PROCUREMENT AUDIT AND CERTIFICATION

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SOUTH CAROLINA DEPARTMENT OF
HEALTH & HUMAN SERVICES

AGENCY

APRIL 1, 1996 - MARCH 31, 1999
DATE
Mr. Robert W. McClam, Director
Office of General Services
1201 Main Street, Suite 420
Columbia, South Carolina 29201

Dear Robbie:

I have attached the South Carolina Department of Health and Human 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,

R. Voight Shealy
Materials Management Officer

August 10, 1999
SOUTH CAROLINA
DEPARTMENT OF HEALTH AND HUMAN SERVICES
PROCUREMENT AUDIT REPORT

APRIL 1, 1996 - MARCH 31, 1999
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</table>

**NOTE:** The Department’s responses to issues noted in the report have been inserted immediately following the items they refer to.
STATE OF SOUTH CAROLINA
State Budget and Control Board
OFFICE OF GENERAL SERVICES

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ROBERT W. McCLAM
DIRECTOR
MATERIALS MANAGEMENT OFFICE
1201 MAIN STREET, SUITE 600
COLUMBIA, SOUTH CAROLINA 29201
(803) 737-0600
Fax (803) 737-0839

R. VOIGHT SHEALY
ASSISTANT DIRECTOR
July 12, 1999

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 Health and Human Services for the period April 1, 1996 through March 31, 1999. 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 the Department's procurement policy. Additionally, the evaluation was used in determining the nature, timing and extent of other auditing procedures necessary for developing an opinion on the adequacy, efficiency and effectiveness of the procurement system.

The administration of the South Carolina Department of Health and Human Services is responsible for establishing and maintaining a system of internal control over procurement transactions. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of control procedures. The objectives of a system are to provide management with reasonable, but not
absolute, assurance of the integrity of the procurement process, that affected assets are safeguarded against loss from unauthorized use or disposition and that transactions are executed in accordance with management's authorization and are recorded properly.

Because of inherent limitations in any system of internal control, errors or irregularities may occur and not be detected. Also, projection of any evaluation of the system to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or that the degree of compliance with the procedures may deteriorate.

Our study and evaluation of the system of internal control over procurement transactions, as well as our overall examination of procurement policies and procedures, were conducted with professional care. However, because of the nature of audit testing, they would not necessarily disclose all weaknesses in the system.

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

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

Sincerely,

Larry G. Sorrell, Manager
Audit and Certification
INTRODUCTION

We conducted an examination of the internal procurement operating policies and procedures of the South Carolina Department of Health and Human Services. Our on-site review was conducted April 15 - 30, 1999, and was made under Section 11-35-1230(1) of the South Carolina Consolidated Procurement Code and Section 19-445.2020 of the accompanying regulations.

The examination was directed principally to determine whether, in all material respects, the internal controls in the procurement system were adequate and the procurement procedures, as outlined in the Internal Procurement Operating Procedures Manual, were in compliance with the South Carolina Consolidated Procurement Code and its ensuing regulations.

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

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

Section 11-35-1210 of the South Carolina Consolidated Procurement Code states:

The (Budget and Control) Board may assign differential dollar limits below which individual governmental bodies may make direct procurements not under term contracts. The 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.

On October 1, 1996, the Budget and Control Board granted the Department the following procurement certifications:

<table>
<thead>
<tr>
<th>Category</th>
<th>Limit</th>
</tr>
</thead>
<tbody>
<tr>
<td>Service Provider Contracts Funded From Any Source - Service Provider Being a Provider of Services Directly to a Client</td>
<td>$2,000,000 per contract per year Limit four one year extension options</td>
</tr>
<tr>
<td>Consultant Services including Information Technology Consultants</td>
<td>$ 150,000 per commitment</td>
</tr>
<tr>
<td>Information Technology including Printing Services in accordance with the approved Information Technology Plan</td>
<td>$ 25,000 per commitment</td>
</tr>
<tr>
<td>Goods and Services</td>
<td>$ 25,000 per commitment</td>
</tr>
</tbody>
</table>

Our audit was performed primarily to determine if recertification is warranted.
SCOPE

We conducted our examination in accordance with Generally Accepted Auditing Standards as they apply to compliance audits. Our examination encompassed a detailed analysis of the internal procurement operating procedures of the South Carolina Department of Health and Human Services and its related policies and procedures manual to the extent we deemed necessary to formulate an opinion on the adequacy of the system to properly handle procurement transactions.

