PROCUREMENT
AUDIT AND
CERTIFICATION

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S.C. DEPARTMENT OF MENTAL HEALTH
AGENCY
JUNE 28, 1983
DATE
June 28, 1983

Mr. Tony Ellis, Director
Division of General Services
300 Gervais Street
Columbia, South Carolina 29201

Dear Tony:

Attached is the final Department of Mental Health audit report and recommendations made by the Materials Management Office. I recommend the Budget and Control Board grant the Department of Mental Health two years certification as outlined in the audit report.

Respectfully,

Richard J. Campbell
Acting Materials Management Officer

RJC/ra
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March 7, 1983

Mr. Richard J. Campbell
Acting Materials Management Officer
Columbia, South Carolina

We have examined the procurement policies and procedures of the South Carolina Department of Mental Health for the period July 31, 1981 - June 30, 1982. 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 of Mental Health procurement policy. Additionally, the evaluation was used in determining the nature, timing and extent of other auditing procedures that were necessary for developing a recommendation for certification above the $2,500 limit.

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 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 South Carolina Department of Mental Health in compliance with the South Carolina Consolidated Procurement Code and ensuing regulations.

Barbara A. McMillan, Director
Contracts and Audit Management
INTRODUCTION

The Audit and Certification Section conducted an examination of the internal procurement operating procedures and policies and related manual of the South Carolina Department of Mental Health.

Our on-site review was conducted August 2, 1982 through September 24, 1982, and was made under the authority as described in 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 agency 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 materials management office shall review the respective governmental body's internal procurement operation, shall certify 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 May 5, 1982, the Department of Mental Health requested certification above the $2,500 base limit as follows:

1. Maintenance Agreements $20,000.00
2. Industrial Grade Papers 5,000.00
3. Drugs and Related Pharmaceuticals 1,600,000.00/term contract
4. Medical Products 325,000.00/term contract
5. Building and Grounds Maintenance 25,000.00
6. Janitorial and Insecticides 30,000.00/term contract
7. Dietary Products 25,000.00
8. Medical Equipment 25,000.00
9. Canned and Staple Foods 200,000.00/quarter
10. Frozen Foods 90,000.00/quarter
11. Clothing and Dry Goods 80,000.00/quarter
12. Shoes 20,000.00/bi-annually
SCOPE

Our examination encompassed a detailed analysis of the internal procurement operating procedures of the South Carolina Department of Mental Health and the 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 up to the requested certification limits.

The Audit and Certification team of the Materials Management Office statistically selected random samples for the period July 31, 1981 - June 30, 1982, of procurement transactions for compliance testing and performed other auditing procedures that we considered necessary in the circumstances to formulate this opinion. As specified in the Consolidated Procurement Code and related regulations, our review of the system included, but was not limited to, the following areas:

(1) adherence to provisions of the South Carolina Consolidated Procurement Code and ensuing regulations;

(2) procurement staff and training;

(3) adequate audit trails and purchase order register;

(4) evidences of competition;

(5) small purchase provisions and purchase order confirmations;

(6) emergency and sole source procurements;

(7) source selection;

(8) file documentation of procurements;

(9) reporting of Fiscal Accountability Act;
(10) warehousing, inventory and disposition of surplus property; and

(11) economy and efficiency of the procurement process.

At the date of this report, neither the state plan nor the Department's plan for the management and use of information technology have been completed. Additionally, procedures for monitoring construction and related services procurements have not been finalized. Because of this, we feel it would be inappropriate to recommend certification in these areas at this time.

Our examination included a review of these areas so that once the aforementioned plans and procedures are completed we will be able to make recommendations for certification with only a limited follow-up review.
SUMMARY OF AUDIT FINDINGS

Our examination of the procurement system of the South Carolina Department of Mental Health produced findings and recommendations in the following areas:

I. CODE COMPLIANCE - GENERAL

A. Review of the Department of Mental Health’s Procurement Procedures Manual

Our examination revealed that additional policy and procedure documentation is necessary in the Procurement Procedures Manual before approval can be granted for higher certification limits.

B. Sole Source Procurements

A number of items have been procured improperly as sole sources and others were insufficiently justified.

C. Leases of Community Mental Health Centers

The Department has not filed an annual report of state-owned and non-state-owned real property leases with the Division of General Services for fiscal year 1981-82.

II. COMPLIANCE - GOODS AND SERVICES

Our examination of transactions in the area of goods and services has determined that
some procurements were not made in compliance with the Consolidated Procurement Code and regulations.

III. COMPLIANCE - CONSULTANT SERVICES  
A. Consultant and Professional Services Procured Without Competition

Consultant and professional services were procured without following the competitive source selection process required by the Procurement Code.

B. Control Over Contracts for Health Professionals

We noted weaknesses in the Department's system for contracting for health service professionals.

IV. COMPLIANCE - INFORMATION TECHNOLOGY

A procurement was processed with no documented evidence of competition. Also, some lease and maintenance contracts for data processing equipment could not be located.

V. COMPLIANCE - CONSTRUCTION

All necessary supporting documents for construction procurements are not retained by the Department.
VI. AUTHORITY AND RESPONSIBILITY

During our review, we found two cases where Mental Health Centers did not follow Department policy and procedures in the procurement of drugs.

VII. GENERAL TRANSACTION CONTROL

There are weaknesses in the Department's system for processing procurements made through the use of F11-A Invoice/Vouchers.

VIII. FISCAL ACCOUNTABILITY ACT REPORTING

The Department of Mental Health has failed to fully comply with the requirements of the Fiscal Accountability Act.

IX. INTERNAL AUDIT

There has been insufficient involvement in the procurement process by the Department's Internal Audit Section.

X. DUPLICATING EQUIPMENT UTILIZATION ANALYSIS

As part of our examination, the State Printing Officer has evaluated the equipment utilization of the Department of Mental Health's Print Shop.
RESULTS OF EXAMINATION

I. CODE COMPLIANCE - GENERAL

A. Review of the Department of Mental Health's Procurement Procedures Manual

Our examination of the Department of Mental Health's Policy and Procedures Manual indicated the following areas that need to be addressed and/or expanded in the current document:

(1) **Organization**

   An organizational chart of the Procurement Division which defines positions and duties of the staff and which designates authorized approval signatures.

(2) **Procedures Flow Chart**

   A procedures flow chart showing the document processing flow for the four types of procurements (where applicable): (1) goods and services; (2) construction and related professional services; (3) consultant services; (4) information technology.

(3) **Purchase Requisition Process**

   The specific procedures to be followed by the governmental body when procurements are made in any of the four areas enumerated above. For example, describe the purchase requisition process, use of direct expenditure vouchers, selection and
contracting procedures for professional and consultant services, etc.

(4) **Construction Policy**
A procurement policy statement listing the general procurement policies to be adhered to in the area of construction and related professional services, including repairs and renovations.

(5) **Determination Reports**
Determination reports as listed in Sections 11-35-2410, 11-35-2420, 11-35-2440, 11-35-3820, 11-35-3830 and 11-35-5260 of the Consolidated Procurement Code should be addressed outlining the use of each and the approvals required.

(6) **Bid Security and Bid Opening Procedures**

(7) **Grievance and Complaint Procedures**
Description of the procedures to be followed by the Department in receiving and attempting the settlement of a vendor or contractor complaint and in initiating a complaint against a vendor or contractor.

(8) **Change or Amendment to Purchase Order and Contract Procedures**

(9) **Authorized Signature Form for Division Heads and Location Where Kept**

(10) **In-State Bidder's Preference and Tie Bid Procedures**

(11) **Professional Development**

(12) **Unauthorized Procurements**
(13) Exemptions
Include under this section the most recent items exempted by the Budget and Control Board.

