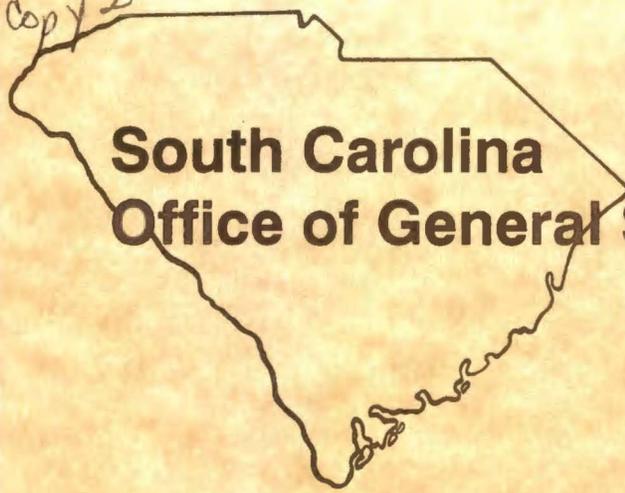


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**South Carolina
Office of General Services**

PROCUREMENT AUDIT AND CERTIFICATION

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OF MENTAL HEALTH

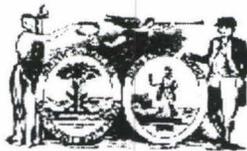
AGENCY

JANUARY 1, 1998 - DECEMBER 31, 2000

DATE

STATE OF SOUTH CAROLINA
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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

R. VOIGHT SHEALY
MATERIALS MANAGEMENT OFFICER

May 16, 2001

Mr. George N. Dorn, Jr., Director
Office of General Services
1201 Main Street, Suite 420
Columbia, South Carolina 29201

Dear George:

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,

A handwritten signature in cursive script that reads "Voight Shealy".

R. Voight Shealy
Materials Management Officer

/jl

**SOUTH CAROLINA DEPARTMENT OF MENTAL HEALTH
PROCUREMENT AUDIT REPORT
JANUARY 1, 1998 - DECEMBER 31, 2000**

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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.

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R. VOIGHT SHEALY
MATERIALS MANAGEMENT OFFICER

April 12, 2001

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 January 1, 1998 through December 31, 2000. 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, State regulations and Department's 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 February 12, 2001 through March 19, 2001, 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 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 June 18, 1998, the Budget and Control Board granted the Department the following procurement certifications.

<u>PROCUREMENT AREAS</u>	<u>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	\$ 50,000 per commitment

The Department requested an increase in its construction procurement certification to a Level III as defined in the Manual for Planning and Execution of State Permanent Improvements as follows.

<u>PROCUREMENT AREAS</u>	<u>CERTIFICATION LIMITS</u>
Construction Services	\$ 100,000 per commitment
Construction Contract Change Order	\$ 25,000 per change order
Architect/Engineer Contract Amendment	\$ 15,000 per amendment

The Department requested that all other certified limits remain the same.

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 July 1, 1998 through December 31, 2000 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, 1998 through December 31, 2000
- (2) Procurement transactions for the audit period as follows:
 - a) One hundred one payments each exceeding \$1,500
 - b) An additional sample of five sealed bids, four request for proposals and three request for quotations
 - c) A numerical block sample of three hundred eighty purchase orders
- (3) Six professional service contracts related to construction and fifteen major construction contracts for compliance with the Manual for Planning and Execution of State Permanent Improvements
- (4) Minority Business Enterprise Plans and reports
- (5) Approval of most recent Information Technology Plan
- (6) Internal procurement procedures manual
- (7) Procurement file documentation and evidence of competition
- (8) Surplus property procedures

SUMMARY OF AUDIT FINDINGS

Our audit of the procurement system of the South Carolina Department of Mental Health, hereinafter referred to as the Department, produced the following findings and recommendations.

	<u>PAGE</u>
I. <u>Procurements Without Competition</u>	7
Four procurements were not supported by solicitations of competition.	
II. <u>Preferences Not Included in Bid Documents</u>	7
The Department did not provide bidder preference information in its written solicitations for services.	
III. <u>Right to Protest Not in Compliance</u>	8
Two solicitations did not include the vendor's right to protest statement. Request for proposal solicitations originating from the Contracts Office did not contain correct protest information.	
IV. <u>Construction Procurements</u>	8
Two construction contracts had retainage withheld from progress payments that exceeded that allowed by the Code.	
V. <u>Contract References Not Recorded on Payments</u>	8
Four F-11A invoice vouchers were not supported by required contract references.	

RESULTS OF EXAMINATION

Since our previous audit, the Department has maintained what we consider to be a professional, efficient procurement system. The audit did reveal some exceptions which are addressed below. Corrective action in these areas based on the recommendations will bring the Department into compliance with the Procurement Code in all material respects.

