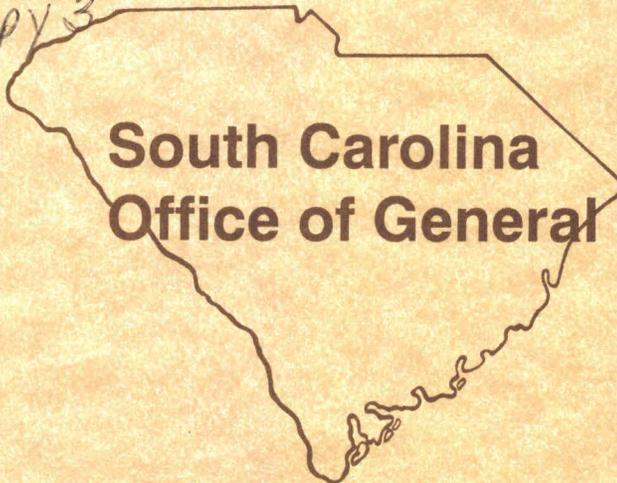


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**South Carolina
Office of General Services**

PROCUREMENT AUDIT AND CERTIFICATION

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**SOUTH CAROLINA DEPARTMENT
OF MENTAL HEALTH**

AGENCY

JULY 1, 1995 - DECEMBER 31, 1997

DATE

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State Budget and Control Board
OFFICE OF GENERAL SERVICES

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MATERIALS MANAGEMENT OFFICE
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VOIGHT SHEALY
ASSISTANT DIRECTOR

May 22, 1998

JOHN DRUMMOND
CHAIRMAN, SENATE FINANCE COMMITTEE

HENRY E. BROWN, JR.
CHAIRMAN, WAYS AND MEANS COMMITTEE

LUTHER F. CARTER
EXECUTIVE DIRECTOR

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 three year certification as noted in the audit report.

Sincerely,

R. Voight Shealy
Materials Management Officer

/tl

SOUTH CAROLINA DEPARTMENT OF MENTAL HEALTH
PROCUREMENT AUDIT REPORT
JULY 1, 1995 - DECEMBER 31, 1997

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

STATE OF SOUTH CAROLINA
State Budget and Control Board
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VOIGHT SHEALY
ASSISTANT DIRECTOR

May 4, 1998

Mr. R. Voight Shealy
Materials Management Officer
Office of General Services
1201 Main Street, Suite 600
Columbia, South Carolina 29201

Dear Voight:

We have examined the procurement policies and procedures of the South Carolina Department of Mental Health for the period July 1, 1995 through December 31, 1997. 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 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 South Carolina 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.

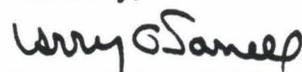
Because of inherent limitations in any system of internal control, errors or irregularities may occur and not be detected. Also, projection of any evaluation of the system to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or that the degree 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 South Carolina Department of Mental Health in compliance with the Consolidated Procurement Code and ensuing regulations.

Sincerely,



Larry G. Sorrell, Manager
Audit and Certification

INTRODUCTION

We conducted an examination of the internal procurement operating policies and procedures of the South Carolina Department of Mental Health. Our on-site review was conducted January 22, 1998 through March 2, 1998 and was made under Section 11-35-1230(1) of the 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 South Carolina Department of Mental Health 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 Office 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 July 9, 1996, the Budget and Control Board granted the South Carolina Department of Mental Health 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 Services	\$ 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 South Carolina 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 July 1, 1995 through December 31, 1997 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 July 1, 1995 through September 30, 1997
- (2) Procurement transactions for the period July 1, 1995 through December 31, 1997 as follows:
 - a) One hundred ninety-three payments exceeding \$1,500
 - b) A block sample of five hundred sequentially numbered purchase orders
 - c) One hundred thirteen transactions from four particular centers and two facilities
- (3) Nine professional service contracts and twenty construction contracts of 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 plan and approval for the period July 1, 1995 through June 30, 1998
- (6) Internal procurement procedures manual
- (7) Surplus property procedures
- (8) File documentation and evidence of competition

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>Sole Source, Emergency and Trade-In Sale Procurements</u>	7
We noted two inappropriate sole sources.	
II. <u>Direct Purchase Order Process</u>	7
Payments were made on direct purchases which were not properly supported.	
III. <u>Artificially Divided Procurements</u>	8
We noted three procurements that were artificially divided thus avoiding the appropriate levels of competition.	
IV. <u>Request For Proposals</u>	9
Request for proposal solicitations did not include the vendor's right to protest statement nor was the statement recorded on the statement of award or the notice of intent to award. Also, the request for proposal solicitations did not contain the date and award posting location.	
V. <u>Blanket Purchase Agreements</u>	10
One particular center issued approximately \$10,000 in orders on about 100 direct purchase orders per fiscal year to one vendor. Blanket purchase agreements should be used and issued to more than one vendor concurrently.	
VI. <u>Other Audit Exceptions</u>	11
A. A repair did not have competition solicited.	
B. A change order was not authorized, yet payment was made.	