(14) Legal and Auditing Services
The manual should reference the special approvals required for procurements of legal and auditing services.

(15) Drug Contract Procedures
A concise outline of the procedures for establishing the drug term contract and any other special contracts established by the agency.

(16) Exhibits
Mental Health's forms referred to in the manual should be included as exhibits.

(17) MBE Liaison
State who is the Minority Business Enterprise Liaison Officer under the section "Small and Minority Business".

(18) Product Standardization Policy

(19) Authorized Usage for F11-A Form

(20) Responsible Vendors
Cover the criteria governing the addition, deletion and reinstatement of bidders and the methods used to determine the potential of bidders to perform under the terms and conditions of the proposed procurement.
(21) **Bid Solicitation Procedures**

The part covering bid solicitation on page eight should be moved out of the section on printing because this applies to all procurement areas, not only printing.

(22) **Sole Source Procurement**

Section VIII shows as one of the circumstances as examples that could represent sole source procurements the "Best interest of the State". This should be removed from this section because this, in itself, is not justification for a sole source procurement.

Section VIII on sole source procurements should be further changed as follows:

a. Item C, 1, should be changed by eliminating the clause, "or by a designated official above the level of Chief Procurement Officer".

b. Item C, 2, should be changed by removing the reference to a "certified" head of a purchasing agency. Certification has no bearing on this. Also, change the designated official to "above the level of the Agency Procurement Officer".

(23) **Information Technology**

The procedures for information technology procurements should be completed.
(24) **Surplus Property**

The section on disposal of surplus property should be expanded to cover trade-in and sales of surplus when the agency wishes to retain the proceeds to be used to procure like items.

(25) **Source of Funding**

The manual should address the applicability of the Consolidated Procurement Code to all procurements made by the Department of Mental Health, including the Community Mental Health Centers, regardless of the source of funds, when they are processed through the state system.

**MENTAL HEALTH RESPONSE**

Instead of attempting to improve and revise the Procurement Procedures Manual that was examined during the audit, we have completely rewritten a new Purchasing Policies and Procedures Manual. The new manual addresses each point (1)-(25) in the audit report as well as other areas outlined in the South Carolina Consolidated Procurement Code and regulations.

This manual will be made available to all facilities, centers, and clinics of the Department and will be updated as needed.

We have provided your office with a draft of the manual for your review and comments. The draft will be finalized upon approval by the Department and your office.
B. Sole Source Procurements

We examined the quarterly reports of sole source and emergency procurements and all available supporting documents for the period July 1, 1981 - June 30, 1982, for the purpose of determining the appropriateness of the procurement actions taken and the accuracy of the reports submitted to the Division of General Services, as required by Section 11-35-2440 of the Code.

We found the following problems in this area:

1. These items were procured improperly as sole sources when competition was available:
   a. P.O. #35081 - Binding of periodicals.
   b. P.O. #384 - Security uniforms.
   c. P.O. #1263 - Emblems for security uniforms.
   d. P.O. #2320 - Furniture.
   e. P.O. #728, #783, #1349, #2381 - Cooling tower water treatment chemicals.

2. There is an inherent weakness in the written determinations justifying the sole source procurements, in that they fail to adequately substantiate the basis for a single source designation of the item and contractor. Examples are as follows:

<table>
<thead>
<tr>
<th>Product</th>
<th>Justification</th>
</tr>
</thead>
<tbody>
<tr>
<td>a. Boiler chemical treatment</td>
<td>&quot;Proven product&quot;</td>
</tr>
<tr>
<td>b. Water cooling tower treatment</td>
<td>&quot;Proven product&quot;</td>
</tr>
</tbody>
</table>
c. Casting tape, stockinette and "Cutter Biomedical will sell cast padding direct or through their distributor, Charles Beard and Associates, for their region."

These justifications are listed as examples. We feel the determinations and findings are inadequate in the majority of the cases reviewed.

Section 19-445.2105 of the regulations indicates the following on sole source procurements:

Sole source procurement is not permissible unless there is only a single supplier. The following are examples of circumstances which could necessitate sole source procurement:

(1) where the compatibility of equipment, accessories, or replacement parts is the paramount consideration;

(2) where a sole supplier's item is needed for trial use or testing;

(3) where a sole supplier's item is to be procured for resale;

(4) where public utility services are to be procured;

(5) where the item is one of a kind; and

(6) printed forms, pamphlets, brochures, exclusive of printing equipment.
...In cases of reasonable doubt, competition should be solicited. Any request by a governmental body that a procurement be restricted to one potential contractor shall be accompanied by an explanation as to why no other will be suitable or acceptable to meet the need.

Due to the lack of sufficient understanding of sole source procurements and the documentation required, Mental Health is not in compliance with state laws and regulations.

We, therefore, recommend that the Purchasing Department familiarize themselves thoroughly with the laws and regulations in sole source procurements and strictly apply these standards. The terminology "only one source" is intended to mean one manufacturer or unique service provider distributing through one distribution channel. If a firm specification for a product or service is requested due to a unique circumstance or need only satisfied by the procurement of that specific product/service and there is more than one source of distribution, the procurement is not sole source.

Bids should be forwarded to all known distributors to achieve the lowest possible price for the particular service or product. If alternate sources are not known, other state purchasing departments should be contacted for assistance.

It is our understanding that the Department is currently taking steps to procure the security uniforms and emblems and the cooling tower water treatment chemicals competitively.
MENTAL HEALTH RESPONSE

An internal organizational change has been implemented since the period under review. Our sole source procedures now require that such purchases with supporting justification be approved by the Deputy Commissioner for Financial Services. The justifications are now reviewed to determine that they do indeed support the definitions and requirements for sole source procurement.

As to the particular items addressed in the report that were improperly secured as sole sources, we now have annual state term contracts on security uniforms and emblems and on cooling tower water treatment chemicals. As for procurement of any other items in the future on which there is a question as to source of supply, we will test the marketplace to determine whether competition does indeed exist.

C. Leases of Community Mental Health Centers

The Department of Mental Health has not filed an annual report of state-owned and non-state-owned real property leases with the Division of General Services, for fiscal year 1981-82.

Section 19-445.2120, Subsection C, of the regulations states in part:

The Division of General Services may exempt governmental bodies from leasing State-owned and/or non-State-owned property through the leasing procedure herein required, provided however, that annual reports be filed with the Division of General Services, Real Property Management Section, prior to July 1 of each year. Annual reports shall contain copies of all existing leases of State-owned and non-State-owned real property. The Division of General Services may
limit or withdraw any exemptions provided for in this Regulation.

The following exemptions are hereby granted in this Regulation:

...(2) Mental Health - Community Mental Health Centers;...

A lack of understanding at the Department that this was required resulted in the report not being filed. Consequently, the Department is not in compliance with this rule of the procurement regulations.

We recommend the Department of Mental Health prepare and submit this report to the Division of General Services, Real Property Management Section, as soon as possible. Further, this information should be captured centrally for future reporting purposes.

MENTAL HEALTH RESPONSE

We have now submitted to the Division of General Services copies of all real property leases of the Community Mental Health Centers presently in existence. Copies of any other such leases entered into during the year will be submitted on a timely basis in the future.

