

STATE OF SOUTH CAROLINA
State Budget and Control Board
PROCUREMENT SERVICES DIVISION

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R. VOIGHT SHEALY
MATERIALS MANAGEMENT OFFICER

May 28, 2004

Mr. Delbert H. Singleton Jr.
Director
Procurement Services Division
6th Floor-Wade Hampton Building
Columbia, South Carolina 29201

Dear Delbert:

I have attached Department of Mental Health's procurement audit report and recommendations made by the Office of Audit and Certification. I concur and recommend the Budget and Control Board grant the Department of Mental Health a three-year certification as noted in the audit report.

Sincerely,

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

R. Voight Shealy
Materials Management Officer

/jl

SOUTH CAROLINA DEPARTMENT OF MENTAL HEALTH
PROCUREMENT AUDIT REPORT
JANUARY 1, 2001 - DECEMBER 31, 2003

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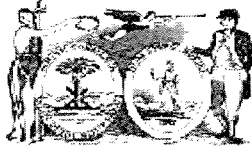
NOTE: The Department's responses to issues noted in this report have been inserted immediately following the items they refer to.

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R. VOIGHT SHEALY
MATERIALS MANAGEMENT OFFICER

May 20, 2004

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

Dear Voight:

We have examined the procurement policies and procedures of the South Carolina Department of Mental Health for the period January 1, 2001 through December 31, 2003. As part of our examination, we studied and evaluated the system of internal control over procurement transactions to the extent we considered necessary.

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

The administration of the South Carolina Department of Mental Health is responsible for establishing and maintaining a system of internal control over procurement transactions. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of control procedures. The objectives of a system are to provide management with reasonable, but not absolute, assurance of the integrity of the

procurement process, that affected assets are safeguarded against loss from unauthorized use or disposition and that transactions are executed in accordance with management's authorization and are recorded properly.

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

Our study and evaluation of the system of internal control over procurement transactions, as well as our overall examination of procurement policies and procedures, were conducted with professional care. However, because of the nature of audit testing, they would not necessarily disclose all weaknesses in the system.

The examination did, however, disclose conditions enumerated in this report which we believe need correction or improvement.

Corrective action based on the recommendations described in these findings will in all material respects place the South Carolina Department of Mental Health in compliance with the Consolidated Procurement Code and ensuing regulations.

Sincerely,



Larry G. Sorrell, Manager
Audit and Certification

INTRODUCTION

We conducted an examination of the internal procurement operating policies and procedures of the South Carolina Department of Mental Health. Our on-site review was conducted February 2, 2004 through March 17, 2004, and was made under Section 11-35-1230(1) of the South Carolina Consolidated Procurement Code and Section 19-445.2020 of the accompanying regulations.

The examination was directed principally to determine whether, in all material respects, the procurement system's internal controls were adequate and the procurement procedures, as outlined in the Internal Procurement Operating Procedures Manual, were in compliance with the South Carolina Consolidated Procurement Code and its ensuing regulations.

On June 12, 2001, the Budget and Control Board granted the South Carolina Department of Mental Health, hereinafter referred to as the Department, the following procurement certifications.

<u>PROCUREMENT AREAS</u>	<u>CERTIFICATION LIMITS</u>
Under pads, diapers	\$1,000,000 total annual contracts
Hospital sundries excluding under pads and diapers	\$ 200,000 total annual contracts
Goods and Services	\$ 100,000 per commitment
Consultants/Contractual Services	\$ 250,000 per commitment
Information Technology	\$ 50,000 per commitment
Construction	\$ 100,000 per commitment
Construction Contract Change Orders	\$ 25,000 per change order
Architect/Engineer Contract Amendment	\$ 15,000 per amendment

Our audit was performed primarily to determine if recertification is warranted. Additionally, the Department requested the following certifications.

