PROCUREMENT
AUDIT AND
CERTIFICATION

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DEPARTMENT OF MENTAL RETARDATION

AGENCY
JULY 1, 1988 - SEPTEMBER 30, 1990

DATE
April 8, 1991

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

Dear Rick:

I have attached the Department of Mental Retardation's procurement audit report and recommendations made by the Office of Audit and Certification. I concur and recommend the Budget and Control Board grant the Department a three (3) year certification as noted in the audit report.

Sincerely,

James J. Forth, Jr.  
Assistant Division Director

JJF/jjm  
Attachment
DEPARTMENT OF MENTAL RETARDATION

PROCUREMENT AUDIT REPORT

JULY 1, 1988 - SEPTEMBER 30, 1990
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<td>16</td>
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</tbody>
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NOTE: The Department's responses to issues noted in this report have been inserted immediately following the issues they refer to.
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 examined the procurement policies and procedures of the South Carolina Department of Mental Retardation for the period July 1, 1988 through September 30, 1990. 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 and Department 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 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 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 Department of Mental Retardation in compliance with the South Carolina Consolidated Procurement Code and ensuing regulations.

R. Voight Shealy / CFE, Manager
Audit and Certification
INTRODUCTION

We conducted an examination of the internal procurement operating procedures and policies of the Department of Mental Retardation. Our on-site review was conducted November 5 through December 21, 1990 and was made under 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, as outlined in the Department's Procurement Procedures Manual, 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
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.

On June 28, 1988, the Budget and Control Board granted the Department the following procurement certifications:

<table>
<thead>
<tr>
<th>Category</th>
<th>Certified Limit</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Goods and Services</td>
<td>$ 25,000 per purchase commitment</td>
</tr>
<tr>
<td>2. Construction Services</td>
<td>25,000 per purchase commitment</td>
</tr>
<tr>
<td>3. Pharmaceutical Drugs</td>
<td>800,000 total annual contract(s)</td>
</tr>
</tbody>
</table>

The Department's current procurement certification expires June 28, 1991. This audit was performed primarily to determine if recertification is warranted. Additionally, the Department requested the following increased certification limits:

<table>
<thead>
<tr>
<th>Category</th>
<th>Requested Limit</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Goods and Services</td>
<td>$ 50,000 per purchase commitment</td>
</tr>
<tr>
<td>2. Construction Services</td>
<td>100,000 per purchase commitment</td>
</tr>
<tr>
<td>3. Consultant Services</td>
<td>50,000 per purchase commitment</td>
</tr>
<tr>
<td>4. Information Technology</td>
<td>50,000 per purchase commitment</td>
</tr>
<tr>
<td>5. Pharmaceutical Drugs</td>
<td>1,000,000 total annual contract(s)</td>
</tr>
</tbody>
</table>
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 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.

We statistically selected random samples for the period July 1, 1988 - September 30, 1990, 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, review of the following:

1. One hundred seventy-seven randomly selected procurement transactions
2. Selection and approval of fifteen professional service contracts
3. Eleven permanent improvement contracts for approvals and compliance with the Manual for Planning and Execution of State Permanent Improvements
4. Block sample of five hundred sequentially numbered purchase orders
5. All sole source procurements (10/1/87 - 9/30/89)
6. All emergency procurements (10/1/87 - 9/30/89)
7. All trade-in sales (10/1/87 - 9/30/89)
8. The Department's pharmaceutical bid
9. Minority Business Enterprise Plan and quarterly progress reports
(10) Nine real property lease agreements
(11) Procurement staff and training
(12) Adequate audit trails
(13) Evidence of competition and sealed bidding procedures
(14) Warehousing, inventory and disposition of surplus property procedures
(15) Property management procedures
(16) Economy and efficiency of the procurement process
SUMMARY OF AUDIT FINDINGS

Our audit of procurement management at the Department of Mental Retardation, hereinafter referred to as the Department, produced findings and recommendations in the following areas:

I. Compliance - General
   A. Procurements Without Evidence of Competition

   We noted five procurements that were made without competition, sole source or emergency procurement determinations. Three of these procurements were also unauthorized.

   B. Procurements Without Written Quotations

   We noted three procurements that were not supported by written quotations.

   C. Late Payments

   We noted three late payments.

   D. Overpayment

   We noted one procurement with an error that resulted in an overpayment.

II. Construction

   We noted one contract without the proper documentation.
III. Procurement Procedures

A. Sealed Bids

We made a recommendation for enhancing the Department's sealed bid procedures.