II. COMPLIANCE - GOODS AND SERVICES

Our examination of transactions in the area of Goods and Services has determined that some procurements were not made in compliance with the Consolidated Procurement Code and regulations. Examples of these are as follows:

<table>
<thead>
<tr>
<th>ITEM</th>
<th>AMOUNT</th>
</tr>
</thead>
<tbody>
<tr>
<td>(1) Repairs to Emergency Generator</td>
<td>$955.19</td>
</tr>
</tbody>
</table>
(2) Repairs and Maintenance Service for Air Conditioning Units  6,018.12

(3) Food Service Contract for State Hospital  2,772.98

Item (1) was for repairs and maintenance to the emergency generator at Hall Psychiatric Institute and Item (2) was for repairs and maintenance to the air conditioning system at the Administration Building. The first repair was paid by an Invoice/Voucher (Mental Health's form F11-A) with an invoice attached, which went directly to Finance, bypassing the Purchasing Department.

Item (2) was a payment for four (4) different work orders completed over a fifty-seven day span. A F11-A Invoice/Voucher was completed and submitted. After a review by the Purchasing Department a purchase order was issued after the fact.

Item (3) was a purchase order for food for the State Hospital for the month of February, 1982. There was no contract at the time of the purchase order as the original contract for this service had expired. Mental Health is presently issuing monthly purchase orders for this service without a valid contract with the company.

These items were procured without competition, i.e., quotation, sealed bids or sealed proposal, and no documentation was made that the procurements were to the advantage of the State, price and other factors considered, including administrative cost of the purchase.

Section 19-445.2100, Subsection B, Items 2 and 3, of the regulations state in part:

Purchases from $500.01 to $1499.99. Solicitations of verbal or written quotes from two qualified sources of supply shall be made and documented that the procurement is to the advantage of the
State, price and other factors considered, including the administrative cost of the purchase. Such documentation shall be attached to the requisition.

Section 11-35-1520 of the Consolidated Procurement Code states in part:

...Contracts amounting to two thousand, five hundred dollars or more shall be awarded by competitive sealed bidding....

Those procurements which possibly could have been classified as sole source or emergency procurements were not documented as such.

Based upon the sample from which these items were taken, we can project statistically at a 95% confidence level that up to 14% of all procurements of goods and services may have been handled out of compliance with the Procurement Code.

The Internal Procurement Procedures Manual contains policies and procedures to procure these services according to the requirements of the Code. We recommend that these policies and procedures be followed closely to ensure that this does not happen in the future.

We understand that bids/specifications are presently being prepared in regards to a food contract and an air conditioning system maintenance contract. We recommend that the Purchasing Department continue to work toward contracts on these services.

MENTAL HEALTH RESPONSE

The examples cited in the audit report have been noted and are being corrected. Future repairs will be advertised for solicitation of bids based upon specifications from our Department's Chief Engineer. Any emergency type item will be documented as such. Presently, we are
soliciting competition and plan to award a term contract for preventive maintenance for the heating and cooling system for the Department's Administration Building. Also, we have obtained a contract for the food service system mentioned in the report.

We will strive in the future to adhere to the Procurement Code with regards to purchases of goods and services.

III. COMPLIANCE - CONSULTANT SERVICES

A. Consultant and Professional Services Procured Without Competition

The Department of Mental Health contracts for a number of consultant and professional services. These are paid through the use of an F11-A "Invoice/Voucher". Although this eliminates the necessity for a purchase order, it does not exempt the agency from compliance with the Procurement Code's competitive source selection process.

We discovered in our testing the following consulting services that were improperly procured, subsequent to the passage of the Code, and paid through the F11-A system:

<table>
<thead>
<tr>
<th>ITEM</th>
<th>CHECK #</th>
<th>AMOUNT</th>
</tr>
</thead>
<tbody>
<tr>
<td>(1) Instructor's fee for Staff Development Workshops</td>
<td>19393</td>
<td>$1,058.88</td>
</tr>
<tr>
<td>(2) Instructional Teachers Services for Residents</td>
<td>23725</td>
<td>505.56</td>
</tr>
<tr>
<td>(3) Physical Therapy Services</td>
<td>16920</td>
<td>3,139.02</td>
</tr>
</tbody>
</table>
Section 11-35-1270 states in part: "...a governmental body may act as a purchasing agent and contract on its own behalf for such services, subject to this code and regulations which may be established by the board." This section and the corresponding regulations require that these services be obtained competitively or justified as sole source procurements. Neither of these options were used in the above cases.

Further, Regulation 19-445.2025 restricts this authority to the certified dollar limit assigned to that agency which is $2,500. Since item (3) above exceeds this amount, the service should have been requested from State Procurement.

We recommend Mental Health include in their Internal Procurement Procedures Manual the policies and procedures that would place them in compliance with the Procurement Code in regards to consulting and professional services. We further recommend the manual be explicit as to who has the authority to negotiate professional contracts outside the Purchasing Department.

We understand that the teachers in exception (2), above, were changed from being considered consultants to part-time employees during mid-session this past summer and are now on the payroll. We feel this change was appropriate. Also, at its meeting of March 22, 1983, the Budget and Control Board exempted the procurement of Licensed Physical Therapists from the provisions of the Procurement Code under defined conditions. This would probably cover future acquisitions of the services in exception (3) above.
MENTAL HEALTH RESPONSE

Of the three examples cited in the audit report, the physical therapy services have since been exempted from the Procurement Code as of March 22, 1983. The instructional teachers have now been changed from consultant status to part-time employees. The third example, instructor's fees for staff development workshops is a type of service that may lend itself more to sole source procurement although we did not justify it as such at that time. In the future, we will more closely examine procurement of consultant services to ensure that we are in compliance with the Procurement Code. Procedures and accompanying flowchart for procurement of such services are documented in our new manual.

B. Control Over Contracts for Health Professionals

Contracts for professional health services, such as doctors, nurses or physical therapists, are established by the facility or Mental Health Center administrator. These contracts, if for Mental Health Centers, are approved by the center's governing board. These and other contracts are then reviewed by the Legal Section for proper wording, etc.

During our review, we noted the following weaknesses in this system of contracting for these professional services:

(1) Once the contracts are signed by the facility administrator they are binding on the Department with no additional approval.
(2) At no point in the process does the Purchasing Department review these for compliance with the Procurement Code. Doctors and certain other health service professionals are exempt from compliance with the Procurement Code, but we found that many of these services which are obtained through contracts by Mental Health are covered by the Code.

(3) Neither the Division of Administrative Services nor the Division of Financial Services see these contracts. Their approval is not required.

(4) No funds are committed in the general accounting system to cover these obligations.

(5) These are paid by F11-A Invoice/Vouchers so the information is not captured for the Fiscal Accountability Act reporting requirements to the Division of General Services.

(6) There is no central file of these contracts that could be used for payment verification.

We believe that there should be central control over these contracts allowing for Administrative or Financial Services approval/disapproval before they become binding on the agency.

Before leaving the Department, we were given the following directive, dated August 9, 1982, from the Office of the State Commissioner of Mental Health which, we feel, should eliminate the weaknesses in this area if enforced:
TO: All Organizational Components

SUBJECT: Contract Review and Approval

I. Purpose

The purpose of this directive is to establish review and approval procedures for contracts, including all leases, entered into by the Department of Mental Health.

II. Authority to Contract

1. No employee of the South Carolina Department of Mental Health has the authority to enter into any contract obligating the Department unless that contract has been first reviewed and approved in accordance with paragraph III of this directive.

