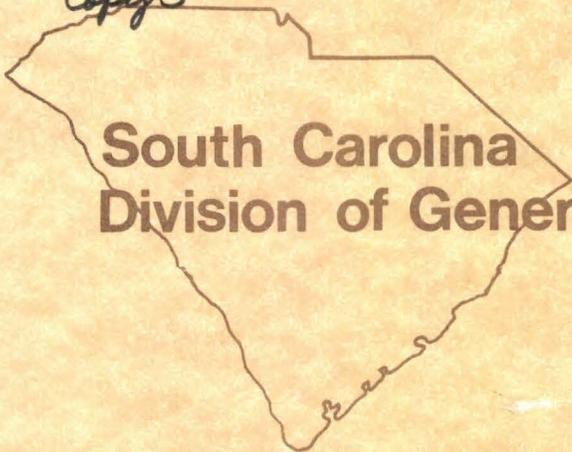


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South Carolina
Division of General Services

PROCUREMENT AUDIT AND CERTIFICATION

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S.C. DEPARTMENT OF SOCIAL SERVICES

AGENCY

MAY 22, 1986

DATE

STATE OF SOUTH CAROLINA
BUDGET AND CONTROL BOARD
DIVISION OF GENERAL SERVICES
300 GERVAIS STREET
COLUMBIA, SOUTH CAROLINA 29201
(803) 758-3170

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GOVERNOR

GRADY L. PATTERSON, JR.
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EARLE E. MORRIS, JR.
COMPTROLLER GENERAL



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SENATE FINANCE COMMITTEE

TOM G. MANGUM
CHAIRMAN
HOUSE WAYS AND MEANS COMMITTEE

WILLIAM T. PUTMAN
EXECUTIVE DIRECTOR

RICHARD W. KELLY
ASSISTANT DIVISION DIRECTOR

May 22, 1986

Mr. Tony R. Ellis
Division Director
Division of General Services
300 Gervais Street
Columbia, South Carolina 29201

Dear Tony:

Attached is the final Department of Social Services audit report and recommendations made by the Office of Audit and Certification. I concur and recommend the Budget and Control Board grant two (2) years certification as outlined in the audit report.

Sincerely,

Richard W. Kelly
Assistant Division Director

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Attachment

DEPARTMENT OF SOCIAL SERVICES
AUDIT REPORT

September 3, 1985

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STATE OF SOUTH CAROLINA
BUDGET AND CONTROL BOARD
DIVISION OF GENERAL SERVICES
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WILLIAM T. PLEMAN
EXECUTIVE DIRECTOR

RICHARD W. KELLY
ASSISTANT DIVISION DIRECTOR

September 3, 1985

Mr. Richard W. Kelly
Director of Audit and Certification
and Engineering Management
Division of General Services
300 Gervais Street
Columbia, South Carolina 29201

We have examined the procurement policies and procedures of The Department of Social Services for the period July 1, 1982 - February 28, 1985. As 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 The Department of Social Services' procurement policy. Additionally, the evaluation was used in determining the nature, timing and extent of other auditing procedures that were necessary for developing a recommendation for certification above the \$2,500 limit.

The administration of The Department of Social Services is responsible for establishing and maintaining a system of internal control over procurement transactions. In 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 Department of Social Services in compliance with the South Carolina Consolidated Procurement Code and ensuing regulations.

R. Voight Shealy
R. Voight Shealy, Director
Audit and Certification

INTRODUCTION

The Office of Audit and Certification conducted an examination of the internal procurement operating procedures and policies and related manual of The Department of Social Services.

Our on-site review was conducted March 11, 1985 through May 24, 1985, and was made under the authority as described in 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 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.

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

- (1) to insure 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 materials management office shall review the respective governmental body's internal procurement operation, shall certify 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.

Section 11-35-1230(1) of the South Carolina Consolidated Procurement Code states in part:

In procurement audits of governmental bodies thereafter, the auditors from the materials management office shall review the adequacy of the system's internal controls in order to ensure compliance with the requirements of this code and the ensuing regulations.

The Department was granted temporary certification for Social Service Block Grant contracts and Child Welfare Service contracts funded from Federal Title IV up to \$750,000 per contract on September 25, 1984. This audit was performed to determine if permanent certification should be granted.

SCOPE

Our examination encompassed a detailed analysis of the internal procurement operating procedures of the Department 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 up to the requested certification limits.

The Office of Audit and Certification statistically selected random samples for the period of July 1, 1982 - February 28, 1985, of procurement transactions for compliance testing and performed other auditing 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 provisions of the South Carolina Consolidated Procurement Code and accompanying regulations;
- (2) procurement staff and training;
- (3) adequate audit trails and purchase order register;
- (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) warehousing, inventory and disposition of surplus property;
- (10) economy and efficiency of the procurement process; and
- (11) approval of Minority Business Enterprise plan.

SUMMARY OF AUDIT FINDINGS

Our audit of the procurement system of The South Carolina Department of Social Services (DSS) produced findings and recommendations in the following areas:

	<u>PAGE</u>
I. <u>SERVICE PROVIDER CONTRACTS</u>	10
DSS has not followed its own internal policy and procedures in processing provider contracts.	
II. <u>SOLE SOURCE AND EMERGENCY PROCUREMENTS</u>	16
A large number of procurements using these procurement methods were not made in compliance with the Procurement Code.	
III. <u>COMPLIANCE - INFORMATION TECHNOLOGY</u>	25
Several transactions lacked competition and certain equipment rentals were not substantiated by original contracts.	
IV. <u>COMPLIANCE - CONSULTANTS</u>	28
Several contracts were entered into without evidence of competition.	

