PROCUREMENT AUDIT AND CERTIFICATION

S. C. STATE LIBRARY
SEP 09 1993
STATE DOCUMENTS

DEPARTMENT OF MENTAL HEALTH

AGENCY

OCTOBER 1, 1989 - DECEMBER 31, 1992

DATE
August 13, 1993

Mr. Richard W. Kelly
Director
Division of General Services
1201 Main Street, Suite 420
Columbia, South Carolina 29201

Dear Rick:

I have attached the procurement audit report of the Department of Mental Health as prepared by the Office of Audit and Certification. I concur and recommend the Budget and Control Board grant the Department a three (3) year certification as outlined in the report.

Sincerely,

Helen T. Zeigler
Deputy Division Director

Attachment
SOUTH CAROLINA DEPARTMENT OF MENTAL HEALTH

PROCUREMENT AUDIT REPORT

OCTOBER 1, 1989 - DECEMBER 31, 1992
# TABLE OF CONTENTS

<table>
<thead>
<tr>
<th>Section</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>Transmittal Letter</td>
<td>1</td>
</tr>
<tr>
<td>Background</td>
<td>4</td>
</tr>
<tr>
<td>Scope</td>
<td>5</td>
</tr>
<tr>
<td>Summary of Audit Findings</td>
<td>6</td>
</tr>
<tr>
<td>Results of Examination</td>
<td>8</td>
</tr>
<tr>
<td>Certification Recommendations</td>
<td>20</td>
</tr>
<tr>
<td>Follow-up Review</td>
<td>21</td>
</tr>
</tbody>
</table>

**NOTE:** The Department's responses to issues noted in this report have been inserted immediately following the issues they refer to.
August 12, 1993

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

Dear Helen:

We have examined the procurement policies and procedures of the South Carolina Department of Mental Health for the period October 1, 1989 through December 31, 1992. As part of our examination, we studied and evaluated the system of internal control over procurement transactions to the extent we considered necessary.

The evaluation was to establish a basis for reliance upon the system of internal control to assure adherence to the Consolidated Procurement Code and State and Department procurement policy. Additionally, the evaluation was used in determining the nature, timing and extent of other auditing procedures necessary for developing an opinion on the adequacy, efficiency and effectiveness of the procurement system.

The administration of the 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 judgements by management are required to assess the expected benefits and related costs of control procedures. The objectives of a system are to provide management with reasonable, but not absolute, assurance of the integrity of the procurement process, that affected assets are safeguarded against loss from unauthorized use or disposition and that transactions are executed in accordance with management's authorization and are recorded properly.

Because of inherent limitations in any system of internal control, errors or irregularities may occur and not be detected. Also, projection of any evaluation of the system to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or that the degree of compliance with the procedures may deteriorate.

Our study and evaluation of the system of internal control over procurement transactions, as well as our overall examination of procurement policies and procedures, were conducted with 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 South Carolina Consolidated Procurement Code and ensuing regulations.

R. Vaught Shealy, CFE, Manager
Audit and Certification
BACKGROUND

Section 11-35-1210 of the South Carolina Consolidated Procurement Code states:

The (Budget and Control) Board may assign differential dollar limits below which individual governmental bodies may make direct procurements not under term contracts. The Division of General Services shall review the respective governmental body's internal procurement operation, shall verify in writing that it is consistent with the provisions of this code and the ensuing regulations, and recommend to the Board those dollar limits for the respective governmental body's procurement not under term contract.

Section 11-35-1230(1) of the South Carolina Consolidated Procurement Code states in part:

In procurement audits of governmental bodies thereafter, the auditors from the Division of General Services shall review the adequacy of the system's internal controls in order to ensure compliance with the requirements of this Code and the ensuing regulations.

The Department of Mental Health's current procurement certification expires August 14, 1993. This audit was performed primarily to determine if recertification is warranted. Additionally, the Department requested the following recertification limits:

<table>
<thead>
<tr>
<th>Procurement Areas</th>
<th>Requested Certification Limits</th>
</tr>
</thead>
<tbody>
<tr>
<td>Underpads, Diapers</td>
<td>$1,000,000 per purchase commitment</td>
</tr>
<tr>
<td>Hospital Sundries excluding Underpads and Diapers</td>
<td>200,000 per purchase commitment</td>
</tr>
<tr>
<td>Goods and Services</td>
<td>100,000 per purchase commitment</td>
</tr>
<tr>
<td>Consultant/Contractual Services</td>
<td>250,000 per purchase commitment</td>
</tr>
<tr>
<td>Information Technology</td>
<td>50,000 per purchase commitment</td>
</tr>
<tr>
<td>Construction</td>
<td>100,000 per purchase commitment</td>
</tr>
</tbody>
</table>
SCOPE

The Office of Audit and Certification conducted an examination of the internal procurement operating procedures and policies and related manual of the Department of Mental Health for the period October 1, 1989 through December 31, 1992. Our on-site review was conducted February 10, 1993 - May 14, 1993 and was made under the authority as described in Section 11-35-1230(1) of the South Carolina Consolidated Procurement Code.