2. After approval those persons authorized to sign contracts are:

   a. For all psychiatric hospitals, Earle E. Morris Alcohol and Drug Addiction Center, William S. Hall Psychiatric Institute and C. M. Tucker, Jr. Human Resources Center, the Assistant State Commissioner of Mental Health.

   b. For all Community Mental Health centers and clinics, a person(s) authorized by the Board of the contracting center or clinic. Names of those authorized to sign contracts shall be submitted to the Deputy Commissioner for Community Mental Health Services.

   c. For the Division of Administrative Services, the Deputy Commissioner for Administrative Services.

   d. For the Division of Financial Services, the Deputy Commissioner for Financial Services.

   f. Notwithstanding the above, all construction contracts and all contracts obligating the Department in an amount exceeding $100,000.00
III. Review and Approval

1. Review sequence. All proposed contracts shall be submitted for review as follows:

   a. Contracts originating from Community Mental Health centers and clinics shall be submitted to the Deputy Commissioner for Community Mental Health Services. The Deputy Commissioner for Community Mental Health Services will simultaneously submit copies of the proposed contract to the Office of General Counsel and the Deputy Commissioner for Financial Services.

   b. Contracts originating from the Division of Administrative Services shall be submitted to the Deputy Commissioner for Administrative Services. The Deputy Commissioner for Administrative Services will simultaneously submit copies of the proposed contract to the Office of General Counsel and Deputy Commissioner for Financial Services.

   c. Contracts originating from all other divisions and facilities shall be submitted to the Assistant State Commissioner. The Assistant State Commissioner will simultaneously submit copies of the proposed contract to the Office of General Counsel and Deputy Commissioner for Financial Services.

   d. Exceptions. Contracts which do not obligate more than $500.00 annually and have a term not exceeding (1) year need not be submitted to the Office of General Counsel and Deputy Commissioner for Financial Services. Contract splitting will not be permitted to avoid the review requirements. Contracts which are on standard forms previously approved by the Office of
General Counsel need not be submitted to the Office of General Counsel for further review.

2. **Approval**

   a. **Fiscal.** The purpose and effect of fiscal approval is:

      (i) To determine compliance with payment requirements of the Comptroller General's Office and the procurement code;

      (ii) To determine that documentation of a bona fide business purpose is present and sufficient to justify the transaction; and

      (iii) To determine that sufficient funds are available to pay for the transaction.

   b. **Legal.** The purpose and effect of legal approval is:

      (i) Other than the Procurement Code, to determine compliance with State law;

      (ii) To confirm the presence of proper contractual language and provisions necessary to effect a binding, valid contract;

      (iii) To protect against provisions creating unanticipated or unacceptable obligations; and

      (iv) To review contract provisions to determine their compatibility with the Department's insurance requirements and coverage.
3. Review Time

a. A minimum of ten (10) working days will be required for the review/approval process for routine contracts.

b. A minimum of twenty (20) working days will be required for complex contracts or contracts which involve the expenditure of more than $100,000.00.

c. Unless otherwise approved by the State Commissioner of Mental Health, no contract shall be signed nor performance begun on any contract until the review/approval process has been completed.

IV. Contract Filing

The original of all contracts, other than construction contracts, must be submitted to Finance when the request for the first payment under the contract is made. Finance will be the depository for the contract originals, other than construction contracts.

The only area of potential concern not covered here is in the procurement of an individual's services. In these cases a determination must be made that the contract does not constitute an employer-employee relationship requiring that they be added to the payroll.

MENTAL HEALTH RESPONSE

The directive draft included in the audit report has now been revised pending approval. We feel that the only area of potential concern that was expressed regarding the draft of the directive has now been alleviated by adding the following requirement:

"Contracts entered into with individuals shall be submitted by the Deputy Commissioner for Financial Services to the Personnel Division to determine whether a possible employee-employer relationship exists."
IV. COMPLIANCE - INFORMATION TECHNOLOGY

In our test of transactions in the area of information technology, we found the following weaknesses:

(1) One procurement totaling $896 was processed with no documented evidence of competition nor a sole source determination.

(2) We found in several cases payments for lease or maintenance of data processing equipment were being approved by Computer Services when the supporting contracts could not be located. We determined that these payments totaled $2,682.50 per month or $32,190 per year.

As stated earlier, Sections 19-445.2100 and 19-445.2105 of the regulations require that procurements between $500 and $1,500 either be supported by evidence of phone quotes from two qualified sources or a sole source determination.

We recommend that all competition required by the Procurement Code be sought out and properly documented. Otherwise, a sole source determination and finding should be prepared justifying such action.

Additionally, in order to properly control payments on equipment lease or maintenance contracts there must be a copy of the contract available so that services and charges can be verified. This also will indicate when the contract should be rebid.

Section 11-35-2030(1) of the Consolidated Procurement Code states:

Section 11-35-2030. Multi-Term Contracts. (1) Specified Period. Unless otherwise provided by law, a contract for supplies or services shall not
be entered into for any period of more than one year unless approved in a manner prescribed by regulation of the board; provided, that the term of the contract and conditions of renewal or extension, if any, are included in the solicitation and funds are available for the first fiscal period at the time of contracting. Payment and performance obligations for succeeding fiscal periods shall be subject to the availability and appropriation of funds therefor.

This section requires that records be kept which will indicate the beginning and ending dates of agreements to ensure that the maximum five year period (established by subsequent regulation) is not exceeded. While this Code section cannot be made retroactive, these services will have to be rebid before August 1, 1986, five years from the enactment of the Consolidated Procurement Code.

Further, payments on lease or maintenance contracts should not be processed until they are verified against appropriate contracts. If contracts cannot be located, copies should be requested from the vendor. If items are added to existing contracts, documentation should always be obtained from the vendor to ensure that invoices can be verified before payment is processed. These should be centrally filed for future reference.

When copies of these contracts are obtained from the vendor, a determination should be made if they are still binding on the Department or if new agreements should be sought. If the vendor cannot supply copies of these contracts, they should be considered null and void and the appropriate steps should be taken immediately to procure these services competitively, if they are necessary to the operation of the agency.
In order to fully control multi-term contracts, the Department should start a system whereby purchase orders are prepared annually supplementing agency contracts and authorizing the continuation of these for each fiscal year. These purchase orders should address contract numbers and specify equipment serial numbers, thereby providing a complete audit trail for ease of payment verification.

This would allow for the encumbrance of sufficient funds to cover the agreement each fiscal year providing each budget manager a better picture of true available funds. This would also provide a mechanism for reporting these agreements to the Division of General Services for Fiscal Accountability Act requirements which, as stated in item VII below, are not being met at this time.

MENTAL HEALTH RESPONSE

With regards to the procurement that was processed without evidence of competition or sole source documentation, we have found that the purchase was for computer supplies selected from review of several catalogs in order to get the best price. Procurement procedures have been changed and documented in our manual to prevent this type error in the future.

As to the lease payments for which contracts could not be found, these payments were against a long-standing generalized lease/rental agreement with IBM. Most of this equipment is no longer being rented, having been replaced by more modern leased equipment for which we do have contracts.
V. COMPLIANCE - CONSTRUCTION

During our review of procurements in the area of construction and related professional services, we noted that the Department does not retain on file all the necessary documentation supporting the procurement of construction when an architect has been hired to handle the project. In these cases, the Department depends on the architectural firm to retain bid documents and bid security documents among others.

In order to document procurements sufficiently to support the action taken, the Department must obtain original documents or at least copies of original documents which are relevant to the procurement.

Per Section 11-35-410 of the Procurement Code, "procurement information shall be a public record to the extent required by Chapter 3 of Title 30 (the Freedom of Information Act)...." Additionally, Section 11-35-2430 of the Code states in part, "All procurement records of governmental bodies shall be retained and disposed of in accordance with record retention guidelines and schedules approved by the Department of Archives and History after consultation with the Attorney General."

We recommend that the Department retain all the supporting documents justifying procurement transactions.

