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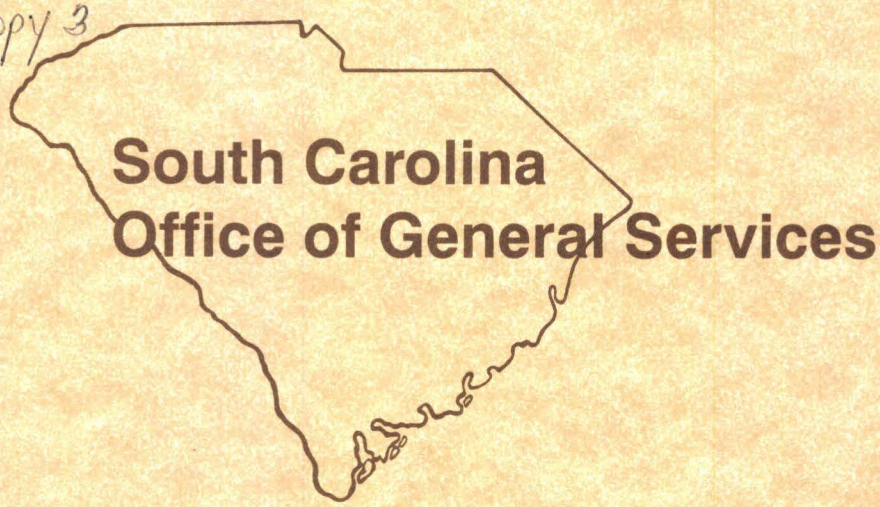

PROCUREMENT AUDIT AND CERTIFICATION

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AGENCY

OCTOBER 1, 1996 - JUNE 30, 1998

DATE

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LUTHER F. CARTER
EXECUTIVE DIRECTOR

September 22, 1998

Ms. Helen T. Zeigler, Director
Office of General Services
1201 Main Street, Suite 420
Columbia, South Carolina 29201

Dear Helen:

I have attached the South Carolina Department of Social Services' procurement audit report and recommendations made by the Office of Audit and Certification. I concur and recommend the Budget and Control Board grant the Department a three year certification as noted in the audit report.

Sincerely,

Voight Shealy

R. Voight Shealy
Materials Management Officer

/tl

SOUTH CAROLINA DEPARTMENT OF SOCIAL SERVICES

PROCUREMENT AUDIT REPORT

OCTOBER 1, 1996 - JUNE 30, 1998

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VOIGHT SHEALY
ASSISTANT DIRECTOR

August 20, 1998

Mr. R. Voight Shealy
Materials Management Officer
Office of General Services
1201 Main Street, Suite 600
Columbia, South Carolina 29201

Dear Voight:

We have examined the procurement policies and procedures of the South Carolina Department of Social Services for the period October 1, 1996 through June 30, 1998. 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 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 Social 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 Social Services in compliance with the 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 Social Services. Our on-site review was conducted June 10 - 29, 1998, 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 procurement system's internal controls were adequate and the procurement procedures 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 Office 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.

Most recently, on May 20, 1997, the Budget and Control Board granted the South Carolina Department of Social Services the following procurement certifications.

CATEGORY	LIMIT
Service Provider Contracts funded from Social Services Block Grant and Child Welfare Service Provider contracts funded from Federal Title IV - Service Provider being a provider of services directly to a client	$2,000,000 per contract per year, with option to extend four additional years
Goods and Services	$50,000 per commitment
Information Technology in accordance with the approved Information Technology Plan	$50,000 per commitment
Consultants Services	$50,000 per commitment

Our audit was performed primarily to determine if re-certification is warranted. No additional increase in certification limits was requested.

