



**SOUTH CAROLINA
DEPARTMENT OF MENTAL HEALTH (DMH)
INDEPENDENT PROCUREMENT AUDIT REPORT
JULY 1, 2012 to JUNE 30, 2018**

**Division of Procurement Services
Office of Audit & Certification
August 10, 2018**

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INTRODUCTION

We conducted an audit of DMH's internal procurement operating policies and procedures, as outlined in their Internal Procurement Procedures Manual, under §11-35-1230(1) of the South Carolina Consolidated Procurement Code and Reg. 19-445.2020 of the accompanying regulations.

The primary objective of our audit was to determine whether, in all material respects, the internal controls of the agency's procurement system were adequate to ensure compliance with the South Carolina Consolidated Procurement Code and ensuing regulations.

The management of DMH is responsible for the agency's compliance with the Code. Those responsibilities include the following:

- Identifying the agency's procurement activities and understanding and complying with the Code
- Establishing and maintaining effective controls over procurement activities that provide reasonable assurance that the agency administers its procurement programs in compliance with the Code
- Evaluating and monitoring the agency's compliance with the SC Consolidated Procurement Code
- Taking corrective action when instances of noncompliance are identified, including corrective action on audit findings of this audit

Because of inherent limitations in any system of internal controls, errors or irregularities may occur and not be detected. 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 the degree of compliance with the procedures may deteriorate.

Our review and evaluation of the system of internal control over procurement transactions, as well as our overall audit 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.

Our audit was also performed to determine if recertification under §11-35-1210 is warranted.

INTRODUCTION

On May 8, 2013, the South Carolina Budget and Control Board granted DMH the following procurement certifications:

<u>PROCUREMENT AREAS</u>	<u>CERTIFICATION LIMITS</u>
Supplies and Services	*\$ 250,000 per commitment
Information Technology	*\$ 50,000 per commitment
Consultant Services	*\$ 500,000 per commitment
Construction Contract Award	\$ 100,000 per commitment
Construction Contract Change Order	\$ 100,000 per change order
Architect/Engineer Contract Amendment	\$ 15,000 per amendment

During the audit DMH requested the following increases in its certification limits:

<u>PROCUREMENT AREAS</u>	<u>REQUESTED CERTIFICATION LIMITS</u>
Supplies and Services	*\$ 500,000 per commitment
Information Technology	*\$ 100,000 per commitment
Consultant Services	*\$ 500,000 per commitment
Construction Contract Award	\$ 150,000 per commitment
Construction Contract Change Order	\$ 150,000 per change order
Architect/Engineer Contract Amendment	\$ 25,000 per amendment

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

SCOPE

We conducted our audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. Our audit included testing, on a sample basis, evidence supporting DMH's compliance with the South Carolina Consolidated Procurement Code for the period from July 1, 2012 through June 30, 2018, the audit period, and performing other procedures that we considered necessary in the circumstances. We believe the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

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

- (1) Internal procurement and purchasing card (P-Card) procedure manuals.
- (2) All sole source and emergency procurement justifications for the audit period.
- (3) Procurement transactions for the audit period as follows:
 - a) Two hundred thirty-five payments each exceeding \$2,500.
 - b) Five hundred purchase orders reviewed for the use of splitting orders and favored vendors.
 - c) Eighty procurement card (P-Card) purchases for the period July 1, 2012 through June 30, 2018.
- (4) Sixteen construction contracts and fifteen A&E contracts for compliance with the Manual for Planning and Execution of State Permanent Improvements, Part II.
- (5) Small and Minority Business utilization plans and reports . The following activity was reported to the Division of Small and Minority Business Contracting and Certification (SMBCC):

<u>Fiscal Year</u>	<u>\$ Goal</u>	<u>\$ Actual</u>
2013-2016	Not Reported	Not Reported
2017	1,661,953	536,316
2018	413,218	407,835

- (6) Information Technology acquisitions under IT Plans.
- (7) Surplus property dispositions, and approval of trade-ins in excess of \$5,000.

SCOPE

(8) Disposition of unauthorized procurements. The following activity was reported to the Division of Procurement Services (DPS):

Fiscal Year	Count	\$ Amount
2013	3	900,000
2014	1	15,597
2015	-	-0-
2016	-	-0-
2017	-	-0-
2018	8	95,779

SUMMARY OF AUDIT FINDINGS

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Note: DMH's responses to the findings in this report have been inserted at the end of each recommendation.

RESULTS OF AUDIT

I. Construction Related Procurements

The following audit exception resulted from our review of construction related contracts for the audit period.

Contract Change Orders Exceeded Original Scope of Work

A project, 'Underground Medium-Voltage Circuit Replacement', that was initially awarded to an electrical contractor for \$45,000 on December 4, 2012, resulted in a total cost of \$86,605 due to the approval of four change orders, totaling \$37,075, which were outside the contract scope of work.