MENTAL HEALTH RESPONSE

The Engineering Office has obtained copies of the proposals from MBTB for the Patrick B. Harris Psychiatric Hospital. Historically,
copies of proposals from contractors on jobs where the architect administered the bid receiving procedures have not been retained. The architect provided a copy of bid tabulations with recommendation of contract award. Upon contract award approval by the Mental Health Commission, a request for authority to award a Construction Contract was submitted to the S. C. State Budget and Control Board for action. It was felt that the proper documentation for the awarding of a construction contract was the Budget and Control Board's Authority to award a Construction Contract (Form E-2). The Engineering Office will in the future maintain copies of proposals from contractors for construction when the project is being handled by an architect.

VI. AUTHORITY AND RESPONSIBILITY

During our review we found two instances where area Mental Health Centers were bypassing the Purchasing Department when ordering drugs. The payment vehicle for these transactions were F11-A Invoice/Vouchers discussed previously and the amounts were $1,756.56 and $2,125.76. The F11-A's were sent directly to Finance and paid without Purchasing's approval.

Although the drugs ordered are on the approved agency drug term contract, agency policy states that all drug orders are to be placed by means of a purchase order issued by the Department's Purchasing Department. This policy, however, has not been reduced to writing.

Further, since the Purchasing Department's purchase order system captures and stores all purchasing transactions, procurement drug
history not entered into the system is lost. This drug history is retrieved each year and relied upon as a basis for projecting drug needs when establishing the annual drug term contract.

We recommend that the Purchasing Department specifically address the drug ordering procedures in their Internal Procurement Operating Procedures Manual. Purchasing and Finance should ensure these policies and procedures are adhered to by all the Mental Health Clinics and Centers.

MENTAL HEALTH RESPONSE

We have changed internal procedures to require that all F-11As on non-exempt items be routed through Purchasing for review before they are processed by Accounting.

Our policy no longer requires that drug orders placed on the approved drug term contract be made by purchase orders. Use of F-11As is permissible providing the F-11A references to the established contract.

Use of F-11As as well as drug contract procedures are addressed in our new policies and procedures manual.

VII. GENERAL TRANSACTION CONTROL

The Department uses F11-A Invoice/Vouchers to authorize direct expenditures when a purchase order is not used. During our review we noted the following conditions in the F11-A Invoice/Voucher processing system:
(1) During fiscal year 1981/82 F11-A's made up 34% of total procurement transactions greater than $500.00.

(2) In the area of consultant services, F11-A's made up 82% of the total purchases. In the area of construction and related services, including building repairs and renovations, F11-A's made up 89% of the procurement activity.

(3) All F11-A's are not routed through the Purchasing Department so that they can check for Code compliance and compliance with internal procedures before payment is processed.

(4) The Department's Internal Procurement Procedures Manual does not address the use of F11-A Invoice/Vouchers outlining the items to be procured in this fashion.

(5) The majority of the procurement compliance exceptions addressed in this report happened when F11-A Invoice/Vouchers were used.

(6) There is no recognized limit on the use of F11-A's by Mental Health Centers for the purchase of supplies. We encountered procurements greater than $2,000 for supplies that were processed in this manner.

The F11-A Invoice/Voucher is designed to allow individual sections to make small purchase transactions without the use of the Purchasing Department. F11-A Invoice/Vouchers do not require that a purchase order nor a separate receiving report support the disbursement.

A properly controlled "direct expenditure" system reduces the cost of processing procurements and results in a measurable cost savings to
the procurement section, effectively increasing economy and efficiency. The system, however, must have adequate controls built in to ensure that:

1. Items which are open to competition are not obtained in this manner.
2. The Purchasing Department and/or the Accounts Payable Section have adequate review procedures to monitor and control the use of F11-A's and that this review is sufficiently documented.
3. All required supporting documents are attached with evidence of the proper approvals.
4. User departments are obtaining adequate competition on the small items they procure on F11-A's and that business is being spread around to available vendors.

It appears that the use of Invoice/Vouchers may have expanded past the original intent of the policy. Further, there are no written procedures that require departments to obtain competition on F11-A procurements where competition is required by law and/or available.

Purchasing has little control over direct expenditures because they do not see all of them. This increases the possibility of unintentional violations of state laws and regulations.

We recommend that the Department of Mental Health implement stricter regulations over the use of F11-A Invoice/Vouchers. We feel that the use of F11-A's should be limited to a specific dollar range such as $100 or $250 for goods and services and consulting services.
Additionally, the following items could be procured in this manner without a dollar limitation:

1. Oil company credit card charges for gas, oil and jet fuel;
2. Heat, light and water bills;
3. Telephone and telegraph bills;
4. U. S. Post Office box rentals and postage;
5. Freight and express bills;
6. Contributions, dues and registration fees;
7. Sales tax paid to the South Carolina Tax Commission;
8. Auto licenses and registrations;
9. Equipment repairs (not to exceed $500); and,
10. Magazine subscriptions (not to exceed $500).

All F11-A's should be approved by the Purchasing Department, then forwarded to the Finance Office for payment. The Purchasing Department should be responsible for assuring compliance with Department procurement regulations and the Procurement Code, as well as Fiscal Accountability Act reporting. The Accounts Payable Section of the Finance Office should be responsible for invoice verification, approval, classification and funding.

Regardless of the exact policies and procedures adapted for processing F11-A Invoice/Vouchers, they should be clearly defined in the Internal Procurement Procedures Manual.
MENTAL HEALTH RESPONSE

The use of F-11As by the Department has been examined closely. We have now enacted procedures to require that all F-11As, except on exempt items, be routed through Purchasing before going to Accounting for processing.

The redefinition of F-11A invoice/voucher use is covered in our new manual and should prevent improper use of the F-11A in the future.

VIII. FISCAL ACCOUNTABILITY ACT REPORTING

Partially, as a result of lack of clarification as to reporting procedures statewide, the Department of Mental Health has failed to fully comply with the requirements of the Fiscal Accountability Act in the following areas:

(1) Failed to report to the Comptroller General a statement of all existing contracts for permanent improvements and the status of work pursuant to such contracts.

(2) Failed to report to the Division of General Services the following:
   a. Procurements handled on F11-A Invoice/Vouchers;
   b. Procurements of construction;
   c. Leases of equipment;
   d. Maintenance contracts;
   e. Consultant services;
   f. All other procurements of services.

At the date of this report, the Department only reported approximately thirty-six percent (36%) of their total
procurements for July 1, 1981-June 30, 1982, to the
Division of General Services. This does not include
expenditures for personal service which comprise approxi-
mately 80% of total expenditures.

(3) Neglected to reconcile the data collected for Fiscal
Accountability Act reporting to the Division of General
Services with the general accounting records.

(4) Failed to retain the Fiscal Accountability Act printouts
from the Comptroller General's Office making verification
difficult.

Act 561 of 1976, Section 4, states in part:

The quarterly reports required by this Act shall
include the following information current to the
end of the last preceding quarter:

...(2) A statement of all existing contracts for
permanent or capital improvements and the status
of the work pursuant to such contracts....

Additionally, Section 5 states in part:

All agencies, departments and institutions of
state government shall...furnish to the Division
of General Services of the Budget and Control
Board...a statement of all expenditures...for
commodities which were not purchased through the
Division. Such statements shall be prepared in
the commodity code structure and report format
established by the Division for reporting commod-
ities purchased through the Division's central
purchasing system....

...Expenditures for units under two hundred
dollars shall be reported in the aggregate and
units in excess of two hundred dollars shall be
itemized.

Further, 561 as amended May 30, 1977 states in part:

...it is the intent of the General Assembly that
all funds including state, federal, and other
agency revenues, and also including any financial transactions covered by the budget code of the Comptroller General's office, be included in the reporting requirements of this Act....

