PROCUREMENT AUDIT AND CERTIFICATION

S. C. STATE HEALTH AND HUMAN SERVICES FINANCE COMMISSION AGENCY

SEPTEMBER 1, 1991 - JUNE 30, 1993

DATE
October 29, 1993

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

Dear Rick:

I have attached the Health and Human Services Finance Commission procurement audit report and recommendations made by the Office of Audit and Certification. I concur and recommend the Budget and Control Board grant the Commission a three (3) year certification as outlined in the audit report.

Sincerely,

Hardy Merritt  
Assistant Division Director

HM/jj  
Attachment
SOUTH CAROLINA
STATE HEALTH AND HUMAN SERVICES FINANCE COMMISSION
PROCUREMENT AUDIT REPORT

SEPTEMBER 1, 1991 - JUNE 30, 1993
# TABLE OF CONTENTS

<table>
<thead>
<tr>
<th>Section</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>Transmittal Letter</td>
<td>1</td>
</tr>
<tr>
<td>Introduction</td>
<td>4</td>
</tr>
<tr>
<td>Background</td>
<td>5</td>
</tr>
<tr>
<td>Scope</td>
<td>7</td>
</tr>
<tr>
<td>Summary of Audit Findings</td>
<td>8</td>
</tr>
<tr>
<td>Results of Examination</td>
<td>10</td>
</tr>
<tr>
<td>Certification Recommendations</td>
<td>18</td>
</tr>
<tr>
<td>Follow-up Review</td>
<td>19</td>
</tr>
</tbody>
</table>

**NOTE:** The Commission's responses to issues noted in this report have been inserted immediately following the issues they refer to.
October 28, 1993

Dr. Hardy Merritt
Assistant Division Director
Division of General Services
1201 Main Street, Suite 600
Columbia, South Carolina 29201

Dear Hardy:

We have examined the procurement policies and procedures of the State Health and Human Services Finance Commission for the period September 1, 1991 through June 30, 1993. 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 internal 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 State Health and Human Services Finance Commission 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 State Health and Human Services Finance Commission 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 policies and procedures of the State Health and Human Services Finance Commission. Our on-site review was conducted June 9, 1993 through July 30, 1993 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 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 Commission 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 Division of General Services shall review the respective governmental body's internal procurement operation, shall verify in writing that it is consistent with the provisions of this code and the ensuing regulations, and recommend to the Board those dollar limits for the respective governmental body's procurement not under term contract.

Most recently on October 31, 1991, the Budget and Control Board granted the State Health and Human Services Finance Commission the following procurement certifications:

<table>
<thead>
<tr>
<th>Category</th>
<th>Requested Limit</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Service Provider Contracts Funded</td>
<td>*$2,000,000 per contract, per year, limit four one-year extension options</td>
</tr>
<tr>
<td>From any Source-Service Provider Being a Provider of Services Directly to a Client</td>
<td></td>
</tr>
<tr>
<td>2. Consultant Services Including Information Technology Consultants</td>
<td>*$150,000 per contract</td>
</tr>
</tbody>
</table>

Because this certification expires October 31, 1993, this audit was performed primarily to determine if recertification is warranted. Additionally, the Commission requested the following increased certification limits:
<table>
<thead>
<tr>
<th>Category</th>
<th>Requested Limit</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Service Provider Contracts Funded</td>
<td>*$2,000,000 per contract, per year, limit of four one-year extension options</td>
</tr>
<tr>
<td>From any Source-Service Provider</td>
<td></td>
</tr>
<tr>
<td>Being a Provider of Services</td>
<td></td>
</tr>
<tr>
<td>Directly to a Client</td>
<td></td>
</tr>
<tr>
<td>2. Consultant Services Including</td>
<td>*$ 150,000 per purchase commitment</td>
</tr>
<tr>
<td>Information Technology Consultants</td>
<td></td>
</tr>
<tr>
<td>3. Printing Services</td>
<td>*$ 25,000 per purchase commitment</td>
</tr>
<tr>
<td>4. Goods and Services</td>
<td>*$ 25,000 per purchase commitment</td>
</tr>
</tbody>
</table>
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 State Health and Human Services Finance Commission 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 judgemental samples for the period September 1, 1991 through June 30, 1993, of procurement transactions for compliance testing and performed other audit procedures that we considered necessary 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) All sole source and emergency procurements and trade-in sales for the period July 1, 1991 - June 30, 1993