V. COMPLIANCE - GOODS AND SERVICES

Two procurements were made by personnel who 30
did not have requisite authority.

VI. INTERNAL AUDIT

In our audit report of 1982, we recommended that 31
the DSS Office of Audit and Control include tests
of procurement activity in their audit process.
During the audit period, this had not been done.

RESULTS OF EXAMINATION

I. Service Provider Contracts

Our audit of service provider contracts revealed that certain internal policies and procedures were not followed in the procurement process and administration of these contracts. Additionally, there has been inadequate compliance with the State Procurement Code and its regulations. Our examination identified the following weaknesses in the contract process:

- 1) DSS is mandated to provide certain program services to clients under a subcontract with the Health and Human Services Finance Commission. There was no evidence of a signed contract in effect between these two governmental agencies during our audit period. Our understanding is that a draft contract had been circulated but not approved by the appropriate signatory authorities. Therefore, we were unable to verify compliance with the Code for this entire area. We questioned this in our last audit report.
- 2) Contracting policies and procedures which have received the approval of management have not been adhered to in the following areas:
 - a) The policy and procedures manual addresses the requirement for program and other administrative entities to execute a purchase requisition at least ninety (90) days prior to the anticipated effective date of the contract. We reviewed several contracts where this had not been done resulting in emergency

procurements. The emergencies were caused by poor planning when, if the ninety-day guideline had been used, competition could have been sought. The following examples illustrate poor planning by the Department:

- (i) A justification approved October 30, 1984, for a campaign to educate the public on a new food stamp system states in part: "...approximately forty-five days ago the Post Office informed us they could not accommodate the equipment. Richland is scheduled to go on line November 1, 1984."

Obviously, the justification does not meet the guidelines for an emergency purchase since a 45 day notification was given.

- (ii) A consultant contract to educate seminar participants on the principles of the american free enterprise system was justified as an emergency procurement on September 1, 1984. The justification reads as follows: "...The project is to be implemented September 1, 1984, it is necessary due to project design to start at this time. The consultant is located in Columbia, S.C.....this provides for more efficient coordination and negates the necessity for paying mileage or per diem."

Again, the above justification does not meet the qualifications for an emergency procure-

ment under the Consolidated Procurement Code which states in part: "...to make emergency procurements only when there exists an immediate threat to public health, welfare, critical economy and efficiency...." This justification in no way explains the emergency.

- b) Not all the "original" contracts were located in the Procurement Division as mandated by the contracting procedures on Page 24, Section XXVI which states: "The original (contract) will remain on file in the Procurement Division." This procedure should be adhered to by DSS.
- c) The contracting procedures manual references the following procedure on Minority Utilization: "The Agency's Minority Business Enterprise Plan requires all non-minority contractors to form a 'joint venture' partnership with minority owned businesses where feasible." The Joint Venture Plan policy has apparently been approved by the Commissioner since it is included in the contracting procedures manual. However, our concern has been raised since we were informed by the M.B.E. coordinator that the Joint Venture Policy had not been implemented pending the result of a study performed by an expert in the field of Minority Business Utilization. We recommend this procedure/policy be deleted from the manual until it is final. Otherwise, DSS personnel should be informed of its approval and required implementation.

3) We examined all of the requests for proposals solicited by the Department under their existing temporary certification. We found most of the procedures were in compliance with Section 11-35-1530 of the Code entitled "Competitive Sealed Proposals;" however, we noted the following exceptions.

- a) Multi-Term Determinations were not prepared for those contracts which contained extension clauses as required by Code Section 11-35-1530.
- b) The award criteria contained in the request for proposals did not clarify the relative importance of price and of each of the other evaluation factors as required by Code Section 11-35-1530.

4) We examined 100% of the service contracts which were procured using a sole source or emergency method. Many of these procurements were properly processed and adequately justified; however, we did find several weaknesses as follows:

- a) The following contractual procurements were not reported to the Materials Management Office on the agency quarterly reports as required by Section 11-35-2440 of the Code.

<u>Req./PO/Voucher</u>	<u>Contract Amount</u>	<u>Description</u>
0011074	\$10,500.00	Minority Business Study
13525	\$25,059.46	Public Info. Campaign
4951	\$190,191.00	Caseworker Training
DP-0178,0179,0180	\$8,695.61	Analysis and System Specification Course
5544	\$6,500.00	Insurance Needs Study
DP-0251	\$6,681.00	Hospital Claim Payment Study
5962	\$3,000.00	Instructional Training

We recommend the appropriate quarterly reports submitted to the Materials Management Office be amended to include these procurements.

- b) The following contract was entered into using the sole source method of procurement; but the written determination was not approved until after the contract had been signed and implemented.

<u>Contract Date</u>	<u>REQ #</u>	<u>Determination Approval</u>	<u>Vendor</u>
12/01/84	0011074	12/12/84	Minority Business Study

Section 11-35-1560 of the Code requires that a written determination be made for a sole source procurement prior to an award for a contract. We must emphasize that proper procedures must be followed to ensure that all written determinations are completed prior to the procurement.

