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South Carolina
Division of General Services

PROCUREMENT AUDIT AND CERTIFICATION

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CONTINUUM OF CARE
FOR EMOTIONALLY DISTURBED CHILDREN

AGENCY

JULY 1, 1989 - JUNE 30, 1991

DATE

STATE OF SOUTH CAROLINA

State Budget and Control Board

DIVISION OF GENERAL SERVICES

CARROLL A. CAMPBELL, JR., CHAIRMAN
GOVERNOR

GRADY L. PATTERSON, JR.
STATE TREASURER

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

WILLIAM D. BOAN
CHAIRMAN, WAYS AND MEANS COMMITTEE

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

January 29, 1992

Mr. Richard W. Kelly
Director
Division of General Services
1201 Main Street, Suite 420
Columbia, South Carolina 29201

Dear Rick:

I have attached the Continuum of Care's procurement audit report and recommendations made by the Office of Audit and Certification. Since the Continuum did not request procurement certification, I recommend that the report be presented to the Budget and Control Board for information.

Sincerely,

James J. Forth, Jr.
Assistant Division Director

JJF/jjm

Attachment

SOUTH CAROLINA

CONTINUUM OF CARE FOR EMOTIONALLY DISTURBED CHILDREN

PROCUREMENT AUDIT REPORT

JULY 1, 1989 - JUNE 30, 1991

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JAMES J. FORTH, JR.
ASSISTANT DIVISION DIRECTOR

January 28, 1992

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

Dear Jim:

We have examined the procurement policies and procedures of the South Carolina Continuum of Care for Emotionally Disturbed Children for the period July 1, 1989 - June 30, 1991. As part of our examination, we studied and evaluated the system of internal control over procurement transactions to the extent we considered necessary.

The evaluation was to establish a basis for reliance upon the system of internal control to assure adherence to the Consolidated Procurement Code and State and agency 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 Continuum of Care for Emotionally Disturbed Children 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 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 Continuum of Care for Emotionally Disturbed Children in compliance with the South Carolina Consolidated Procurement Code and ensuing regulations.

R. Voight Shealy, CFE, Manager
Audit and Certification

INTRODUCTION

We conducted an examination of the internal procurement operating procedures and policies and related manual of the South Carolina Continuum of Care for Emotionally Disturbed Children. Our on-site review was conducted July 24, 1991 through August 26, 1991, 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, the procurement system's internal controls were adequate and the procurement procedures, as outlined in the agency's Internal Procurement Operating Procedures Manual, were in compliance with the South Carolina Consolidated Procurement Code and its ensuing regulations.

SCOPE

Our examination was performed in accordance with Generally Accepted Auditing Standards as they apply to compliance audits. It encompassed a detailed analysis of the internal procurement operating procedures of the South Carolina Continuum of Care for Emotionally Disturbed Children 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. Our review of the system included, but was not limited to, the following:

(1) All sole source and emergency procurements (7/1/89-6/30/91)

(2) Random sample of 60 provider contracts

(3) Random sample of 50 other procurement transactions of all purchase orders

(4) Block sample review of all purchase orders for the period 7/1/91 - 8/26/91

(5) Property management procedures

(6) Minority Business Enterprise Plan

(7) Information Technology Plan

(8) Professional development of procurement staff

SUMMARY OF AUDIT FINDINGS

Our audit of the procurement system at the South Carolina Continuum of Care for Emotionally Disturbed Children, hereinafter referred to as the Continuum of Care, produced findings and recommendations as follows:

PAGE

I. Sole Source and Emergency Procurements

A. Procurements Inappropriately Made as Sole Sources 7

We believe nine procurements were inappropriately made as sole sources.

B. Untimely Approval of Sole Source Determinations 8

One sole source contract was not approved in a timely manner making it unauthorized.

II. Real Property Leases 8

The agency failed to report three exempt real property leases.

III. Requests for Proposals Needed for Service Contracts 9

We believe the Continuum of Care should solicit requests for proposals for psychological services and positive role model services instead of using sole source procurements.

RESULTS OF EXAMINATION

I. Sole Source and Emergency Procurements

We examined the quarterly reports of sole source and emergency procurements for the period July 1, 1989 through June 30, 1991. This review was performed to determine 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 noted the following exceptions.

A. Procurements Inappropriately Made as Sole Sources

We noted nine procurements made as sole sources which we believe were inappropriate.

Contract Number	Amount	Description
111107	2,500	Education consultant
111170	1,500	Education consultant
131041	900	Transportation services
21093	2,200	Transportation services
31142	1,600	Transportation services
21024	3,300	Transportation services
51011	5,500	Transportation services
42001	10,000	Respite care
131040	900	Transportation services

Regulation 19-445.2105, Subsection B, states in part, "Sole source procurement is not permissible unless there is only a single supplier... In cases of reasonable doubt, competition should be solicited." We believe competition was available for these transactions.

