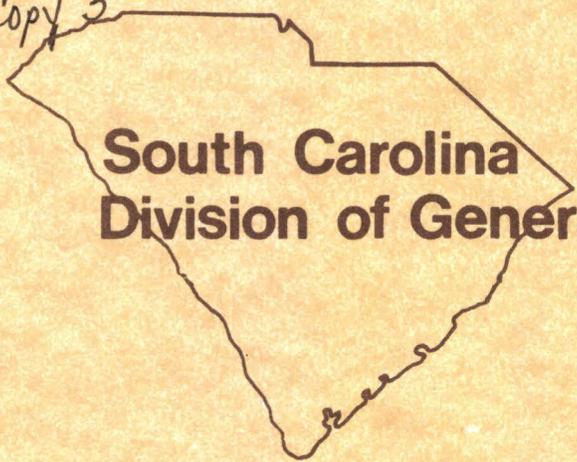


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Division of General Services**

PROCUREMENT AUDIT AND CERTIFICATION

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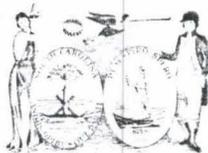
STATE DOCUMENTS

SOUTH CAROLINA DEPARTMENT
OF MENTAL HEALTH

AGENCY
JANUARY 1, 1993 - JUNE 30, 1995

DATE

STATE OF SOUTH CAROLINA
State Budget and Control Board
OFFICE OF GENERAL SERVICES



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DIRECTOR

MATERIALS MANAGEMENT OFFICE
1201 MAIN STREET, SUITE 600
COLUMBIA, SOUTH CAROLINA 29201
(803) 737-0600
Fax (803) 737-0639

RAYMOND L. GRANT
ASSISTANT DIRECTOR

May 22, 1996

Ms. Helen T. Zeigler, Director
Office of General Services
1201 Main Street, Suite 420
Columbia, South Carolina 29201

Dear Helen:

I have attached the South Carolina Department of Mental Health'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 two year certification as noted in the audit report.

Sincerely,

A handwritten signature in cursive script that reads "Raymond L. Grant".

Raymond L. Grant
Materials Management Officer

RLG/tl

SOUTH CAROLINA DEPARTMENT OF MENTAL HEALTH

PROCUREMENT AUDIT REPORT

JANUARY 1, 1993 - JUNE 30, 1995

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NOTE: The Department's response to issues noted in the report have been inserted immediately following the issues they refer to.

STATE OF SOUTH CAROLINA
State Budget and Control Board
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RAYMOND L. GRANT
ASSISTANT DIRECTOR

January 31, 1996

Mr. Raymond L. Grant
Materials Management Officer
Office of General Services
1201 Main Street, Suite 600
Columbia, South Carolina 29201

Dear Ray:

We have examined the procurement policies and procedures of the Department of Mental Health for the period January 1, 1993 through June 30, 1995. 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 Health 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 Health in compliance with the South Carolina Consolidated Procurement Code and ensuing regulations.



Larry G. Sorrell, Manager
Audit and Certification

INTRODUCTION

We conducted an examination of the internal procurement operating policies and procedures of the Department of Mental Health. Our on-site review was conducted August 30, 1995 through October 23, 1995, and was made under Section 11-35-1230(1) of 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 Internal Procurement Operating 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 August 26, 1993 the Budget and Control Board granted the Department the following procurement certifications:

<u>Category</u>	<u>Limit</u>
Underpads, diapers	\$1,000,000 total annual contracts
Hospital sundries Excluding underpads, diapers	\$ 200,000 total annual contracts
Consultant/contractual services	\$ 250,000 per commitment
Goods and Services	\$ 100,000 per commitment
Information Technology in accordance with the approved Information Technology Plan	\$ 50,000 per commitment
Construction	\$ 50,000 per commitment

Our audit was performed primarily to determine if recertification is warranted. The Department did not request an increase in the current certification limits.