The scope of our audit included, but was not limited to review of the following:

(1) One hundred ninety-three randomly selected procurement transactions
(2) Seventy-two F-11A's processed by branch offices
(3) Block sample of five hundred sequentially numbered purchase orders
(4) Twelve permanent improvement projects and minor construction projects for approvals and compliance with the Manual for Planning and Execution of State Permanent Improvements
(5) All sole source, emergency and trade-in sale procurements for the audit period
(6) Minority Business Enterprise Plan approvals
(7) Information Technology Plans and approvals
(8) Thirty-eight randomly selected procurements of contractual services
(9) Twelve Blanket Purchase Agreements
(10) Procurement Policies and Procedures Manual
(11) Procurement staff and training
SUMMARY OF AUDIT FINDINGS

Our audit of the procurement management at the South Carolina Department of Mental Health, hereinafter referred to as the Department, produced findings and recommendations in the following areas:

I. General Procurement Activity
   A. F-11A Violations
      Fourteen F-11A vouchers which were processed by regional offices did not have required contract references. Three did not have evidence of solicitations of competition, sole source or emergency determinations. One F-11A did not have sufficient solicitations of competition. One F-11A was not awarded to the low bidder.
   B. Multi-Term Procurements
      Three multi-term procurements did not follow all of the prescribed procedures. As a result, two of them were unauthorized.
   C. Insufficient Solicitations of Competition
      Four transactions did not have adequate solicitations of competition.
   D. Low Bidder Not Awarded Due to Ambiguous Specifications
      Because of unclear specifications regarding the submission of samples, we believe the low bidder was improperly rejected.
E. Wrong Quotes Recorded on the Purchase Order
Even though the low bidder was awarded the contract, the Department recorded the next low bidder's prices costing $102 more.

F. Blanket Purchase Agreements
Some blanket purchase agreements did not include a limit per call as required in the regulations.

G. Late Payments
Twelve payments were made late.

II. Construction Services
Two exceptions were noted. One contract at $22,560 had no competition and one other contract did not have all the required supporting documents.

III. Contractual Services
One contract should have been handled by the Personnel Office as an employee. One other contract did not have the appropriate written determinations.
RESULTS OF EXAMINATION

I. General Procurement Activity

We tested one hundred ninety-two randomly selected transactions from the four procurement areas of goods and services, consultants, construction and information technology to determine compliance with the Procurement Code and Department policies and procedures. Further, we performed a separate test of seventy-two F-11A vouchers processed by the community mental health centers. We also performed a separate test of the Department's blanket purchase agreements. Our findings were as follows.

A. F-11A Violations

Out of seventy-two F-11A's (Invoice Vouchers) tested, we noted fourteen F-11A's which did not reference the contracts utilized. Section 20 of the Department's policies and procedures manual requires that contract references be recorded on F-11A's when contracts are accessed. These F-11A's were processed by four separate community mental health centers and were as follows:

<table>
<thead>
<tr>
<th>F-11A Number</th>
<th>Amount</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>E08554</td>
<td>$13,644.13</td>
<td>Maintenance and lease payments</td>
</tr>
<tr>
<td>V00528</td>
<td>$12,144.95</td>
<td>Maintenance agreement</td>
</tr>
<tr>
<td>E20139</td>
<td>$661.50</td>
<td>Copier</td>
</tr>
<tr>
<td>V29243</td>
<td>$6,000.00</td>
<td>Custom programming</td>
</tr>
<tr>
<td>V35778</td>
<td>$807.50</td>
<td>Temporary employment services</td>
</tr>
<tr>
<td>V35779</td>
<td>$612.95</td>
<td>Temporary employment services</td>
</tr>
<tr>
<td>V52743</td>
<td>$1,295.00</td>
<td>Maintenance agreement</td>
</tr>
<tr>
<td>V07540</td>
<td>$657.09</td>
<td>Pharmaceuticals</td>
</tr>
<tr>
<td>V15944</td>
<td>$1,645.00</td>
<td>Consultant</td>
</tr>
<tr>
<td>V30990</td>
<td>$1,646.20</td>
<td>Consultant</td>
</tr>
<tr>
<td>V14222</td>
<td>$1,636.25</td>
<td>Eyeglasses</td>
</tr>
</tbody>
</table>
We recommend all users of F-11A's record contract references when they are accessed and the Finance Office should more closely monitor the F-11A's for compliance to Department policies and procedures.

