South Carolina
Division of General Services

PROCUREMENT
AUDIT AND
CERTIFICATION

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DEPARTMENT OF SOCIAL SERVICES
AGENCY
JANUARY 1, 1991 - SEPTEMBER 30, 1993
DATE
STATE OF SOUTH CAROLINA
State Budget and Control Board
DIVISION OF GENERAL SERVICES

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1201 MAIN STREET, SUITE 600
COLUMBIA, SOUTH CAROLINA 29201
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HARDY L. MERRITT, Ph.D.
ASSISTANT DIVISION DIRECTOR

April 28, 1994

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

Dear Helen:

I have attached the 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 (3) year certification as noted in the audit report.

Sincerely,

Hardy L. Merritt
Materials Management Officer

HLM/jj
DEPARTMENT OF SOCIAL SERVICES
PROCUREMENT AUDIT REPORT

JANUARY 1, 1991 - SEPTEMBER 30, 1993
<table>
<thead>
<tr>
<th>TABLE OF CONTENTS</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>6</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>Agency Response</td>
<td>19</td>
</tr>
<tr>
<td>Follow-up Letter</td>
<td>20</td>
</tr>
</tbody>
</table>
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 South Carolina Department of Social Services for the period January 1, 1991 - September 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 Department 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 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 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 Department of Social Services in compliance with the South Carolina Consolidated Procurement Code and ensuing regulations.

Larry G. Sorrell, Manager
Audit and Certification
INTRODUCTION

We conducted an examination of the internal procurement operating policies and procedures of the Department of Social Services. Our on-site review was conducted November 3 through December 14, 1993, and was made under 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 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 which will promote increased public confidence in the procedures followed in public procurement;

2. to provide increased economy in state procurement activities and to maximize to the fullest extent practicable the purchasing values of funds while ensuring that procurements are the most advantageous to the State and in compliance with the provisions of the Ethics Government Accountability and Campaign Reform Act;

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 May 28, 1991, the Budget and Control Board granted the Department the following procurement certification:

<table>
<thead>
<tr>
<th>Category</th>
<th>Requested Limit</th>
</tr>
</thead>
<tbody>
<tr>
<td>Service Provider Contracts Funded from Social Services Block Grant and Child Welfare Service Provider Contracts Funded From Federal Title IV-Services Provider Being a Provider of Services Directly to a Client</td>
<td>$2,000,000 per contract, per year, with option to extend four additional years</td>
</tr>
</tbody>
</table>

The Department's current procurement certification expires May 28, 1994. This audit was performed primarily to determine if recertification is warranted. Additionally, the Department requested the following increased small purchase certification limits:

<table>
<thead>
<tr>
<th>Category</th>
<th>Requested Limit</th>
</tr>
</thead>
<tbody>
<tr>
<td>Goods and Services</td>
<td>$ 25,000</td>
</tr>
<tr>
<td>Consultant Services</td>
<td>$ 25,000</td>
</tr>
<tr>
<td>Information Technology</td>
<td>$ 25,000</td>
</tr>
</tbody>
</table>
SCOPE

We conducted our examination 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 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 statistically selected random samples of procurement transactions for compliance testing for the period January 1, 1991 - September 30, 1993, 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, the following areas:

(1) One hundred randomly selected procurement transactions
(2) Thirteen judgementally selected vendor files reviewed to see if blanket purchase agreements should be set up for routine buys
(3) A complete analysis of service provider contract lines of service and a review of the only request for proposals done during the audit period, Family Protective Services.
(4) Block sample of twelve hundred sequentially numbered purchase orders
(5) All sole source, emergency and trade-in sale procurements
(6) Minority Business Enterprise Plan approvals and quarterly progress reports
(7) Twenty-three real property lease agreements
(8) Procurement staff and training
(9) Adequate audit trails
(10) Evidence of competition and informal bidding procedures
(11) Inventory and disposition of surplus property procedures
(12) Review of the Procurement Procedures Manual
(13) Economy and efficiency of the procurement process
SUMMARY OF AUDIT FINDINGS

Our audit of procurement management at the Department of Social Services, hereinafter referred to as the Department, produced findings and recommendations in the following areas:

I. Compliance - General
   A. Procurements Without Evidence of Competition or Sole Source Determination
      We noted two payments that were not supported by competition or sole source or emergency determinations.
   B. County Office Order Splitting
      A county office submitted separate requisitions for payments for security guard services totalling over $4,300.