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 Health and its 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 judgmental samples for the period January 1, 1993 through June 30, 1995, 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, a review of the following:

- (1) All sole source, emergency and trade-in sale procurements for the period January 1, 1993 through June 30, 1995
- (2) Procurement transactions for the period January 1, 1993 through June 30, 1995 as follows:
 - a) Two-hundred forty exceeding \$1,500
 - b) A block sample of five hundred sequentially numbered purchase orders
 - c) Sixty-three F-11A transactions from three particular centers
 - d) Twelve sealed bid files in addition to those included in (a) above
- (3) Five professional service contracts and ten construction contracts for permanent improvement projects for compliance with the Manual for Planning and Execution of State Permanent Improvements
- (4) Minority Business Enterprise Plans and reports for the audit period
- (5) Information Technology Plans for fiscal years 1993, 1994 and 1995
- (6) Internal procurement procedures manual
- (7) Surplus Property Procedures

SUMMARY OF AUDIT FINDINGS

Our audit of the procurement system of the Department of Mental Health, hereinafter referred to as the Department, produced findings and recommendations as follows:

	<u>PAGE</u>
I. <u>F-11A Procedures Need Substantial Changes</u>	
A. <u>Unauthorized F-11A's</u>	8
<p>Three F-11A's were unauthorized because each exceeded the delegated authority granted by the Department to areas outside of the Procurement Office. These transactions had no competition.</p>	
B. <u>F-11A's Without Sufficient Competition</u>	9
<p>Four F-11A's were not supported by proper levels of solicitations of competition, sole source or emergency determinations. Three of the four transactions had no competition. All were made within the delegated authority granted by the Department.</p>	
C. <u>Artificially Divided Procurements by F-11A's</u>	9
<p>Four procurements were processed on seven different vouchers to avoid Procurement Code requirements. As a result three were unauthorized.</p>	
D. <u>Procurements of Office Supplies</u>	10
<p>Two F-11A's for office supplies included items that should have been bought from the State's Central Supply Warehouse.</p>	
E. <u>F-11A Procedural Violations</u>	11
<p>Every F-11A addressed so far was in violation of the Procurement Code and consequently the Department's Procurement Manual. In addition to those addressed above, twenty-four other payments on F-11A's were in violation to the Department's Manual yet each was paid.</p>	
F. <u>Duplicate Payments Processed</u>	11
<p>Two duplicate payments were processed on F-11A's. One duplicate was eventually discovered by the Department. The other duplicate was identified by the vendor.</p>	

II. Sole Source and Emergency Procurements

A. Sole Source Direction at the Department

14

In an audit report issued by our Office in 1989, we recommended the request for proposal (RFP) solicitation method be used instead of the sole source method for professional service contracts at the community mental health centers. To this date, eleven RPF's were done.

B. Inappropriate Sole Sources

15

Eleven transactions done as sole sources we believe were inappropriate as such.

C. Untimely Emergency Procurement Determinations

15

Eleven emergency determinations that authorized the emergencies were not processed in a timely manner.

D. Amendments Not Authorized

16

Our testing of sole source contracts revealed that amendments to these contracts were not approved by an authorized official.

E. Unauthorized Sole Source

17

One sole source procurement was made before the transaction was properly authorized.

F. Reporting

17

Nine transactions made as either sole sources, emergencies or trade-in sales were not properly reported.

RESULTS OF EXAMINATION

I. F-11A Procedures Need Substantial Changes

The Department's Procurement Procedures Manual states, "the F-11A invoice/ voucher is designed to complete small purchase transactions that are not repetitive buys without the issuance of a purchase order." The F-11A's are used as a direct expenditure tool whereby decentralized procurement authority is granted outside of the Procurement Department. Most of our findings of Procurement Code and internal procedure violations occurred on transactions processed using the F-11A procedures whereby the Procurement Department was by-passed. Further, the F-11A serves more purposes than authorizing a procurement. Its other functions include requisition, receiving report, invoice and voucher.

In the last audit report issued by our Office, we pointed out Procurement Code violations made on F-11A's and made recommendations which we believed would help eliminate these exceptions. Our current audit showed that improvements were not made. Our findings are listed below and our recommendations regarding F-11A's are made at the end of this section of the report.

A. Unauthorized F-11A's

The following three F-11A transactions processed by Department facility offices were unauthorized because each exceeded the delegated procurement authority. As of July 1, 1993 Department facilities and administrative offices outside of the Procurement Office had authority up to \$ 1,000 per commitment and Department area center offices had authority up to \$5,000 per commitment. Prior to July 1, 1993 the delegated authority outside of the Procurement Office was \$500 per commitment. In addition to being unauthorized, these transactions were not supported by competition.

