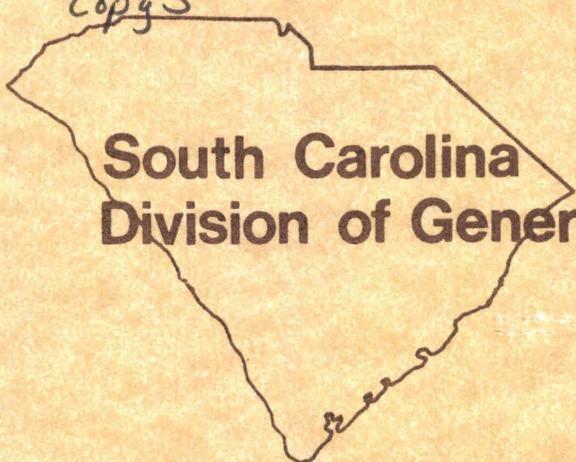


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**South Carolina
Division of General Services**

PROCUREMENT AUDIT AND CERTIFICATION

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HEALTH AND HUMAN SERVICES FINANCE COMMISSION
AGENCY

APRIL 1, 1985 - DECEMBER 31, 1987
DATE

STATE OF SOUTH CAROLINA
BUDGET AND CONTROL BOARD
DIVISION OF GENERAL SERVICES
1201 MAIN STREET, SUITE 600
COLUMBIA, SOUTH CAROLINA 29201
(803) 737-0600

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GOVERNOR

GRADY L. PATTERSON, JR.
STATE TREASURER

EARLE E. MORRIS, JR.
COMPTROLLER GENERAL



JAMES J. FORTH, JR.
ASSISTANT DIVISION DIRECTOR

JAMES M. WADDELL, JR.
CHAIRMAN,
SENATE FINANCE COMMITTEE

ROBERT N. McLELLAN
CHAIRMAN,
HOUSE WAYS AND MEANS COMMITTEE

JESSE A. COLES, JR., Ph.D.
EXECUTIVE DIRECTOR

June 29, 1988

Mr. Richard W. Kelly
Division Director
Division of General Services
1201 Main Street, Suite 400
Columbia, South Carolina 29201

Dear Rick:

Attached is the final State Health and Human Service Finance Commission audit report and ~~recommendations~~ made by the Office of Audit and Certification. I concur and recommend the Budget and Control Board grant the Finance Commission three (3) years certification as outlined in the audit report.

Sincerely,

A handwritten signature in dark ink, appearing to read "James Forth, Jr.", written over a printed name.

James Forth, Jr.
Assistant Division Director

Attachment

MATERIALS MANAGEMENT OFFICE

State Supply & Surplus Property Management
Surplus Property
Boston Avenue
W. Cola., S.C. 29169
739-5490

Supply, Warehousing & IMS
1942 Laurel Street
Cola., S.C. 29201
734-7919

Training & Research
300 Gervais Street
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State Procurements &
Information Technology Management Office
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Office of Audit & Certification
1201 Main Street
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HEALTH AND HUMAN SERVICES FINANCE COMMISSION

AUDIT REPORT

APRIL 1, 1985 - DECEMBER 31, 1987

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JESSE A. COLES, JR., Ph.D.
EXECUTIVE DIRECTOR

JAMES J. FORTH, JR.
ASSISTANT DIVISION DIRECTOR

February 18, 1988

Mr. James J. Forth, Jr.
Materials Management Officer
Division of General Services
1201 Main Street, Suite 600
Columbia, South Carolina 29201

We have examined the procurement policies and procedures of the Health and Human Services Finance Commission for the period April 1, 1985 through December 31, 1987. As a part of our examination, we made a study and evaluation of the system of internal control over procurement transactions to the extent we considered necessary.

The purpose of such 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 internal procurement policy. Additionally, the evaluation was used in determining the nature, timing and extent of other auditing procedures that were necessary for developing an opinion on the adequacy, efficiency and effectiveness of the procurement system.

The administration of the Health and Human Services Finance Commission is responsible for establishing and maintaining a system of internal control over procurement transactions. In

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fulfilling this responsibility, estimates and judgements 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 due professional care. They would not, however, because of the nature of audit testing, necessarily disclose all weaknesses in the system.