B. Extension of Quotation Deadline

We noted one written quotation deadline that was extended without documentation.
RESULTS OF EXAMINATION

I. Compliance - General

To test for general compliance with the Consolidated Procurement Code, hereinafter referred to as the Code, we selected a sample of transactions as described in the scope of this report. As a result of this testing, we noted the following exceptions:

A. Procurements Without Evidence of Competition

The following five procurements were not supported by evidence of competition, sole source or emergency procurement determinations, interagency exemptions or a contract reference:

<table>
<thead>
<tr>
<th>Item</th>
<th>PO#</th>
<th>Amount</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>2-1-0000601-0</td>
<td>$18,111.75</td>
<td>Maintenance agreement for copiers</td>
</tr>
<tr>
<td>2</td>
<td>3-1-0003610-8</td>
<td>11,644.50</td>
<td>ENG field recording system</td>
</tr>
<tr>
<td>3</td>
<td>2-1-000901-9</td>
<td>6,000.00</td>
<td>Psychological testing</td>
</tr>
<tr>
<td>4</td>
<td>6-1-0002121-9</td>
<td>1,150.00</td>
<td>Funeral services</td>
</tr>
<tr>
<td>5</td>
<td>1-1-0002583-0</td>
<td>2,000.00</td>
<td>Staff training consultant</td>
</tr>
</tbody>
</table>

The Code requires all procurements above $500.00, that are not exempt, sole source or emergencies, or on contract, to be competed in accordance with Regulation 19-445.2100 or 19-445.2035.

Furthermore, items 1-3 exceeded the Department's certification levels and were therefore unauthorized. The Department must submit a request for ratification to the State Materials Management Officer in accordance with Regulation 19-445.2015 for each of these procurements.

We recommend that the Department adhere to the methods of source selection as outlined in Section 11-35-1510 of the Code.
DEPARTMENT RESPONSE

1. 2-1-0000601-0 $18,111.75, Maintenance Agreement, Copiers

Midlands Center renewed this contract thinking they had an additional year of renewal. After reviewing the contract they now understand how they made the error and will monitor more closely in the future.

DMR submitted a ratification request to Mr. James Forth on March 14, 1991.

2. 3-1-0003610-8 $11,644.50, ENG Recording System

After reviewing the documentation in the procurement packet it appears that this procurement should have been declared a sole source. Whitten Center processed a requisition through MMO and it appears MMO returned the requisition for lack of bidders. If you look at Mr. Chandler's hand written note he refers to attaching the S.S. to the purchase order.

DMR submitted a ratification request to Mr. James Forth on March 14, 1991.

3. 2-1-0000901-9 $6,000.00, Psychological Testing

At the time of purchase Midlands Center thought this type of service was exempt from the procurement code. After reviewing the exemption, Midlands now understands that this service is not exempt.

DMR submitted a ratification request to Mr. James Forth on March 14, 1991.

4. 6-1-0002121-9 $1,150.00, Funeral Service

Pee Dee Center had intended to declare this purchase an emergency but failed to process. Procurement Officers have been reminded to process all emergency justifications once the purchase is made.

5. 1-1-0002583-0 $2,000.00, Staff Training Consultant

This procurement was a sole source. The sole source was typed but was not processed. Purchasing officers have been instructed to insert the words "sole source" under contract number on the purchase order so the file clerk can verify all documentation is attached to the purchase order prior to final closing.
B. Procurements Without Written Quotations

The following three procurements were not supported by written quotations:

<table>
<thead>
<tr>
<th>Item</th>
<th>PO#</th>
<th>Amount</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>1-1-0001105-9</td>
<td>1,687.44</td>
<td>Printer maintenance</td>
</tr>
<tr>
<td>2</td>
<td>1-1-0001898-9</td>
<td>1,799.75</td>
<td>Computer equipment</td>
</tr>
<tr>
<td>3</td>
<td>1-1-0004232-1</td>
<td>1,767.78</td>
<td>Paper</td>
</tr>
</tbody>
</table>

Regulation 19-445.2100 (B)(3) requires the solicitation of written quotations from at least three qualified sources on purchases from $1,500.00 to $2,499.99. Additionally, the Department's Procurement Manual, Section 3.3.19.3, requires the receipt of a written quotation before the issuance of a purchase order on purchases from $1,500.00 to $2,499.99.

We recommend that the Department adhere to this regulation and to its internal procedures as outlined above.

DEPARTMENT RESPONSE

1. 1-1-0001105-9 $1,687.44, Printer Maintenance
2. 1-1-0001898-9 $1,799.75, Computer Equipment

Phone quotes were received from three vendors on both purchase orders. Procurement staff failed to follow-up with vendor requesting written quotes. Procurement staff has been reminded to always request written or fax quotes for bids between $1500 and $2500. Also, the file clerk is now verifying that all documentation is filed with the purchase order.

3. 1-1-0004232-1 $1,767.78, Paper

Written quotes were received from two of the three vendors bidding. Unfortunately the one quote that was missing is the one to the winning vendor. Purchasing staff has been reminded to always request written or fax quotes. File clerk is now verifying that all quotes are attached to the purchase order.
C. Late Payments

The following three payments were not made on a timely basis:

<table>
<thead>
<tr>
<th>Item</th>
<th>Voucher#</th>
<th>Voucher Date</th>
<th>Invoice Date</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>49081</td>
<td>11/30/88</td>
<td>04/09/87</td>
<td>Printers</td>
</tr>
<tr>
<td>2</td>
<td>36948</td>
<td>08/04/88</td>
<td>04/27/88</td>
<td>Printer maintenance</td>
</tr>
<tr>
<td>3</td>
<td>46425</td>
<td>10/31/88</td>
<td>08/22/88</td>
<td>Annual typewriter maintenance contract</td>
</tr>
</tbody>
</table>

Section 11-35-45 of the Code states in part, "...all vouchers for payment of purchases of goods and services shall be delivered to the Comptroller General's Office within thirty work days from receipt of the goods or services (or the resulting invoice), whichever is received later by the agency..."

