

SOUTH CAROLINA DEPARTMENT OF MENTAL HEALTH

PROCUREMENT AUDIT REPORT

JANUARY 1, 2004 – JUNE 30, 2006

TABLE OF CONTENTS

	<u>PAGE</u>
Transmittal Letter	1
Introduction.....	3
Scope.....	4
Summary of Results.....	5
Results of Examination.....	7
Certification Recommendations	15

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

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

MARK SANFORD, CHAIRMAN
GOVERNOR

CONVERSE A. CHELLIS III, CPA
STATE TREASURER

RICHARD ECKSTROM, CPA
COMPTROLLER GENERAL



HUGH K. LEATHERMAN, SR.
CHAIRMAN, SENATE FINANCE COMMITTEE

DANIEL T. COOPER
CHAIRMAN, WAYS AND MEANS COMMITTEE

FRANK W. FUSCO
EXECUTIVE DIRECTOR

DELBERT H. SINGLETON, JR.
DIVISION DIRECTOR
(803) 734-2320

MATERIALS MANAGEMENT OFFICE
1201 MAIN STREET, SUITE 600
COLUMBIA, SOUTH CAROLINA 29201
(803) 737-0600
Fax (803) 737-0639

R. VOIGHT SHEALY
MATERIALS MANAGEMENT OFFICER

August 21, 2007

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, 2004 through June 30, 2006. 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 established a basis for reliance upon the system of internal control to assure adherence to the Consolidated Procurement Code, State regulations and procurement policy of the Department. Additionally, the evaluation determined 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 those 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 review, conducted September 1, 2006 through October 31, 2006, was made under Section 11-35-1230(1) of the South Carolina Consolidated Procurement Code and Section 19-445.2020 of the accompanying regulations.

On June 15, 2004, the State 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>
Underpads, diapers	\$1,000,000 total annual contracts
Hospital sundries excluding underpads, 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

Our audit was performed primarily to determine if recertification is warranted. The Department did not request re certification for underpads/diapers and hospital sundries excluding underpads/diapers.

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 samples for the period January 1, 2004 through June 30, 2006 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, 2004 through June 30, 2006
- (2) Procurement transactions for the period January 1, 2004 through June 30, 2006 as follows:
 - a) Seventy-six payments each exceeding \$1,500 supported by purchase orders
 - b) Twenty six direct expenditure vouchers each exceeding \$1,500 (procurements without purchase orders)
 - c) Five hundred sequential purchase orders reviewed against the use of order splitting and favored vendors
- (3) Five construction contracts and four Architect/Engineer contracts for compliance with the Manual for Planning and Execution of State Permanent Improvements
- (4) Procurement card transactions for May and July of 2006
- (5) Minority Business Enterprise Plans and reports for the audit period
- (6) Approval of the most recent Information Technology Plan
- (7) Internal procurement procedures manual
- (8) File documentation and evidence of competition
- (8) Surplus property disposal procedures

SUMMARY OF RESULTS

	<u>PAGE</u>
I. <u>Direct Expenditure Voucher System</u>	
A. <u>Purchase Orders Improperly By-passed by Direct Expenditure Voucher System</u>	7
In our twenty-six item sample, we noted eight Direct Expenditure Vouchers (DEVs) that were improperly used to by-pass purchase orders that had already been issued.	
B. <u>DEV's Not Supported by Solicitations of Competition</u>	8
Two DEVs did not have evidence of solicitations of competition.	
II. <u>Sole Source and Emergency Procurements</u>	
A. <u>Reporting Errors for Sole Source and Emergency Procurements</u>	9
We noted extensive reporting errors in sole source and emergency procurements.	
B. <u>Determinations Lacked Sufficient Information</u>	9
The Department did not provide sufficient factual information supporting twelve emergency procurement decisions.	
III. <u>General Audit Findings</u>	
A. <u>No Evidence of Solicitations of Competition</u>	11
Three procurements showed no evidence of solicitations of competition or otherwise complied with the Code.	
B. <u>Unauthorized Blanket Purchase Agreement (BPA) Expenditures</u>	11
Two calls against a BPA exceeded the maximum limit making them unauthorized.	
C. <u>Written Quotes Not Provided</u>	12
The Department received written quotes but did not provide those written quotes during the audit.	
D. <u>Procurement Manual Needs Updating</u>	13
The Department's procurement procedures manual needs updating.	

PAGE

IV. SAP System

A. Change Order Dates Not Documented

13

The SAP software system does not allow a new date to be printed on purchase orders that are changed. We therefore could not determine when changes are authorized thereby losing part of the audit history of transactions.

