



Audit Services Warning Letter

Date: November 8, 2002
To: Johnson County Board of County Commissioners, Mental Health Center Board of Directors, Mental Health Center Executive Director, and the County Manager
From: Martin J. Kolkin
County Auditor
Subject: Mental Health Purchasing Practices

In response to a complaint, the County Auditor completed a limited review of Johnson County Mental Health (“MNH”) purchasing practices involving F&S Supply Co., Inc. (“F&S Supply”) during fiscal 2001. The County Auditor elected to issue an “Audit Services Warning Letter” based upon management’s proactive response to resolving this issue before any fieldwork was performed by the Audit Department.

The County Auditor determined that MNH Department violated County Purchasing Procedures by buying \$52,173 of goods from F&S Supply without formal, publicly advertised competitive bidding.

Applicable Johnson County Purchasing Procedures:

Purchasing Procedures Section 210(F):

“Purchases of goods and general services in an amount of \$25,000 or more, but less than \$75,000 shall require formal, publicly advertised competition and approval by the appropriate department head and the Purchasing Director.”

Purchasing Procedures Section 330(A):

“...Term and supply contracts will be utilized whenever the contract goods and services are appropriate to the needs of the user department.”

This review noted that MNH representatives purchased \$52,173 of materials and supplies from F&S Supply during fiscal 2001. No formal, publicly advertised competition took place nor did the County’s Purchasing Director approve a required F&S Supply term and supply contract.

Other Concerns

County Purchasing Procedures Section 210(B) specifically prohibits splitting of any aggregate purchases to keep the portion of the purchase below the \$2,000 or \$25,000 level of competition.

The County Auditor noted a suspect pattern of purchase orders to F&S Supply. On eight occasions, MNH representatives issued two or more purchase orders to F&S Supply, within a seven calendar day period, combined to total more than \$2,000.

Recommendations

The County Auditor recommends that MNH representatives continue to working with the County’s Purchasing Department to comply with all County purchasing policies and procedures.

The County Auditor notes that the Mental Health Center representatives initiated an examination of the F&S Supply purchasing issues before notification by the County Auditor and MNH and Purchasing representatives appeared to be close to independently resolving all issues raised in this review.

However, due to the seriousness of this violation of Purchasing Procedures, the County Auditor recommends an internal audit of all MNH purchasing practices during fiscal 2003.



6000 Lamar Ave.
Suite 130
Mission, KS 66202
Fax: (913) 826-1608
(913) 831-2550

OTHER SERVICE
LOCATIONS

1125 W. Spruce St.
Olathe, KS 66061
Fax: (913) 782-1186
(913) 782-2100

Community Support
Services
6440 Nieman Rd.
Shawnee, KS 66203
Fax: (913) 962-7843
(913) 962-9955

Regional Prevention Center
6000 Lamar Ave.
Suite 130
Mission, KS 66202
Fax: (913) 362-9348
(913) 362-1990


Adolescent Center
for Treatment
301 N. Monroe St.
Olathe, KS 66061
Fax: (913) 782-0609
(913) 782-0283

Adult Detoxification
8000 W. 127th St.
Overland Park, KS 66213
Fax: (913) 897-6802
(913) 897-6101

After Hours
Emergency Service
Fax: (913) 588-6568
(913) 384-3535

Date: November 6, 2002

To: Marty Kolkin, County Auditor
Board of County Commissioners
Mental Health Center Governing Board
Mike Press, County Manager

From: 
David Wiebe, Executive Director
Johnson County Mental Health Center

Re: Response to Audit Services Warning Letter

The Mental Health Center acknowledges the purchases made from F & S Supply during 2001 referred to in the Audit Services letter, dated November 7, 2002, and that the County did not have a term and supply contract with F & S Supply during that period of time.

MHC staff conducted an exhaustive review of every purchase made from F & S Supply during 2001. This review showed that in the vast majority of instances the products purchased were products that were not available from either Central Stores or existing vendors holding term and supply contracts. Either the quality, or other product specifications, could not be met, or the product was not available in the quantity required.

In the case of food purchases, the current term and supply contractor would not deliver in the small quantities required. Purchasing Procedure 330(A) states that "...term and supply contracts will be utilized whenever the contract goods and services are appropriate to the needs of the user department." Since the large majority of goods available through contracts or Central Stores were not appropriate to MHC needs, we do not believe there was a violation of 330(A). We would be happy to supply a complete list of the products purchased, and the item-by-item comparison.

The Warning Letter also cites a violation of Purchasing Procedure 210(F) requiring publicly advertised competition for purchases between \$25,000 and \$75,000. Accompanying this procedure is Procedure (210)A which states: "Any and all dollar limits noted in these Purchasing Procedures are aggregate totals for any like goods and/or services..." The \$52,173 in purchases made during 2001 included a widely disparate array of goods. Major categories included janitorial supplies, electrical equipment, food, plumbing supplies, office supplies, etc. These purchases would not seem to meet any definition of like goods. If the procedure was intended to place a dollar limit on any single vendor, in addition to the limit on like goods, that is not made clear in the procedures.

Memo to Marty Kolkin, County Auditor, et al
November 6, 2002
Page 2

With respect to the concern regarding two or more purchase orders being issued within seven calendar days, our review showed no evidence of splitting purchase orders to stay within dollar limits. The purchase orders were simply issued as goods and supplies were required, without regard to frequency. Because these purchases were for such a wide variety of goods, this issue again raises the question of whether dollar limits in the procedures apply to single vendors, in addition to the limits on like goods. We would appreciate clarification on this point.

MHC staff have always made it a priority to support and work within the framework of County Policies and Procedures. As noted earlier, F & S was used primarily to purchase goods and supplies when products necessary to meet our specific requirements were not available from Central Stores or contract vendors. The majority of MHC purchases of consumable goods and supplies were purchased through Central Stores and various contract vendors such as Sysco, United Office Products, and American Discount.

Apart from the matter of whether or not Purchasing Procedures were violated in this instance, we had been aware of the significant volume of purchases from F & S Supply, and felt it was important to support vendors who maintain contracts with the county. Consequently, MHC staff responsible for making the purchases from F & S began working with County Purchasing staff in early 2002 to resolve the issue of availability of products needed from existing term and supply contracts or Central Stores. The issues were subsequently resolved and purchases from F & S discontinued prior to MHC being informed in August that Audit Services was reviewing the same issue.

Please feel free to contact us if you would like additional information regarding these purchases.



Audit Services Warning Letter

Date: November 8, 2002
To: Johnson County Board of County Commissioners, Mental Health Center Board of Directors, Mental Health Center Executive Director, and the County Manager
From: Martin J. Kolkin *MJK*
County Auditor
Subject: Comments to the *Response to Mental Health Purchasing Practices*, dated November 6, 2002

Based upon the evidential matter examined, I did not reach the same conclusions as MHC staff in their review of F & S purchases.

In my professional opinion, a detailed audit of Mental Health Purchasing Practices will be necessary to reach a conclusion and address concerns voiced by Executive Director Wiebe. Accordingly, I will make this recommendation to the Board of County Commissioners.