- c) In our opinion, the contracts listed below were weakly justified as sole source procurements as defined in Section 11-35-1560 of the Code or emergency procurements as defined in Section 11-35-1570 of the Code.

<u>PO/Req</u>	<u>Amount</u>	<u>Type</u>	<u>Justification</u>
0011074	\$10,500.00	Sole Source	"...the only firm with expertise in minority affairs."
5019	\$17,773.00	Emergency	"...the time frame for development of these two activities is short term in nature."
5544	\$6,500.00	Emergency	Insurance Needs Study

We recommend that if there is any doubt as to the validity of a sole source, competition should be sought. Additionally, the basis for emergency procurements must fall within the guidelines mandated by the Consolidated Procurement Code.

AGENCY RESPONSE

Service Provider Contracts

1. At the time of the audit, HHSFC and SCDSS were in negotiation. Both agencies agreed that we would continue to operate under the draft contract until revisions were agreed upon. We began negotiating on this contract well in advance of the contract period, but were unable to come to closure. The contract has been signed by both agencies.
- 2.a) We will continue to negotiate in good faith in an effort to ensure that contracts are entered in to in the manner prescribed by law, Federal regulations, the Code and this Agency's procurement policies and procedures manual.
 - (i) We believe our position on this emergency procurement to be justified. It must be understood that thousands of food stamp recipients depend on their receiving stamps in a timely manner, and this major change in receiving their stamps could possibly have created a threat to life in many cases. Since it was impossible to meet the 90-day RFP procedure time for contracting, it appeared that this was an emergency situation calling for emergency justification.
 - (ii) We concur that the contract for consultant as outlined in the audit should not have been an emergency contract. Steps have been taken to prevent reoccurrence.
- b) All originals or certified true copies of all contracts are located on file in the Contracts Office of the Procurement Division.
- c) The joint-venture policy as contained in contract procedures promulgated by this Agency will be strictly adhered to. The Temporary Manual dated April 8, 1985, Subject Contracts Policies and Procedures, will be made a permanent part of this Agency's Manual of Administration, Procurement Policies and Procedures, at its next revision which will be by October 1, 1986.
- 3.a) Multi-term determinations are now being prepared for contracts containing extension clauses.

- b) The award criteria has been clarified. (A is more important than B, B more important than C, etc. - In RFP.)
- 4.a) Appropriate quarterly reports or amendments have been submitted to the Materials Management Office for the procurements listed.
- b) We concur with the audit observations and will follow guidelines mandated by the Code. (See Attachment 1)
- c) We concur with these audit exceptions and will follow guidelines mandated by the Code. Emergency and Sole Source justification forms now contain guidelines on back, and I have directed that they be used. (See Attachments 2 and 3)

II. Sole Source and Emergency Procurements

Between July 1, 1983 and December 31, 1984, DSS initiated 377 contracts using the sole source or emergency procurement methods. We examined the files and quarterly reports of these procurements and discovered a substantial number (25%) of these transactions had been improperly processed.

Due to the large number of exceptions noted in our review, we classified them into the following nine "non-compliance" groups with illustrations under each category.

1) Poor Planning:

As a result of poor advance planning of procurement needs and weak inventory control, the agency was forced to use the emergency procurement method to satisfy its requirements.

<u>PO #</u>	<u>Amount</u>	<u>Description/Justification</u>
6124	\$12,025.00	"....Forms purchased due to serious inventory error."
8730/8731	\$3,285.00	"Essential furniture for new position. Unless the normal bid procedure is

circumvented new employees cannot assume job."

NOTE: See Schedule A in Appendix for additional items.

Poor planning for supply needs is not an acceptable criteria for emergency procurements. This situation can be avoided with proper advance planning, scheduling and accurate inventory management. We insist that procedures be developed to eliminate these situations from occurring so frequently at DSS.

2) Inaccurate Reporting

The following emergency and sole source procurements were reported to the Materials Management Office in error. These purchases should not have been reported since they were:

- a) Procurements made by General Services.
- b) Items which were exempt (i.e., published material).
- c) Maintenance contracts procured with original equipment and not required to be reported to the Materials Management Office.

	<u>PO #</u>	<u>AMOUNT</u>	<u>Exception</u>
i)	39987	\$2,597.00	Procured by General Services
	42251	\$29,900.00	
ii)	5469-037	\$675.00	Exempt from Code.
iii)	8774	\$3,006.00	Items not required to be reported as they were included in the original equipment contract.
	8776	<u>\$504.00</u>	
		<u>\$36,682.00</u>	

NOTE: Schedule B in the Appendix lists additional items.

DSS has submitted inaccurate quarterly reports to the Materials Management Office which resulted in a total overstatement of \$63,756.49 during this audit period. Reporting entities must become more cognizant of the reporting requirements of the Code and take the necessary steps to ensure that accurate information is compiled and reported to the Materials Management Office. We recommend that amended reports be made to exclude these procurements.

3) Recurring Emergencies for Key punching Services

The following data processing requirements were continuously procured on an emergency basis using the same justification.

<u>PO #</u>	<u>Amount</u>	<u>Date</u>	<u>Justification</u>
7714	\$20,000.00	06/22/84	"...The list of vacancies continues to be a factor in our current backlog."
7877	\$30,000.00	07/23/84	
0094	\$506.00	10/29/84	
8877	\$41,000.00	12/12/84	

While an initial emergency procurement might be justifiable, it is our opinion that future requirements could have been competitively solicited. The agency cannot continue to satisfy recurring needs through the emergency procurement methods. DSS must competitively solicit data processing services. A long-term contract may be necessary.