We selected judgmental samples for the period July 1, 1996 through March 31, 1999 of procurement transactions for compliance testing and performed other audit procedures that we considered necessary to formulate this opinion. Specifically, the scope of our audit included, but was not limited to, a review of the following:

1. All sole source, emergency and trade-in sale procurements for the period April 1, 1996 through March 31, 1999
2. Procurement transactions for the period July 1, 1996 through March 31, 1999 as follows:
   a) One hundred and twenty-one payments each exceeding $1,500
   b) A block sample of 435 numerical purchase orders from FY 99
3. Minority Business Enterprise Plans and reports
4. Information technology plans for the audit period
5. Internal procurement procedures manual
6. Surplus property procedures
7. Real Property Management Office approvals of leases
8. Blanket purchase agreements
9. Procurement file documentation
SUMMARY OF AUDIT FINDINGS

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

I. Sole Source Procurements
   A. Sole Source Reporting Errors
      We noted exempt items incorrectly reported as sole sources, incorrect amounts reported, an emergency procurement reported as a sole source and one contract was reported three times.
   B. Inappropriate Sole Source Procurement
      One procurement for monitors and video boards was incorrectly processed as a sole source.

II. General – Compliance
   A. Vendor’s Protest Rights
      The formal solicitations and intent to award statements for request for proposals incorrectly indicate that protests must be submitted to the Department’s Bureau Chief of Administrative Services.
   B. Receipt of Formal Solicitations
      The Department does not maintain evidence that the responses were received prior to the opening for formal solicitations.
   C. Agency Term Contract
      Our review revealed that procurements of printer cartridges can be processed more efficiently as an annual term contract.
   D. No Evidence of Competition
      Two procurements had no evidence of competition.
E. **Inadequate Solicitations**

Two requests for the same computer equipment should have been combined into one solicitation and publicly advertised.
RESULTS OF EXAMINATION

I. Sole Source Procurements

A. Sole Source Reporting Errors

The transactions listed below were unnecessarily reported as sole sources or the amounts on the report were incorrect.

<table>
<thead>
<tr>
<th>Quarter Ending</th>
<th>Contract Number</th>
<th>Correct Amount</th>
<th>Reported Amount</th>
<th>Description</th>
<th>Explanation</th>
</tr>
</thead>
<tbody>
<tr>
<td>9/30/96</td>
<td>A 9 0346 A</td>
<td>$2,625,710</td>
<td>$1,458,000</td>
<td>Utilization Review</td>
<td>Incorrect Amount Reported</td>
</tr>
<tr>
<td>3/31/97</td>
<td>7280</td>
<td>---</td>
<td>9,393</td>
<td>Desk Reference</td>
<td>Exempt</td>
</tr>
<tr>
<td>6/30/97</td>
<td>A 9 0346 A</td>
<td>---</td>
<td>2,268,666</td>
<td>Utilization Review</td>
<td>Contract Previously Reported</td>
</tr>
<tr>
<td>9/30/97</td>
<td>192-45328</td>
<td>---</td>
<td>18,468</td>
<td>Moving Agency Records</td>
<td>Emergency Reported as Sole Source</td>
</tr>
<tr>
<td>12/31/97</td>
<td>7703</td>
<td>---</td>
<td>12,300</td>
<td>Pharmacy Reference</td>
<td>Exempt</td>
</tr>
<tr>
<td>3/31/98</td>
<td>7820</td>
<td>---</td>
<td>2,170</td>
<td>Software Maintenance Renewal</td>
<td>Exempt</td>
</tr>
<tr>
<td>6/30/98</td>
<td>A 9 0346 A</td>
<td>---</td>
<td>2,575,890</td>
<td>Utilization Review</td>
<td>Contract Previously Reported</td>
</tr>
<tr>
<td>6/30/98</td>
<td>7941</td>
<td>3,622</td>
<td>2,725</td>
<td>Maintenance</td>
<td>Amendment not Reported</td>
</tr>
<tr>
<td>9/30/98</td>
<td>8152</td>
<td>---</td>
<td>4,800</td>
<td>Rental of Booth Space</td>
<td>Exempt</td>
</tr>
<tr>
<td>9/30/98</td>
<td>8380</td>
<td>---</td>
<td>5,000</td>
<td>Rental of Exhibit Space</td>
<td>Exempt</td>
</tr>
<tr>
<td>Quarter Ending</td>
<td>PO / Contract Number</td>
<td>Correct Amount</td>
<td>Reported Amount</td>
<td>Description</td>
<td>Explanation</td>
</tr>
<tr>
<td>----------------</td>
<td>----------------------</td>
<td>----------------</td>
<td>----------------</td>
<td>-------------------</td>
<td>---------------------</td>
</tr>
<tr>
<td>9/30/98</td>
<td>8198</td>
<td>38,298</td>
<td>41,718</td>
<td>Leased Equipment</td>
<td>Mathematical Error</td>
</tr>
<tr>
<td>12/31/98</td>
<td>8443</td>
<td>28,335</td>
<td>3,146</td>
<td>Leased Equipment</td>
<td>Mathematical Error</td>
</tr>
<tr>
<td>12/31/98</td>
<td>B 9 0370 N</td>
<td>498,513</td>
<td>319,186</td>
<td>Training</td>
<td>Incorrect Amount Reported</td>
</tr>
</tbody>
</table>

