. Also, the quarterly reports should be filed as soon as possible.

IV. Review of Internal Procurement Procedures Manual

Our review of the current Internal Procurement Procedures Manual of the Commission revealed the following areas which need to be added, changed or expanded:

1). Exemption: Update the exemption list with the most current one available.

2). Procurement Authority: Clarification is needed for Section B, Item Ic. This section indicates the requestor submits the purchase order to the financial officer for review and approval. However, the flow chart on Appendix A, indicates the requestor makes the award to the lowest bidder, and then forwards the purchase order for signature. Authority to commit the funds of the agency for procurement requirements must be clarified.

3). Unauthorized Procurements: Address the procedures for ratification of unauthorized procurements as stated in Regulation 19-445.2015.

4). Lease of Real Property and Equipment: Rewrite this section of the manual to coincide with current policies and regulations of the Budget and Control Board.
5). Multi-term: Define the requirements for using multi-term contracts and the written determinations which must support these contracts as stated in Regulation 19-445.2135.

V. Procurement Procedures

During our audit, we noted several procedural weaknesses which resulted in the following recommendations for improvement.

1). Term Contract: Procurements made from state term contracts should be documented on the purchase order by referencing the contract numbers.

2). Exempt Items: Procurements of exempt items should be noted as such.

3). Telephone Quotations: The Commission should develop a standardized telephone quotations form to use to document evidence of competition. The state requisition has a form on the reverse side.

4). Confirmation Orders: When a verbal purchase order is given to the vendor the purchase order should be documented as "Confirming Order - Do Not Duplicate" to avoid duplication.

5). Catalogs: Copies of catalog pages should be furnished as supporting documentation when seeking competitive prices in catalogs.

VI. Procurement Training

The exceptions noted in this report indicate a need for training of Commission personnel in procurement and the requirements of the South Carolina Consolidated Procurement Code.
As a possibility, the Research and Training Section of the Division of Human Resource Management conducts such training courses.

We recommend that the Commission seriously consider seeking training in procurement and the Consolidated Procurement Code.
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 South Carolina Commission on Alcohol and Drug Abuse in compliance with the South Carolina Consolidated Procurement code and ensuing regulations.

In accordance with Code Section 11-35-1230(1) the Commission should take this corrective action prior to March 31, 1989. Subject to this corrective action and verification by this office, we recommend that the Commission 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.

R. Voight Shealy, Manager
Audit and Certification
May 19, 1989

Budget and Control Board
Division of General Services
Materials Management Office
1201 Main Street, Suite 600
Columbia, South Carolina 29201

Attn: Voight Shealy

Dear Mr. Shealy:

The South Carolina Commission on Alcohol and Drug Abuse has reviewed the revised draft of the procurement audit report for the period of July 1, 1986 - September 30, 1988, and concurs with the findings and the recommendations.

We are in the process of taking corrective action to comply with the South Carolina Procurement Code and Regulations. The Minority Business Enterprise Utilization Plan has been forwarded for approval.

Sincerely,

William J. McCord
Director

WJM/et
November 1, 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 South Carolina Commission on Alcohol and Drug Abuse to determine the progress made toward implementing the recommendations in our audit report covering the period of July 1, 1986 - September 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 Commission 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 Commission 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,

R. Voight Shealy, Manager
Audit and Certification