Section 19-445.2110, Subsection C, Limitations, states: "Emergency procurement shall be limited to those supplies, services or construction items neces-

sary to meet the emergency." Recurring emergency procurements for the same service over six months hardly qualify.

4) Questionable Emergencies

We question the validity of the following emergency procurements. The written determination dated May 4 stated in part: "...the inability of State Procurement to appropriately bid, evaluate, and award contracts exceeding \$2,500.00 in time for delivery and installation by June 30."

<u>PO #</u>	<u>Amount</u>	<u>Description</u>
7429	\$1,960.00	Wood desks
7451	\$624.00	Files and stand
7449	\$980.00	Shelf sections

NOTE: See Schedule C in Appendix for more examples.

Insufficient lead time may have precluded the Materials Management Office from making the actual procurement, however, we note that these procurements did not exceed \$2,500.00 and, therefore, did not have to be sent to State Procurement. In fact, in seven of the ten transactions the competitive process could have been accomplished through the solicitation of two telephone quotations. The other three (3) items which exceeded \$1,500.00 required only three written quotes.

5) Emergency Procurements Made Forty-five (45) Days After Justification Preparation.

The following emergency procurements were pre-justified forty-five (45) days prior to the execution of the purchase orders/contracts.

<u>PO #</u>	<u>PO Date</u>	<u>Justification Date</u>	<u>Amount</u>	<u>Description</u>
7666	06/19/84	05/02/84	\$1,093.00	Postage Machine
7700	06/20/84	05/02/84	\$690.00	Labels
7695	06/20/84	05/02/84	\$8,350.00	Office Furniture
7719	06/22/84	05/02/84	\$5,820.00	Calculators
7696	06/20/84	05/02/84	\$4,452.00	Chairs

An emergency procurement is by virtue of definition a requirement that must be filled immediately to eliminate an immediate threat to public health, welfare, critical economy, and efficiency or safety under an emergency condition. In our opinion, the above transactions were not justifiable emergencies due to the elapsed time between approval and purchase order preparation. DSS must coordinate and plan procurements better.

Additionally, we noted on the emergency procurement on purchase order #7696 for chairs that had the following statement on the initiating requisition: "...to provide chairs for surplus desks in warehouse."

Our concern is increased even further when items are purchased for the warehouse using the emergency procurement method.

6) Unnecessary Use of the Emergency and Sole Source

Procurement Methods

The following sole source and emergency procurements were made for purchases less than \$1,500.00 and were incorrectly reported to the Materials Management Office.

<u>PO/Req.</u>	<u>Amount</u>	<u>Descriptions</u>
5469-098	\$963.97	Video tape duplication
8581	\$795.00	Photograph albums
3013035	\$787.50	Repair of Chairs

Competition was solicited for the above transactions, yet they were still processed as emergency or sole source procurements and incorrectly reported to General Services' Materials Management Office.

7) After-the-Fact Justifications

The following sole source procurements were approved after they were made, as indicated by the supporting documents.

<u>PO #</u>	<u>Amount</u>	<u>Invoice Date</u>	<u>Approval Date</u>
DP-0329	\$1,209.00	05/15/84	05/28/84
DP-0275	\$4,438.00	12/21/83	04/04/84
DP-0011	\$1,260.00	06/06/84	07/19/84

Section 11-35-1560 of the Code indicates that only certain officials are authorized to make sole source procurements. These authorized officials must determine in writing that there is only one source for the needed item or service.

In these cases, the required approvals were not obtained in writing prior to the purchase commitments being made, which means the procurements were made by individuals who did not have the requisite authority. Thus, these transactions must be considered unauthorized procurements.

Section 19-445.2015 of the regulations requires that they be formally ratified. The two procurements less than \$2,500.00 must be ratified by the Commissioner. The one that exceeds \$2,500.00 must be submitted to the Materials Management Officer for ratification.

8) Weak Justification

The following procurements have an inherent weakness in the written determinations in that they fail to adequately substantiate the basis for a single source designation or an emergency based on a threat to public health, welfare, safety, or critical economy and efficiency.

<u>PO/Req.</u>	<u>Amount</u>	<u>Justification</u>
7717	\$4,087.00	Both of these emergency purchases for repair parts were justified as: "...need to acquire from current fiscal year funds and immediate shipment for installation of O.A.S."
7759	\$4,250.00	
2514502	\$5,817.57	"...Field trip to Atlanta, Ga., for eighty-eight Project Free Enterprise participants and chaperons is scheduled for Dec. 27, 28, 1984,...." Justified as emergency.

4283604 \$3,500.00

This is an emergency procurement for the development of a caseworker handbook. The justification dated 8/24/84 stated in part: "...Also the State Board has directed that a draft of the Child Protection Services Manual be provided to the board for its review at the December 20, 1984, board meeting. This short turn around time necessitates immediate action."

042-2121 \$525.00

Sole source procurement justified as "...original vendor only one who could supply covers."

7893 \$19,880.00

ATP cards purchased due to construction of new 1609-A form--no other vendor ...can supply us with this form.

In our opinion, the justifications for these procurements do not satisfy the basic requirements for sole source or emergency procurements. The users making these determinations are not familiar with requirements of the Procurement Code and the detailed explanations required to satisfy an external audit.