The General Assembly, without major additional effort, cannot readily know the procurement activity of the Division in the areas of:

(1) Permanent and capital improvements; and,
(2) Total commodities purchased.

Additionally, by not establishing Fiscal Accountability Act input as a reliable data base, the Division deprives itself of the internal fringe benefits that could result therefrom, such as,

(1) Planning and scheduling acquisitions;
(2) Consolidation of commodities for better prices;
(3) Monitoring of user department needs for efficiency, cost effectiveness and small order abuse;
(4) Evaluation of purchasing goals.

The Division of General Services is currently working with the Comptroller General's Office on proposals to make major revisions in the reporting requirements of the Fiscal Accountability Act in the near future. These revisions will hopefully make the data reported by agencies more responsive and more cost effective.

Because of the possibility of these major revisions, we cannot recommend that the Department of Mental Health expend unnecessary time and money in effecting compliance with the law although we feel compelled to point out the lack of compliance. This lack of compliance has been discovered in differing degrees, however, at all agencies which we have audited.
MENTAL HEALTH RESPONSE

We were informed by your office during our meeting of March 7, 1983, that the Fiscal Accountability Reporting Act is in the process of possible repeal or revision and that your recommendation was that we postpone any further action on the audit report point at this time.

IX. INTERNAL AUDIT

We found that there has been insufficient involvement in the procurement process by the Department's Internal Audit staff.

A complete internal audit program includes a periodic review of the system of requisitioning, placing of purchase orders, receiving, etc. to determine that procurement procedures are sound and are being adhered to by user departments. As a state-supported agency the program must also include a review of the procurement process for compliance with the Consolidated Procurement Code and regulations, as well as, other applicable laws and regulations.

Historically, due to time limitations, internal audit departments have been forced to concentrate their efforts in the financial area, which precluded compliance and operational programs.

This leaves a gap in the administrative control over the procurement function because this area goes without review except by external audit organizations. Although these are effective, they cannot provide the type of on-going control necessary in an area where such large sums of money are expended.
The Institute of Internal Auditors' publication entitled Standards for the Professional Practice of Internal Auditing states, "The scope of Internal Audit should encompass the examination and evaluation of the adequacy and effectiveness of the organization's system of internal control and the quality of performance in carrying out assigned responsibilities." We feel this expands the role of Internal Auditors into the areas of compliance, management and operational reviews of all areas and functions of an organization.

We recommend that Internal Audit programs be developed to test the procurement process for adequacy of internal control, compliance with the Consolidated Procurement Code, adherence to department procedures and overall effectiveness. This program should include but not be limited to periodic review of procurements at all dollar levels including the direct purchase voucher process and central stockroom operations.

We understand that plans are underway in the Internal Audit Section to perform a test of the overall procurement function. We feel this program will be advantageous to the Department by providing needed control over this area.

MENTAL HEALTH RESPONSE

The Internal Audit Division is currently developing audit programs and procedures to test the procurement process for adequacy of internal control, compliance with the Consolidated Procurement Code, and adherence to department procedures and overall effectiveness.
"Compliance with the Procurement Code" has been added to the audit list of attributes for cash disbursement testing of the facilities and Community Mental Health Centers and Clinics.

X. DUPLICATING EQUIPMENT UTILIZATION ANALYSIS

As part of our examination, we requested the State Printing Officer evaluate the equipment utilization of the Department of Mental Health's Print Shop. The results of this study are as follows:

**DUPLICATING EQUIPMENT UTILIZATION ANALYSIS**

Standards for evaluating efficiency and effectiveness of duplicating equipment in Mental Health's Print Shop were established in part by the Legislative Audit Council in 1978. (See Program and Operational Review of Printing, Duplicating and Photocopying Activities of South Carolina State Agencies, November 14, 1978). The Print Shop is currently operating five (5) separate pieces of equipment. These five are made up of four (4) Offset Duplicators and one (1) Xerox 3600 I. The criteria for evaluating equipment utilization has been established as 5,000 impressions per hour for offset equipment, and 2,000 impressions per hour for the Xerox 3600 I.

A minimum standard for use levels has been developed by allowing three and one-half (3½) hours out of each seven and one-half (7½) hour working day to be used for job set-up time, clean-up time, routine maintenance, operators lunch period, breaks and miscellaneous down time.
The number of hours equipment is available for operation annually is the same number of hours an operator would be on the job.

\[
\begin{align*}
&37\frac{1}{2} \text{ hours straight time per week} \times 52 \text{ weeks} = 1,950 \\
&\text{Less:} \\
&\quad 15 \text{ days annual leave} = 112.5 \\
&\quad 15 \text{ days sick leave} = 112.5 \\
&\quad 11 \text{ holidays} = 82.5 \\
&1,950 \text{ hours available minus } 307.5 \text{ hours} = 1,624.5 \\
&1,642.5 \text{ divided by } 7.5 \text{ hours} = 219 \text{ days}
\end{align*}
\]

Utilizing the production standards mentioned, 100\% utilization would equal four hours per day. The number of working days per month based on 219 days divided by 12 equals 18.25 days.

In this analysis each piece of equipment has been evaluated individually and a percentage of utilization calculated. A collective utilization has also been calculated based on five pieces of equipment. Man hours have been analyzed using basically the same criteria established for evaluating equipment utilization. The fact that Mental Health's Print Shop has three employees operating five pieces of equipment has been taken into consideration in evaluating man hour utilization.

The percentage of man hours utilized out of the working hours available indicates the overall efficiency of Mental Health's Print Shop. At this point, data is not available to compare the efficiency of this Print Shop with others in State Government. However, when all the data is compiled from each agency Print Shop, the results will be published.
In November of 1978 the Legislative Audit Council's Report indicated Mental Health's Print Shop was producing 8,036,232 impressions per year. The data contained in this analysis indicate a twenty-two percent (22%) increase in equipment utilization and a nineteen percent (19%) increase in impressions per year.

MENTAL HEALTH DUPLICATING EQUIPMENT INVENTORY

<table>
<thead>
<tr>
<th>No.</th>
<th>Equipment Description</th>
<th>Model/Serial Number</th>
<th>Purchased Year</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.</td>
<td>Offset Duplicators - AM1250, S/N 564629</td>
<td></td>
<td>1961</td>
</tr>
<tr>
<td>2.</td>
<td>AM1250, S/N 759512</td>
<td></td>
<td>1961</td>
</tr>
<tr>
<td>3.</td>
<td>AM1250, S/N 740903</td>
<td></td>
<td>1961</td>
</tr>
<tr>
<td>4.</td>
<td>AM1850, S/N 121161</td>
<td></td>
<td>1969</td>
</tr>
<tr>
<td>5.</td>
<td>Xerox Duplicator - 3600 I</td>
<td></td>
<td>1976</td>
</tr>
<tr>
<td>6.</td>
<td>Itek Plate Maker</td>
<td></td>
<td>1967</td>
</tr>
<tr>
<td>7.</td>
<td>NuArc Exposure Frame</td>
<td></td>
<td>1972</td>
</tr>
<tr>
<td>8.</td>
<td>GBC Binder</td>
<td></td>
<td>1965</td>
</tr>
<tr>
<td>9.</td>
<td>Laminator Model 18LD</td>
<td></td>
<td>1965</td>
</tr>
<tr>
<td>10.</td>
<td>Collators &amp; Stitchers-Interlake Stitcher</td>
<td></td>
<td>1965</td>
</tr>
<tr>
<td>11.</td>
<td>Pitney Bowes Collator Stitcher</td>
<td></td>
<td>1971</td>
</tr>
<tr>
<td>12.</td>
<td>Pitney Bowes Table Top Collator</td>
<td></td>
<td>1967</td>
</tr>
<tr>
<td>14.</td>
<td>Padding Press</td>
<td></td>
<td></td>
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<tr>
<td>15.</td>
<td>Challenge Cutter 305 MCM</td>
<td></td>
<td>1969</td>
</tr>
<tr>
<td>16.</td>
<td>Folder - Martin Yale Table Top</td>
<td></td>
<td>1974</td>
</tr>
<tr>
<td>17.</td>
<td>Pitney Bowes Table Top</td>
<td></td>
<td>1967</td>
</tr>
<tr>
<td>18.</td>
<td>Light Table</td>
<td></td>
<td>1950</td>
</tr>
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</table>
XEROX 3600 I