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 Social 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 October 1, 1996 through May 31, 1998 of procurement transactions for compliance testing and performed other audit procedures 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 October 1, 1996 through June 30, 1998

(2) Procurement transactions for the period October 1, 1996 through May 31, 1998 as follows:

a) Ninety-six payments each exceeding $1,500
b) A block sample of approximately five hundred purchase orders reviewed for order splitting and favored vendors

(3) Minority Business Enterprise plans and reports for the audit period

(4) Information technology plans for the audit period

(5) Internal procurement procedures manual

(6) Surplus property disposal procedures

(7) Real Property Management Office approvals for leases

(8) File documentation and evidence of competition

SUMMARY OF AUDIT FINDINGS

Our audit of the procurement system of the South Carolina Department of Social Services, hereinafter referred to as the Department, produced the following findings and recommendations.

	PAGE
I. Sole Source Procurements	
A. Inappropriate Sole Source	8
One sole source should have been competed.	
B. Drug-Free Workplace Certification	8
Eight sole source procurement contracts of $50,000 or greater did not have the drug-free workplace certification.	
C. Sole Source Reporting Errors	9
We noted several types of reporting errors.	
II. Compliance - General	
A. No Statement of Award	10
One sealed bid done by the Department did not have a statement of award.	
B Multi -Term Determinations Not Prepared	10
Three contracts with options to extend did not have the multi-term determination.	
C. Proposal Not Advertised	11
One request for proposal was not advertised.	
D. Preference Not Applied	11
We noted one bidder's preference requested by the vendor was not applied.	

PAGE

E. No Evidence Of Written Quotes 12

Three purchase orders had no evidence of written quotations in the file.

F. Unauthorized Purchase 13

One consultant contract was unauthorized.

G. Blanket Purchase Agreements 13

The Blanket Purchase Agreements maintained by the Department did not address all the items required by the regulations.

III. Overpayments 14

Two payments contained billing errors which should not have been paid.

IV. Internal Procedures Manual 14

Several areas in the Internal Procedures Manual need clarification or revision.

RESULTS OF EXAMINATION

I. Sole Source Procurements

We examined the quarterly reports of sole source, emergency, and trade-in sale procurements for the period October 1, 1996 through June 30, 1998. 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 Code. While the Department has maintained a professional system since our last audit, we did note the following items which need to be addressed by Management.

A. Inappropriate Sole Source

We noted one sole source that we believe to be inappropriate:

PO	Date	Item	Amount
19603	05/13/97	Surge protectors	$5,625

The sole source justification was based on the products having a ten year warranty. We fail to see why this could not have been competed. The best source was possibly selected, however, the vendor was not the only source available. Section 11-35-1560 of the Code states in part, "A contract may be awarded for supplies or services without competition... when there is only one source.... In cases of reasonable doubt, competition must be solicited."

We recommend procurements that do not meet the definition of a sole source be competed in accordance with this section of the Code.

B. Drug-Free Workplace Certification

We noted eight sole source procurement contracts for $50,000 or greater where the Department did not obtain the required drug-free workplace certification from the vendors stating they are in compliance with the South Carolina Drug-Free Workplace Act.

PO	Date	Item	Amount
17648	12/06/96	Business forms	$314,370
18852	03/28/97	Computer software	97,495
20071	06/17/97	Equipment maintenance	53,295
20347	07/28/97	Transportation	54,000
2180024	07/01/97	High management	55,469
4180263	07/01/97	High management	52,965
5180042	07/01/97	High management	60,225
7180178	07/01/97	High management	60,225

Effective January 1, 1991, Section 44-107-30 of the South Carolina Code of laws, 1976, requires that no State agency may enter into a domestic contract or make a domestic grant with any individual for a stated or estimated value of fifty thousand dollars or more unless the contract or grant includes a certification that the individual will not engage in the unlawful manufacture, distribution, possession, or use of a controlled substance in the performance of the contract.

We recommend the Department obtain the Drug-Free Workplace certificate on all contracts of $50,000 or more.

C. Sole Source Reporting Errors

We noted several types of reporting errors on sole source procurements.