<u>Voucher</u>	<u>Description</u>	<u>Amount</u>	<u>Location</u>
1. 32268	Conference Facilities	\$ 5,375	WSHP1
2. 50880	Miscellaneous Tree Service	2,000	Ground Maintenance
3. 55147	Real Time Captioning Service	2,000	Clinical Services

B. F-11A's Without Sufficient Competition

We reviewed four F-11A's which were not supported by proper solicitations of competition and were processed for payment. Items one through three had no competition and item four only had two verbal solicitations whereas three were required.

<u>Document Reference</u>	<u>Description</u>	<u>Amount</u>	<u>Location</u>
1. JE 97143	Teleconference Up link	\$ 3,269	Office of Director
2. Voucher 49729	Consultant Services	2,000	Catawba
3. Voucher 43793	Co-Sponsor Program Commitment	2,000	Projects & Grants
4. Voucher 29912	Windows and mirrors	3,028	Waccamaw

C. Artificially Divided Procurements by F-11A's

Four procurements were processed on seven different vouchers giving the appearance that the transactions were within the delegated authority and/ or did not require competition. In fact the combined invoices on items 1, 2, and 3 exceeded the applicable procurement authority and the transactions did require competition.

<u>Item</u>	<u>Voucher</u>	<u>Description</u>	<u>Amount</u>	<u>Location</u>
1.	68312	Chairs	<u>\$7,338</u>	LCMHC
2.	6034	Kitchen and Dining Equipment	\$3,070	
	6261	Kitchen and Dining Equipment	<u>2,304</u>	Sumter-Wateree
		Total	<u>\$5,374</u>	
3.	61321	Tiles and Supplies	<u>\$ 857</u>	DSC Columbia Cluster
4.	33233	School Base Program Furniture	\$1,467	
	36770	School Base Program Furniture	1,463	
	31800	School Base Program Furniture	<u>837</u>	Waccamaw MHC
		Total	<u>\$3,767</u>	

Three verbal quotes were solicited for 15 chairs on item 1 by a Department Center Office. However, 30 chairs were actually bought on two separate invoices. Based on the invoices, the appearance given was two separate procurements at \$3,669 each which would have been within the authority of the Center. However, the combined amount was \$7,338 which

exceeded the authority level of \$5,000 thus making this transaction unauthorized. Further, transactions from \$5,000 to \$10,000 require solicitation of three written quotes instead of the verbal quotes obtained.

No solicitations of competition supported item 2. One of the invoices had a credit applied to it in the amount of \$766. This credit was taken into consideration in the preparation of the schedule above. Considering the credit the total amount of the procurement made by a Department Center was \$5,374 which exceeded the \$5,000 authority level thus making the transaction unauthorized.

For item 3 two invoices for tiles and tile supplies were included with the voucher which was bought for one location by a Department Center. No solicitations of competition were made. This transaction occurred on June 14, 1993. The Code at that time required two verbal quotes for purchases between \$500 and \$1500. Further, the authority level at that time was \$500 which makes this transaction unauthorized since it totaled \$857.

For item 4 various pieces of furniture were bought for a program by a Department Center. However, only one piece of the furniture was offered for competition by the Center. The Center should have combined the different pieces of furniture into one solicitation where the Department would have a better chance of receiving a good price. Further, only two vendors were contacted whereas three verbal solicitations of competition were required.

D. Procurements of Office Supplies

On vouchers 42854 and 49701 in the respective amounts of \$961 and \$694, we identified several office supply items that were bought using F-11A's from a vendor when these office supplies were available at the State's Central Supply Warehouse. In each instance a cost savings would have been realized had these items been bought from the Central Supply Warehouse. In addition, items that are available at the Warehouse which is needed by an agency are required to be bought from the Warehouse. The office supply items were as follows:

<u>Catalog Page</u>	<u>Description</u>	<u>Quantity</u>	<u>Unit Price</u>	<u>Total Price</u>	<u>Catalog Price</u>	<u>Extended</u>	<u>Savings</u>
14	File Labels	1	\$ 2.58	\$2.58	\$ 1.05	\$1.05	\$1.53
14	Coding Labels	4	1.65	6.60	.88	3.52	3.08