I. Procurements Without Competition

Four procurements were not supported by solicitations of competition.

<u>Document Reference</u>	<u>Description</u>	<u>Amount</u>
PO 20413	Wheelchair system	\$4,133
Voucher 21266	Furnish & install video system	3,921
Voucher 31894	Letterhead stationary	3,874
Voucher 13767	Labeling system	1,870

Section 11-35-1550 (2)(a) requires three verbal or written quotes be solicited for procurements between \$1,500 and \$5,000.

We recommend the Department comply with the competition requirements of the Code.

DEPARTMENT RESPONSE

We concur with the recommendation and steps have been taken to comply with Code.

II. Preferences Not Included in Bid Documents

The Department did not provide bidder preference information in its written solicitations for services. For services only resident vendor would apply, not end product. Preferences were provided in the solicitations for goods. Section 11-35-1524 of the Code allows preferences for resident vendors and end products made, manufactured or grown in South Carolina or the United States. However, bidders for services are not being informed of the availability of these resident vendor preference.

We recommend the resident vendor preference found in Section 11-35-1524 be included in the written solicitations for services.

DEPARTMENT RESPONSE

We concur with the recommendation and corrective action was taken prior to your audit.

III. Right to Protest Not in Compliance

Two solicitations did not include a vendor's right to protest statement as required in Section 11-35-1520 (10).

<u>Purchase Order</u>	<u>Description</u>	<u>Amount</u>
18446	Furniture	\$41,854
26969	Insulated van body	26,765

We also noted that on request for proposal solicitations originating from the Contracts Office, the vendor protest information was not correct. The protest statement directed vendors to contact the Director of Procurement at the Department for any grievances. Section 11-35-4210 requires vendors to notify the Chief Procurement Officer (CPO) responsible for that area of procurement. All CPOs are at the Materials Management Office.

We recommend the Department comply with the protest provisions of the Code.

DEPARTMENT RESPONSE

We concur and corrective action has been taken to comply with Code.

IV. Construction Procurements

Two construction contracts had retainage withheld from progress payments that exceeded that allowed by the Code.

<u>Project Number</u>	<u>Description</u>	<u>Contract Amount</u>
J12-9658-RC	Fascia/siding replacement – Patrick Harris Hospital	\$134,200
J12-9661-RC	Construction of storage buildings	160,687

Both contracts had retainage withheld at ten percent whereas Section 11-35-3030 (4) requires that the retained amount be no more than five percent.

We recommend the Department ensure that no more than five percent is retained on progress payments for construction contracts in accordance with the Code.

DEPARTMENT RESPONSE

We concur and corrective action will be taken to comply with the Code.

V. Contract References Not Recorded on Payments

Four F-11A invoice vouchers were not supported by required contract references.

<u>Document Reference</u>	<u>Description</u>	<u>Amount</u>
Voucher 75147	Architectural services for Patrick Harris Hospital	\$6,685

<u>Document Reference</u>	<u>Description</u>	<u>Amount</u>
Voucher 57251	Handling charges for prescription medicine	\$4,608
Voucher 25634	Paging services	3,192
Voucher 19104	Pager services	1,857

The procurements were all made in compliance with the Code. However, the payments, using F-11A invoice vouchers, also called direct expenditure vouchers, did not comply to the Department's internal procurement policies and procedures manual. Section 10.20.1 of the manual requires that procurement contract references be included on all F-11A invoice vouchers.

We recommend the Department comply with Section 10.20.1 of the policies and procedures manual when processing F-11A payments.

DEPARTMENT RESPONSE

We concur and corrective action has been taken.

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.

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 re-certified to make direct agency procurements for three years up to the limits as follows:

<u>PROCUREMENT AREA</u>	<u>RECOMMENDED CERTIFICATION LEVELS</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	\$ 100,000 per commitment
Construction Contract Change Order	\$ 25,000 per change order
Architect/Engineer Contract Amendment	\$ 15,000 per amendment

*The total potential purchase commitment whether single year or multi-term contracts are used.



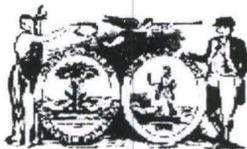
Robert J. Aycock, IV
Audit Manager



Larry G. Sorrell, Manager
Audit and Certification

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R. VOIGHT SHEALY
MATERIALS MANAGEMENT OFFICER

May 16, 2001

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 Mental Health to our audit report for the period of January 1, 1998 – December 31, 2000. Also we have followed the Department's corrective action during and subsequent to our fieldwork. 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 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, appearing to read "Larry G. Sorrell".

Larry G. Sorrell, Manager
Audit and Certification

LGS/jl

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