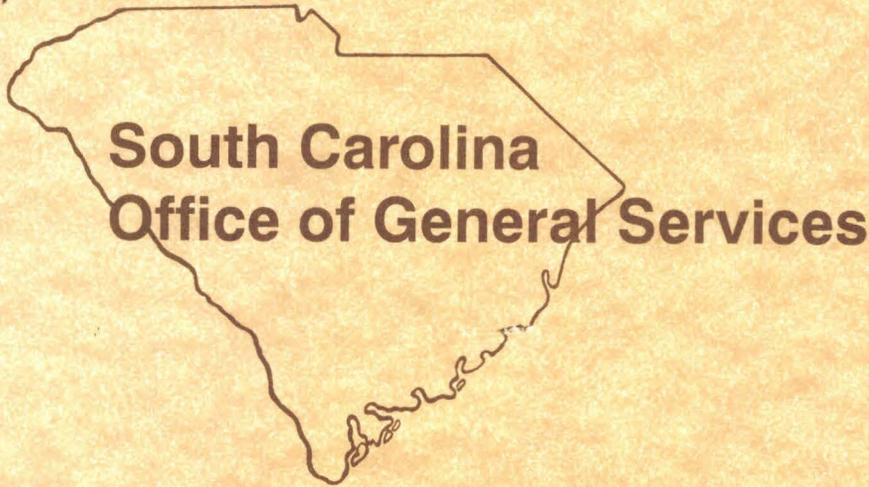


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PROCUREMENT AUDIT AND CERTIFICATION

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SOUTH CAROLINA DEPARTMENT OF
HEALTH AND HUMAN SERVICES

AGENCY

JULY 1, 1993 - MARCH 31, 1996

DATE

SOUTH CAROLINA
DEPARTMENT OF HEALTH AND HUMAN SERVICES
PROCUREMENT AUDIT REPORT

JULY 1, 1993 - MARCH 31, 1996

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State Budget and Control Board
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LUTHER F. CARTER
EXECUTIVE DIRECTOR

July 29, 1996

Mr. Raymond L. Grant
Materials Management Officer
Office of General Services
1201 Main Street, Suite 600
Columbia, South Carolina 29201

Dear Ray:

We have examined the procurement policies and procedures of the South Carolina Department of Health and Human Services for the period July 1, 1993 through March 31, 1996. 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 Health and Human Services 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 Health and Human Services in compliance with the South Carolina 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 Health and Human Services. Our on-site review was conducted April 22 through May 14, 1996, 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 internal controls in the procurement system 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.

Additionally our work was directed toward assisting the Department in promoting the underlying purposes and policies of the Code as outlined in Section 11-35-20, which include:

- (1) to ensure the fair and equitable treatment of all persons who deal with the procurement system of this State
- (2) to provide increased economy in state procurement activities and to maximize to the fullest extent practicable the purchasing values of funds of the State
- (3) to provide safeguards for the maintenance of a procurement system of quality and integrity with clearly defined rules for ethical behavior on the part of all persons engaged in the public procurement process

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.

On November 10, 1993 the Budget and Control Board granted the Department the following procurement certifications:

<u>Category</u>	<u>Limit</u>
Service Provider Contracts Funded From Any Source - Service Provider Being a Provider of Services Directly to a Client	\$2,000,000 per contract per year Limit four one year extension options
Consultant Services including Information Technology Consultants	\$ 150,000 per commitment
Printing Services	\$ 25,000 per commitment
Goods and Services	\$ 25,000 per commitment

Our audit was performed primarily to determine if recertification is warranted. The Department did not request an increase in the current certification limits except for Information Technology where an increase to \$25,000 per purchase commitment was requested. This increase in information technology will include printing services for which the Department is already certified.

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 South Carolina Department of Health and Human Services 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, 1993 through March 31, 1996 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 July 1, 1993 through March 31, 1996
- (2) Procurement transactions for the period July 1, 1993 through March 31, 1996 as follows:
 - a) One hundred six payments each exceeding \$1,500
 - b) A block sample of all purchase orders filed by vendor for 10 vendors for the current fiscal year
- (3) Minority Business Enterprise Plans and reports for the audit period
- (4) Information Technology Plans for fiscal years 1993, 1994 and 1995 - 1998
- (5) Internal procurement procedures manual
- (6) Surplus property procedures

SUMMARY OF AUDIT FINDINGS

Our audit of the procurement system of the South Carolina Department of Health and Human Services, hereinafter referred to as the Department, produced findings and recommendations as follows:

	<u>PAGE</u>
I. <u>Sole Source Procurements</u>	
A. <u>Inappropriate Sole Sources</u>	8
<p>Three inappropriate sole sources were reported during an interim review (see attachment). Fourteen other procurements made as sole sources we believe were inappropriate as such.</p>	
B. <u>Sole Source Contract Renewals Not Reported</u>	10
<p>Our sampling revealed where only the first year of two five year contracts were reported as sole sources, thus materially understating the sole source amounts.</p>	
C. <u>Other Sole Source Reporting Errors</u>	11
<p>Eight procurements were unnecessarily reported as sole sources.</p>	
II. <u>General Procurement Exceptions</u>	
A. <u>Procurement Inappropriately Classified As A Grant</u>	12
<p>One procurement in the amount of \$98,800 was inappropriately considered a grant resulting in no competition being solicited.</p>	
B. <u>Inappropriate Contract Award</u>	12
<p>A contract was awarded at \$41,400 per year for five years even though no responses were received at bid opening.</p>	

PAGE

C. Procurement Management

13

Our samples revealed where procurements of two particular items were being made on a periodic basis without competition. We believe competed annual contracts would be more effective and efficient.

D. State Term Contracts Not Referenced

14

A number of purchase orders issued against State term contracts did not reference the State contract numbers.

RESULTS OF EXAMINATION

I. Sole Source Procurements

We examined the quarterly reports of sole source and emergency procurements for the period July 1, 1993 through March 31, 1996. This review was performed to determine the appropriateness of the procurement actions taken and the accuracy of the reports submitted to the Office of General Services as required by Section 11-35-2440 of the Consolidated Procurement Code. We noted the following problems beginning in Section A below.

Further, in accordance with the State Governmental Accountability and Reform Act passed in 1993, we performed periodic reviews by sampling all governmental bodies of sole source activities for compliance to the South Carolina Consolidated Procurement Code. This review resulted in three exceptions for the Department which were addressed in a separate letter that has been included as an attachment to this audit report.

A. Inappropriate Sole Sources

We noted fourteen sole sources that we believe were inappropriate. They were as follows:

<u>PO #</u>	<u>DESCRIPTION</u>	<u>AMOUNT</u>
A50579	Training & Management	\$209,099
4784	IT Equipment	10,817
5888	IT Equipment	10,640
6245	IT Equipment	8,817
4782	IT Equipment	6,099
4716	IT Equipment	5,970
6518	IT Equipment	5,893

<u>PO #</u>	<u>DESCRIPTION</u>	<u>AMOUNT</u>
5503	IT Equipment	\$ 5,307
5355	IT Equipment	3,968
5473	IT Equipment	3,968
5887	IT Equipment	2,362
6543	Network Wiring	10,816
6598	Network Wiring	3,864
6592	Network Wiring	2,998

The sole source procurement for training and management was made to a vendor which was contracted to develop and deliver a curriculum for this training. The curriculum was developed and delivered to the Department. We believe the Department should have competed the actual training portion of the curriculum and not sole sourced it because the vendor was the developer.

The sole source justifications for IT equipment and network wiring were made to the vendor because the vendor was the original supplier of the network system equipment and had a separate maintenance agreement for that equipment. The maintenance agreement referenced was an extended warranty and did not include upgrading and expanding the network. Competition was available through distributors for the equipment and wiring noted above. These purchases from distributors would not have voided any warranty or maintenance agreement.

Section 11-35-1560 of the South Carolina Consolidated Procurement Code allows for sole source procurements when only one source for a required item exist.

We recommend procurements not meeting the definition of a sole source be competed in accordance with the Procurement Code. The Department should discontinue using the sole source procurement methodology where competition is available.

B. Sole Source Contract Renewals Not Reported

The Department did not always report sole source contracts when they were renewed. Contracts for social services programs were typically entered into for a one year period with four one year renewal options for a total potential contract period of five years. Sometimes these contracts were procured using the sole source methodology. When the sole source method was used, we found that the Department would at times only report the first year of the contract as a sole source. Subsequent renewals would not be reported thus understating the actual sole source procurements by the contract amounts for four years. The following examples we found would have resulted in a material under reporting of sole source activity.

<u>CONTRACT</u>	<u>DESCRIPTION</u>	<u>REPORTED FIRST YEAR</u>	<u>UNREPORTED AMOUNT FOR FOUR YEARS</u>
B40321N	Transitional Housing	\$25,000	\$100,000
B40121N	Special Services for Disabled Adults	46,589	186,356

The contracts cited have not run their full five year period. They both started in fiscal year 1993-94 and have only run for three fiscal years so far.

We recommend, for sole source contracts that have the potential to extend beyond one year, the Department either report the entire five year contract value at the inception of the contract or ensure that all subsequent renewals when exercised are reported. The sole source reports for the contracts cited should be amended to include the amounts not reported.

C. Other Sole Source Reporting Errors

The transactions listed below were unnecessarily reported as sole sources.