We recommend that the Procurement Division review any and all procurements prior to their consummation to determine the following:

1. The source selection process is being followed correctly and is in compliance with the Consolidated Procurement Code.
2. The basis for the justification of the sole source or emergency is sufficient to satisfy an external audit.

AGENCY RESPONSE

Sole Source and Emergency Procurements

1) Poor Planning

6124 - Because of a human/employee error, an emergency situation was created in that ATP cards procured were essential to the issuance of Food Stamp Coupons. Only a limited amount was purchased to carry us through the critical period until State Procurement could purchase for us.

We concur with the remaining exceptions, and every effort is being made to eliminate these type situations from occurring again by informing management and staff of the Code regulations.

2) Inaccurate Reporting

Amended reports are in the process of being prepared for the Materials Management Office. Procurement staff is more aware of reporting requirements, and necessary steps have been taken to ensure that accurate information is compiled and reported.

3) Recurring Emergencies for Key punching Services

Purchase Orders Numbers 7714, 7877, 0094 and 8877 involved the emergency procurement of data entry services because of increased data entry backlog due to loss of Key Entry personnel. An invitation to competitively bid these services was initiated and developed in the first quarter of calendar year FY '85 and forwarded to Materials Management Office (MMO) and the Federal Government for approval. Although Federal approval was obtained, the invitation for bid was not released by MMO because MMO was in the process of developing a State Term Contract for data entry services. Subsequent to MMO's release and contract award of the State Contract, the Federal Government (Health Care Finance Commission) objected to the specifications under which the State Term Contract was awarded and would not grant DSS/HHSFC approval to contract for services under the State Contract. A new contract was prepared based on Federal requirements and executed under the umbrella State Contract. An acceptable contract was finally negotiated and executed in October, 1985. The above process took approximately seven months to complete. DSS/HHSFC now have in place a competitive bid data entry contract to provide data entry services.

4) Questionable Emergencies and

5) Emergency Procurements Made Forty-Five (45) Days After Justification Preparation

Emergency procurements will be issued only when the conditions of the Code are met, and future requests will be processed in an unquestionable manner.

6) Unnecessary Use of the Emergency and Sole Source Procurement Methods

We concur that these items should not have been reported as emergency or sole source procurements. Procurement staff is now reviewing these procurements before processing.

7) After-the-Fact Justifications

The procurements considered to be unauthorized will be formally ratified.

8) Weak Justification

We concur that justifications for 7717, 7759, 2514502 and 4283604 are weak.

042-2121 - We believed this to be sole source because the particular vendor was the only one that could furnish the size required. It was an old cot frame.

Purchase Order No. 7893 - We do not believe that an alternative existed to the procurement of these forms with the vendor selected. At the time, this vendor was the only one capable of producing this form. The form was redesigned to make it more commercially available when the new Food Stamp System was implemented thus alleviating the requirement to procure as sole source.

The Procurement Division is reviewing all procurements to determine if sole source and emergency justifications are in compliance and sufficient to satisfy an audit.

III. COMPLIANCE - INFORMATION TECHNOLOGY

Our examination of the sample transactions in the information technology area revealed that several procurements were not made in compliance with the Consolidated Procurement Code. The following exceptions were noted:

	<u>PO/Req.</u>	<u>Amount</u>	<u>Description</u>
1)	DP-0230	\$833.50	Repair Equipment
2)	DP-0040	\$1,984.43	Rental Payment for Equipment
3)	DP-0022	\$1,451.54	Rental Payment for Equipment
4)	DP-0077	\$578.86	Rental Payment for Equipment
5)	DP-0328	\$6,346.01	Data Processing Services

Items #1 and #5 are respectively an equipment repair and a procurement of data processing services for which we were unable to locate any evidence of competitive solicitations or substantiating documents for sole source or emergency purchase. Item #5 exceeds the \$2,500.00 certification limit of the agency and must be ratified by the Materials Management Office.

Items #2 through #4 are rental payments for equipment which DSS was renting prior to the passage of the Code on July 30, 1981.

It is our opinion that DSS should consider the possibility of purchasing this equipment or at least doing a cost comparison as we feel that by renting this equipment for approximately fifteen years, the Department of Social Services has paid for it several times over.

A blanket type contract with the vendor was located which outlined in very general terms the agreement between DSS and the vendor. The contract, entered into in 1975, shows no specific information, such as serial numbers, that could be used for payment verification.

We also had difficulty in determining the payment approval process for the rental equipment. The invoices we reviewed were stamped with the following statement: "Contract in effect prior to July 30, 1981, and applicable state laws have been complied with."

We queried DSS personnel about this statement and what it referred to as far as processing payments. No one seemed to know, except that it had to be stamped on the

invoice before it could be paid. Apparently DSS personnel processing the payments are unaware of the provision of Section 17, of the 1983/84 Appropriations Act which required that contracts entered into prior to July 30, 1981, must be renewed in accordance with the Code.

In the absence of specific renewal terms, renewal can be defined as any mutually agreed upon change in the contract including price increases. Price increases have certainly been made since July 30, 1981. Since the Department failed to seek competition or prepare sole source determinations at these times, the renewals are not in compliance with the Code.

The following recommendations should be implemented to correct these weaknesses.