B. Receiving Not Documented

14

The Department relies on a receiving system built into SAP for most of its purchase order transactions. Some transactions did not use the SAP receiving system and we could not identify how receiving was documented.

RESULTS OF EXAMINATION

I. Direct Expenditure Voucher System

A. Purchase Orders Improperly By-passed by Direct Expenditure Voucher (DEV) System

We tested procurements made through direct expenditure vouchers (DEVs), a process that allows delegation of procurement authority to Department Centers and Facilities, whereby the purchase order process is not used. In our twenty-six item sample, we noted eight DEVs that were improperly used to by-pass purchase orders that had already been issued.

<u>PO</u>	<u>Description</u>	<u>Amount</u>	<u>Doc Number</u>	<u>Doc Amount</u>
17266	Implementation of grants received by Department	\$ 26,904	1924928	\$ 5,664
35209	Medical science & lab supplies	50,000	1908961	1,755
896	Case services other-individual	548,867	1907354	2,739
17166	General repair	4,775	1926193	1,502
21624	Contractual agreements	92,981	1902442	12,800
19505	Other contract services	7,860	1926043	10,000
14026	Household laundry & grounds maintenance services	200,000	1909856	12,910
17944	Consulting for managed care	35,000	1921835	7,200

On each of the transactions above, the Procurement Office issued purchase orders authorizing them. However, when the invoices were paid, DEVs were used to record the expenditures which is a separate procurement system from the purchase order system. Several problems can result from not processing payments through the purchase order system when purchase orders have been issued. The Department loses its ability to track expenditures for a particular contract since the purchase order shows nothing has been paid against it. Purchase orders contain terms and conditions or reference other documents so payments can be verified

for accuracy and authorization. None of the DEVs showed evidence of compliance with the Code or contracting terms resulting in the Procurement Office having to research each DEV to determine if the expenditures were accurate and properly authorized.

We also found a compliance problem with one of the DEVs above. For the contract authorized on purchase order 19505 in the amount of \$7,860, the payment made through the DEV exceeded the amount authorized on the purchase order. A total of \$10,000 was paid whereas only \$7,860 was authorized. Ratification in accordance to Regulation 19-445.2015 will have to be requested for the unauthorized procurement of \$10,000.

We recommend the Department enforce its DEV procedures. Personnel should not be allowed to use the DEV system to by-pass the purchase order system. The Department must process a ratification request in accordance with Regulation 19-445.2015 for the unauthorized procurement of \$10,000.

DEPARTMENT RESPONSE

The Department is currently reviewing and updating its DEV procedures and will enforce the updated procedures. The contract authorized on purchase order 19505 was approved by the Department's internal contract approval process in the amount of \$12,860. The purchase order was prepared in the amount of \$7,860 based on information that the remaining funds would be paid by another state agency. The total of \$10,000 was eventually paid by the Department to the contractor. The discrepancy between the purchase order and the actual payment will be addressed through the ratification process.

B. DEV's Not Supported by Solicitations of Competition

The following DEVs did not have evidence of solicitations of competition.

<u>Doc Number</u>	<u>Date</u>	<u>Description</u>	<u>Amount</u>
1904028	09/13/05	Retherm equipment moving	\$1,925
1905923	10/07/05	Fire alarm repair parts	2,896

At the time of the procurements, Section 11-35-1550 of the Code required a minimum of three verbal solicitations of competition for procurements between \$1,500 and \$5,000.

We recommend the Departments support its DEV transactions with appropriate levels of competition.

DEPARTMENT RESPONSE

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

II. Sole Source and Emergency Procurements

A. Reporting Errors for Sole Source and Emergency Procurements

We tested the accuracy of sole source and emergency procurement quarterly reports noting extensive errors. Section 11-35-2440 requires governmental bodies to submit quarterly a record listing all contracts made pursuant to Section 11-35-1560 (Sole Source Procurements) and Section 11-35-1570 (Emergency Procurements) to the chief procurement officers. These reports are accumulated by our office and become the State's official record of sole source and emergency procurements.

We recommend the Department review its operating procedures to identify the deficiencies and take the appropriate corrective action. We also recommend the Department amend its quarterly reports for the audit period.

DEPARTMENT RESPONSE

We concur with the findings. The Department notes the finding is related to the reporting of sole source and emergency procurements and not the validity. Reporting errors were due to errors by staff that are no longer with the Department. The Department has recruited qualified staff with Materials Management Office (MMO) experience to handle the quarterly reporting in compliance with procedures. The Department will work in cooperation with MMO to amend its quarterly reports for the audit period.

B. Determinations Lacked Sufficient Information

The Department failed to provide adequate information supporting the following emergency procurements.