<u>PROCUREMENT AREAS</u>	<u>CERTIFICATION LIMITS</u>
Under pads and diapers	\$1,000,000 total annual contracts
Hospital sundries excluding under pads and diapers	\$ 200,000 total annual contracts
Goods and Services	\$ 250,000 per commitment

PROCUREMENT AREAS

CERTIFICATION LIMITS

Consultant/Contractual Services	\$ 500,000 per commitment
Information Technology	\$ 50,000 per commitment
Construction	\$ 100,000 per commitment
Construction Change Order	\$ 100,000 per change order
Architect/Engineer Contract Amendment	\$ 15,000 per amendment

SCOPE

We conducted our examination in accordance with Generally Accepted Auditing Standards as they apply to compliance audits. Our examination encompassed a detailed analysis of the internal procurement operating procedures of the Department and its related policies and procedures manual to the extent we deemed necessary to formulate an opinion on the adequacy of the system to properly handle procurement transactions.

We selected judgmental samples for the period July 1, 2001 through December 31, 2003 of procurement transactions for compliance testing and performed other audit procedures that we considered necessary to formulate this opinion. Specifically, the scope of our audit included, but was not limited to, a review of the following:

- (1) All sole source, emergency and trade-in sale procurements for the period January 1, 2001 through December 31, 2003
- (2) Procurement transactions for the audit period as follows:
 - a) Ninety-seven payments each exceeding \$1,500
 - b) An additional sample of nine sealed bids and one informal request for quotation
 - c) A block sample of five hundred purchase orders
 - d) Procurement card activity for May and June of 2003
- (3) Seven major construction contracts and four professional services contracts for compliance with the Manual for Planning and Execution of State Permanent Improvements
- (4) Minority Business Enterprise Plans and reports
- (5) Approval of most recent Information Technology Plan
- (6) Internal procurement procedures manual
- (7) File documentation and evidence of competition
- (8) Surplus property disposal procedures

RESULTS OF EXAMINATION

Solicitation Items

Five procurements were not supported by evidence of competition, sole source or emergency determinations, or exempt.

<u>Date</u>	<u>Amount</u>	<u>PO</u>	<u>Description</u>
08/14/2001	\$15,599	PO884	Stock forms
08/20/2002	4,959	DPO 3A00080	Repairs to van
07/10/2003	3,510	450008959	Rental of storage units
08/01/2003	2,837	4500008864	Clothing items
11/21/2003	1,876	4500012359	Furniture

The Code requires procurements greater than \$1,500, which are not exempt, to be competitively bid or justified as sole source or emergency procurements if applicable.

Additionally, one procurement was inappropriately solicited. On purchase order 4500010562 for \$1,952, the Department bought a kiln and accessories plus freight. The supporting quotes were for the kiln only.

We recommend the Department comply with the competitive requirements of the Code for these types of items.

DEPARTMENT RESPONSE

We concur with the finding. The Department will comply with the competitive requirements of the Code.

Unauthorized Procurement

An area Mental Health Center processed a direct payment on voucher 51985 for vinyl siding in the amount of \$6,250 which exceeded the Center's delegated procurement authority of \$5,000. Since this procurement exceeded the applicable procurement authority, the procurement was unauthorized as defined in Regulation 19-445.2015.

We recommend the Department comply with the applicable procurement authority. A ratification request must be submitted to the Director of the Department or his designee in accordance with Regulation 19-445.2015 for the vinyl siding.

DEPARTMENT RESPONSE

We concur with the finding. Ratification of this procurement has been completed in accordance with the Regulations.

Misapplied Exemptions

The Department misapplied the exemptions to the Code on three procurements.