RESULTS OF EXAMINATION

I. **Sole Source, Emergency and Trade-In Sale Procurements**

We examined the quarterly reports of sole source, emergency and trade-in sale procurements for the period July 1, 1995 through September 30, 1997. 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 South Carolina Consolidated Procurement Code. We found most of these transactions to be correct but did note the following exceptions.

We noted two inappropriate sole sources.

<u>Contract Number</u>	<u>Description</u>	<u>Amount</u>
077-96	Consultation on cultural competence	\$38,750
047-97	Consultation on cultural competence and training	4,000

Both contracts were for virtually the same service. However, two separate vendors were used. Since at least two different vendors exist, sole source is not appropriate.

Section 11-35-1560 of the Code allows for sole source procurement where there is only one source for a required item, supply or service. Regulation 19-445.2105(B) notes competition should be solicited in cases of reasonable doubt.

We recommend these procurements be competitively purchased in accordance with the Code in the future.

DEPARTMENT RESPONSE

At the present time DMH does not intend to renew these contracts. However, in the future, if these or similar contracts are entered into, they will competitively purchased in accordance with the Code.

II. **Direct Purchase Order Process**

We reviewed the Department's direct purchase order (DPO) procurement system to determine compliance to the Code and internal Department policies and procedures. Over the current audit period, the Department revamped the DPO system in part due to recommendations

from our last procurement audit report. Our testing shows that the new policies and procedures are working.

We did noted, however, the following four payments which were not properly supported.

<u>Voucher Number</u>	<u>Description</u>	<u>Amount</u>	<u>Exception</u>
VO02199	Accreditation service	\$8,550	Sole source not attached
VO41195	Real property lease payment	5,929	Expired lease agreement
VO09266	Furniture	5,838	State contract reference
VO15661	Computer maintenance agreement	5,107	No competition

Section 10.20.1 of the Department's Manual requires in part, "The contract number and encumbrance number (if applicable) must be included on all F-11A vouchers submitted to Accounting, Division of Financial Services (DoFS), for the above payments." For a DPO, the Manual states, "When detected, Accounting, DoFS, will forward any improper procurement/use of the direct purchase order to the Procurement Office." The burden for compliance verification falls on the Accounting Department. Accounting is the final control point before a payment is made. Part of the purpose of our recommended changes from the last audit report was to help Accounting identify direct purchases that were not in compliance. With only four exceptions compared to our exceptions on the prior audit, our testing clearly indicates that the changes are working for Accounting.

We recommend Accounting continue to monitor the direct purchases and not process payments on those that are not properly supported until appropriate corrective actions have been taken.

DEPARTMENT RESPONSE

DMH agrees with your recommendation and will continue to monitor the direct purchases to insure all information required is included.

III. Artificially Divided Procurements

We noted three procurements were artificially divided thus avoiding the appropriate levels of competition.

<u>Item</u>	<u>Requisition Date</u>	<u>Purchase Order</u>	<u>Amount</u>	<u>Description</u>
1.	04/03/97	6100	\$ 1,265	Kitchen equipment
	04/03/97	6101	4,900	Kitchen equipment
	04/03/97	6164	<u>5,595</u>	Kitchen equipment
			Total <u>\$11,760</u>	
2.	03/18/97	5763	\$1,108	Wall panels
	03/18/97	5764	<u>1,085</u>	Mail sorting table
			Total <u>\$2,193</u>	
3.	03/24/97	5855	\$1,171	TV tables
	03/24/97	5856	<u>762</u>	Wall hung lockers
			Total <u>\$1,933</u>	

On item one, three requisitions for kitchen equipment were submitted to the Purchasing Office on the same day. The Purchasing Office should have combined these requisitions and solicited competition based on the potential of the award. Written quotations were solicited but the procurement was not advertised in the South Carolina Business Opportunities as required for procurements with a value of over \$10,000.

For items 2 and 3, no competition was solicited. Three verbal quotes were required.

Section 11-35-1550(1) of the Code for small purchases states, "procurement requirements shall not be artificially divided by governmental bodies."

We recommend that requisitions be combined and solicitation of competition be made based on the combined value of the requisitions.