We noted three F-11A's which were not supported by solicitations of competition, sole source or emergency procurement determinations. These were as follows:

<table>
<thead>
<tr>
<th>F-11A Number</th>
<th>Amount</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>V06236</td>
<td>$2,945.56</td>
<td>Patient shoes</td>
</tr>
<tr>
<td>V39142</td>
<td>690.00</td>
<td>Transportation services</td>
</tr>
<tr>
<td>V27681</td>
<td>620.39</td>
<td>Printing</td>
</tr>
</tbody>
</table>

Regulation 19-445.2100 requires competition to be solicited on transactions exceeding $500. Further, because the community mental health centers are limited to procurement authority not to exceed $2,500.00, V06236 was unauthorized and requires ratification in accordance with Regulation 19-445.2015.

We recommend the community mental health centers solicit competition on all procurement transactions exceeding $500 or prepare sole source or emergency procurement determinations if appropriate.

One other F-11A was noted which was not supported by sufficient solicitations of competition. It was V54586 in the amount of $1,911.00 for furniture. Two written quotations were solicited. However, Regulation 19-445.2100 requires a minimum of
three written solicitations for procurements between $1,500.00 and $2,499.99.

We recommend this regulation be adhered to in the future.

On V19186 in the amount of $939.17 for office supplies, it appears that the low bidder was not awarded the contract. The low bid was $728.69 but did not include shipping cost because it was not requested by the buyer. The vendor who received the contract quoted $776.65 or $47.96 higher than the apparent low bidder and added shipping charges. We see no reason why the shipping charges were not requested from the apparent low bidder.

We recommend every vendor be afforded a fair and equal chance to compete on procurements.

F-11A Violations Summary

Collectively, we took exception with nineteen of seventy-two F-11A's we tested. We believe this error rate is too high and reemphasize the recommendations made above. These problems may be affected by a procedure that we recommend be changed. Currently, users submit F-11A's directly to the Finance Office for payment. The Finance Office reviews F-11A's and forwards questionable ones to the Procurement Office for review. If a problem is apparent, the Procurement Office returns the F-11A to the user for written justification. However, responses are not routed back to the Procurement Office. Instead, they are resubmitted to the Finance Office for payment.

We recommend that written justifications be returned to the Procurement Office. If the Procurement Office is satisfied with the justification, then payment should be made. Otherwise,
appropriate actions should be taken against the individuals responsible.

**DEPARTMENT RESPONSE**

Contract References: All users of F-11A's will be advised to reference contracts on the documents, and the Accounting Department will more closely monitor compliance with this requirement.

Inadequate Solicitations of Competition, Sole Source or Emergency Procurement Determinations: All areas will be instructed to adhere to the requirements of the State Procurement Code. In addition, Procurement instruction classes will emphasize these subjects in classroom settings.

Routing of F-11A's for Payment: This requirement will be incorporated into the procurement manual and adhered to.

---

**B. Multi-Term Procurements**

Three multi-term procurements were not processed in accordance with all of the multi-term requirements. As a result, two of the transactions were unauthorized.

First, on purchase order 9513 the Department awarded a contract for three years for employee honesty bonds at $23,350 per year or a total three year commitment of $70,050. A written determination justifying the use of a multi-year agreement was not prepared as required by Section 11-35-2030 of the Procurement Code. Further, the Department's certification for this category of procurement is limited to $50,000 per commitment. Because the Department exceeded this limit, the contract was unauthorized and requires ratification in accordance with Regulation 19-445.2015.

Second, on purchase order 866 the Department awarded a contract for five years for combs and brushes at $11,709 per year or a total five year commitment of $58,546.00. Again, no written
determination justifying the use of a contract extending beyond one fiscal period was prepared. This contract also exceeded the Department's procurement certification of $50,000 and must be ratified in accordance with Regulation 19-445.2015. Further, only four bids were solicited. Regulation 19-445.2035 requires a minimum of ten solicitations from qualified sources of supply.

Finally, on purchase order 10311 the Department awarded a contract for a maintenance agreement at $3,100 per year or a total three year commitment of $9,300. The Department failed to prepare the written determination justifying the use of a contract extending beyond one fiscal period.