- 1) All existing rental contracts should be reviewed and, if required, renewed in accordance with the Procurement Code and the regulations.
- 2) All procurements of information technology services, repairs, or other items must be competitively solicited or if appropriate, sole source determinations must be prepared.
- 3) In order to properly control payments on equipment rentals, there must be a copy of the contract and supporting documents on hand so that services and charges can be verified. This will also indicate when a contract must be rebid.
- 4) Multiterm determinations must be established in accordance with the Code for any contract exceeding one year.

AGENCY RESPONSE

Compliance - Information Technology

This Agency is in the process of replacing a majority of existing obsolete equipment through its strategic plan for information technology. With this technological evolution, those equipments for which continued maintenance costs exceed the lease purchase cost of new equipment have been or are being replace.

Item 5) DP 0328 will be processed for ratification by the Materials Management Office.

We concur that we should consider purchasing or cost-comparing rental equipment towards purchasing. We have, as a result of this audit, been made aware of the total provisions of Section 17 of the 1983/84 Appropriations Act, and we are reviewing contracts in accordance with the Code.

You made certain recommendations 1), 2), 3) and 4), all of which we appreciate and will implement if we have not already done so.

IV. COMPLIANCE - CONSULTANTS

Our examination of the consultant and contractual services area revealed a substantial number of procurements which were improperly processed and out of compliance with the Procurement Code. The majority of these exceptions have been addressed in other sections of this report, but we have noted the following problems below:

	<u>Requisition #</u>	<u>Amount</u>	<u>Description</u>
1)	004-075	\$1,600	Training Seminar
2)	0011074	\$10,500	Minority Business Development

Item #1 is a procurement for training services conducted in August, 1983, with the requisition and purchase order issued after-the-fact in February, 1984. There is no evi-

dence of competition being solicited or a sole source determination and finding being prepared. Since the procurement was not processed through the Procurement Division in accordance with internal procedures, it is an unauthorized procurement which must be ratified by the Commissioner.

Item #2, a procurement for consultant services, was also made after-the-fact as evidenced by the invoice being dated on December 13, 1984, and the initial request, Form #1402 Requisition, dated December 17, 1984.

We insist that DSS follow their own policies and procedures and process all requests through the Procurement Division to ensure compliance to the State Procurement Code and Regulations.

AGENCY RESPONSE

Compliance - Consultants

Item 1) is being processed for ratification by the Commissioner. We are insisting that requests be processed through the Procurement Division to ensure compliance with the Code and regulations.

V. COMPLIANCE - GOODS AND SERVICES

Procurements were made by agency personnel without the requisite authority. Requisitions were prepared after-the-fact and subsequently approved by DSS officials. The following are examples:

<u>Requisition Number</u>	<u>Requisition Date</u>	<u>Invoice Date</u>	<u>Amount</u>	<u>Description</u>
042-0103	11/29/85	11/15/85	\$630.84	Building Supplies
042-0135	12/28/84	12/11/84	\$778.80	Building Supplies

The DSS Internal Procurement Procedures Manual designates the Purchasing Division as the sole authority to obligate public funds in all areas of procurements, except for those persons specifically designated in writing by the Commissioner. During our examination, we could find no evidence that any delegations of authority have been made. Procurement authority for county offices is limited to fifty dollars (\$50.00) for supplies.

Based on this criteria, the procurements must be considered unauthorized and require ratification by the Commissioner in accordance with Section 19-445.2015 of the regulations.

Department officials should be reminded that procurement authority is limited to the Procurement Division. If county offices are to be delegated increased procurement authority, this should be formalized.

AGENCY RESPONSE

Compliance - Goods and Services

We concur that the counties exceeded the \$50.00 limitation for purchase. The two procurements listed will be ratified. We have authorized an increase of purchase up to \$150.00 for the counties. (See Attachment 4)

VI. INTERNAL AUDIT

In our audit report of 1982, we recommended that the DSS Office of Audit and Control include tests of procurement activity in their audit process. At the time of this audit, this had not been done. As evidenced by this audit report this control is badly needed. Thus, we repeat the comment made in 1982.

A complete internal audit program includes a periodic review of the system of requisitioning, placing of purchase orders, receiving, etc., to determine that procurement procedures are sound and are being adhered to by user departments. As a state agency, the program must also include a review of the procurement process for compliance with the Consolidated Procurement Code and regulations, as well as other applicable laws and regulations.

Historically, due to time limitations, internal audit departments have been forced to concentrate their efforts in the financial area, which precluded compliance and operational programs.

This leaves a gap in the administrative control over the procurement function because this area goes without review

except by external audit organizations. Although these are effective, they cannot provide the type of on-going control necessary in an area where such large sums of money are expended.

The Institute of Internal Auditors' publication entitled Standards for the Professional Practice of Internal Auditing states, "The scope of Internal Audit should encompass the examination and evaluation of the adequacy and effectiveness of the organization's system of internal control and the quality of performance in carrying out assigned responsibilities." We feel this expands the role of Internal Auditors into the areas of compliance, management and operational reviews of all areas and functions of an organization.

We again recommend that Internal Audit programs be developed to test the procurement process for adequacy of internal control, compliance with the Consolidated Procurement Code, adherence to DSS procedures and overall effectiveness. This program should include but not be limited to periodic review of procurements at all dollar levels at the State office and the county offices.

We understand that plans are underway in the Internal Audit Section to perform a test of the overall procurement function. We feel this program will be advantageous to DSS by providing needed control over the procurement function.