<u>Reference</u>	<u>Amount</u>	<u>Exemption status</u>
PO 4500006258	\$ 2,500	Evaluation forms
<u>Reference</u>	<u>Amount</u>	<u>Exemption status</u>
Contract 3D030062	\$ 69,766 per year	Grant specified
Contract 15-010334	5,735 per month	Grant specified

The evaluation forms were procured using the exemption granted by the Budget and Control on May 10, 1994 which states, in part, "the procurement of copyrighted educational films, filmstrips, slides and transparencies, CD ROM documents, data bases, computer assisted instructional materials, interactive video programs and other related materials made available by information technology that can only be obtained from the company providing the information or service." The exemption does not apply to evaluation forms. The two contracts, noted as grant specified, were considered exempt under the grant exemption issued by the Budget and Control Board on March 22, 1994 which states, in part, "the purchase of grant specified --- if those procurements are made in accordance with procedures approved by the Office of General Services." The Office of General Services approved the grant specified procedures on June 19, 1995. However the Department did not follow the approved grant specified procedures on the two procurements.

We recommend the Department review the application of exemptions. We also recommend the Department follow the approved grant specified procedures.

DEPARTMENT RESPONSE

We concur with the finding. The Department will review the application of exemptions and follow the approved grant specific procedures.

Multi-Term Determinations Not Prepared

The Department did not prepare written multi-term determinations for two contracts.

<u>Solicitation Number</u>	<u>Description</u>
0314-06-03-03-JS	Transcription services
C0222-10/25/00-HM	Food preparation service

These solicitations included extension clauses allowing for an option to renew for up to four additional years. Section 11-35-2030 of the Code requires that prior to the utilization of a multi-term contract, a written determination must be prepared to support the advantages of a multi-term contract.

We recommend the Department prepare the written determination for each multi-term contract.

DEPARTMENT RESPONSE

We concur with the finding. The Department will prepare written determinations for each multi-term contract.

Drug-Free Workplace Certifications Not Obtained

The Department failed to obtain the drug-free workplace certification on twelve sole source and five emergency procurements of \$50,000 or more. Section 44-107-30 of the South Carolina Code of Laws requires a written certification on any contract of \$50,000 or more stating that the vendor provides a drug-free workplace. Sole source and emergency procurements are subject to this law.

We recommend the Department obtain the drug-free workplace certification from vendors on all sole source and emergency procurements of \$50,000 or more.

DEPARTMENT RESPONSE

We concur with the finding. The Department will obtain drug-free workplace certification from vendors on all sole source and emergency procurements of \$50,000 or more.

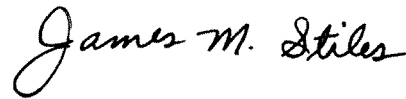
CERTIFICATION RECOMMENDATIONS

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

Under the authority described in Section 11-35-1210 of the Procurement Code, subject to this corrective action, we will recommend the South Carolina Department of Mental Health be re-certified to make direct agency procurements for three years up to the limits as follows:

<u>PROCUREMENT AREA</u>	<u>RECOMMENDED CERTIFICATION LEVELS</u>
Under pads and diapers	\$1,000,000 total annual contracts
Hospital sundries excluding under pads and diapers	\$ 200,000 total annual contracts
Goods and Services	*\$ 250,000 per commitment
Consultant/Contractual services	*\$ 500,000 per commitment
Information Technology	*\$ 50,000 per commitment
Construction Services	\$ 100,000 per commitment
Construction Contract Change Order	\$ 100,000 per change order
Architect/Engineer Contract Amendment	\$ 15,000 per amendment

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



James M. Stiles, CPPB
Audit Manager



Larry G. Sorrell, Manager
Audit and Certification

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R. VOIGHT SHEALY
MATERIALS MANAGEMENT OFFICER

May 28, 2004

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

Dear Voight:

We have reviewed the response from Department of Mental Health to our audit report for the period of January 1, 2001 – December 31, 2003. Also we have followed the Department's corrective action during and subsequent to our fieldwork. We are satisfied that the Department of Mental Health has corrected the problem areas and the internal controls over the procurement system are adequate.

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

Sincerely,

A handwritten signature in cursive script, appearing to read "Larry G. Sorrell".

Larry G. Sorrell, Manager
Audit and Certification

LGS/jl

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