Totals $3,194,478 $6,721,462

The errors noted above resulted in the Department over reporting sole source procurements by $3,526,984 ($6,721,462 - $3,194,478) and under reporting the emergency procurements by $18,468.

Section 11-35-2440 of the Code requires that governmental bodies submit a quarterly record of all contracts made as sole source and emergency procurements. The Materials Management Office combines the quarterly reports and prepares an annual report to the Budget and Control. Therefore, the amounts reported by agencies must be correct to ensure proper reporting to the Board.

We recommend the Department review its current procedure for recording the sole source and emergency procurements to identify weaknesses that contributed to the reporting errors. Also, amended reports should be submitted for the quarters effected as indicated in the table.

**DEPARTMENT RESPONSE**

A90346A - We reported total amount of contract instead of amount increased. Based on the audit finding, only increases will be reported on sole source quarterly report.

7280 - This should have been an exemption.

192-45328 – This should have been an emergency procurement.

7703 - This should have been an exemption.

7820 - This should have been an exemption.

7941 - There was a mathematical error in calculation on this purchase order.

8152 - This should have been a rental of booth exemption.

8380 - This should have been an exemption.

8198 - There was a mathematical error in calculation on this purchase order.

8443 - There was a mathematical error in calculation on this purchase order.
B90370N - We reported total amount of contract instead of amount increased. Based on the audit finding, only increases will be reported on sole source quarterly report. Amended reports have been submitted for each procurement listed.

B. Inappropriate Sole Source Procurement

The Department bought monitors and video boards on purchase order 7315 for $6,905. The sole source determination stated the vendor was the only one who could get items to meet the specifications. However, the determination did not address what made the monitors and video boards unique or adequately explain why no other item would meet the needs of the Department. Section 11-35-1560 of the Code states, “Any decision by a governmental body that a procurement be restricted to one potential vendor must be accompanied by an explanation as to why no other will be suitable or acceptable to meet the need.”

We recommend the Department seek competition for procurements when reasonable doubt exists. If sole source is determined to be appropriate, the justification should explain both the unique nature of the item or service and the lack of availability of alternative sources.

DEPARTMENT RESPONSE
We will follow the Auditor’s recommendations in accordance with the South Carolina Consolidated Procurement Code.

II. General - Compliance

A. Vendor’s Protest Rights

The Department issues request for proposals to establish contracts for client services. The solicitation documents and intent to award statements require that protests should be sent to the Department’s Bureau Chief of Administrative Services. Section 11-35-4210 (2) of the Code states, “A protest under subsection (1) above shall be in writing, submitted to the appropriate chief procurement officer, and shall set forth the grounds of the protest and the relief requested with enough particularity to give notice of the issues to be decided.” Section 11-35-310 (5) defines the chief procurement officer as the management officer for information technology, the state engineer for areas of construction, architectural and engineering,
construction management, and land surveying services, and the materials management officer for all other procurements.

We recommend the Department revise the documents to ensure that protests are submitted to the chief procurement officers as defined in the Code.

DEPARTMENT RESPONSE
We have corrected our solicitation documents to reflect that protests shall be submitted to the Chief Procurement Officer as defined in the Code.

B. Receipt of Formal Solicitations
The Department time and date stamps the envelopes or boxes of bids and proposals when received. After the public opening, the containers are discarded due to their bulky nature. However, the solicitations are not time and date stamped at opening. As a result, the files have no evidence of the responses having been received prior to the opening.

We recommend the Department begin time and date stamping formal bids and proposals at the public opening or maintain the containers to evidence that they were received prior to the opening.

DEPARTMENT RESPONSE
We have begun time and date stamping formal bids and proposals at the public opening as recommended in the audit report.