Of the five change orders issued under the original project, the following four were not within the initial scope of work and should have been procured through a separate competitive solicitation:

Change Order #1

Removal of two pole mounted 3-phase re-closure units for testing and repairs - Cost: \$4,950

Change Order #3

Rewiring scheme for re-closure switches to meet SCE&G standards - Cost: \$2,750

Change Order #4

Replacement of re-closure #2 determined by SCE&G to be irreparable - Cost: \$27,525

Change Order #5

Replacement of an air brake system at the Farrow Road campus - Cost \$1,850

Per SC Code Ann. §11-35-3070, "A governmental body may approve and pay for amendments to architectural/engineering contracts and change orders to construction contracts, within the governmental body's certification, which do not alter the original scope or intent of the project and which do not exceed the previously approved project budget.

As the change orders were initiated in response to a lightning strike, the agency could have chosen to declare an emergency; however, we found no evidence to indicate such a declaration.

Recommendation: We recommend DMH develop and implement management review procedures related to contract change orders to ensure that project scope of work is clearly defined and that the appropriate level of competition is obtained for each project.

RESULTS OF AUDIT

Agency Response

SCDMH concurs with this finding. SCDMH's Physical Plant Services is on its third Director since the sequence of events that resulted in this finding. Change orders are now reviewed by the Project Manager, the Administrative Coordinator and the Director to ensure the change is warranted, is within the original scope, is within budget, and is in compliance with the OSE manual. The agency's change order certification is \$100,000. All change orders exceeding that amount are forwarded to the Office of State Engineer with the required supporting documentation for approval.

II. Supplies and Services

A. Purchase Orders Issued After Invoice

Purchase orders were issued after the receipt of the invoice for each of these three procurements:

Reference #	PO Date	PO \$ Amount	Invoice Date	Invoice \$ Amount	Description
1	5/30/14	20,543	4/6/14	10,409	Software/Maintenance
2	3/5/15	3,020	3/3/15	3,020	Window Tinting
3	5/25/16	24,000	3/30/16	24,000	Psychiatric Recruiting

Section 10.7 of the DMH Policies and Procedures Manual for Procurements states that shopping carts reflect a request for the procurement of supplies and services; that purchases originate with shopping carts or requisitions for inventory items; and that shopping carts must be approved by the appropriate personnel before issuance of a purchase order. In the above procurements, purchases were initiated prior to the submission and approval of shopping carts and the issuance of a purchase order.

The SC Comptroller General's Policy on the Use of Purchase Orders and Direct Expenditures provides guidance on when POs are required.

Recommendation: We recommend that procedures be developed and implemented to ensure that purchase orders are issued only by authorized buyers after receipt of an approved requisition in accordance with the Comptroller General's PO Policy.

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Agency Response

SCDMH concurs with this finding. SCDMH Purchasing has undergone a re-organization since these issues occurred and has also begun the processing of centralizing the procurement function in the agency. Staff has undergone multiple trainings that stress the importance of having the proper purchase order in place prior to making a commitment for goods or services. The Division has undergone a process of updating all of the desktop procedures manuals for the buying staff along with the pertinent policies affecting this issue. The purchasing managers and the Procurement Director along with the buyers are on alert for these issues. Those that are detected are dealt with through the ratification process. Violators are reported to their chain of command. SCDMH Purchasing Director will exercise his authority to suspend purchase rights for repeat offenses and/or blatant disregard for procedures.

B. No Evidence of Competition

A \$4,199 PO for anti-ligature hardware, dated March 11, 2016, was issued as a result of two separate shopping carts each less than \$2,500. A \$4,583 PO for algae and microbe control chemicals, dated July 15, 2015, was initially created as a blanket purchase agreement for \$2,500, however an additional line item was later added for \$2,083. Both POs resulted in procurements exceeding \$2,500 being conducted without the required competition.

SC Code Ann. §11-35-1550(2)(b) requires solicitation of written quotes from a minimum of three qualified sources of supply for small purchases over \$2,500 but not in excess of \$10,000.

Recommendation: We recommend DMH develop and implement procedures to ensure compliance with §11-35-1550 of the Code regarding small purchase procedures. Best practice provides for the procurement manager initiating the PO to make all modifications.

Agency Response

SCDMH concurs with this finding. SCDMH Purchasing has undergone a re-organization since these issues occurred and has also begun the processing of centralizing the procurement function in the agency. Staff has undergone multiple trainings that stress the importance of not splitting purchase orders to avoid

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the competition threshold. The Division has undergone a process of updating all of the desktop procedures manuals for the buying staff along with the pertinent policies affecting this issue. The purchasing managers and the Procurement Director along with the buyers are on alert for these issues and those that are detected are dealt with through the ratification process and violators are reported to their chain of command. SCDMH Purchasing Director will exercise his authority to suspend purchase rights for repeat offenses and/or blatant disregard for procedures. These procedures along with the increase in the threshold to \$10,000 should alleviate these issues in the future.

C. Invoice Discounts Were Not Applied

An invoice under a \$12,500 PO for software installation and training, dated December 23, 2014, offered a 20% discount (\$2,500), which was not applied when the invoice was submitted for payment. An invoice tied to a \$24,000 PO for psychiatric recruiting, dated May 25, 2016, offered a 5% discount (\$1,200), which was not applied when the invoice was submitted for payment.

