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South Carolina
Division of General Services

PROCUREMENT AUDIT AND CERTIFICATION

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DEPARTMENT OF MENTAL HEALTH
AGENCY

JANUARY 1, 1987 - JUNE 30, 1988
DATE

STATE OF SOUTH CAROLINA
BUDGET AND CONTROL BOARD
DIVISION OF GENERAL SERVICES
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EXECUTIVE DIRECTOR

RICHARD W. KELLY
DIVISION DIRECTOR

August 31, 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 Health audit report and recommendations made by the Office of Audit and Certification. I concur and recommend the Budget and Control Board grant the College two (2) years certification as outlined in the audit report.

Sincerely,

James J. Forth, Jr.
Assistant Division Director

Attachment

TABLE OF CONTENTS

PAGE

Transmittal Letter..... 1

Introduction..... 3

Results of Examination..... 5

Certification Recommendations..... 8

Follow-up Letter Review..... 9

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RICHARD W. KELLY
DIVISION DIRECTOR

August 15, 1988

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 Department of Mental Health for the period January 1, 1987 through June 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 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 Health 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 Health in compliance with the South Carolina Consolidated Procurement Code and ensuing regulations.

Voight Shealy

R. Voight Shealy, Manager
Audit and Certification

INTRODUCTION

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 Health for the period January 1, 1987 through June 30, 1988.

Our on-site review was conducted in two phases, February 4, 1988 through February 26, 1988 and July 7, 1988 through July 15, 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) One hundred twenty randomly selected procurement transactions;

(2) Block sample of five hundred sequentially numbered purchase orders;

(3) Review of procedures and progress made to procure professional services for the administration, facilities, and community mental health centers;

(4) Permanent improvement projects and minor contruction 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:

Procurement Areas	Requested Certification Limits	
Medical Supplies, Hospital Equipment, Germicides	$525,000	Total annual contracts
Underpads, Diapers	500,000	Total annual contracts
Hospital Sundries excluding Underpads and Diapers	400,000	Total annual contracts
Goods and Services excluding Printing Equipment	30,000	Per purchase commitment
Consultant/Contractual Services	30,000	Per purchase commitment

RESULTS OF EXAMINATION

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

I. Sole Source Procurements

We examined the quarterly reports of sole source procurements and all available documents for the period January 1, 1987 through June 30, 1988. 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 procurements to be proper and accurately reported except for the following three procurements that did not meet the criteria for a sole source.

Purchase Order	Quarter Reported	Reported Amount	Description
Flla	9/87	$ 6,600.28	Consultant
Flla	12/87	1,385.50	Consultant
Flla	12/87	10,273.17	Consultant

Regulation 19.445-2105 states, "Sole source procurement is not permissible unless there is only a single supplier... In cases of reasonable doubt, competition should be solicited."

We recommend that competition be solicited for these types of contracts in the future.

AGENCY RESPONSE

At the time of executing the sole source documents for the above named contracts, it was believed that the work requirements and the background and experience of the individuals involved were sufficient justification for execution of the sole source document. We appreciate the comments of the auditors concerning

this matter. We believe that the increase in the contracting authority to the Department of Mental Health as is currently recommended will assist in preventing this problem in the future.

II. Two Procurements Made Without Competition

Our test sample consisted of seventy randomly selected procurement transactions made with the issuance of purchase orders and fifty randomly selected procurement transactions made via the Flla - invoice voucher - process. Most of these procurements were handled properly, however, the following two procurements were not supported by solicitations of competition, sole source determinations or emergency determinations.

Purchase Order	Check Number	Procurement Amount	Description
Flla	75075	$ 903.35	Repair - auto
Flla	74295	1,017.35	Repair - pipe

We remind the department that regulation 19-445.2100 (B)(2) requires solicitation of two verbal or written quotes for procurement from $550.01 to $1,499.99.

We recommend that competition be solicted for future procurements of repairs or, if appropriate, emergency procurement determinations be prepared.

AGENCY RESPONSE

At the time of requesting repairs noted above, it was believed that the repairs would be less than $500.00 which is the amount that procurements may be made without competitive bidding. After the repairs were begun, it was determined that costs would exceed $500.00, however, it was not deemed appropriate to competitively bid these items at that point because repairs had already begun. In order to assist in preventing this occurrence, we have circulated an interdepartmental memorandum regarding small dollar

repairs of less than $500.00 each and repairs that exceed $500.00. It is expected that this memorandum will result in compliance with regulation 19-445.2100 (B) (2). A copy of this memorandum has previously been furnished to you.

III. Violation of the South Carolina Printing Services Manual

Purchase order 22644 was issued for $2,133 to procure 75,000 forms. The printer shipped 93,000 forms and the Department paid for the higher number after the receiving department and the procurement department reviewed it.

Item 16 of the General Provisions section of the South Carolina Government Printing Services Manual states:

> Unless otherwise stated in the specifications, overruns or underruns shall not exceed: 10% for up to 99,999 each, 5% for 100,00 to 499,999 each; 1% for 500,000 each and more.

The overrun accepted by the Department was in excess of the allowable tolerance and should have been refused by the Department. Thus, this transaction is in violation of the Printing Services Manual.

We recommend that future overruns in excess of the allowable tolerance, as specified in the Printing Services Manual, be refused.

AGENCY RESPONSE

Purchase order no. 22644 which was issued to purchase 75,000 forms was processed, however, receipt of 93,000 forms was received. We have instructed our warehouse receiving point that we are to be notified when any vendor attempts to deliver more than the stated amount for any order, especially on any printed forms. It is our intent to comply fully with the South Carolina Government Printing Services Manual, and we will refuse all future overruns in excess of the allowable tolerance.

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 Heatlh 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 Health be recertified to make direct agency procurements for two (2) years up to the limits as follows:

Procurement Areas	Requested Certification Limits
Medical Supplies, Hospital Equipment, Germicides Underpads, Diapers	$500,000 per contract, per year, limit of two one-year optional extensions
Hospital Sundries	400,000 per contract, per year, limit of two one-year optional extensions
Goods and Services	*30,000 Per purchase commitment
Consultant/Contractual Services	*30,000 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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DIVISION DIRECTOR

August 31, 1988

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 Mental Health covering the period January 1, 1987 through June 30, 1988. Combined with observations made during our site visit, this review has satisfied the Office of Audit and Certification that the Department 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 Health outlined in the audit report be granted for a period of two (2) years.

Sincerely,

Voight Shealy

R. Voight Shealy, Manager
Audit and Certification

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