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

Corrective action based on the recommendations described in these findings will in all material respects place the Health and Human Services Finance Commission compliance with the South Carolina Consolidated Procurement Code and ensuing regulations.


R. Vought Shealy, Manager
Audit and Certification

INTRODUCTION

The Office of Audit and Certification conducted an examination of the internal procurement operating procedures and policies of the Health and Human Services Finance Commission.

Our on-site review was conducted December 14, 1987 through January 29, 1988 and was made under authority as described in Section 11-35-1230(1) of the South Carolina Consolidated Procurement Code and Regulation 19-445.2020.

The examination was directed principally to determine whether, in all material respects, that 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.

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.

Our audit was performed primarily to determine if recertification for these existing limits would be recommended:

<u>Category</u>	<u>Requested Limit</u>
Consultant Services	\$150,000 per contract
Service Provider Contracts Funded from Social Services Block Grants -Service Provider being a Provider of Services Directly to a Client	750,000 per contract

SCOPE

Our examination encompassed a detailed analysis of the internal procurement operating procedures of the Health and Human Services Finance Commission and the 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 random samples for the period January 1, 1985 through December 31, 1987 of procurement transactions for compliance testing and performed other audit procedures that we considered necessary in the circumstances to formulate this opinion. As specified in the Consolidated Procurement Code and related regulations, our review of the system included, but was not limited to, the following areas:

- (1) adherence to provision of the South Carolina Consolidated Procurement Code and Regulations;
- (2) procurement staff and training;
- (3) adequate audit trails and purchase order registers;
- (4) evidences of competition;
- (5) small purchase provisions and purchase order confirmations;
- (6) emergency and sole source procurements;
- (7) source selections;
- (8) file documentation of procurements;
- (9) disposition of surplus property;

- (10) economy and efficiency of the procurement process;
- (11) Minority Business Enterprise Utilization Plan approval.

SUMMARY OF AUDIT FINDINGS

Our audit of the procurement system of the Health and Human Services Finance Commission (the Commission) produced findings and recommendations in the following areas:

	<u>PAGE</u>
I. <u>Compliance - Sole Source Procurements</u>	10
A. <u>Inappropriate Sole Source Procurements</u>	10
Three sole source procurements were inappropriate.	
B. <u>Altered Sole Source Determination</u>	11
A sole source procurement determination was altered to indicate approval prior to the procurement action.	
C. <u>Approval for Procurement Not Obtained</u>	12
Two telephone systems were procured without the required approval of the Budget and Control Board, Division of Information Resource Management.	
II. <u>Compliance - Emergency Procurements</u>	12
<u>Inappropriate Emergency Procurements</u>	
Three emergency procurements were inappropriate.	
III. <u>Compliance - Goods and Services</u>	14
<u>Evidence of Competition</u>	
Two procurements were made without competition.	

IV. Compliance - Consultants 15

A. Multi-term Contract Determinations 15

Determinations justifying the need for multi-term agreements were not prepared at the time of the original solicitations as required by Section 11-35-2030 of the Procurement Code.

B. Contracts Signed After-the-Fact 16

The Commission routinely signs contracts after their effective dates and after service have begun. Sound procurement practices dictate that contracts be signed by all parties before service provision begins.

V. Receiving Reports 17

Receiving reports did not accurately reflect items received.

VI. Fixed Assets 18

The Commission does not have a system to accurately account for fixed assets once they are procured.

RESULTS OF EXAMINATION

I. Compliance - Sole Source Procurements

We examined the quarterly reports of sole source procurements and all available supporting documents for the period April 1, 1985, through September 30, 1987, for the purpose of determining the appropriateness of the procurement actions taken, and the accuracy of the reports submitted to the Division of General Services, as required by Section 11-35-2440 of the Consolidated Procurement Code. We found the majority of these transactions to be proper and accurately reported, but we did note the following types of exceptions.

A. Inappropriate Sole Source Procurements

The following procurements were made inappropriately as sole sources:

<u>PO/Req./Contract</u>	<u>Amount</u>	<u>Quarter</u>	<u>Description</u>
1) PB1024	3,516.38	6/87	Consultant to train staff in grant request preparation
2) 011907	77,703.00	6/85	Consultant- skills assessment
3) A-86-0018-A	640.00	3/86	Training for new employees

Regulation 19.445-2105 states, "Sole source procurement is not permissible unless there is only a single supplier... In cases of reasonable doubt, competition should be solicited."