C. Agency Term Contract
The following procurements for laser printer cartridges were made from July 1, 1998 to March 31, 1999. Competition was not solicited on these transactions as each was less the $1,500.

<table>
<thead>
<tr>
<th>PO</th>
<th>Date</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>8297</td>
<td>08/25/98</td>
<td>$1,121</td>
</tr>
<tr>
<td>8320</td>
<td>09/02/98</td>
<td>1,291</td>
</tr>
<tr>
<td>8371</td>
<td>09/14/98</td>
<td>787</td>
</tr>
<tr>
<td>8447</td>
<td>10/16/98</td>
<td>958</td>
</tr>
<tr>
<td>8466</td>
<td>10/30/98</td>
<td>525</td>
</tr>
</tbody>
</table>
We recommend the Department determine the annual requirements for laser printer cartridges and solicit as an annual contract. When viewed over time, these types of periodic orders result in significant amounts that are not being competed. Simply placing orders as requisitions come in does not result in an efficient or effective procurement process. With the establishment of annual contracts, vendors should offer better pricing due to volume discounts.

**DEPARTMENT RESPONSE**

We procured a contractor to provide toner.

D. **No Evidence of Competition**

Competition was not obtained on the following two procurements.

<table>
<thead>
<tr>
<th>PO</th>
<th>Date</th>
<th>Amount</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>7131</td>
<td>11/06/96</td>
<td>$1,693</td>
<td>Laser jet printer</td>
</tr>
<tr>
<td>7358</td>
<td>04/10/97</td>
<td>$1,977</td>
<td>Video Accelerator Cards</td>
</tr>
</tbody>
</table>

Section 11-35-1550(2)(b) of the Code for purchases from $1,500.01 to $5,000.00 states in part, “Solicitations of verbal or written quotes from a minimum of three qualified sources of supply shall be made and documentation of the quotes attached to the requisition.”

We recommend the Department solicit the required minimum number of bidders. If the
required minimum number of qualified bidders cannot be solicited, the purchasing agent should certify in writing that all known sources were solicited.

**DEPARTMENT RESPONSE**

We will comply with the competitive requirements of the Code.

E. Inadequate Solicitation

Two requests for the same computer equipment should have been combined into one solicitation and publicly advertised. The separate purchase orders were as follows.

<table>
<thead>
<tr>
<th>PO</th>
<th>Amount</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>7339</td>
<td>$2,012</td>
<td>Motherboards, processors &amp; modules</td>
</tr>
<tr>
<td>7340</td>
<td>9,393</td>
<td>Motherboards, processors &amp; modules</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Total $11,405</td>
</tr>
</tbody>
</table>

The Department solicited written quotations for the items noted on each purchase order. Section 11-35-1550(1) of the Code states, “procurement requirements shall not be artificially divided by governmental bodies so as to constitute a small purchase.” Additionally, Section 11-35-1550(2)(d) for purchases from $10,000.01 to $25,000.00 requires written solicitation of written quotes and the procurement must be advertised at least once in the *South Carolina Business Opportunities* publication. The Department did not advertise the procurement.

We recommend that like items be combined and competition solicited in accordance with the Code when quantities are known.

**DEPARTMENT RESPONSE**

These two procurements should have been one procurement.
CERTIFICATION RECOMMENDATIONS

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

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 Health and Human Services be recertified to make direct agency procurements for three years up to the following levels.

<table>
<thead>
<tr>
<th>PROCUREMENT AREAS</th>
<th>RECOMMENDED CERTIFICATION LEVELS</th>
</tr>
</thead>
<tbody>
<tr>
<td>Service Provider Contracts - Service Provider Being a Provider of Services Directly to a Client</td>
<td>$2,000,000 per contract per year Limit four one year extension options</td>
</tr>
<tr>
<td>Consultant Services including Information Technology Consultants</td>
<td>$150,000 per commitment</td>
</tr>
<tr>
<td>Information Technology</td>
<td>$25,000 per commitment</td>
</tr>
<tr>
<td>Goods and Services</td>
<td>$25,000 per commitment</td>
</tr>
</tbody>
</table>

*The 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 Certification
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 Health and Human Services to our audit report for the period of April 1, 1996 - March 31, 1999. Also we have followed the Department’s corrective action during and subsequent to our fieldwork. We are satisfied that the Department has corrected the problem areas and the internal controls over the procurement system are adequate.

Therefore, we recommend the Budget and Control Board grant the South Carolina Department of Health and Human Services the certification limits noted in our report for a period of three years.

Sincerely,

Larry G. Sorrell, Manager  
Audit and Certification

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