We recommend that the Department pay invoices in a timely manner.

DEPARTMENT RESPONSE

1. Voucher 49081, Printers
2. Voucher 36948, Printer Maintenance
3. Voucher 46425, Typewriter Maintenance

Accounts Payable, Procurement and Receiving departments will make every effort to process the required documents in a timely manner so payments can be made in the required time period.

D. Overpayment

The Department incorrectly recorded the award amount from the vendor's bid onto PO# 1-1-0002484-0. This error resulted in an overpayment of $90.00.

We recommend that the Department request reimbursement from the vendor and evaluate their current review procedures for the detection of these types of errors.
DEPARTMENT RESPONSE

1. 1-1-0002484-0

An error was made when typing the purchase order. Procurement department now is verifying all documents prior to closing the project.

On March 14, 1991, SCDMR requested a refund from vendor.

II. Construction

For our audit period, we tested fifteen professional service selection contracts and eleven construction contract procurements. We noted the following exception:

The Department did not obtain or submit to the State Engineer's Office the contractor's certification of insurance, a performance bond, a labor and materials payment bond and a power of attorney for a contract associated with permanent improvement project #8933.

Article 9, Section 11-35-3030 of the Code requires these bonds when contracts are awarded through the construction procurement procedures outlined in Section 11-35-3020. The Manual for Planning and Execution of State Permanent Improvements requires a certificate of insurance and a power of attorney.

We recommend that the Department obtain and submit the required bonds and documents on future construction contracts.
DEPARTMENT RESPONSE

DMR Engineering concurs with the audit finding that the documents required to accompany the department's contract with Rigdon Office Supply were not forwarded to the State Engineer's Office. However, this is an exception that apparently resulted from these specific documents being misplaced or misfiled. Engineering was ensured that insurance and bonding was in place at the time of contract. Engineering is also attempting to get the appropriate documents required.

Engineering will continue to require appropriate bonds and insurance certificates on all P.I. Projects and will review all files to ensure they are included in the State Engineers packet.

III. Procurement Procedures

The following recommendations are made to enhance the procurement procedures of the Department.

A. Sealed Bids

We noted twenty-one sealed bid files that did not have supporting information to verify the date and time that the bids were received.

The Department date stamps the envelopes as bids are received but they are discarded at the bid opening. The actual bids are not stamped or dated for supporting documentation.

We recommend that the Department date stamp the bid form of each responding vendor at the bid opening so that receipt of timely responses can be verified.
DEPARTMENT RESPONSE

All sealed bids are currently being stamped with a date and a time stamp.

B. Extension of Quotation Deadline

The Department extended a written quotation deadline for three days without explanation. Two bidders had responded as required, the third was two days late and was awarded the contract as low bidder. The procurement was made on PO 3100045229 and was for the maintenance of a sprinkler system.

We recommend that the Department notify all responding vendors in the event that a deadline must be extended. The reasons for that extension should justify such action and should be fully documented and included in the Department's files.

DEPARTMENT RESPONSE

We concur with the recommendation. All future quotation extensions will be done through written notice to all vendors with a copy of the extension placed with the quotation.
CERTIFICATION RECOMMENDATIONS

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 Department of Mental Retardation in compliance with the South Carolina Consolidated Procurement Code.

We will perform a follow-up review by April 30, 1991 to ensure that the Department has completed this corrective action.

Under the authority described in Section 11-35-1210 of the Procurement Code, subject to this corrective action, we recommend the Department of Mental Retardation be recertified to make direct agency procurements for three (3) years up to the limits as follows:

<table>
<thead>
<tr>
<th>PROCUREMENT AREAS</th>
<th>RECOMMENDED CERTIFICATION LIMITS</th>
</tr>
</thead>
<tbody>
<tr>
<td>Pharmaceutical Drugs</td>
<td>*$1,000,000 Total annual contract(s)</td>
</tr>
<tr>
<td>Goods and Services</td>
<td>*$50,000 Per purchase commitment</td>
</tr>
<tr>
<td>Consultant Services</td>
<td>*$50,000 Per purchase commitment</td>
</tr>
<tr>
<td>Construction Services</td>
<td>*$100,000 Per purchase commitment</td>
</tr>
<tr>
<td>Information Technology</td>
<td>*$50,000 Per purchase commitment</td>
</tr>
</tbody>
</table>

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

James M. Stiles, PPB
Audit Manager

R. Voight Shealy, CFE, Manager
Audit and Certification
April 5, 1991

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 Department of Mental Retardation's response to our audit report for July 1, 1988 - September 30, 1990. 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 that internal controls over the procurement system are adequate.

Therefore, we recommend that the Budget and Control Board grant the Department of Mental Retardation the certification limits noted in our audit report for a period of three (3) years.

Sincerely,

[Signature]

R. Voight Shealy, Manager
Audit and Certification

RVS/jjm