We recommend the Department adhere to the multi-term procurement requirements when soliciting such contracts. Also, the Materials Management Officer has ruled that if a written determination justifying the use of a contract beyond one fiscal period was not prepared, contract renewal options cannot be exercised.

DEPARTMENT RESPONSE

The Department will institute procedures to monitor adherence to these requirements and will institute requests to have the two contracts ratified by General Services.

C. Insufficient Solicitations of Competition

We noted four transactions that were not supported by the minimum solicitation requirements. They were as follows:
<table>
<thead>
<tr>
<th>PO Number</th>
<th>Total Award</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. 7040</td>
<td>$9,978.29</td>
<td>Classification folders &amp; shelving</td>
</tr>
<tr>
<td>2. F-11A 2286</td>
<td>31,500.00</td>
<td>Janitorial service</td>
</tr>
<tr>
<td>3. 16157</td>
<td>2,175.00</td>
<td>Maintenance agreements</td>
</tr>
<tr>
<td>4. 18205</td>
<td>692.70</td>
<td>Arts and crafts</td>
</tr>
</tbody>
</table>

For item 1, bids were solicited from three vendors. However, Regulation 19-445.2035 requires that bids be solicited from a minimum of five vendors for transactions between $5,000 and $9,999.99. For item 2, bids were solicited from seven vendors. However, Regulation 19-445.2035 requires that bids be solicited from a minimum of 10 vendors for transactions of $10,000.00 or more. Two verbal quotes were solicited for item 3. However, Regulation 19-445.2100 requires that a minimum of three written quotations be solicited for transactions between $1,500.00 and $2,499.99. Item 3 was a multi-lot award on one transaction. The total amount of the solicitation must be considered when determining the competition threshold. Finally on item 4, only one verbal quote was solicited. However, Regulation 19-445.2100 requires that verbal quotes be solicited from a minimum of two vendors for transactions between $500.01 and $1,499.99.

We recommend the Department adhere to the minimum competition requirements.

DEPARTMENT RESPONSE

The Department will adhere to Regulation 19-445.2035 and 19-445-2100.
D. Low Bidder Not Awarded Contract Due to Ambiguous Specifications

Because of unclear specifications regarding the submission of samples, we believe the lowest bid was improperly rejected on purchase order 14042 for assorted wearing apparel in the amount of $13,908.80. Submission of samples was addressed in two places in the invitation for bids. In one place, the bidding schedule, the solicitation clearly stated the samples were required if bidding items other than those specified. However, in another place, the general terms and conditions, the solicitation indicated that samples must be sent in within five days after the Department makes a request for them. The Department did not request the vendor who gave the lowest price to submit a sample. Yet, the vendor's bid was rejected because a sample was not submitted. The lowest bid was $12,510.00 versus the award of $13,908.00 for a difference of $1,398.00.

We recommend the Department use clear specifications regarding sample submissions in the future.

DEPARTMENT RESPONSE

The Department will endeavor to use clear specifications in the future.

E. Wrong Quotes Recorded on the Purchase Order

On purchase order 17258 for a bar code reader in the amount of $2,329.00, the Department awarded the contract to the low bidder, but recorded the price offered by the second low bidder. The actual lowest bid was $2,227.00 or $102.00 less than what was recorded on the purchase order and subsequently paid.
We recommend more care be exercised when recording bid prices on purchase orders.

DEPARTMENT RESPONSE

The Procurement Department will exercise more care in recording information.

F. Blanket Purchase Agreements

During our review of blanket purchase agreements (BPA's), we noted that some of the BPA's did not specify one of the limits required by Regulation 19-445.2100(c). That regulation requires that each BPA show a limit per call.

We recommend the Department include the provision for limits per call on all of its BPA's.

DEPARTMENT RESPONSE

Department will adhere to Regulation 19-445.2100(c).

G. Late Payments

Due to departments not forwarding necessary documentation to the Finance Office, twelve payments were made beyond the thirty working days allowed by the Procurement Code. They were as follows:

<table>
<thead>
<tr>
<th>Voucher Number</th>
<th>Voucher Amount</th>
<th>Invoice Date</th>
<th>Voucher Date</th>
<th>Department</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. 5896</td>
<td>$2,227.68</td>
<td>05/17/91</td>
<td>08/19/91</td>
<td>Physical plant</td>
</tr>
<tr>
<td>2. 19394</td>
<td>7,187.25</td>
<td>07/30/91</td>
<td>11/06/91</td>
<td>Physical plant</td>
</tr>
<tr>
<td>3. 18059</td>
<td>1,170.75</td>
<td>08/23/91</td>
<td>10/29/91</td>
<td>Physical plant</td>
</tr>
<tr>
<td>4. 32969</td>
<td>4,725.00</td>
<td>10/05/90</td>
<td>01/11/91</td>
<td>SC State Hospital Main Kitchen</td>
</tr>
<tr>
<td>5. 49876</td>
<td>1,930.95</td>
<td>01/22/91</td>
<td>04/05/91</td>
<td>SC State Hospital Warehouse</td>
</tr>
</tbody>
</table>
When we reviewed these vouchers we noticed a form included in most of them documenting why the payments were late even though this is not the form's purpose. The form is used to document missed discounts and why they were missed.