AGENCY RESPONSE

Internal Audit

An inspection of the overall procurement function has been made. I am confident from the results of that inspection that Management will gain a better and more comprehensive understanding of the procurement responsibilities inherent in the Code.

CERTIFICATION RECOMMENDATION

On September 25, 1984, the Office of Audit and Certification recommended that the Budget and Control Board grant the Department of Social Services temporary certification for Social Service Block Grant contracts and Child Welfare Service contracts funded from Federal Title IV up to \$750,000 per contract until a complete audit could be performed to determine if formal certification was warranted. In order to continue service to recipients the Board granted this request.

In the completion of this audit, we found that the Department manages six hundred seventy-nine contracts under these and other federal programs. Only thirty of these contracts were procured competitively by DSS and awarded under the temporary certification. The thirty awards were based on only three request for proposal solicitations.

DSS's role obviously is directed more toward contract administration than toward contract procurement. Attempts should be made to increase the number of contracts awarded through competitive solicitations.

We must express our concern over the handling of sole source and emergency procurements. This is the primary weakness identified in this report.

In accordance with Section 11-35-1230(1) of the Procurement Code, DSS must take corrective action as specified herein, by June 30, 1986, the end of the next subsequent quarter. Prior to this date, the Office of Audit and Certification will perform a follow-up review 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 DSS be certified to make direct agency procurements for a period of two years as follows:

<u>Procurement Area</u>	<u>Recommended Certification Limit</u>
Service Provider Contracts Funded from Social Services' Block Grants and Child Welfare Service Provider Contracts Funded from Federal Title IV-- Service Provider being a Provider of Services Directly to a Client.	\$750,000 per contract

If corrective action is not taken, particularly as it applies to sole source and emergency procurements, we will not recommend permanent certification for the Department.

AGENCY RESPONSE

I appreciate your proposed recommendation that DSS be certified to make direct agency procurements for a period of two years with a certification limit of \$750,000 per contract in the area of Service Provider Contracts funded from Social Services' Block Grants and Child Welfare Service Provider Contracts funded from Federal Title IV. However, I feel that DSS should be granted direct agency procurement not only for services directly to a client but also for other services which may deal indirectly with a client. These services such as training, etc. may be required or be helpful in providing the clients' needs.

I, too, am quite concerned over the number of questionable sole source and emergency procurements, but with a better understanding of the Code, regulations, etc. and with the advent of an active internal audit, I sincerely believe that significant improvements will be realized in our procurement processes. With this in mind, attempts will be made to increase the number of contracts awarded through competitive solicitations.

Larry G. Sorrell

Larry G. Sorrell
Audit Manager

R. Voight Shealy

Voight Shealy, Manager
Office of Audit and Certification

SCHEDULE A

	<u>PO/REQ.</u>	<u>Amount</u>	<u>Description/Justification</u>
1)	8036 8072	\$4,775.00 \$3,247.00	...orders are for micro film jackets...in order to continue the conversion we need extra jackets. It takes 45 days from date of order to receive merchandise.
2)	511522	\$5,574.00	Renewal of Food Stamp robbery policy due June 19, 1983....An emergency extension is necessary to ensure coverage of offices until such time as bid proposals can be released.
3)	7833	\$30,000.00	Storage for U.S.D.A. food-stuffs. This request is necessary due to lack of sufficient time to submit request to General Services. Any break in service would cease transportation and storage activities for U.S.D.A. commodities.
4)	7834	\$4,481.00	The modified application form will be needed for counties to convert to the automated food stamp system. The first county is scheduled for conversion September 4, 1984.
5)	7697	\$625.60	Food Stamp Forms to support new system transferred from Alabama to S.C.D.S.S. The forms must be available no later than 20 days prior to start up.
6)	7698 7699	\$21,954.00 \$5,470.00	Client Record Forms (same justification) Authorization to Purchase Forms (as above)

7) 8766 \$4,260.00

Application Forms. Initial supply of forms is exhausted. Additional forms are needed for conversion.

8) 8732 \$8,741.00

....We only have 2000 forms left in supply. Departments will run out if normal requisitioning procedures are used.

9) 8041 \$3,176.20

Application Form. The modified application form will be needed for counties to convert to the automated foodstamp system. The first county is scheduled for conversion September 4, 1984. Justification dated August 15, 1984.

SCHEDULE B

	<u>PO No.</u>	<u>Amount</u>	<u>Exception</u>
1)	40-0363	\$1,215.00	Maintenance Contract
2)	7182	\$876.00	Maintenance Contract
3)	7707	\$564.00	Maintenance Contract
4)	020-0003	\$1,150.49	Maintenance Contract
5)	0186013	\$625.00	Maintenance Contract
6)	8751	\$21,456.00	Maintenance Contract
7)	8775	<u>\$1,188.00</u>	Maintenance Contract
	TOTAL	\$27,074.49	

SCHEDULE C

	<u>PO NO.</u>	<u>Amount</u>	<u>Exception</u>
1)	7474	\$1,510.75	Filing Equipment
2)	7475	\$1,255.60	Filing Equipment
3)	7473	\$1,141.30	Shelf Files
4)	7558	\$847.00	Storage Unit
5)	7682	\$2,395.00	Label Attachers
6)	7684	\$1,035.00	Waveform Monitors
7)	7750	\$553.78	Chair, Bookcase, Credenza