<u>Document Reference</u>	<u>Date Authorized</u>	<u>Description</u>	<u>Amount</u>
Credit Card	01/28/04	Miscellaneous food items	\$ 4,352
14803	02/05/04	Miscellaneous food items	25,965
14804	02/05/04	Miscellaneous food items	10,399
27012	04/19/05	Miscellaneous food items	20,000
29657	07/11/05	Miscellaneous food items	80,000
29857	07/14/05	Miscellaneous food items	224,000
29920	07/15/05	Miscellaneous food items	8,500
30030	07/19/05	Frozen dairy products	37,000
28810	06/21/05	Transcription services	12,000
30553	08/04/05	Transcription services	80,000
34794	02/15/06	Bucket truck rental	1,875
36483	05/12/06	Replace fire alarm system pump	3,364

The emergency determinations did not address what occurred to result in emergency conditions. Therefore, the determinations were not sufficient to support the emergency procurements. Addressing emergency procurements, Section 11-35-1570 states, in part, “A written determination of the basis for the emergency and for the selection of the particular contractor shall be included in the contract file.” In a declaratory judgment issued against Greenville County School District in *Sloan v. School District of Greenville County*, No. 98-CP-23-2816 (Greenville, S.C., Ct. Common Pleas, July 15, 2003), the Court stated in part in regards to a written emergency determination that:

The Code requires a written determination to afford the District and the public sufficient information to intelligently and objectively review the decision. The decision to use the emergency exception must be sufficiently detailed to satisfy an audit, and it must be made available to the public. The purpose of the determination is to provide the basis of the decision to the school board and to the public. If the determination provides, in sufficient detail, the information necessary for the school board and the public to make an intelligent, objective review of these decisions, then it has accomplished its purpose. The Court is empowered to determine whether the written determination is sufficiently detailed to accomplish this purpose.

We recommend the Department prepare its written determinations as required in the Code by providing sufficient, factual details that allow intelligent, objective reviews of the decisions. As that did not occur in this case, we take exception with these emergency procurements.

DEPARTMENT RESPONSE

We concur with the findings. The Department will review the court decision noted in the audit and staff will receive proper training on emergency determinations and compliance with the Code.

III. General Audit Findings

A. No Evidence of Solicitations of Competition

The following procurements showed no evidence of solicitations of competition or otherwise complied with the Code.

<u>PO</u>	<u>Date</u>	<u>Description</u>	<u>Amount</u>
29833	07/14/05	Computer software	\$1,700
30462	08/20/05	Reports	3,669
33965	01/17/06	Liquid hand soap	1,946

At the time of the procurements, Section 11-35-1550 of the Code required a minimum of three verbal solicitations of competition for procurements between \$1,500 and \$5,000.

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

DEPARTMENT RESPONSE

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

B. Unauthorized Blanket Purchased Agreement (BPA) Expenditures

The Department issued a Blanket Purchase Agreement (BPA) on purchase order 20271 with a maximum amount per call (purchase) of \$1,000. Two calls exceeded that limit making them unauthorized as defined in Regulation 19-445.2015.

<u>Check Number</u>	<u>Voucher Date</u>	<u>Description</u>	<u>Amount</u>
2004126223987	12/18/04	Repair vehicle 1370 SG76264	\$1,279
2005126460729	01/24/05	Repair vehicle 1210 SG74884	2,100

A BPA is a simplified method of filling anticipated repetitive needs for small quantities of supplies or services by establishing charge accounts. Regulation 19-445.2100 (B) requires certain terms and conditions included with BPA's, one of which is a dollar limitation per call for each individual authorized to use a BPA.

We recommend that BPA limits per call not be exceeded. Accounts Payable should check to ensure payments are in accordance with purchase order terms and conditions. The Department must process a ratification request in accordance with Regulation 19-445.2015 for the unauthorized procurements.

DEPARTMENT RESPONSE

We concur with the findings. The Department will implement training for compliance.

C. Written Quotes Not Provided

The Department received written quotes for a pump awarded in the amount of \$1,739 on purchase order 28171 dated 6/2/05 but did not provide those written quotes during the audit. We did see notes in the procurement file summarizing those quotes. We believe that any documentation obtained relative to a procurement transaction should become a permanent part of that file. Section 11-35-2430 states in part, "All procurement records of governmental bodies shall be retained and disposed of in accordance with records retention guidelines and schedules approved by the Department of Archives and History...."

We recommend that any written quotes obtained on procurements be kept as part of that file and made available during audits.

DEPARTMENT RESPONSE

The Department notes that written quotes were obtained and quotes were included in our SAP system. However, in the future we will maintain hard copies in the file in accordance with Section 11-35-2430.