II. Compliance - Sole Source Procurements
   A. Drug-Free Workplace Certifications
      Thirteen sole source procurements greater than $50,000 were not supported by Drug-Free Workplace certifications.
   B. Inappropriate Sole Source Procurement
      One procurement did not meet the sole source criteria and should have been competitively bid.
C. Procurements Reported Unnecessarily as Sole Sources

Four procurements were unnecessarily reported as sole sources.

D. Amended Reports

We noted the Department files excessive amendments to its quarterly reports of sole source and emergency procurements.

III. Fixed Asset Accountability

We noted one piece of decalable equipment that has been misclassified as building renovations.

IV. Compliance - Surplus Property

The Department has not disposed of surplus computer equipment in a timely manner.

V. Recurring Purchases

The Department should consider using Blanket Purchase Agreements to cut down on the number of purchase orders issued.

VI. Procurement Procedures Manual

The Department's procurement procedures manual must be updated to reflect the new Code changes and the Department's higher certification limits.
RESULTS OF EXAMINATION

I. Compliance - General

A. Procurements Without Evidence of Competition

We noted two payments out of our sample that were not supported by competition, sole source or emergency determinations. They were as follows:

<table>
<thead>
<tr>
<th>Voucher#</th>
<th>Date</th>
<th>Amount</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>510639</td>
<td>01/17/92</td>
<td>$900.00</td>
<td>Working together Grant/Positive Parenting During Recovery workshops</td>
</tr>
<tr>
<td>511055</td>
<td>01/24/92</td>
<td>$900.00</td>
<td></td>
</tr>
</tbody>
</table>

Since these workshops were required by a grant, the contracts officer was unaware that the procurements required competition or a sole source determination. We recommend that this requirement be adhered to in the future.

B. County Office Order Splitting

We noted fourteen instances where the Charleston County office submitted separate requisitions for payments for security guard services over a three and a half month period. These requests for payments were as follows:

<table>
<thead>
<tr>
<th>Requisition#</th>
<th>Date</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>10-0354</td>
<td>05/26/92</td>
<td>$510.00</td>
</tr>
<tr>
<td>10-0356</td>
<td>06/05/92</td>
<td>318.75</td>
</tr>
<tr>
<td>10-0358</td>
<td>06/12/92</td>
<td>318.75</td>
</tr>
<tr>
<td>10-0361</td>
<td>06/19/92</td>
<td>318.75</td>
</tr>
<tr>
<td>10-0362</td>
<td>06/26/92</td>
<td>318.75</td>
</tr>
<tr>
<td>10-0036</td>
<td>07/03/92</td>
<td>318.75</td>
</tr>
<tr>
<td>10-0047</td>
<td>07/27/92</td>
<td>318.75</td>
</tr>
<tr>
<td>10-0051</td>
<td>08/03/92</td>
<td>318.75</td>
</tr>
<tr>
<td>10-0082</td>
<td>08/07/92</td>
<td>318.75</td>
</tr>
<tr>
<td>10-0085</td>
<td>08/17/92</td>
<td>318.75</td>
</tr>
<tr>
<td>10-0086</td>
<td>08/21/92</td>
<td>318.75</td>
</tr>
<tr>
<td>10-0092</td>
<td>08/28/92</td>
<td>318.75</td>
</tr>
<tr>
<td>10-0114</td>
<td>09/04/92</td>
<td>318.75</td>
</tr>
<tr>
<td>10-0117</td>
<td>09/15/92</td>
<td>63.75</td>
</tr>
</tbody>
</table>

$4,398.75
Regulation 19-445.2100(a) stated in part:

Any procurement under this Regulation not exceeding $2,499.99 may be made by governmental bodies provided, however, that procurement requirements shall not be artificially divided by governmental bodies so as to constitute a small purchase under this Subsection. Procurements of supplies and services or construction initially estimated to exceed $2,499.99 shall not be made by the small purchase method, even though resulting awards do not exceed such amounts.