(2) Purchase transactions for the period September 1, 1991 - June 30, 1993 as follows:
   a) One hundred payments for Commission transactions, each exceeding $500
   b) Eighteen solicitations for service provider contracts funded under Social Services Block Grant
   c) Ninety-four administrative contracts for consultants
   d) A block sample of four hundred ninety-five sequential purchase orders

(3) Minority Business Enterprise Plan and reports

(4) Procurement staff and training

(5) Procurement procedures

(6) Information Technology Plan approvals
SUMMARY OF AUDIT FINDINGS

Our audit of the procurement system of the State Health and Human Services Finance Commission, hereinafter referred to as the Commission, produced findings and recommendations as follows.

I. General Code Compliance
   A. Unauthorized Procurements
      We noted five procurements that were either done by someone without requisite authority or done outside of the Commission's procurement authority.
   B. Inadequate Solicitations of Competition
      Four procurements were not supported by the required number of solicitations of competition.
   C. Procurements Made Without Competition
      Two transactions were made without competition.
   D. Printing Overruns
      The Commission exceeded the maximum overrun allowance of 5% in four instances.
   E. Minority Business Enterprise Reports Submitted Late
      Six out of seven quarterly reports of minority business utilization were not submitted timely.
II. *Sole Source Procurements*

We believe three procurements made as sole sources were inappropriate.
RESULTS OF EXAMINATION

I. General Code Compliance

We tested one hundred randomly selected transactions from the Commission's Voucher Register for compliance with the Procurement Code and Commission policies and procedures. As shown in the Scope section of this report, we also performed other tests in accordance with our standard audit program. Our findings were as follows:

A. Unauthorized Procurements

The following five procurements were done without or prior to involvement by the Procurement Office:

<table>
<thead>
<tr>
<th>PO/Contract Date</th>
<th>PO/Contract Number</th>
<th>Amount</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>06/01/93</td>
<td>A40367A</td>
<td>$47,125.00</td>
<td>Accounting system software modification</td>
</tr>
<tr>
<td>04/08/92</td>
<td>PO3635</td>
<td>880.00/ month</td>
<td>Courier services</td>
</tr>
<tr>
<td>11/26/92</td>
<td>PR17746</td>
<td>1,500.00</td>
<td>Rewiring services</td>
</tr>
</tbody>
</table>

Item 1, for an accounting system software modification was incorrectly considered exempt from the Procurement Code. The Commission obtained approval for the need of this software modification from the Budget and Control Board's Office of Research and Statistical Services and incorrectly took this approval as an exemption from the Procurement Code. As a result no competition was solicited on this transaction.

Item 2, for courier services was solicited by the Materials Management Office. However, after the contract was established, a Commission employee increased the number of pickups. The.
Procurement Office was not involved until the invoices reflecting the increased services were received. An amendment was not approved by the Materials Management Office until April 20, 1993. Since the increased charges appeared first on the February 1993 invoices, two and a half months of the extra charge ($520 per month) were unauthorized.

Item 3, for conference facilities paid on Voucher DV 06755 dated June 16, 1992 was not authorized with a requisition or a purchase order. Also, it was not supported by a Justification for In-State Conference Site Selection form. Further, no evidence of competition was contained in the file.

Items 4 and 5, for rewiring services were performed on leased office space. On item 4, the invoice was dated 3/25/92, but the requisition and purchase order were dated 4/6/92 and 4/30/92 respectively. On item 5, the invoice was dated 9/22/92, but the purchase requisition was not signed until 10/26/92. The services were performed prior to the Procurement Office being notified.

Regulation 19-445.2015A defines an unauthorized procurement as an act obligating the state in a contract by any person without requisite authority. Since the requisite authority of the Commission is the Division of Support Services, these purchases were all unauthorized.