<u>Catalog Page</u>	<u>Description</u>	<u>Quantity</u>	<u>Unit Price</u>	<u>Total Price</u>	<u>Catalog Price</u>	<u>Extended</u>	<u>Savings</u>
14	Gummed Labels	3	1.22	3.66	.88	\$ 2.64	\$ 1.02
15	Highlighters	6	1.22	7.35	2.60/dz.	1.30	6.05
15	Highlighters	1 dz.	2.65	2.65	2.60	2.60	.05
16	Legal Folder	1	6.75	6.75	2.89	2.89	3.86
16	Letter Folder	1	16.10	16.10	1.98	1.98	14.12

E. F-11A Procedural Violations

Every F-11A addressed to this point is in violation of the Procurement Code and Regulations and also in violation of the Department's Procurement Procedures Manual. Section 10.20 (1)(b) of the Department's Manual states in part, "Finance shall provide adequate review procedures to monitor and control the improper use of F-11A's." In addition to those F-11A's addressed above, we also noted twenty-four F-11A's which were not in compliance to Department procedures yet each was processed for payment. The procurements were done in compliance to the Procurement Code. However, without references to the procurement method, internal procedures required that these F-11A's not be processed for payment. The appendix at the end of the report lists the twenty-four transactions.

F. Duplicate Payments Processed

Two instances were noted where duplicate payments were processed on F-11A's by the centers and subsequently the Accounts Payable section. This occurred on vouchers 9354 and 58344 in the respective amounts of \$541 and \$2,960. Voucher 9354 was processed to buy furniture. The Department did eventually catch the duplicate payment but internal controls allowed the voucher to be processed before it was caught. On voucher 58344 a duplicate payment was processed for consulting. It was identified as a duplicate payment to the Department by the vendor.

Recommendations

As evidenced by the findings, we believe the F-11A process needs to be reviewed. The burden of monitoring F-11A's for compliance to the Procurement Code and the Department's Manual lies on the Finance Department. We find this burden to be overwhelming and

impossible with the established procedures. The Department processed over 50,000 F-11A's last fiscal year. Our recommendations are as follows.

As currently used, the F-11A serves too many purposes. In the first part of this report, we addressed the F-11A being used to authorize procurements, as a requisition, a receiving report, an invoice and a voucher. We recommend the F-11A serve only one purpose and that is to authorize payments. Other forms should be used for different functions. This will take the guess work off of Finance to determine what purpose a particular F-11A serves.

Because of a large number of payments being processed on F-11A's without contract references, we believe purchase orders should be issued on all contracts that exceed \$5,000. Not only will a purchase order give Finance a clear indication that this payment is an authorized contract, all pertinent information including but not limited to hourly rates, contract period, scope of services, and total amount not to be exceeded will be summarized on the purchase order which will be attached along with the invoice on each payment. Under current procedures this information has to be located throughout contract documents and attached to each F-11A along with the invoice for payment.

The issuance of a purchase order will also cut down on administrative costs. Currently, the Department is required by the Comptroller General's Office to submit copies of contracts as indicated above with each F-11A to support each payment. We have already reached an agreement with the Comptroller General's Office that will allow the Department to use a purchase order, a one page document, in lieu of copies of contracts to support the payments.

To help eliminate duplicate payments, the Department should consider encumbering the purchase orders by the automated accounting system for contracts at the centers and facilities. Currently, no encumbrance system is used on F-11A's. Expenditures are tallied manually.

We recommend when a purchase order is issued for centers and facilities, it be encumbered. Under an encumbrance system, payments can only be made once or not to exceed the maximum amount of the contract if partial payments are made. The automated accounting system at the Department already performs this function. We believe it should be utilized on center and facility contracts also. The Department has expressed some reservations about using the encumbrance system on its contracts. If the encumbrance system

is not used, some type of automated monitoring system should be used. A manual system of monitoring over 50,000 F-11A payments made annually is not feasible.

For all the unauthorized F-11A's identified in this report, we recommend that ratification be requested in accordance to Regulation 19-445.2015.

We recommend for all F-11A's without evidence of competition, payments should not be processed until such time that proper administrative actions are taken. If our recommendations above are accepted, the F-11A will serve one purpose only, to process payments. Instead of using a F-11A, the Department should consider using a Direct Purchase Voucher (DPV). The use of such a document will immediately alert finance that this transaction is a procurement made by the center or facility. A procurement over \$1,500 must be supported by either adequate solicitations of competition, sole source or emergency determinations, State term contract reference or indicated as exempt from the Procurement Code. No DPV greater than \$1,500 should be processed for payment without this information.