We recommend that competition be solicited when there is reason to believe that an item or service may be available from another source.

B. Altered Sole Source Determination

The following sole source procurement was supported by a determination which was altered to indicate approval prior to the procurement action. In reality, based on another identical copy of the same determination, the date of the approving signature was after-the-fact making this an unauthorized procurement.

<u>PO/Req./Contract</u>	<u>Amount</u>	<u>Reported Quarter Ending</u>	<u>Description</u>
C-870223M	\$320,833.00	12/86	P.A.I.D. Computer service Inception date: 11/1/86 Altered approval date: 10/30/86 Actual approval date: 12/03/86

This procurement exceeds the Commission's authority so ratification must be requested from the Director of General Services in accordance with Regulation 19-445.2015.

Agency Response

Sole source procurements are being held to an absolute minimum. While we realize that sole source is a proper procurement method; where there is doubt competition is being solicited. All sole source procurements are also reviewed by the Executive Director or Deputy Executive Directors. A "log" of all sole source requests are now being kept to prevent any misunderstanding in dates and as a further control to limit this type of procurement.

C. Approval for Procurement Not Obtained

Regulation 19-445.2115 requires that all information technology procurements be approved by the Division of Information Resource Management of the Budget and Control Board. The Commission could not furnish the approval for the following telephone systems.

<u>PO/Req./Contract</u>	<u>Amount</u>	<u>Reported Quarter Ending</u>	<u>Determination</u>
ABX0007	\$ 7,000.00	3/87	Phone system
352	10,028.00	12/86	Phone system

These procurements should be reported to the Division of Information Resource Management.

Agency Response

It was through a misunderstanding that additional telephone system approval was not received from Division of Information Resource Management. Procedures are in place to insure Division of Information Resource Management's approval for all information technology procurements.

II. Compliance - Emergency Procurements

We examined the quarterly reports of emergency procurements and all available documents for the period April 1, 1985 through September 30, 1987, for the purpose of determining the appropriateness of the procurement actions taken and the accuracy of the reports submitted to the Division of General Services, as required by Section 11-35-2440 of the Consolidated Procurement Code. We found the majority of these transactions to be proper and accurately reported, but we did note the following inappropriate emergency procurements:

<u>PO/Req.</u>	<u>Amount</u>	<u>Reported Quarter Ending</u>	<u>Description/Justification</u>
1008	\$ 2,418.00	12/85	New furniture needed for arriving staff. Old furniture being transferred to new director's office.
164	18,106.21	6/86	Justification dated 4/01/86 for office partitions. Purchase order dated 5/23/86. Vendor is the only one that meets deadline.
Amend- ment 1 4/15/85	5,000.00	Not Reported	Study of skills assessment. This represented an increase in a contract addressed in our 1986 audit report which did not meet the criteria for an emergency.

Section 19-445.2110 of the Regulation defines an emergency condition as a situation which creates a threat to public health, welfare, or safety such as may arise by reason of floods, epidemics, riots, equipment failures, fire loss, or such other reason as may be proclaimed by either the Chief Procurement Officer or the head of a governmental body or a designee of either office. The existence of such conditions must create an immediate and serious need for supplies, services, or construction that cannot be met through normal procurement methods and the lack of which would seriously threaten:

- (1) the function of State government;
- (2) the preservation or protection of property; or
- (3) the health or safety of any person.

Any procurement made using the emergency source selection method must be justified as to the condition that created the emergency situation. Care must be taken to fully justify the action taken. Only those emergencies that truly qualify can be handled as such.

As noted above, the increase to the contract for a study of skills assessment has not been reported to the Division of General Services as required by Section 11-35-2440 of the Procurement Code. An amended report should be filed to reflect this transaction.

Agency Response

A careful review of all emergency procurement request is in place to insure such request comply with Section 19-445.2110 of the Regulation. An amended report will be filed with the Division of General Services to reflect an amendment not reported.

III. Compliance - Goods and Services

Our test sample consisted of seventy-nine randomly selected procurement transactions made with the issuance of purchase orders. Most of these procurements were handled properly, however, the following two procurements were not supported by solicitations of competition or sole source or emergency determinations.