Recommendation: We recommend that DMH establish a process to ensure discounts are properly applied to invoices associated with a PO prior to submission for payment.

Agency Response

SCDMH concurs with this finding. A/P staff has undergone restructuring along with desktop procedure and policy updates. They are also in the process of centralizing this function within the agency. Each payment document is reviewed for accuracy by a supervisor for approval prior to processing the payment. This issue will be stressed in future trainings by the agency A/P management.

III. Sole Source and Emergencies

We tested sole source and emergency procurements made pursuant to §11-35-1560 (Sole Source Procurements) and §11-35-1570 (Emergency Procurements) to determine the appropriateness of the procurement actions and the accuracy of the quarterly reports submitted to the chief procurement officers as required by §11-35-2440. We also tested trade-in procurements, unauthorized procurements, and procurements where resident vendor preferences had been applied.

RESULTS OF AUDIT

We noted the following exceptions:

A. Sole Source and Emergency Procurements Not Reported to MMO

The following three procurements were not included in quarterly reports to MMO:

<u>Reference #</u>	<u>PO Date</u>	<u>PO \$ Amount</u>	<u>Description</u>	<u>Type</u>
1	2/20/14	\$2,913	Lift Battery and Charger	Sole Source
2	7/17/15	\$6,174	Service Agreement	Sole Source
3	8/18/14	\$6,089	Equipment Repairs	Emergency

Per SC Code Ann. §11-35-2440, "A governmental body... shall submit quarterly a record listing all contracts made pursuant to §11-35-1560 (Sole Source Procurements) or §11-35-1570 (Emergency Procurements) to the chief procurement officers.

Recommendation: We recommend DMH develop and implement management review procedures to ensure complete and accurate reporting of sole source and emergency procurements as required by SC Code Ann. §11-35-2240.

Agency Response

SCDMH concurs with this finding. The Procurement Director processes this report for the agency. This data is pulled directly from SCEIS to ensure all reportable expenditures are captured. Buyers are also trained to provide copies of all reportable purchase orders and backup to a designated person who maintains this file for the report. Increases to reportable purchase orders are captured in this manner and reported at the appropriate time. Since this process was implemented, all required reportable expenditures have been reported.

B. No Sole Source Determination Provided

No written determination justifying a sole source procurement was provided for a \$27,471 PO for medicine drawer dividers and card readers, dated December 10, 2015.

Per SC Code Ann. §11-35-1560, 'A contract may be awarded for a supply, service, information technology, or construction item without competition if, under regulations promulgated by the board, the chief procurement officer, the head of the purchasing agency, or a designee of either officer, above the

RESULTS OF AUDIT

level of the procurement officer, determines in writing that there is only one source for the required supply, service, information technology, or construction item.’

Recommendation: We recommend that DMH develop and implement procedures to ensure that sole source procurements are appropriately and adequately justified in writing as required by SC Code Ann. §11-35-1560.

Agency Response

SCDMH concurs with this finding. The Procurement Director receives all reportable documentation, including sole sources, for review, modifications, and approval prior to giving to the Deputy Director to sign. Buyers are not authorized to cut reportable purchase orders without the appropriately signed form being attached. This is covered in the revised desktop procedures manual along with agency policy.

IV. Small and Minority Business Utilization Plans and Reports

Annual utilization plans and quarterly progress reports were not submitted to the SMBCC during three of the five fiscal years reviewed (FYs 2014, 2015 and 2016).

Section 11-35-5240(2) of the Procurement Code states that MBE utilization plans be submitted to the SMBCC for approval no later than July thirtieth, annually, and that progress reports be submitted to the SMBCC no later than thirty days after the end of each fiscal quarter.

Recommendation: We recommend that DMH comply with SC Code Ann. §11-35-5240(2) by submitting annual utilization plans and quarterly progress reports to the SC Division of Small and Minority Business Contracting and Certification in a timely manner.

Agency Response

SCDMH concurs with this finding. The SCDMH Procurement Director processes this report quarterly within the required timeframe. The Controller requires acknowledgement that the report has been submitted and successful report submission is a requirement on the Procurement Director's annual performance review.

CERTIFICATION RECOMMENDATION

We believe corrective action(s) based on the recommendations described in this report will in all material respects place the agency in compliance with the South Carolina Procurement Code.

Under the authority granted in SC Code Ann. §11-35-1210, subject to corrective action by the agency, we recommend South Carolina Department of Mental Health be certified to make direct agency procurements for three years up to the following limits:

<u>PROCUREMENT AREAS</u>	<u>RECOMMENDED CERTIFICATION LIMITS</u>
Supplies and Services ¹	*\$ 500,000 per commitment
Information Technology ²	*\$ 100,000 per commitment
Construction Contract Award	\$ 150,000 per commitment
Construction Contract Change Order	\$ 150,000 per change order
Architect/Engineer Contract Amendment	\$ 25,000 per amendment

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



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Director, Audit and Certification

¹ Supplies and Services includes non-IT consulting services

² Information Technology includes consulting services for any aspect of information technology, systems and networks