Under section I. C. in our report called Artificially Divided Procurements by F-11A's, Department procedures allow for a single F-11A to support multiple procurements which may total over \$5,000. Each procurement is denoted by a separate invoice referenced on the F-11A. We recommend, as stated earlier, that no F-11A be processed to support a procurement. Instead, a DPV should be used. If a procurement is anticipated to exceed the delegated authority level, a requisition should be forwarded to the Procurement Office. Finance will have to more closely monitor for split procurements.

Finally for procurements of office supplies by the Department Warehouse, we remind the Department that all office supply needs that can be met by the State's Central Supply Warehouse must be bought from there. This is a mandatory requirement as part of State term contracts as well as the Department's policies and procedures manual.

Department Response

We agree with the concept of the recommendations for changing the F-11A process. We are studying these suggestions in conjunction with other modifications the Department is considering for this process. As to the ratification of the unauthorized F11-A's, we have begun the paperwork process to accomplish this recommendation. Department of Mental Health also agrees that all F-11A's used to make procurements without evidence of

competition should not be processed until actions are begun. Procedures will be instituted to accomplish this objective.

II. Sole Source and Emergency Procurements

We examined the quarterly reports of sole source and emergency procurements for the period January 1, 1993 through June 30, 1995. This review was performed to determine the appropriateness of the procurement actions taken and the accuracy of the reports submitted to the Office of General Services as required by Section 11-35-2440 of the Consolidated Procurement Code. We noted the following exceptions.

A. Sole Source Direction at the Department

In an audit report issued by our Office covering the period July 1, 1988 through September 30, 1989, the first issue addressed the use of the sole source procurement methodology for professional service contracts at the Community Mental Health Centers as being inappropriate. At that time the Department was in the process of identifying all of the contracts it had because the contracts were decentralized and administered locally. A comment from that report states in part, "...the Contracts Administrator for professional services for the Community Mental Health Centers has developed procedures to determine the number and type of contracts outstanding, monitor the expiration of these contracts and ensure that these professional services are renewed in accordance with the Consolidated Procurement Code." The report goes on to state, "A number of professional services contracts...have already been competitively procured through the request for proposal (RFP) source selection method. However, there are still a number of other professional services that should be procured by the RFP method upon their expiration." The report listed a number of contracts by description and recommended that these contracts be procured using the RFP method.

We found that some of these contracts are still being procured using the sole source method. Attempts have been made by the Department to competitively solicit some of these contracts. Based on a log of RFP's maintained by the Department as well as a listing prepared by the Materials Management Office of all its solicitations done for the Department, we counted eleven solicitations. We acknowledge that the eleven solicitations resulted in multiple awards in each instance and that these services are a difficult area to competitively procure. However, we believe the RFP source selection method gives the Department enough

flexibility to contract with the best vendors while still offering these contracts for competitive solicitation in the market place.

We recommend the Department solicit these professional service contracts where appropriate using the RFP source selection method and move away from the use of the sole source procurement procedure.

B. Inappropriate Sole Sources

We noted the following eleven procurements made as sole sources which we believe were inappropriate.

<u>Contract Number</u>	<u>Description</u>	<u>Amount</u>
074-93	Psychological Consultation	\$25,000
119-94	Psychological Testing Service	19,200
023-95	Consultant on Social Security	18,000
094-93	Total Quality Management Training	15,000
005-94	Consultation on Children and Adolescent Issues	12,000
077-94	Mental Health Consumer Consultation Services	15,000
086-93	Mental Health Consumer Consultation Services	10,000
002-95	Conference Presentation	7,500
078-94	Consultant for Development Of A Child Care System	3,000
007-94	Leadership Training	2,000
025-93	Property Management Services	1,338

None of these contracts meets the criteria of a sole source as being a unique service only available from a single source. We believe competition should have been solicited using the request for proposal source selection method.

We recommend these contracts be competed using the RFP method.

C. Untimely Emergency Procurement Determinations

We reviewed eleven emergency procurements where the determinations which justified and authorized. However, the determinations for the emergencies were not approved in a timely manner.