We recommend that these procurements be competitively bid in the future.

B. Untimely Approval of a Sole Source Determination

One sole source determination was not approved before the contract took effect. It was contract number 141063 for therapy services totalling $2,700. Service began October 1, 1990, but the sole source was not approved until November 15, 1990, meaning the contract was unauthorized.

Section 11-35-1560 of the Procurement Code indicates that a procurement may be made as a sole source if the chief procurement officer, the head of a governmental body or a designee of either officer above the level of the purchasing agent determines in writing that the item or service is only available from a single source. Since the Code is so specific about the authority required to make a sole source procurement, determinations must be approved by someone with requisite authority before commitments are made.

We recommend this procurement be submitted for ratification in accordance with Regulation 19-445.2015. Also, determinations should be approved in a timely manner in the future.

II. Real Property Leases

The Continuum of Care has three real property leases which are exempt from the approval process by the Division of General Services, because they are each less than the approval threshold of $10,000. However, the exemption requires that all such leases be reported to the Budget and Control Board's Real Property Management Office. These leases are as follows:

Property Location	Monthly Amount
Aiken	$110 plus utilities
Beaufort	$350
Conway	$ 50

We recommend that these and all future leases of real property be reported to the Real Property Management Office of the Budget and Control Board.

III. Requests for Proposals Needed for Service Contracts

Throughout our review of the agency's sole source reports, we noted numerous contracts for psychological services and positive role model services for Continuum of Care clients. Contracts are established based on client needs.

We believe the Continuum should develop requests for proposals solicitations for these services in lieu of processing sole source contracts. The requests for proposals should establish the qualifications required for these services and the rates being offered by the agency. All qualified offerors should be enrolled for future use. Through this process, the agency could develop lists of qualified providers that could be matched with clients using established procedures.

We recommend the Continuum pursue requests for proposals solicitations for these services.

CONCLUSION

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 Continuum of Care for Emotionally Disturbed Children in compliance with the South Carolina Consolidated Procurement Code.

Before January 31, 1992, we 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 by the Continuum of Care. Based on the follow-up review, and subject to this corrective action, we will recommend that the South Carolina Continuum of Care for Emotionally Disturbed Children be allowed to continue procuring all goods and services, information technology, consultant services and construction services up to the basic limit of $2,500 as allowed by law.

Robert J. Aycock, IV
Audit Supervisor

R. Voight Shealy, CFE, Manager
Audit and Certification

Policy Board Members:
William H. Chandler, J.D.
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Laura R. Dawson, Ed.D.
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Brenda C. Miller

South Carolina
Continuum of Care for Emotionally Disturbed Children
220 Stoneridge Drive, Suite 300 / Columbia, South Carolina 29210 / (803) 253-6272
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Paula B. Finley, Executive Director

December 16, 1991

R. Voight Shealy
Manager, Audit and Certification
Materials Management Office
State Budget and Control Board
1201 Main Street, Suite 600
Columbia, South Carolina 29201

Dear Mr. Shealy:

This letter is our official response to your report following the recent audit of our procurement policies and procedures. As you are aware, this was our first procurement audit. We appreciate the efforts of you and your staff in assisting us in improving our procedures to insure compliance with the State Procurement Code.

The recommendations made in your report have either already been corrected or are in the process of being corrected. For example, as noted in our exit interview, three small real property leases which are exempt from the General Services approval process have been reported to the Office of Property Management. We have also already developed a qualified provider list for psychologists and are working on an RFP for providers of other types of services.

Upon review of almost 750 sole source procurements you identified nine which you believe were inappropriate and one which was not approved in a timely manner. It is our belief that these procurements were legitimate sole sources but upon examination of the written justifications we agree that the justifications did not adequately support the sole source determination. We are submitting a request for ratification of the untimely approval under separate cover. We are also implementing procedures to insure that all sole source determinations are properly justified and approved in a timely manner. In addition, two procurements had the wrong determinations attached to them. The correct determinations have been submitted to your staff for review.

I want to thank you for the professional manner in which this audit was conducted. Your assistance should be of great benefit to us in the future. I look forward to working with you again.

Sincerely,

Paula B. Finley

Paula B. Finley
Executive Director

PBF/CW/jd

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JAMES J. FORTH, JR.
ASSISTANT DIVISION DIRECTOR

January 29, 1992

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

Dear Jim:

Since our audit of the Continuum of Care for Emotionally Disturbed Children, we have worked with them toward correcting the exceptions noted in our report. Through meetings and correspondence we have verified that the Continuum has taken the necessary corrective action.

Based on the Continuum's follow-up efforts, we recommend that it be allowed to continue procuring goods and services, consultant services, construction and information technology up to the basic level of $2,500 authorized by the Consolidated Procurement Code.

Sincerely,

Voight Sheely

R. Voight Sheely, Manager
Audit and Certification

RVS/jjm