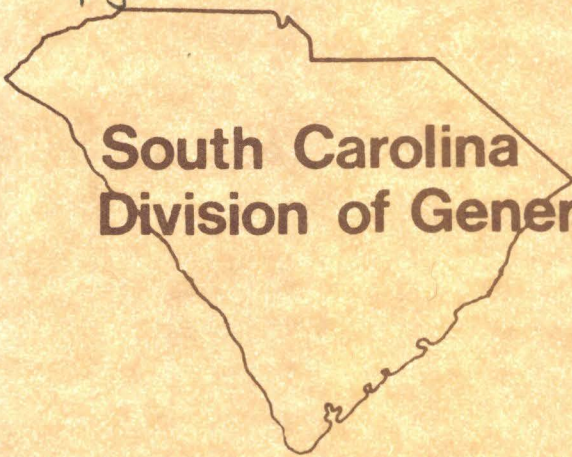


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**South Carolina
Division of General Services**

PROCUREMENT AUDIT AND CERTIFICATION

DEPARTMENT OF MENTAL RETARDATION
AGENCY

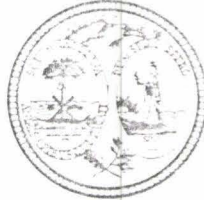
JULY 1, 1985 - SEPTEMBER 30, 1987
DATE

STATE OF SOUTH CAROLINA
BUDGET AND CONTROL BOARD
DIVISION OF GENERAL SERVICES
1201 MAIN STREET, SUITE 420
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ROBERT N. McLELLAN
CHAIRMAN,
HOUSE WAYS AND MEANS COMMITTEE

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

April 25, 1988

Mr. Richard W. Kelly
Division Director
Division of General Services
1201 Main Street, Suite 400
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 the Department of Mental Retardation three (3) years certification as outlined in the audit report.

Sincerely,

A handwritten signature in cursive script that reads "D.L. McMillin".

D.L. McMillin, CPPO
Acting Materials Management Officer

Attachment

TABLE OF CONTENTS

	<u>PAGE</u>
Transmittal Letter.....	1
Results of Examination.....	3
Certification Recommendations.....	8

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

March 1, 1988

Mr. D.L. McMillin, CPPO
Acting Materials Management Officer
Division of General Services
1201 Main Street, Suite 600
Columbia, South Carolina 29201

We have examined the procurement policies and procedures of the Department of Mental Retardation for the period July 1, 1985 through September 30, 1987. 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 Mental Retardation 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

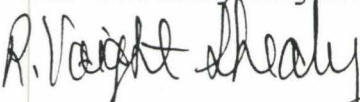
management with reasonable, but not absolute, assurance of the integrity of the procurement process, that affected assets are safeguarded against loss from unauthorized use or disposition and that transactions are executed in accordance with management's authorization and are recorded properly.

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 Mental Retardation in compliance with the South Carolina Consolidated Procurement Code and ensuing regulations.


R. Voight Shealy, Manager
Audit and Certification

RESULTS OF EXAMINATION

The Office of Audit and Certification performed an examination of the internal procurement operating procedures and policies and related manual of the Department of Mental Retardation for the period July 1, 1985 through September 30, 1987.

Our on-site review was conducted November 30, 1987 through January 22, 1988, and was made under the authority as described in Section 11-35-1230(1) of the South Carolina Consolidated Procurement Code.

The scope of our audit included, but was not limited to review of the following:

- (1) Sixty randomly selected procurement transactions at the Central Warehouse;
- (2) Food and drug contracts at the Central Warehouse;
- (3) Fifteen randomly selected procurement transactions at each of the four regional centers for a total of sixty transactions;
- (4) Permanent improvement projects and minor construction projects for approvals and compliance with the Manual for Planning and Execution of State Permanent Improvements;
- (5) All sole source procurements;
- (6) All emergency procurements;
- (7) All trade-in sales; and,
- (8) Minority Business Enterprise plan approval.

The Department has requested certification limits as follows:

<u>Procurement Areas</u>	<u>Requested Certification Limits</u>
Pharmaceutical Drugs	\$ 800,000.00 Total Annual Contract(s)
Goods and Services	25,000.00 Per Purchase Commitment
Construction Services	100,000.00 Per Purchase Commitment

Our audit of the procurement system of the Department of Mental Retardation produced the following findings:

I. Sole Source Procurements

We examined the quarterly reports of sole source procurements and all available supporting documents for the period July 1, 1985 - September 30, 1987. This review was performed to determine the appropriateness of the procurement actions taken and the accuracy of the reports submitted to the Division of General Services. We found these transactions to be proper and accurately reported with the following exceptions:

a. Purchase order numbers 04-04-1167-86 for \$2,961.16 and 03-02-0899-87 for \$2,674.35 respectively were for sofas. Separate vendors were used on each purchase order for apparently the same type item - 3 seater sofas. We understand the Department has special requirements for furniture, but we do not believe these sofas to be sole source procurements. These procurements should have been bid.