DEPARTMENT RESPONSE

We agree with your recommendation and will make every effort to combine requisitions where possible and practical to comply with the Code.

IV. Request For Proposals

Our testing revealed that request for proposal solicitations and the associated statements of award or notice of intent to award did not include the vendor's right to protest statement. Section

11-35-1520(10) of the Code requires that solicitations and posted notices of award and notices of an intended award contain a statement of a bidder's right to protest. Also, the request for proposal solicitations did not contain the date and award posting location which is required in the same section of the Code.

We recommend the Department ensure that all request for proposal solicitations contain the award posting location and a statement of a vendor's right to protest. The protest rights must be recorded on all notices of award and notices of intended award as well.

DEPARTMENT RESPONSE

DMH has been using standard provisions in its RFPs that are several years old. The standard provisions have been updated to include the vendor's right to protest and the posting of awards as required by the Code.

V. Blanket Purchase Agreements

We tested a number of small procurements issued to one vendor for automotive servicing made by the Lexington County Mental Health Center. Each procurement was processed on a separate direct purchase order (DPO) resulting in a voucher being processed for each DPO to make payment. For a given fiscal year, orders for approximately \$10,000 were made on about one hundred DPOs.

The blanket purchase agreement (BPA) procedures authorized in Regulation 19-445-2100 allow the Department to issue one purchase order for up to a year in duration for small, repetitive type purchases. Vendors could be required to bill monthly thus substantially reducing the administrative cost and burden of processing small dollar purchase orders and vouchers. Since competition is not normally required on such small orders, the Code requires that more than one vendor concurrently be issued a BPA and the orders spread equally among them. The Lexington County Mental Health Center is not distributing its business among other service centers.

We recommend the Department's centers and facilities review procurements and utilize BPAs to help reduce the administrative costs and burden from processing small, repetitive

procurements. The business should be spread among vendors on these agreements and not sent exclusively to one vendor. Otherwise, competed contracts should be utilized.

DEPARTMENT RESPONSE

We agree with your recommendations. We will work with the centers and facilities to review procurements and utilize BPAs to help reduce the administrative costs and burdens. We will make every effort to spread business to several vendors. Otherwise, competed contracts will be utilized.

VI. Other Audit Exceptions

A. No Competition Solicited on Repair

On purchase order 50208 for \$1,904, the Department contracted for repairs to a wrecked car. No competition was solicited. It is often difficult to estimate the extent of repairs needed until disassembly occurs. When damages are determined more severe than originally thought and the costs exceeds \$1,500, the threshold where competition begins, the most practical solution is to proceed with an emergency procurement.

We recommend, because the total repair bill exceeded the \$1,500 threshold, an emergency procurement should have been authorized. If the Department believes repair costs could exceed a procurement threshold, then solicitation of competition sufficient to satisfy that higher level should be made.

DEPARTMENT RESPONSE

We agree with your recommendation and an emergency procurement will be the procurement methodology when sufficient competition cannot be solicited to meet the requirements of the Code.

B . Change Order Not Authorized

On purchase order 2577, the Department bought furniture. One item was substituted by the vendor without the knowledge of the Procurement Office. Under Department policies, a written change order was required prior to payment being made. Accounting should not have paid the invoice without the involvement of the Procurement Office.

We recommend no invoices with substituted items be paid unless the Procurement Office provides a written change order authorizing the substitution.

DEPARTMENT RESPONSE

Per your recommendation the Procurement Office will issue a written change order when a substitution is authorized.

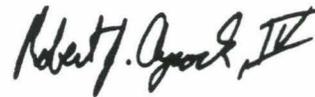
CERTIFICATION RECOMMENDATIONS

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 South Carolina Department of Mental Health in compliance with the 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 will recommend the South Carolina Department of Mental Health be recertified to make direct agency procurements for three 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	*\$ 50,000 per commitment
Construction Services	*\$ 50,000 per commitment

*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

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State Budget and Control Board
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VOIGHT SHEALY
ASSISTANT DIRECTOR

May 22, 1998

Mr. R. Voight Shealy
Materials Management Officer
Materials Management Office
1201 Main Street, Suite 600
Columbia, South Carolina 29201

Dear Voight:

We have reviewed the response from the South Carolina Department of Mental Health to our audit report for the period of July 1, 1995 - December 31, 1997. 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 the internal controls over the procurement system are adequate.

Therefore, we recommend the Budget and Control Board grant the South Carolina Department of Mental Health the certification limits noted in our report for a period of three years.

Sincerely,

A handwritten signature in cursive script that reads "Larry G. Sorrell".

Larry G. Sorrell, Manager
Audit and Certification

LGS/tl

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