Since the procurements were outside of the Commission's certification, we recommend that the Commission request ratification for items 1, 2 and 3 from the Materials Management Officer. For items 4 and 5, ratification should be requested from the Commission's Executive Director.
COMMISSION RESPONSE

Item 1. We received written approval from the Office of Research and Statistical Services to modify software for our accounting systems. We interpreted this as the only approval needed.

Staff is aware that competition must be solicited for future transactions.

Item 2. A contract for courier services was solicited and awarded by the Materials Management Office.

Due to increased workload, staff authorized increased pickups prior to amending the contract. This contract has now been properly amended and staff reminded not to authorize changes to contracts without following the proper amendment process.

Item 3. Conference facilities were arranged without an authorized requisition or purchase order, and no justification for instate conference site selection form completed.

Staff has been reminded to follow established procedures when making conference arrangements.

Items 4 and 5. Rewiring services were performed due to additional computer terminals being installed. Requisitions and purchase orders were not issued prior to services being rendered.

We have reminded staff that all work must be authorized prior to implementation.

We have requested ratification of items 1-3 from the Materials Management Office. Items 4-5, we have received ratification from the Executive Director.

B. Inadequate Solicitations of Competition

We noted four procurements which were not supported by the required number of solicitations of competition. They were as follows:

<table>
<thead>
<tr>
<th>Contract Number</th>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. B30024N</td>
<td>Children, Youth &amp; Family Counseling</td>
<td>$33,189.00</td>
</tr>
<tr>
<td>2. B30048N</td>
<td>Special Services for Pregnant Women</td>
<td>$227,946.00</td>
</tr>
</tbody>
</table>
For items 1 and 2, the Commission solicited competition from five sources each and advertised the solicitations in area newspapers. For item 3, the Commission solicited competition from six qualified sources and advertised the solicitation in area newspapers. However, at that time Regulation 19-445.2035 required that competition be solicited from a minimum of ten qualified sources if a procurement exceeded $10,000.

Finally, on item 4 the Commission solicited two written quotes. Regulation 19-445.2100 required that a minimum of three written quotations be solicited for procurements between $1,500.00 and $2,499.99. Additionally, when the vendor invoiced the Commission, he charged $50.00 more than was quoted. The Commission paid this additional amount on voucher DV 06047. We see no reason why the extra $50.00 should have been paid.

We recommend that the minimum solicitation requirements be met in all cases. If the minimum requirements cannot be met, Regulation 19-445.2035 requires that a written certification be prepared so stating.

**COMMISSION RESPONSE**

Items 1, 2 and 3. We solicited competition from five sources and advertised the solicitations in area newspapers. For item 3, we solicited competition from six sources and advertised in area newspapers.

Section 11-35-1530 of the Code states "Proposals shall be solicited from at least three qualified sources". We met the requirements of the Code. We were unaware that the regulations required solicitations from ten sources if a procurement exceeds $10,000.

13
Item 4. Only two solicitations were received. Staff is aware that the Code requires three solicitations.

Additionally, internal control procedures include verification of invoice amount to purchase order amount. The overpayment of $50.00 was an oversight. Staff has been reminded of our internal control procedures and their importance.

C. Procurements Made Without Competition

Our testing revealed two procurements made without evidence of solicitations of competition.

<table>
<thead>
<tr>
<th>Contract Number</th>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. B30007N</td>
<td>Family Management Counseling</td>
<td>$30,240.00</td>
</tr>
<tr>
<td>2. DV00851</td>
<td>Rewiring Services</td>
<td>1,500.00</td>
</tr>
</tbody>
</table>

On item 1, the Commission solicited competition but received no responses. Because of a need for the service to begin at the end of the old contract period, the Commission did not believe time was available to resolicit competition for the procurement. The Commission awarded the contract without following any of the authorized procedures of the Procurement Code. Under the circumstances, an emergency procurement may have been most appropriate.

On item 2, the Commission could not document evidence of competition being solicited.

We recommend competition be solicited where required. Where competition isn’t available, sole source or emergency determinations should be prepared justifying this source selection method.

COMMISSION RESPONSE

Item 1. Competition was solicited from all known sources. However, we received no responses. The Code does not address this particular procurement.
In the future, we will complete a sole source or emergency justification.

Item 2. Wiring services were completed without competition. Staff has been reminded that competition must be solicited when required.