By dividing the payments as shown above and submitting them individually to the Purchasing Office, the county office violated the Code. The security services listed above should have been combined and a contract established by the sealed bid process.

We recommend that the Department caution county offices against splitting orders in the future. If training is needed, we offer our assistance.

II. Compliance - Sole Source Procurements

We tested all sole source, emergency and trade-in sale procurements for the audit period and noted the following exceptions.

A. Drug-Free Workplace Certifications

We noted thirteen sole source procurements for $50,000.00 or more where the Department did not obtain the required certifications from vendors that they were in compliance with the South Carolina Drug-Free Workplace Act. These contracts were as follows:
<table>
<thead>
<tr>
<th>PO#</th>
<th>PO Date</th>
<th>Amount</th>
<th>Item/Service Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.</td>
<td>06/20/91</td>
<td>$ 82,368</td>
<td>Analyst to interface CHIPS and JAS programs</td>
</tr>
<tr>
<td>2.</td>
<td>07/01/91</td>
<td>62,532</td>
<td>Maintenance of mainframe computer</td>
</tr>
<tr>
<td>3.</td>
<td>07/23/91</td>
<td>109,223</td>
<td>Maintenance for computer equipment</td>
</tr>
<tr>
<td>4.</td>
<td>12/19/91</td>
<td>81,120</td>
<td>Analysts to upgrade JAS program</td>
</tr>
<tr>
<td>5.</td>
<td>01/08/92</td>
<td>313,544</td>
<td>Extend lease of computer equipment</td>
</tr>
<tr>
<td>6.</td>
<td>02/12/92</td>
<td>72,000</td>
<td>Replace parts for computer terminals</td>
</tr>
<tr>
<td>7.</td>
<td>03/23/92</td>
<td>709,228</td>
<td>Continuation lease of computer equipment</td>
</tr>
<tr>
<td>8.</td>
<td>06/17/92</td>
<td>185,171</td>
<td>Lease of production publishing system</td>
</tr>
<tr>
<td>9.</td>
<td>08/06/92</td>
<td>81,936</td>
<td>Maintenance of computer equipment</td>
</tr>
<tr>
<td>10.</td>
<td>07/31/92</td>
<td>102,204</td>
<td>Maintenance of computer equipment</td>
</tr>
<tr>
<td>11.</td>
<td>07/16/93</td>
<td>208,056</td>
<td>Maintenance of computer equipment</td>
</tr>
<tr>
<td>12.</td>
<td>07/16/93</td>
<td>132,948</td>
<td>Maintenance of computer equipment</td>
</tr>
<tr>
<td>13.</td>
<td>93-0407-0-0503</td>
<td>196,993</td>
<td>Services to assist development of statewide child support enforcement system</td>
</tr>
</tbody>
</table>

Section 44-107-40 of the South Carolina Code of Laws, 1976, as amended in 1991, 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 by the individual that the individual will not engage in the unlawful manufacture, distribution, dispensation, possession, or use of a controlled substance in the performance of the contract.

The Department has not complied with the law in these cases.

We recommend that the Department exercise more caution to ensure that sole source contracts greater than $50,000 are not awarded unless the vendors complete Drug-Free Workplace certifications.

B. Inappropriate Sole Source Procurement

The following procurement should have been competitively bid and handled under the Code's small purchasing procedures.
PO#          Date          Amount          Description
004887       07/09/93      $3,800.00      18" wide portable aluminum skate wheel conveyor system

We recommend that the Department bid goods and services, when applicable, to ensure that sole source procurements are not inappropriately made.

C. Procurements Reported Unnecessarily as Sole Sources

Four contracts were unnecessarily reported as sole source procurements.