D. Procurement Manual Needs Updating

The Department's procurement procedures manual needs to be updated to incorporate the changes in Senate Bill 572 that became effective June 13, 2006. Department officials stated they were in the process of updating its manual.

We recommend the Department update its manual and submit it to our office for review in accordance with Section 11-35-540.

DEPARTMENT RESPONSE

We concur with the findings. The Department is in the process of updating its manual and will submit for review in accordance with Section 11-35-540.

IV. SAP System

A. Change Order Dates Not Documented

The Department authorized a change order on purchase order 33660 but we could not determine when that change occurred. The purchase order, originally issued to construct handrails in the amount of \$7,500, had \$600 added for additional work. The Department issued a change of \$600 for a total of \$8,100 but the purchase order date remained that of the original purchase order which was 12/28/05. The Department stated that the SAP software system does not allow the original purchase order date to be changed once a purchase order is printed. Therefore, any subsequent changes in the purchase order amount still reflect the original purchase order date.

We recommend the Department document change order dates, possibly in the description section of the purchase order, to reflect dates changes become authorized.

DEPARTMENT RESPONSE

The Department noted to the audit staff that the dates of changes to purchase orders can be determined within the SAP system, however, we concur that these dates do not print on the purchase order. This is a configuration issue in SAP. In order to have the change order dates printed on purchase orders the Department will include the dates in a text field in SAP.

B. Receiving Not Documented

The Department relies on a receiving system built into SAP for most of its purchase order transactions. The following transactions did not use the SAP receiving system and we could not identify how receiving was documented.

<u>PO</u>	<u>Date</u>	<u>Description</u>	<u>Amount</u>
30553	08/04/05	Transcription services	\$80,000
29657	07/11/05	Food	80,000
30007	07/19/05	Paper and plastic products	50,000
34569	02/09/06	Food preparation services	79,200
00001	10/30/02	Copier rental	999,999,999

The Department responded that these were framework purchase orders, which were issued when the same amounts will not be paid each month or when cost locations may change. Framework purchase orders were used where items were ordered against purchase orders as needed until the dollar amounts were used up. This type of purchase order did not require goods receipt to be done. The accounting was done at the MIR-7 level.

We recommend receiving be documented.

DEPARTMENT RESPONSE

We concur with the findings. This is a configuration issue in SAP. The Department will review the framework purchase order process and determine the best method for a goods receipt for documentation purposes.

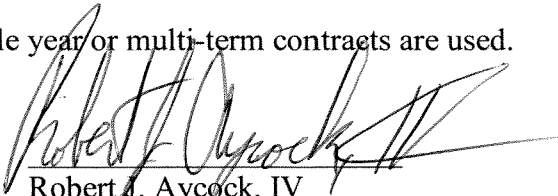
CERTIFICATION RECOMMENDATIONS

As enumerated in our transmittal letter, corrective action based on the recommendations, described in this report, we believe, will in all materials respects place the South Carolina 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 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 AREAS</u>	<u>RECOMMENDED CERTIFICATION LIMITS</u>
Supplies 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

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


Robert J. Aycock, IV
Audit Manager


Larry G. Sorrell, Manager
Audit and Certification

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

MARK SANFORD, CHAIRMAN
GOVERNOR

CONVERSE A. CHELLIS III, CPA
STATE TREASURER

RICHARD ECKSTROM, CPA
COMPTROLLER GENERAL



HUGH K. LEATHERMAN, SR.
CHAIRMAN, SENATE FINANCE COMMITTEE

DANIEL T. COOPER
CHAIRMAN, WAYS AND MEANS COMMITTEE

FRANK W. FUSCO
EXECUTIVE DIRECTOR

DELBERT H. SINGLETON, JR.
DIVISION DIRECTOR
(803) 734-2320

MATERIALS MANAGEMENT OFFICE
1201 MAIN STREET, SUITE 600
COLUMBIA, SOUTH CAROLINA 29201
(803) 737-0600
Fax (803) 737-0639

R. VOIGHT SHEALY
MATERIALS MANAGEMENT OFFICER

October 22, 2007

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

Dear Voight:

We have reviewed the response from the South Carolina Department of Mental Health to our audit report for the period of January 1, 2004 to June 30, 2006. Also we have followed the Department's corrective action during and subsequent to our fieldwork. We are satisfied that the South Carolina 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 South Carolina Department of Mental Health the certification limits noted in our report for a period of three years.

Sincerely,

Handwritten signature of Larry G. Sorrell in cursive.

Larry G. Sorrell, Manager
Audit and Certification

LGS/gs

Total Copies Printed	11
Unit Cost	<u>\$.67</u>
Total Cost	<u>\$7.37</u>