D. Printing Overruns

During our last audit we noted a number of problems in the procurements of printing services. However, on our current audit we found no procurement problems relating to printing services. The Commission has made a big improvement in this area of procurement. The only problem we noted on our current audit related strictly to the payment of invoices.

The Commission paid for four printing overruns which exceeded the 5% overrun allowed by the State Printing Manual.

We recommend the Commission only pay for printing overruns not to exceed 5% of the order as allowed by the State Printing Manual.

COMMISSION RESPONSE

Staff has been reminded not to pay for printing overruns that exceed the 5% allowed by the State Printing Manual.

Our desk procedures in Support Services has been revised to include this requirement.

E. Minority Business Enterprise Reports Submitted Late

Based on our review of the Minority Business Enterprise (MBE) Plans and quarterly reports, the MBE Plans were submitted timely. However, six out of seven quarterly reports over our
audit period were not submitted timely. This same problem was noted in our last audit. Two of the reports were submitted as much as five months late. Section 11-35-5240(2) requires the quarterly reports to be submitted no later than ten days after the end of each fiscal quarter.

We recommend the Commission submit the Minority Business Enterprise quarterly reports in a more timely manner.

COMMISSION RESPONSE

Every effort will be made to submit these reports timely. It is difficult at times to get all the information needed and compiled within ten days of each quarter.

All MBE reports have been submitted.

II. Sole Source Procurements

We reviewed the quarterly reports of sole source, emergency and trade-in sale procurements to determine the appropriateness of the determinations made and the accuracy of the reports submitted. Our review encompassed all those reports and every supporting determination for the period July 1, 1991 through June 30, 1993.

Based on our review we noted three sole source procurements which we believe were inappropriate.

<table>
<thead>
<tr>
<th>Contract Number</th>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. A10246C</td>
<td>Produce training video</td>
<td>$17,276.00</td>
</tr>
<tr>
<td>2. 192-09755</td>
<td>Diesel engine</td>
<td>6,892.00</td>
</tr>
<tr>
<td>3. A20256C</td>
<td>Consultant</td>
<td>59,960.00</td>
</tr>
</tbody>
</table>
We recommend these transactions be competitively bid in the future.

COMMISSION RESPONSE

Special attention is being given to all sole source procurements. When appropriate, such transactions will be competitively bid.
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 State Health and Human Services Finance Commission in compliance with the South Carolina 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 recommend the State Health and Human Services Finance Commission be recertified to make direct agency procurements for three (3) years up to the limits as follows:

<table>
<thead>
<tr>
<th>Procurement Areas</th>
<th>Recommended Certification Limits</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Service Provider Contracts Funded</td>
<td>*$2,000,000 per contract, per year, limit of four one-year extension options</td>
</tr>
<tr>
<td>From any Source-Service Provider</td>
<td></td>
</tr>
<tr>
<td>Being a Provider of Services Directly to a Client</td>
<td></td>
</tr>
<tr>
<td>2. Consultant Services Including Information Technology Consultants</td>
<td>*$ 150,000 per purchase commitment</td>
</tr>
<tr>
<td>3. Printing Services</td>
<td>*$ 25,000 per purchase commitment</td>
</tr>
<tr>
<td>4. Goods and Services</td>
<td>*$ 25,000 per purchase commitment</td>
</tr>
</tbody>
</table>

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

Robert J. Aycock, IV
Audit Manager

R. Voight Shealy, CFE, Manager
Audit and Certification
October 28, 1993

Hardy Merritt, Ph.D.
Assistant Division Director
Division of General Services
1201 Main Street, Suite 600
Columbia, South Carolina 29201

Dear Hardy:

We have reviewed the State Health and Human Services Finance Commission's response to our audit report for September 1, 1991 - June 30, 1993. Combined with our discussions and correspondence with Commission officials, we are satisfied that the Commission has corrected the problem areas we found.

We, therefore, recommend that the Budget and Control Board grant the State Health and Human Services Finance Commission the certification limits noted in our audit report for a period of three (3) years.

Sincerely,

R. Voight Shealy, Manager
Audit and Certification

Total Copies Printed - 33
Unit Cost - .86
Total Cost - 28.38