AGENCY RESPONSE

The above two purchases were for three-seater sofas for the Coastal Center and Whitten Center. The sofas were purchases from two different vendors and are of two different types of constructions. Both vendors sell direct and do not use distributors. Since both regions had a requirement for this type of furniture, we considered them to be a true sole source. We do agree that additional information should have been furnished in the justification explaining the purpose of the equipment.

b. On three sole source procurements, the competition requirements of the Procurement Code were met; therefore, they should not have been reported as sole sources. The purchase order numbers and amounts are as follows:

04-10-2634-86	\$1,040.48
04-08-2225-86	2,267.20
04-01-0206-86	612.39

AGENCY RESPONSE

The above referenced purchase orders were declared sole source in error. The procurement officer at Coastal Center during this time period had since retired. We did remind Coastal Center and all other regions to review their sole sources closely before submitting to MMO in their quarterly report. The director of supply and services will contact MMO to see if they want an amended report for this time period.

c. Purchase order number 03-05-2431-87 for \$5,550.30 was for steel panels and anchors. The sole source justification was for supports for partial partitions. We were unable to determine the correlation between the supports for partial partitions and the steel panels and anchors. The sole source justification does not support the procurement. All sole source justifications should clearly support each respective procurement.

AGENCY RESPONSE

The above referenced procurement was a true sole source. Whitten Center had a requirement to match existing panels which were purchased through State Purchasing at an earlier date. After reviewing the sole source justification and the purchase order, DMR can see that the same terminology was not used on the sole source and purchase order which results in the sole source justification not supporting the respective procurement.

Each DMR purchasing official has been reminded to pay special attention to the sole source justification for clarity.

II. Voucher Package Documentation

The Department changed its accounting system July 1, 1987. Prior to implementation of the new system and during our audit period, we found numerous exceptions where the voucher packages were not complete. Significant improvement has been made but we found the same type of exceptions in the new system. Specifically, we found missing receiving reports, discounts not taken, and the voucher package check list not being followed. The exceptions found are the same type of exceptions commented on in the Department's Internal Audit Report 87-03, findings 4 and 5. We do not believe that the Department has fully implemented the recommendations made by its internal audit staff. We concur with their recommendations.

AGENCY RESPONSE

During the implementation of our new accounting system, TAG, our accounts payable process was changed considerably. The procedural changes, as well as the system changes, caused confusion in the payment process, which led to some errors in voucher documentation as addressed in this audit comment. Since the implementation, we have taken the following steps to prevent future errors:

-We have centralized the voucher audit process in central office finance.

-We have begun the process of documenting the current accounts payable procedures. As part of this process, we will redesign the voucher input sheet so that it requires a review of all voucher payment processes.

-We have begun training our accounts payable staff so they will perform their functions more effectively and efficiently.

-We have started the development of a "quality control" program. This program will be in place in May, 1988. This program will be designed to perform an internal review of the accounts payable process to check for errors such as those noted in this audit.

-We (supply services division) have implemented standardized receiving procedures.

-We have begun processing invoices for payment on a current schedule, and have been taking discounts when possible.

III. Source Selection Methods Not Used

On purchase order number 0007105, for the Central Warehouse, the proper number of quotes were not solicited. The procurement of \$1,410.00 was for liquid deodorant to be used in mop water as the substance is water soluble. We remind the Department that one of the authorized source selection methods must be used for all procurements. Competition must be solicited or, if appropriate, sole source or emergency procurement determinations must be prepared.

AGENCY RESPONSE

Through oversight the central warehouse failed to seek the required two quotations on the above referenced purchase order. The central warehouse has been reminded of the requirements for solicitation and has been counseled on the proper use of those procedures.


CERTIFICATION RECOMMENDATIONS

As enumerated in our transmittal letter, corrective action based on the recommendations described 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.

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:

<u>Procurement Areas</u>	<u>Recommendation Certification Limits</u>
Pharmaceutical Drugs	\$800,000.00 Total Annual Contract (s)
Goods and Services	* 25,000.00 Per Purchase Commitment
Construction Services	* 25,000.00 Per Purchase Commitment

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



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



R. Voight Shealy, Manager
Audit and Certification

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EXECUTIVE DIRECTOR

April 25, 1988

Mr. D.L. McMillin, CPPO
Acting Materials Management Officer
Division of General Services
1201 Main Street, Suite 600
Columbia, South Carolina 29201

Dear D.L.:

We have reviewed the response to our audit report of the Department of Mental Retardation covering the period July 1, 1985 through September 30, 1987. Combined with observations made during our site visit, this review has satisfied the Office of Audit and Certification that the agency is correcting 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 Mental Retardation outlined in the audit report be granted for a period of three (3) years.

Sincerely,

R. Voight Shealy, Manager
Audit and Certification