<table>
<thead>
<tr>
<th>Item</th>
<th>Contract/Req#</th>
<th>Amount</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>(1)</td>
<td>92-0464-0-0458</td>
<td>$200,000</td>
<td>Case reviews for Title IV-E Foster Care Cases</td>
</tr>
<tr>
<td>(2)</td>
<td>92-0464-1-0493</td>
<td>200,000</td>
<td>Case reviews for Title IV-E Foster Care Cases</td>
</tr>
<tr>
<td>(3)</td>
<td>92-0535-0-0464</td>
<td>19,642</td>
<td>Program evaluation of the Adult Services Programs</td>
</tr>
<tr>
<td>(4)</td>
<td>(REQ) 10-0098</td>
<td>1,782</td>
<td>DSS Supervisory Personnel Parking</td>
</tr>
</tbody>
</table>

The above contracts should not have been reported as sole sources for the following reasons. Items (1) and (2) are required by Public Law 96-272, Adoption Assistance and the Child Welfare Act of 1980, which required that foster care cases have a third party administrative review every six months. The South Carolina Foster Care Review Board is the agency designated by South Carolina Statute (Section 20-7-30 Code of Laws of SC, 1976, as amended) to perform foster care reviews. Therefore, these contracts were mandated by law.

Item (3) was with the College of Social Work at the University of South Carolina. The contract was for the college to conduct a program evaluation of the Adult Services Programs of DSS that would assess practices, make comparisons to national
standards, and recommend enhancements for future development. This contract was exempted by the Materials Management Office of General Services as a contract between state agencies.

Item (4) was for DSS supervisory personnel staff parking at the Medical University. Parking space rentals in state owned garages or lots have been exempted from the Code by the Budget and Control Board.

The requirements for sole source procurements are waived for those contracts which have been exempted from the Procurement Code or mandated by law and therefore should not be reported.

D. Amended Reports

The Department continues to file routine amendments to sole source quarterly reports from three to six months after the procurements are made. This was also pointed out in our previous audit report.

We recommend that the Department be careful to report these procurements on a more timely basis.

III. Fixed Asset Accountability

We noted that voucher 03387 dated September 25, 1992, was a payment made for $4,415.00 for a portable automatic dock lift. The payment was charged to object code 0217, which is building renovations. However, this lift is not attached to the building nor is it a part of the building in any way. The vendor invoice even stated "Sale of Equipment".

Each agency is responsible for properly identifying and controlling its fixed assets. Further, this is necessary for establishing adequate insurance coverage.
We recommend this lift be capitalized on the Department's property records and a property decal fee assigned.

IV. Compliance - Surplus Property

While observing the surplus property warehouse, we noted that one equipment area was particularly heavy in surplus information technology equipment. Disposal of the following surplus items in the warehouse should be addressed immediately.

   (a) keyboards  
   (b) monitors  
   (c) printers

Regulation 19-445.2150(a) states in part: "All governmental bodies must identify surplus items, declare them as such, and report them to the Materials Management Officer, or his designee within 90 days from the date they become surplus."

By not moving these items through the State Surplus Property Office, funds that could have been returned to DSS for future procurements or to the State General Fund have not been produced.

We recommend that the Department contact the State Surplus Property Office for technical assistance to establish and implement the necessary inventory procedures to move these items in a timely manner.

V. Recurring Purchases

We tested all procurements to thirteen vendors over a period of 15 months and noted an excessive number of recurring small dollar purchase orders for routine or state term contract items.

In one case, a vendor received one hundred purchase orders for
film. In another case, one hundred sixteen purchase orders were issued to one vendor for rubber stamps and seals. Sixty-seven of these were less than $10.00 each.

Regulation 19-445.2100C. allows for the establishment of blanket purchase agreements for filling repetitive needs for small quantities of supplies or services. This regulation also states, "Blanket purchase agreements are designed to reduce administrative costs in accomplishing small purchases by eliminating the need for issuing individual purchase order documents."

By issuing these purchase orders for repetitive needs, the Department is losing time and efficiency. According to Department personnel, the various orders are needed to charge the cost centers. However, we believe it is possible to streamline the process and allow for accountability.

Therefore, we recommend that the Department consider using blanket purchase agreements for small, repetitive purchases.