Monthly Volume:

<p>| | | |</p>
<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>July</td>
<td>1981</td>
<td>150,152 impressions</td>
</tr>
<tr>
<td>August</td>
<td>1981</td>
<td>126,469 impressions</td>
</tr>
<tr>
<td>September</td>
<td>1981</td>
<td>225,642 impressions</td>
</tr>
<tr>
<td>October</td>
<td>1981</td>
<td>297,815 impressions</td>
</tr>
<tr>
<td>November</td>
<td>1981</td>
<td>173,017 impressions</td>
</tr>
<tr>
<td>December</td>
<td>1981</td>
<td>134,347 impressions</td>
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<tr>
<td>January</td>
<td>1982</td>
<td>104,602 impressions</td>
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<tr>
<td>February</td>
<td>1982</td>
<td>141,739 impressions</td>
</tr>
<tr>
<td>March</td>
<td>1982</td>
<td>131,606 impressions</td>
</tr>
<tr>
<td>April</td>
<td>1982</td>
<td>208,673 impressions</td>
</tr>
<tr>
<td>May</td>
<td>1982</td>
<td>133,696 impressions</td>
</tr>
<tr>
<td>June</td>
<td>1982</td>
<td>120,735 impressions</td>
</tr>
</tbody>
</table>

Total Annual Volume - 1,948,493 impressions
Average Monthly Volume - 162,374 impressions

1,948,493 Annual Impressions Divided by 219 working days = 8,897
8,897 Daily Impressions Divided by 2000 impressions per hour * = 4.44 hours
4.44 hours is 111% of 4 hours (Representing 100% Utilization).

Xerox 3600 I Utilization Percentage - 111%

* 2,000 Impressions per hour is the production standard established by a random sampling of Xerox 3600 users.
AM 1250 MULTILITH
Serial No. 740903

Monthly Volume:

<table>
<thead>
<tr>
<th>Month</th>
<th>Year</th>
<th>Impressions</th>
</tr>
</thead>
<tbody>
<tr>
<td>July</td>
<td>1981</td>
<td>284,424</td>
</tr>
<tr>
<td>August</td>
<td>1981</td>
<td>166,375</td>
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<tr>
<td>September</td>
<td>1981</td>
<td>205,195</td>
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<td>October</td>
<td>1981</td>
<td>155,179</td>
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<tr>
<td>November</td>
<td>1981</td>
<td>221,875</td>
</tr>
<tr>
<td>December</td>
<td>1981</td>
<td>72,585</td>
</tr>
<tr>
<td>January</td>
<td>1982</td>
<td>330,585</td>
</tr>
<tr>
<td>February</td>
<td>1982</td>
<td>473,860</td>
</tr>
<tr>
<td>March</td>
<td>1982</td>
<td>474,375</td>
</tr>
<tr>
<td>April</td>
<td>1982</td>
<td>325,880</td>
</tr>
<tr>
<td>May</td>
<td>1982</td>
<td>380,470</td>
</tr>
<tr>
<td>June</td>
<td>1982</td>
<td>481,935</td>
</tr>
</tbody>
</table>

Total Annual Volume - 3,572,738 impressions
Average Monthly Volume - 297,728 impressions

3,572,738 Annual Impressions Divided by 219 working days = 16,314
16,314 Daily Impressions Divided by 5,000 impressions per hour = 3.26 hours
3.26 hours is 82% of 4 hours (Representing 100% Utilization).

AM 1250 Utilization - 82%
Monthly Volume:

<table>
<thead>
<tr>
<th>Month</th>
<th>Year</th>
<th>Impressions</th>
</tr>
</thead>
<tbody>
<tr>
<td>July</td>
<td>1981</td>
<td>574,300</td>
</tr>
<tr>
<td>August</td>
<td>1981</td>
<td>328,250</td>
</tr>
<tr>
<td>September</td>
<td>1981</td>
<td>412,675</td>
</tr>
<tr>
<td>October</td>
<td>1981</td>
<td>294,600</td>
</tr>
<tr>
<td>November</td>
<td>1981</td>
<td>225,500</td>
</tr>
<tr>
<td>December</td>
<td>1981</td>
<td>218,040</td>
</tr>
<tr>
<td>January</td>
<td>1982</td>
<td>50,000</td>
</tr>
<tr>
<td>February</td>
<td>1982</td>
<td>0</td>
</tr>
<tr>
<td>March</td>
<td>1982</td>
<td>47,500</td>
</tr>
<tr>
<td>April</td>
<td>1982</td>
<td>41,125</td>
</tr>
<tr>
<td>May</td>
<td>1982</td>
<td>85,510</td>
</tr>
<tr>
<td>June</td>
<td>1982</td>
<td>41,260</td>
</tr>
</tbody>
</table>

Total Annual Volume - 2,318,760 impressions
Average Monthly Volume - 193,230 impressions

2,318,760 Annual Impressions Divided by 219 working days = 10,588
10,588 Daily Impressions Divided by 5,000 impressions per hour = 2.12 hours
2.12 hours is 53% of 4 hours (Representing 100% Utilization).

AM 1250 Utilization - 53%
## Monthly Volume:

<table>
<thead>
<tr>
<th>Month</th>
<th>Year</th>
<th>Impressions</th>
</tr>
</thead>
<tbody>
<tr>
<td>July</td>
<td>1981</td>
<td>101,900</td>
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<tr>
<td>August</td>
<td>1981</td>
<td>7,600</td>
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<tr>
<td>September</td>
<td>1981</td>
<td>30,950</td>
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<td>October</td>
<td>1981</td>
<td>170,680</td>
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<tr>
<td>November</td>
<td>1981</td>
<td>36,540</td>
</tr>
<tr>
<td>December</td>
<td>1981</td>
<td>40,139</td>
</tr>
<tr>
<td>January</td>
<td>1982</td>
<td>159,183</td>
</tr>
<tr>
<td>February</td>
<td>1982</td>
<td>153,730</td>
</tr>
<tr>
<td>March</td>
<td>1982</td>
<td>47,875</td>
</tr>
<tr>
<td>April</td>
<td>1982</td>
<td>139,630</td>
</tr>
<tr>
<td>May</td>
<td>1982</td>
<td>41,529</td>
</tr>
<tr>
<td>June</td>
<td>1982</td>
<td>43,140</td>
</tr>
</tbody>
</table>

**Total Annual Volume** - 972,896 impressions  
**Average Monthly Volume** - 81,075 impressions

972,896 Annual Impressions Divided by 219 working days = 4,442  
4,442 Daily Impressions Divided by 5,000 impressions per hour = 53 minutes  
53 minutes is 22% of 4 hours (Representing 100% Utilization).