Item	Document	Date	Item	Error Amount
1	97-0583-0-C	10/19/96	Training	$17,400
2	97-0630-0-C	01/23/97	Training	72,222
3	18397	02/14/97	Software upgrades	31,979

Item	Document	Date	Item	Error Amount
4	21208	09/30/97	Copyrighted manuals	$ 10,528
5	22497	02/10/98	Copyrighted manuals	45,000
6	C800380	07/01/97	Training	1,278,720

Items one and two were not reported to the Materials Management Office. Items three through five are exempt and should not have be reported. On item six, the Department reported only $1,280 of the contract which understates their sole source procurement dollars for the quarter by $1,278,720.

We recommend the Department file amended reports for these transactions. Furthermore, the Department should review the quarterly reports more carefully to ensure the accuracy of the reports.

II. Compliance - General

A. No Statement Of Award

On sealed bid QTH-001-05-22-98 for $32,239 for playground equipment, the Department did not have a statement of award in the file. Section 11-35-1520(10) of the Code states, "... notice of an intended award of a contract to the lowest responsive and responsible bidders whose bid meets the requirements set forth in the invitation for bids shall be given by posting such notice at a location specified in the invitation for bids."

We recommend the Department prepare a notice of award in accordance with this section and maintain a copy in the bid file for all sealed bids and proposals.

B. Multi-Term Determinations Not Prepared

The Department did not prepare multi-term determinations on the following request for proposal solicitations for multi-term contracts.

Proposal	Award Date	Options	Description
002-03-13-97	05/01/97	3 Additional years	Emergency shelter services for abused and neglected children
003-08-29-97	09/27/97	4 Additional years	Provide independent living services
005-11-18-97	01/01/98	4 Additional years	Provide low management care for children

Section 11-35-2030 of the Code and Regulation 19-445-2135 defines the requirements for the use of multi-term contracts. The regulation requires a written determination by the procurement officer of the governmental body for contracts for more than a one year period.

We recommend the Department prepare the determination for each multi-term contract as required by the Code and regulations.

C. Request For Proposal Not Advertised

We found no documentation that the RFP 005-11-18-97 contract for Low Maintenance Care for Children was advertised in South Carolina Business Opportunities (SCBO). Section 11-35-1550 (3) (1) require that all competitive procurements greater than $25,000 be advertised in SCBO. This appeared to be an oversight by the Department

We recommend the Department strictly comply with the advertising requirements for contracts greater than $25,000.

D. Preference Not Applied

The Department's request for quotation QTH-002-97 for continuous form paper was awarded based on the amount of $3.99 per thousand sheets. However, the next low bidder had applied for the South Carolina/United States Made, Manufactured or Grown End Product Preference. The Department did not apply this preference when determining the award. As a

result, the award was incorrectly made to the apparent low bidder rather than the adjusted low bidder.

Regulation 19-446.1000(5) states, "Competitive procurements made by governmental bodies and if not available, of the same or similar end-products made, manufactured or grown end-products are procured, provided that (1) the bidder has certified in writing in the bid that the end-product was made, manufactured or grown in South Carolina, or in other states of the United States, and (2) the end-product is available, and (3) the cost of the end-product is not unreasonable, and (4) the vendor is a responsible and responsive bidder, and, (5) the bid otherwise complies with the Procurement Code and Regulations. This regulation shall apply to each line item or each lot in a solicitation to which a separate, responsive bid may be made."

We recommend the Department apply preferences when requested by the bidders. Furthermore, the Department must always ensure a space on the bidding schedule for a bidder to clearly indicate which preferences are being requested.

E. No Evidence of Written Quotes

The following purchase orders had no evidence of written quotes.

PO	Date	Item	Amount
21076	09/19/97	Printing of annual report	$7,158
22057	12/09/97	Copier tabs	6,655
23003	03/13/98	Reels of cable	6,950

Section 11-35-1550(2)(c) of the Code states, "Solicitation of written quotes from a minimum of three qualified sources of supply shall be made and documentation of the quotes

attached to the purchase requisition." On purchase orders 21076 and 22057, the buyers believed they had received written quotes but could not locate the quotes.