VI. Procurement Procedures Manual

While on site, we reviewed the Department's Procurement Procedures Manual. With the new certification limits at the Department and changes to the State Procurement Code, we recommend the manual be updated to include the following:

<table>
<thead>
<tr>
<th>Section</th>
<th>Changes to be Made</th>
</tr>
</thead>
<tbody>
<tr>
<td>Introduction</td>
<td>Change $2,500 in first sentence to read $25,000</td>
</tr>
<tr>
<td>1300</td>
<td>Under definition of the commissioner change to read &quot;the individual selected by the Governor as the chief executive officer...&quot;</td>
</tr>
</tbody>
</table>
1300 Term Contract - change this definition as defined in the updated Code

1303.02 Change the $2,500 limit to $25,000 for goods and services, consultant services and information technology. Change construction to $5,000

1303.03 Change to read "All unauthorized purchases must be ratified up to the agency's certification limit by the Commissioner..."

1303.04 Change the $2,500 limit in this section to read $5,000 (in two places in this section)

13010.01 Change this vendor complaint section to mirror the updated Code procedures effective July 1993

1312.01 Change competitive requirements to be in line with the new Code changes

1313.02 Change the Bidder's List requirements to the new Code requirements

1313.03 Change the sentence to read "It is (South Carolina Business Opportunities) published by the Division of General Services biweekly..."

1313.13 Change the award section to include the new Code's requirement for posting awards, and Notice of Intent over $50,000

1316 Change the $2,500 limitation to read $1,500

1319.05 Change the $2,500 to $25,000 certified limits

1319.09 Change term contract purchases to read as the new Code states

1319.11 Change these purchasing limits to the new purchasing guidelines

1319.12 Check the $2,500 limit, does this need to be changed?
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 Department of Social Services in compliance with the South Carolina Consolidated Procurement Code and ensuing regulations. Corrective action should be accomplished by March 31, 1994.

Under the authority described in Section 11-35-1210 of the Procurement Code, subject to this corrective action, we recommend the Department of Social Services be certified to make direct agency procurement for three years up to the limits as follows:

<table>
<thead>
<tr>
<th>Procurement Areas</th>
<th>Recommended Certification Limits</th>
</tr>
</thead>
<tbody>
<tr>
<td>I. Goods and Services</td>
<td>*$ 25,000 per commitment</td>
</tr>
<tr>
<td>II. Consultant Services</td>
<td>*$ 25,000 per commitment</td>
</tr>
<tr>
<td>III. Information Technology in accordance with the approved Information Technology Plan</td>
<td>*$ 25,000 per commitment</td>
</tr>
<tr>
<td>IV. Service Provider Contracts</td>
<td>$2,000,000 per contract, per Funded From Social Services year, with options to extend Block Grant and Child Welfare four additional years Service Provider Contracts Funded From Federal Title IV-Service Provider Being a Provider of Services Directly to a Client</td>
</tr>
</tbody>
</table>

*Total potential commitment to the State whether single year or multi-term contracts are used.

James M. Stiles, CPPB
Audit Manager

Larry G. Sorrell, Manager
Audit and Certification
February 11, 1994

Mr. R. Voight Shealy, Manager
Audit And Certification
Division of General Services
1201 Main Street, Suite 600
Columbia, South Carolina 29201

Dear Mr. Shealy:

Your draft procurement audit report of the Department of Social Services for the period January 1, 1991 - September 30, 1993 has been received. After careful review, we concur with the findings and corrective action either has been or will be taken immediately. We are in the process of revising the Procurement Procedures Manual and a draft will be forwarded to you as soon as possible.

With your help we will continue to ensure compliance with the South Carolina Consolidated Procurement Code. Many thanks for the time and assistance given by you and your staff to my Procurement staff as well as others in the Agency.

Sincerely,

J. Samuel Griswold, Ph.D.
Director

JSG:sh
April 28, 1994

Hardy L. 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 Department of Social Services' response to our audit report for January 1, 1991 - September 30, 1993. We are satisfied that the Department has corrected the problem areas and that internal controls over the procurement system are adequate.

Therefore, we recommend that the Budget and Control Board grant the Department of Social Services the certification limits noted in our audit report for a period of three (3) years.

Sincerely,

Larry G. Sorrell, Manager
Audit and Certification

LGS/jj

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