**AM 1250 Utilization** - 22%
**AM 1850**

Serial No. 121161

**Monthly Volume:**

<table>
<thead>
<tr>
<th>Month</th>
<th>Year</th>
<th>Impressions</th>
</tr>
</thead>
<tbody>
<tr>
<td>July</td>
<td>1981</td>
<td>127,535</td>
</tr>
<tr>
<td>August</td>
<td>1981</td>
<td>107,750</td>
</tr>
<tr>
<td>September</td>
<td>1981</td>
<td>53,000</td>
</tr>
<tr>
<td>October</td>
<td>1981</td>
<td>16,635</td>
</tr>
<tr>
<td>November</td>
<td>1981</td>
<td>48,400</td>
</tr>
<tr>
<td>December</td>
<td>1981</td>
<td>56,250</td>
</tr>
<tr>
<td>January</td>
<td>1982</td>
<td>153,900</td>
</tr>
<tr>
<td>February</td>
<td>1982</td>
<td>122,900</td>
</tr>
<tr>
<td>March</td>
<td>1982</td>
<td>164,400</td>
</tr>
<tr>
<td>April</td>
<td>1982</td>
<td>30,780</td>
</tr>
<tr>
<td>May</td>
<td>1982</td>
<td>200,402</td>
</tr>
<tr>
<td>June</td>
<td>1982</td>
<td>66,766</td>
</tr>
</tbody>
</table>

**Total Annual Volume - 1,148,718 impressions**

**Average Monthly Volume - 95,727 impressions**

1,148,718 Annual Impressions Divided by 219 working days = 5,245

5,245 Daily Impressions Divided by 5,000 impressions per hour = 1.5 hours

1.5 hours is 26% of 4 hours (Representing 100% Utilization).

**AM 1850 Utilization - 26%**
DUPLICATING EQUIPMENT UTILIZATION SYNOPSIS

Total number of impressions produced from July 1, 1981 through June 30, 1982 = 9,961,605.

A. Xerox 3600 I  1,948,493
B. AM1250, S/N 740903  3,572,738
C. AM1250, S/N 759512  2,318,760
D. AM1250, S/N 564629  972,896
E. AM1850, S/N 121161  1,148,718

Utilization Percentages:
A. 111%
B. 82%
C. 53%
D. 22%
E. 26%

Average Equipment Utilization Percentage - 58.8%

MAN HOUR UTILIZATION ANALYSIS

Number of Employees - Four (4) full time.

1. Print Shop Manager
2. Printing Equipment Operator I
3. Printing Equipment Operator II
4. Printing Equipment Operator III

53
There are three employees (2 through 4 above) directly responsible for duplicating equipment productivity. These employees operate five pieces of duplicating equipment.

Volume Produced Overall - 9,961,605 impressions.

9,961,605 Divided by 219 Working Days = 45,487 impressions per day.
45,487 Impressions Per Day Divided by 3 employees = 15,162 impressions per employee.
15,162 Impressions Per Employee Divided by 4400 * impressions = 3.44 hours.
3.44 hours is 86% of 4 hours (Representing 100% Utilization).
Man Hour Utilization - 86%

* 4400 is the average of 5000 impressions X (4) pieces of offset equipment (20,000) and 2000 impressions X (1) piece of xerographic equipment (2000). 20,000 plus 2000 equals 22,000 divided by five pieces of equipment + 4400 impressions per hour (Production Standard).

100% Equipment Utilization would generate - 19,272,000 impressions.
Actual Equipment Utilization - 9,961,605.
100% Man Hour Utilization - 2,628
Actual Man Hour Utilization - 2,256.

RECOMMENDATIONS

The Print Shop Manager should make an effort, this fiscal year, to phase out one 1250 Offset Duplicator, via a trade-in or IDT. Several
agency Print Shops have expressed an interest in a small offset. This equipment possibly could be used in another facility. The possibility of acquiring a high speed duplicator with on-line sorting should be investigated. Acquiring a system of this type would facilitate phasing out another 1250 offset and transferring the volume from two manual presses and a portion of the volume from the Xerox 3600 I to a single unit. This would create a more efficient utilization of equipment and man hours. To exercise this option, the Print Shop Manager should determine if enough straight line copy work is available to transfer from two offset duplicators and the Xerox 3600 I to a high speed system and be more cost effective than the present method of operation.

We suggest that the Department of Mental Health take these recommendations into consideration and strive to upgrade the operational efficiency of the Print Shop.

MENTAL HEALTH RESPONSE

We feel that the information presented in the analysis is accurate and we take no exception to any part of it. We were aware that the utilization figures for duplicators would possibly be lower than desired. However, three of the four duplicators being operated were purchased in 1961. Consequently, they require considerable maintenance and are not as efficient as later models of duplicators. Additionally, the number of duplicators now in use exceeds the number of operators available under current budgetary limitations.
We have been aware of this situation for some time and we will give consideration to discontinuing the use of the least efficient duplicator. This should improve the utilization percentage of our duplicators. We have continued to use this duplicator as backup in situations when other duplicators have become inoperable.

Additionally, we would be interested in acquiring a high speed duplicator with on line sorting. However, with funds being severely reduced at the present, we do not foresee any possibility of acquiring such a duplicator in the near future.
CERTIFICATION RECOMMENDATIONS

As enumerated in our transmittal letter, corrective action based on the recommendations described in the findings contained in the body of this report, we believe, will in all material respects place the Department of Mental Health 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 South Carolina Department of Mental Health be certified to make direct agency procurements as follows:

<table>
<thead>
<tr>
<th>PROCUREMENT AREAS</th>
<th>RECOMMENDED CERTIFICATION LIMITS</th>
</tr>
</thead>
<tbody>
<tr>
<td>Goods and Services:</td>
<td></td>
</tr>
<tr>
<td>A. Annual Term Contracts Only for Drugs and Related Pharmaceuticals Defined in the State Procurements Commodity Code Manual under #270-Drugs, Pharmaceuticals and Biologicals</td>
<td>$1,600,000 Maximum of All Such Contracts Combined</td>
</tr>
<tr>
<td>B. Annual Term Contracts Only for Medical Supplies under Commodity Code Classes #435-Germicides, #470-Hospital Equipment-Invalid, #475-Hospital Sundries and #465-Hospital Equipment.</td>
<td>$400,000 Maximum of All Such Contracts Combined</td>
</tr>
<tr>
<td>C. All Other Goods and Services Procurements Excluding Printing Equipment which must be approved by the Materials Management Office and Food Commodities that are currently combined with other agencies' needs and procured on scheduled buys by the Materials Management Office.</td>
<td>$15,000 Per Purchase Commitment</td>
</tr>
</tbody>
</table>
This would result in the Department of Mental Health handling 99% of their procurement transactions.

Certification in the areas of Information Technology, Construction and Consultant Services are not being addressed in this report because the Department did not request to be certified over $2,500 in these areas. Our examination, however, included a review of these areas for compliance as required by the Code.

R. Voight Shealy
Audit Supervisor

Robert W. Wilkes, Jr., CPA
Director, Audit and Certification
June 24, 1983

Mr. Richard J. Campbell  
Materials Management Officer  
800 Dutch Square Boulevard, Suite 150  
Columbia, South Carolina 29210

Dear Richard:

We have returned to the Department of Mental Health to determine the progress made toward implementing the recommendations in our audit report covering the period July 31, 1981 - June 30, 1982. During this visit, we followed up on each recommendation made in the audit report through inquiry, observation and limited testing.

The Audit and Certification Section observed that the Department has made substantial progress toward correcting the problem areas found and improving the internal controls over the procurement system.

We, therefore, recommend that the certification limits for the Department of Mental Health, as outlined in the audit report, be granted for a period of two (2) years.

Sincerely,

Barbara A. McMillan, Director  
Contracts and Audit Management

BAM:rms