<u>P O #</u>	<u>DATE</u>	<u>AMOUNT REPORTED</u>	<u>DESCRIPTION</u>
B50369N	04/01/95	\$124,400	Out of Home Prevention Services for Children
4913	08/19/93	10,525	Software License Agreement
6188	03/17/95	4,050	Software License Agreement
6446	07/16/95	14,000	Software License Agreement
6710	02/26/96	9,475	Software License Agreement
7619	02/28/96	14,625	Software License Agreement
0659	06/22/95	70,000	Actuarial Service
4860	08/10/93	3,164	Software

The first item listed was erroneously reported twice. The software maintenance and/ or license renewals were exempted from the Code after such software has been procured in accordance with the provisions of the Procurement Code. All of the software license agreements cited were renewals. The actuarial service was also exempted from the Code. The last item for software was actually procured from an agency term contract competed by the Materials Management Office and should not have been reported as a sole source.

We recommend the Department file amended reports by fiscal year to remove these transactions. More caution should be used in gathering sole source data for reporting purposes.

II. General Procurement Exceptions

A. Procurement Inappropriately Classified As A Grant

On contract B50344G in the amount of \$98,800 to develop a pilot program for middle school aged children and their parents who are at risk, the Department classified the contract as a grant and did not solicit competition in accordance with the Procurement Code as a result. Because the contract required a deliverable which was a program model complete with evaluations and recommendations on improvement as well as periodic reporting from the vendor, we do not consider the contract to be a grant. Competition should have been solicited in accordance to the Procurement Code.

We recommend the Department carefully evaluate each grant to ensure that vendors are not being required to perform services which result in deliverable items.

B. Inappropriate Contract Award

In our last audit report we cited the Department for awarding a contract where competition was solicited but no responses were received and the contract was awarded anyway. On the current audit our testing revealed the same situation where a solicitation was made, no responses were received, and the Department awarded a contract anyway. On contract number B50113N for adult day care services in the amount of \$41,400 per year for five years, the bid opening was conducted on June 23, 1994. No responses were received. A transmittal letter dated July 6, 1994 for a proposal shows that the vendor's proposal was completed/signed on that July date which was after the bid opening. The vendor was then awarded a contract.

We remind the Department that under such circumstances, to be in compliance with the Procurement Code, an emergency procurement could be declared assuming time will not allow a resolicitation of the contract. If time is available, the contract should be resolicited.

C. Procurement Management

On July 1 1993, the level required by the Code at which competition must be solicited was raised from \$500 to \$1,500. This was done to help streamline the procurement process. However, the following procurements were made on a periodic basis and each was below the requirement where solicitations of competition begins. No competition was solicited on these transactions.

(1)	<u>PO #</u>	<u>DATE</u>	<u>DESCRIPTION</u>	<u>AMOUNT</u>
	6655	01/12/96	Laser Printer Cartridges	\$ 724
	6680	01/31/96	Laser Printer Cartridges	1,424
	6699	02/12/96	Laser Printer Cartridges	1,424
	6728	03/03/96	Laser Printer Cartridges	995
	6762	03/19/96	Laser Printer Cartridges	1,363
	6774	03/26/96	Laser Printer Cartridges	<u>1,449</u>
				<u>\$7,379</u>

(2)	<u>PO NUMBER</u>	<u>DATE</u>	<u>DESCRIPTION</u>	<u>AMOUNT</u>
	6557	09/15/96	#10 Envelopes	\$1,176
	6551	09/26/96	#10 Envelopes	<u>1,200</u>
				<u>\$2,376</u>

(3)	<u>PO NUMBER</u>	<u>DATE</u>	<u>DESCRIPTION</u>	<u>AMOUNT</u>
	6741	03/12/96	#10 Envelopes	\$ 982
	6790	03/25/96	#10 Envelopes	<u>974</u>
				<u>\$1,956</u>

We recommend the Procurement Office determine the annual requirements for such items and bid annual contracts. When viewed over time these types of periodic orders can result in significant amounts that are not being competed. Simply to place orders as requisitions come in does not result in an efficient nor effective procurement process. With the establishment of annual contracts, vendors should offer better pricing due to competition being solicited and a guaranteed contract over the year. Further, after the issuance of a purchase order for the annual contract, the departments can simply place orders against those purchase orders without any further involvement from the Procurement Office, thus streamlining the procurement process.

D. State Term Contracts Not Referenced

We noted a number of purchases made from State term contracts that did not reference the contract numbers. In order to ensure that proper contract terms and conditions are met, we recommend the term contract numbers be referenced on the applicable purchase orders. Doing so would also help expedite payments through the Comptroller General's Office since their audit review includes looking for these contract references.

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 Health and Human Services in compliance with the South Carolina Consolidated Procurement Code.