South Carolina Department of Social Services

DIRECTIVE MEMO
D85-73

Release Date: April 8, 1985

Effective Date: May 15, 1985

To: Executive Staff
Division Directors
County Directors

From: James L. Solomon, Jr., Commissioner

Subject: Direct Purchases; Sole Source and Emergency
Justifications

Effective May 15, 1985 the following procedures must be complied with:

1. Only those persons/entities listed in Paragraph 1325.2, b, 1 of Chapter 1300, Procurement Policies and Procedures, Manual of Administration, are authorized to make direct purchases. State Office staff are not authorized this privilege unless approved by the Procurement Division;
2. When used to make payments, the DSS-1402, Purchasing Requisition, must be prepared before or at least on the same day as the invoice. This means the DSS-1402 should be numbered, properly authorized, dated and the vendor listed in the proper block either before or the same date as the invoice. It is understood this will create some inconvenience with invoices for utility bills; however, a review of past records will reveal they are received within the same two-three day period each month. A "tickler" file can be used to determine when a requisition should be prepared. The same applies to annual renewal of maintenance contracts and subscriptions;
3. In those situations where office supplies and food are involved, and in rare cases where equipment is involved, the requisition number must be given to the vendor with instructions that the requisition number must appear on the invoice(s). If the invoice does not list the requisition number, the invoice must be corrected before processing the request for payment (This procedure does not apply to invoices rendered as a result of Department issued purchase orders and contracts. Such invoices must reference the appropriate purchase order or contract number);

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Page 2

4. The Treasurer Division will not honor requisitions for direct purchase payments unless the yellow copy of the requisition indicates appropriate review by the Procurement Division;
5. The above procedures also apply to requisitions for direct purchases that will be paid from county funds on deposit with the State Treasurer;
6. Any and all sole source and emergency procurements must be justified in writing and the justification must be dated before the requisition, whether the requisition is used to request purchase or authorize payment of direct purchases.

Your compliance and assistance are appreciated. Refer questions to the Procurement Division, 758-8148/8180.

EMERGENCY QUESTIONNAIRE

When considering and justifying an emergency purchase, please review the following questions and place the answers on the front of this Form.

1. What is the service or item you need? Briefly describe what you need with pertinent data. If it is a tangible item, state manufacturer, model, etc.
2. Why is the item or service needed? Briefly describe "end use" or results to be accomplished by the item or service.
3. Factually state what precipitated this emergency and state:
 - (a) What, if any, substitutes or alternatives were considered? Explain why or how they were determined unsatisfactory.
 - (b) Why was the particular vendor chosen? State reason for your selection.
 - (c) What, if any, other sources of supply were considered? List reason(s) for rejection of each.

SOLE SOURCE QUESTIONNAIRE

When considering and justifying a sole source purchase, please review the following questions and place the answers on the front of this Form.

1. What is the service or item you need? Briefly describe what you need with pertinent data. If it is a tangible item, state manufacturer, model, etc.
2. Why is the item or service needed? Briefly describe "end use" or results to be accomplished by the item or service.
3. What, if any, substitutes or alternatives were considered? Explain why or how they were determined unsatisfactory.
4. Why was the particular vendor chosen? State reason for your selection.
5. What, if any, other sources of supply were considered? List reason(s) for rejection of each.

STATE OF SOUTH CAROLINA
BUDGET AND CONTROL BOARD
DIVISION OF GENERAL SERVICES
300 GERVAIS STREET
COLUMBIA, SOUTH CAROLINA 29201
(803) 758-3150

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WILLIAM T. PUTMAN
EXECUTIVE DIRECTOR

RICHARD W. KELLY
ASSISTANT DIVISION DIRECTOR

May 22, 1986

Mr. Richard W. Kelly
Assistant Division Director
Division of General Services
300 Gervais Street
Columbia, South Carolina 29201

Dear Rick:

We have returned to the Department of Social Services to determine the progress made toward implementing the recommendations in our audit report covering the period July 1, 1982 through February 28, 1985. During this visit, we followed up on each recommendation made in the audit report through inquiry, observation and limited testing.

The Audit and Certification Section observed that the Department of Social Services has made substantial progress toward correcting the problem areas found and improving the internal controls over the procurement system. We feel that, 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 two (2) years.

Sincerely,

R. Voight Shealy
R. Voight Shealy, Manager
Audit and Certification

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South Carolina Department of Social Services

MANUAL MEMO
Administration Manual
(Temporary)

March 21, 1986

Release Date: March 19, 1986

To: ALL MANUAL OF ADMINISTRATION (VOLUME 1) HOLDERS

From: James L. Solomon^{Ca} Jr., Commissioner

Revision Number: 86-1

Subject: Limitation for Direct Purchasing

The limit for direct purchasing for the counties has been changed to \$150.00 to include S. C. sales tax and shipping charges, when applicable. The total invoice must not be over \$150.00. This includes the purchase of supplies, such as office and copier supplies, that are not on State Contract. Any item on State Contract must be purchased from the Contract vendor. Contact the DSS Procurement Office before a direct purchase is made if you need to know if an item is on State Contract. This change will be made in the Manual of Administration, Volume I, Chapter 1300, Procurement Policies and Procedures, at its next revision.

You are reminded that an expenditure over \$150.00 constitutes an unauthorized purchase and must be ratified by the Commissioner.

Your cooperation and compliance is appreciated. Please refer questions to the Procurement Office, 758-8869/8180.