<u>Determination Date</u>	<u>Date of Services</u>	<u>Description of Services</u>	<u>Amount</u>
01/19/93	11/16/92	Dietitian Consulting	\$ 646
05/27/93	03/29/93	Heavy Equipment Rental	1,234
06/01/93	04/26/93	Repairs to Cooling System	\$ 1,235
07/20/93	06/11/93	Equipment Repairs	1,255
08/20/93	07/20/93	Install Transformers	2,219
02/07/95	12/07/94	Hot Water Heater	1,914
04/19/93	01/01/93	Residential Treatment	809
04/21/93	09/29/92	Repairs	2,941
05/28/93	03/30/93	Repair Sewer Lines	3,199
08/16/93	06/16/93	Gastroscope Repairs	3,009
07/07/94	02/23/94	HVAC Repairs	1,857

Regulation 19-445.2110(D) under the emergency provisions states in part, "...whenever practical, approval ... shall be obtained prior to procurement." The Regulation does allow for emergency determinations to be prepared after the procurements are made. However, the determinations should be done within a reasonable length of time. The emergency procurements cited above, we believe, should have been approved in a more timely manner.

We recommend the Department establish a timeline of what is considered a reasonable length of time to approve emergency determinations after a procurement is made. For our testing purposes we used one month as a cut off point.

D. Amendments Not Authorized

During our testing of sole source contracts we noted that when an amendment to an existing sole source contract would be made, the amendments would not be authorized by an appropriate official. These amendments add more funding to the contracts and sometimes add to the duration of the contract as well. Sole source authority at the Department lies with the Executive Director and the Director of Financial Services. Since the amendments represent changes to the original sole source contracts as authorized, we believe the amendments should be approved by an official designated to approve sole source contracts.

We recommend the Department change its procedure to require sole source amendments to be approved by an official authorized to sign sole source contracts.

E. Unauthorized Sole Source

One sole source procurement was made originating at Crafts-Farrow State Hospital where the determination was dated after services had been rendered. Unlike emergency procurements, no flexibility is allowed to approve sole source determinations after commitments are made. This transaction was processed on voucher 48349 in the amount of \$6,240 for testing materials. Services were rendered in February 1994 yet the determination was not approved until March 2, 1994. Because the contract was not authorized until after services had been rendered, this contract was unauthorized and requires ratification in accordance with Regulation 19-445.2015.

We recommend this transaction be submitted for ratification. The Department should ensure that sole source transactions are approved in advance of commitments being made.

F. Reporting

During our testing of the quarterly reports we noted the following nine contracts that were not properly reported.

<u>Item</u>	<u>Contract Reference</u>	<u>Description</u>	<u>Amount</u>	<u>Action</u>
1.	008-93	Patient Bed Space	\$ 1,500	\$1,498,500
2.	035-94	Patient Bed Space	415,800	<415,800>
3.	PO 41618	Endoscopic Procedure System	74,660	15,500
4.	052-94	Electronic Bulletin Board	3,000	<3,000>
5.	F-11A 12/14/93	Patient Air Transportation	2,526	<2,526>
6.	PO 22343	Erect Outdoor Storage Buildings	11,860	11,860
7.	F-11A 9/15/93	Roof Repairs	40,452	40,452
8.	Voucher 34518	Software Maintenance Renewal	1,425	<1,425>
9.	PO 30638	Trade-in of Memory Expansion	9,245	1,462

The Department only reported \$1,500 on the item 1 even though the contract was \$1,500,000. Item 2 was inadvertently reported twice. Item 3 did not take into consideration the trade-in value of equipment. Because the Department paid the Office of General Services

for the Bulletin Board Service on item four, the contract was exempt from the Procurement Code and a sole source determination was unnecessary. The patient air transportation was reported as an emergency but the Department solicited enough competition that an emergency determination was unnecessary. The storage buildings and roof repairs were construction related emergencies and as such were required to be reported to the Office of the State Engineer in addition to the Materials Management Office. These two transactions were reported to the Materials Management Office only. The software maintenance renewal is exempt from the Code and sole source was unnecessary. For the memory expansion the Department failed to report the trade-in sale.

We recommend amended reports be filed correcting the items as indicated.

Department Response

Department of Mental Health agrees that professional service contracts be solicited using the appropriate procurement method. Procedures will be instituted to accomplish this. A timeline should be established to approved emergency determinations. A one month period will be established in accordance with your suggestion. For amendments to sole source contracts being approved by the official authorized to sign sole source contracts, procedures will be instituted to accomplish this objective. Ratification of voucher #48349 will be made and reports will be filed correcting the items indicated.