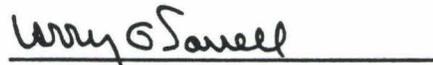
Under the authority described in Section 11-35-1210 of the Procurement Code, subject to this corrective action, we recommend the South Carolina Department of Health and Human Services be recertified to make direct agency procurements for three years up to the limits as follows:

<u>PROCUREMENT AREAS</u>	<u>RECOMMENDED CERTIFICATION LIMITS</u>
Service Provider Contracts Funded From Any Source - Service Provider Being a Provider of Services Directly to a Client	\$2,000,000 per contract per year Limit four one year extension options
Consultant Services including Information Technology Consultants	*\$ 150,000 per commitment
Information Technology in accordance with the approved information technology plan	*\$ 25,000 per commitment
Goods and Services	*\$ 25,000 per commitment

*This means the total potential purchase commitment to the State whether single year or multi-term contracts are used.



Robert J. Aycock, IV
Audit Manager



Larry G. Sorrell, Manager
Audit and Certification

ATTACHMENT
STATE OF SOUTH CAROLINA
State Budget and Control Board
OFFICE OF GENERAL SERVICES

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CHAIRMAN, WAYS AND MEANS COMMITTEE

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EXECUTIVE DIRECTOR

1201 MAIN STREET, SUITE 420
COLUMBIA, SOUTH CAROLINA 29201
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(803) 737-0592 Fax

HELEN T. ZEGLER
DIRECTOR

June 16, 1995

Mr. Jimmy Allen
Director of Procurement
Health and Human Services Finance Commission
1801 Main St. - Arcade
Columbia, South Carolina 29201

Dear Jimmy:

I appreciate your response to the request for additional information on your sole source activity. We reviewed the information.

The sole source report for the quarter ending March 31, 1995 included purchase orders 6158 for \$460,899 and purchase order 6159 for \$72,921. The purchase orders was issued to Pitney Bowes for a mail system and shipping and receiving system. The sole source report also included purchase order 6104 for printing services for \$20,843 to DIRM. Based on the information furnished to us, the procurements did not meet the criteria for a sole source as defined in the South Carolina Consolidated Procurement Code and Regulations. Subsequent procurements for these type services should be made competitively as required in sections 11-35-1520, 11-35-1530 or 11-35-1550 of the Code.

Section 3 item 2 of the State Government Accountability and Reform Act of 1993 requires a report on the compliance of agencies and institutions to Section 11-35-1560 on sole source procurements. The report will contain all sole source exceptions noted by the Office of Audit and Certification. The report will include these procurements.

I would appreciate your response to the exception noted above by June 23, 1995. I can be reached at 737-0621 if you have any questions or need assistance.

Sincerely,


Larry G Sorrell, Manager
Audit and Certification

cc: David Rawl



State of South Carolina

Department of Health and Human Services

David M. Beasley
Governor

August 26, 1996

Gwen Power
Interim Director

Mr. Larry G. Sorrell, Manager
Audit and Certification
Office of General Services
1201 Main Street, Suite 600
Columbia, South Carolina 29201

Dear Larry:

We have reviewed the draft procurement audit for our Department for the period July 1, 1993 - March 30, 1996.

We agree with the findings and are taking the following actions to continue to improve our procurement process:

- An amended sole source report has been submitted to MMO, deleting procurements that should not have been reported. Special attention is being paid to insure that sole source renewals are reported.
- We will also make sure that awards that are classified as a grant, are actually grants and not subject to a competitive process.
- All contracts will be awarded following the "Code," and competition sought whenever possible to maintain a sound effective and efficient procurement process.
- State term contract numbers will be referenced on all purchase orders.

We appreciate the opportunity to work with Mr. Aycok and Mr. Rawl during this audit. As always, we find them most helpful and professional.

Mr. Larry G. Sorrell, Manager
August 26, 1996
Page 2

We look forward to continuing our working relationship.

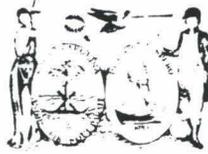
Sincerely,



Thomas K. Barnes, Jr.
Deputy Director
Office of Operations

TKB/k

STATE OF SOUTH CAROLINA
State Budget and Control Board
OFFICE OF GENERAL SERVICES



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RAYMOND L. GRANT
ASSISTANT DIRECTOR

September 5, 1996

Mr. R. Voight Shealy
Interim 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 Health and Human Services to our audit report for July 1, 1993 - March 31, 1996. Also we have followed the Department's corrective action during and subsequent to our field work. We are satisfied that the Department 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 Health and Human Services the certification limits noted in our report for period of three years.

Sincerely,

Handwritten signature of Larry G. Sorrell in cursive.

Larry G. Sorrell, Manager
Audit and Certification

LGS/tl

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