<u>Purchase Order</u>	<u>Date of Procurement</u>	<u>Procurement Amount</u>	<u>Description</u>
193	6/09/86	\$ 1,166.82	Copier supplies
562	6/04/87	6,950.00	10 each: type-writers, typing modules, ollis-pell

Regulation 19-445.2100 requires solicitation of verbal or written quotations from a minimum of two qualified sources. This was not done for purchase order 193.

Purchase order 562 was for items considered to be on state contract when, in fact, only the ten typewriters (\$5,150.00) were on state contract. The remainder of the procurement, \$1,800.00, covered items that were not on state contract.

Regulation 19-445.2035 requires solicitation from a minimum of three qualified sources for a procurement from \$1,500.00 - \$2,499.99. This was not done for the portion of purchase order 562 not on state contract.

We recommend that these requirements be met in all cases. Care must be taken to separate state term contract items from non-term contract items.

Agency Response

Documentation of verbal or written quotations from potential vendors is being kept on file. Care is being taken to separate state term contract items from nonterm contract items.

IV. Compliance - Consultants

A. Multi-term Contract Determinations

Our review of solicitations and contracts for consultant and provider services revealed that the procurement actions were made appropriately except that the required determinations justifying multi-year agreements were not prepared when the contracts were initiated. Instead, the determinations were prepared when the contract extension options were exercised.

Our previous audit report of the Commission addressed this same issue. To that point, the Commission responded as follows:

We had interpreted the code to mean that a written determination had to be made during the course of the original term of the contract (prior to termination) if HHSFC desired to exercise its option to extend a given contract(s). Such determination was done prior to extending contracts. Furthermore, we will make a written determination prior to the issuance of original contracts in the future, indicating the advantages of exercising this option; however, it must be recognized that HHSFC has to reserve the authority to exercise that option until later in the period of the contract based on individual contract situations.

We reiterate our previous recommendation that multi-term determinations be prepared at the time of the original solicitations in order to justify the basis for a multi-year agreement.

Agency Response

State Health and Human Services Finance Commission was making a written determination during the time of the contract on which contracts would be extended. It was a misinterpretation that this determination should be made at the time of the original solicitation. Our staff is aware of the correct procedure; multi-term determinations are prepared at the time of the original solicitation.

B. Contracts Signed After-the-Fact

The Commission routinely signs contracts after their effective dates and after services have begun. Payment control is maintained but liability accrues for services rendered by the providers.

Sound procurement practices dictate that contracts be signed by all parties before service provision begins. This indicates mutual understanding of the contractual agreement.

We realize that the health and human services being procured by the Commission are necessary and continuing in nature. However, we fear that problems may arise if this practice continues where services are underway without established contracts which clearly outline terms and conditions. We recommend that, if at all possible, contracts be completed before service provision begins.

Agency Response

In order to maintain continuity of service, some contracts are signed after service delivery begins. Every effort is made to have each contract properly executed prior to its effective date. In cases where this is not possible, no payment is made to a provider until a signed contract has been received.

V. Receiving Reports

The receiving reports on the following vouchers did not reflect the items received. Expenditures were made for quantities per the invoices.

<u>Voucher</u>	<u>Purchase Order</u>	<u>Quantity Per Purchase Order</u>	<u>Quantity Per Receiving Report</u>	<u>Quantity Per Invoice</u>
1. 204195	116	30,000	30,000	33,000
2. 271344	306	120,000	120,000	129,600
3. 271345	301	30,000	30,000	31,400
4. 273532	406	Blanket paper	Not indicated	60 cartons
5. 273532	406	Blanket paper	Not indicated	28 cartons
6. 273532	406	Blanket paper	Not indicated	10 cartons
7. 273532	406	Blanket paper	Not indicated	2 cartons
8. 274191	397	100,000	100,000	102,600
9. 274843	438	51,000	51,000	52,200
10. 275260	562	10 items	10 items	8 items
11. 275261	562	10 items	10 items	2 items
12. 601419	294	Blanket paper	Not indicated	70 cartons
13. 601419	294	Blanket paper	Not indicated	10 cartons
14. 601419	294	Blanket paper	Not indicated	10 cartons
15. 270864	149	5,000	5,000	5,900

Exceptions 1,2,3,8,9, and 15 represent items for printed material that the Commission did not indicate a specific quantity on the receiving reports. The Commission paid for the quantity on the invoice if the overrun was within the customary overrun allowance in the printing market. Exceptions 4,5,6,7,12,13, and 14 represent paper procured from state term contract. The purchase orders did not indicate the quantity being procured. The quantities were ordered as needed based on requests from specific individuals listed on the purchase orders. Exceptions 10 and 11 represent payments for partial deliveries of a single order. The correct quantity was received and paid for, but as indicated above, the receiving reports for the partial deliveries indicated receipt of the complete order.