CERTIFICATION RECOMMENDATIONS

We must state our concern over the problems we have addressed in Section I of this report associated with the F-11A process. We have identified a variety of problems and proposed solutions to those problems in our recommendations. However, it is incumbent on the Administration of the Department to correct these deficiencies. We are committed to assisting the Department and will perform periodic reviews to monitor progress. Due to the number of problems found, we are only recommending the Department be recertified for two years at the current limits.

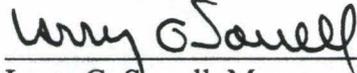
Corrective action based on the recommendations described in this report, we believe, will in all material respects place the Department of Mental Health in compliance with the South Carolina Consolidated Procurement Code.

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 years up to the limits as follows:

<u>PROCUREMENT AREAS</u>	<u>RECOMMENDED CERTIFICATION LIMITS</u>
Underpads, diapers	\$1,000,000 total annual contract
Hospital sundries Excluding underpads, diapers	\$ 200,000 total annual contracts
Consultant/contractual services	*\$250,000 per commitment
Goods and Services	*\$100,000 per commitment
Information Technology in accordance with the approved Information Technology Plan	*\$ 50,000 per commitment
Construction	*\$ 50,000 per commitment

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

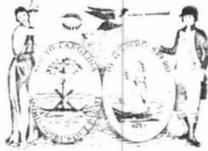

Robert J. Aycock, IV
Audit Manager


Larry G. Sorrell, Manager
Audit and Certification

Appendix
Department of Mental Health F-11A Transactions

<u>Document Reference</u>	<u>Description</u>	<u>Amount</u>
JE 97202	Services Graduate Assistant	\$ 4,000 (4 months)
JE 98811	Services Graduate Assistant	22,317 (4 months)
Voucher 13466	Dictation System	1,776 (1 of 60 payment)
Voucher 8956	Long Term Care Service (7/24-8/6)	13,867
Voucher 10352	Youth Treatment Group Living Skills	41,640 (7 months)
Voucher 31509	Living Skills Service	5,326
Voucher 69648	Equipment Rental	41,238/month
Voucher 25261	Group Counseling	600/month
Voucher 28577	Group Counseling	937/month
Voucher 33794	Copier Rental	601/month
Voucher 3844	Microfilm Services	9,048
Voucher 47457	Microfilm Services	5,916
Voucher 53065	Software License	3,520
Voucher 28510	Software License	3,300
Voucher 64969	Training Services	12,666
Voucher 39230	Conference Preparation Services	7,000 (contract)
Voucher 3377	Consultant Services	6,200
JE 98749	Interpreting Services	3,931/month
Voucher 8096	Billing for Equipment	3,106/month
Voucher 59632	Speaker Honorarium	3,000
Voucher 1356	Coding of Video Tapes	2,488
JE 98652	Computer Services for March	2,348
Voucher 36161	Consultant Services	1,800
Voucher 61232	Voice writer Equipment	1,738

STATE OF SOUTH CAROLINA
State Budget and Control Board
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RAYMOND L. GRANT
ASSISTANT DIRECTOR

May 21, 1996

Mr. Raymond L. Grant
Materials Management Officer
Materials Management Office
1201 Main Street, Suite 600
Columbia, South Carolina 29201

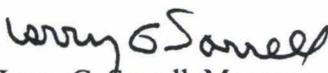
Dear Ray:

We have returned to the Department of Mental Health to determine progress made by the Department toward implementing the recommendations made in the audit report covering January 1, 1993 - June 30, 1995. As part of our review, we followed up on each recommendation included in the report, reviewed the Department's response to the report and reviewed the ratification requests on each unauthorized procurement.

Further, because the F-11A process was a key issue in the report, we discussed with Department Officials the progress made toward correcting the deficiencies noted during the audit. To this date, preliminary procedures have been written and are in the process of being studied for implementation. Included in these preliminary procedures are provisions for a direct purchase order system to authorize procurements outside of the Procurement Office. Additionally, contracts as identified in Section I of the report will have purchase orders issued in which funds will be encumbered. The F-11A process will only be used to authorize payments against established contracts, exempt items or to reimburse petty cash thereby giving this document a more specific role.

Eventhough the Department has not fully implemented all of our recommendations, we are satisfied with the progress made and with the current direction of the actions being taken by the administration. Therefore, we recommend the Budget and Control Board grant the South Carolina Department of Mental Health the certification limits noted in the audit report for a period of two years.

Sincerely,


Larry G. Sorrell, Manager
Audit and Certification

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