We recommend the Department solicit for written quotes as appropriate and maintain the documentation in the file.

F. Unauthorized Procurement

Voucher 05342 dated October 4, 1996 for $2,700 was payment to a consultant for conducting a seminar on Administrative Support for the Department on August 26, 28, and 30, 1996. This procurement was unauthorized as the invoice was dated September 3, 1996 and the requisition was dated September 23, 1996, twenty days after the services were rendered.

Regulation 19-445-2015 defines an unauthorized procurement as an act obligating the State in a contract by any person without the requisite authority to do so by an appointment or delegation under the Code.

Since the department did not get the approval of the Procurement Office prior to the obligation of funds, the procurement is unauthorized. We recommend the Department request ratification of the procurement pursuant to Regulation 19.445.2015.

G. Blanket Purchase Agreements

During our review of blanket purchase agreements (BPAs), we noted that not all items required by Regulation 19-445.2100(b)(3) were contained on the BPAs. The regulation requires that the BPAs include (a) notice of individuals authorized to place calls, (b) delivery requirements that shipments be accompanied by delivery tickets or sales slip with certain information, and (c) invoicing requirements. These requirements were not addressed.

We recommend the Department review the regulations and ensure the BPAs address the requirements as noted above.

III. Overpayments

We noted two vouchers with overpayments.

PO	Voucher	Overpayment	Item
21687	DV12963	$ 2,748	Computer paper
21510	DV13778	138	Networking services

On DV12963, the vendor quoted a price of $5.65 per thousand units but billed and was paid $6.54 per thousand units. On DV13778, the vendor billed and was paid South Carolina sales tax of $138. However, sales tax was not applicable since the contract was for services only.

We recommend the Department carefully review all invoices to ensure that charges match the purchase order and are correct. We also recommend the Department request refunds from the vendors who received these overpayments.

IV. Internal Procedures Manual

We noted several areas in the Internal Procurement Procedures Manual that need clarification or revision. We have provided a listing of changes to the Procurement Director. Section 11-35-540(3) of the Code states, "Governmental bodies shall be authorized to develop internal operational procedures consistent with this code; provided, that such operational procedures shall be certified in writing by the appropriate chief procurement officer as being consistent with this chapter."

We recommend the Department revise its manual to be consistent with the Code.

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 Social Services in compliance with the Consolidated Procurement Code.

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

CATEGORY	RECOMMENDED CERTIFICATION LEVEL
Service Provider Contracts funded from Social Services Block Grant and Child Welfare Service Provider contracts funded from Federal Title IV - Service Provider being a provider of services directly to a client	$2,000,000 per contract per year, with option to extend four additional years
Goods and Services	*$50,000 per commitment
Information Technology	*$50,000 per commitment
Consultants Services	*$50,000 per commitment

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

James M. Stiles, CPPB
Audit Manager

Larry G. Sorrell, Manager
Audit and Certifications

SOUTH CAROLINA DEPARTMENT OF SOCIAL SERVICES

James T. Clark, State Director, P.O. Box 1520, Columbia, South Carolina 29202-1520

September 18, 1998

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

Dear Mr. Sorrell:

After careful review of the draft procurement audit report of the Department of Social Services for the period of October 1, 1996 - June 30, 1998, we are in general agreement with the findings.

All corrective actions have been completed and recommendations included in these findings will be followed.

With your assistance, we will continue to strive for full compliance with the South Carolina Consolidated Procurement Code. Please accept our thanks for the cooperation and assistance given by you and your staff to our Procurement Office.

Sincerely,

Martha Watts

Martha Watts, Director
Departmental Services

mw/wb

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VOIGHT SHEALY
ASSISTANT DIRECTOR

September 22, 1998

Mr. R. Voight Shealy
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 Social Services to our audit report for the period of October 1, 1996 - June 30, 1998. 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 Social Services the certification limits noted in our report for a period of three years.

Sincerely,

Larry G. Sorrell, Manager
Audit and Certification

LGS/tl

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