The receiving report serves as a vital document in the payment process as it verifies receipt of items invoiced. Receiving reports should indicate quantities actually received, particularly in the case of partial deliveries. Otherwise, complete payments might be processed for partial deliveries.

We recommend that the operations procedures be changed to require that receiving reports reflect the actual quantities received.

Agency Response

Procedures have been changed to require that receiving reports reflect the actual quantities of goods received.

VI. Fixed Assets

The Commission does not have in operation a system to accurately account for fixed assets once they are procured. Due

to a lack of personnel, the Commission has not accounted for the acquisition, disposal, and location of fixed assets nor have decals been affixed them. Fixed assets are defined by the Commission as equipment items with an acquisition cost of \$150.00 or more.

Section 1455 of the policies and procedures manual for property management requires that acquisitions of equipment must be entered in the fixed asset inventory system and decals must be affixed to them.

This section also addresses the procedures to be followed when fixed assets are disposed of trade-in, transferred, lost, or stolen. Additionally, section 1425 of the same manual requires that an inventory be prepared at least annually and the results reconciled to the fixed assets inventory system maintained by the property control division. Failure to account for the fixed assets has resulted in the Commission not having full accountability for fixed assets with an estimated cost as of 9/30/87 of \$6.4 million.

We recommend that the fixed asset inventory system and requirement be updated to reflect the fixed assets and the applicable decals be affixed. Additionally an annual inventory should be made with the results reconciled to the fixed asset inventory system.

Agency Response

Temporary staff has been employed to fully implement our fixed asset inventory system. Permanent positions are anticipated to be employed in July, 1988 to maintain this system.

CERTIFICATION RECOMMENDATIONS

As enumerated in our transmittal letter, corrective action based on the recommendations in the body of this report, we believe, will in all material respects place the Health and Human Service Finance Commission in compliance with the South Carolina Consolidated Procurement Code and ensuing regulations.

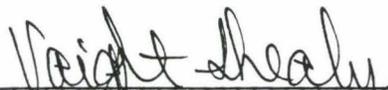
Prior to May 31, 1988 the Office of Audit and Certification will perform a follow-up review in accordance with Section 11-35-1230(1) of the Procurement Code to determine if the proposed corrective action has been taken. Based on the follow-up review, and subject to this corrective action, we will recommend that the Health and Human Services Finance Commission be re-certified to make direct agency procurements for a period of three (3) years as follows:

<u>Procurement Area</u>	<u>Recommended Certification Limits</u>
Service Provider Contracts Funded from Social Services Block Grants- Service Provider being a Provider of Services Directly to a Client	\$ 750,000 per contract, per year, limit of two one-year extension options
Consultant Services Including Information Technology Consultants	150,000 *per purchase commitment

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



Larry G. Sorrell
Audit Manager



R. Voight Shealy, Manager
Audit and Certification

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JESSE A. COLES, JR., Ph.D.
EXECUTIVE DIRECTOR

June 29, 1988

Mr. James Forth, Jr.
Materials Management Officer
Division of General Services
1201 Main Street, Suite 600
Columbia, South Carolina 29201

Dear Jim:

We have returned to the State Health and Human Service Finance Commission to determine the progress made toward implementing the recommendations in our audit report covering the period April 1, 1985 - December 31, 1987. During this visit, we followed up on each recommendation made in the audit report through inquiry, observation and limited testing.

We observed that the Finance Commission has made substantial progress toward correcting the problem areas found and improving the internal controls over the procurement system. With the changes made, the system's internal controls should be adequate to ensure that procurements are handled in compliance with the Consolidated Procurement Code and ensuing regulations.

We therefore, recommend that the certification limits as outlined in the audit report, be granted for a period of three (3) years.

Sincerely,

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

R. Voight Shealy, Manager
Audit and Certification

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