We recommend the Department continue to make every effort to process payments in accordance with Section 11-35-45 of the Procurement Code. If the decision is made to use this form to document late payments, the form should be used consistently.

**DEPARTMENT RESPONSE**

Department will make every effort to adhere to Section 11-35-45 of the Procurement Code.

II. **Construction Services**

Our review of construction procurements included procurements of goods and services related to construction, construction related professional service contracts and construction contracts. This review included twelve contracts under permanent improvement projects. Our findings were as follows.
In one case, the Department was faced with a significant problem because a contractor defaulted on his contract and left the Department with an unfinished punch list of items to be completed. The Department solicited competition for completion of these items, but received no response. Because of that, the Department located a contractor who agreed to do the work and awarded him the contract for $22,560.

While we believe the Department made sufficient attempts to compete this procurement, we note that it did not follow one of the authorized source selection methods when it awarded the contract. Possibly, an emergency determination would have been appropriate.

Secondly, the Department was unable to provide us with all the required documents for a professional services contract in the amount of $32,000 for the Bryan Hospital improvements project. The missing documents were the Federal Standard Forms 254 and 255. Also, the Department was unable to provide us with evidence that written notification of the order of ranking was sent to all responding architectural/engineering firms.

We recommend these documents be retained in the project files.

DEPARTMENT RESPONSE

Department will make appropriate procurement method selections. Construction services will retain all documents in the project files.
III. Contractual Services

We reviewed a randomly selected sample of thirty-eight contracts managed by the Contract Administrator. We found most of these contracts to be handled properly. We did, however, note two exceptions.

First, on contract H 1207-92 the Department contracted with an intern for clinical psychology in the amount of $15,725.00 for one year. The Department's policies and procedures manual, section 18-E, requires such a contract to be handled through the Personnel Office under the State personnel policies and procedures. This type of contract with an intern would not be appropriately classified as a consultant since the Department has direct control over the individual.

We recommend the Department adhere to this section of its manual.

The other item noted occurred on contract PO54 - 11/24/92 DP for homeshare services in the amount of $928.00 per month. The Department bid this contract as a multi-term agreement for one year with four, one-year renewal options. No written determination was made justifying the use of a multi-term contract as required by Section 11-35-2030 of the Procurement Code. Also, this contract was solicited as a request for proposal under Section 11-35-1530 as opposed to an invitation for bids. This section requires a written determination justifying the use of proposals instead of bids. The Department failed to make this determination.
We recommend the Department adhere to these provisions of the Code.

DEPARTMENT RESPONSE

The Department will take care to insure that these sections are adhered to in all future multi-term contracts and RFP's.
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 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 recertified to make direct agency procurements for three (3) years up to the limits as follows:

<table>
<thead>
<tr>
<th>Procurement Areas</th>
<th>Requested Certification Limits</th>
</tr>
</thead>
<tbody>
<tr>
<td>Underpads, Diapers</td>
<td>*$1,000,000 per purchase commitment</td>
</tr>
</tbody>
</table>
| Hospital Sundries excluding Underpads and Diapers | *
| Consultant/Contractual Services         | *$ 250,000 per purchase commitment     |
| Goods and Services                      | *$ 100,000 per purchase commitment     |
| Information Technology in accordance with the approved Information Technology Plan | *
| Construction                             | *$ 50,000 per purchase commitment     |

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

Robert J. Aycock, IV  
Audit Supervisor

R. Voight Shealy, CFE, Manager  
Audit and Certification
August 12, 1993

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

Dear Helen:

We have reviewed the Department of Mental Health's response to our audit report for October 1, 1989 - December 31, 1992. We are satisfied that the Department has corrected the problem areas.

We, therefore, recommend that the certification limits for the Department of Mental Health outlined in our audit report be granted for a period of three (3) years.

Sincerely,

R. Wight Shealy
Manager
Audit and Certification

Total Copies Printed - 33
Unit Cost - .90
Total Cost - 29.70