DEPARTMENT OF YOUTH SERVICES
AGENCY

South Carolina
Division of General Services

PROCUREMENT AUDIT AND CERTIFICATION

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DEPARTMENT OF YOUTH SERVICES
AGENCY

JANUARY 1, 1985 - DECEMBER 31, 1986
DATE
October 30, 1987

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

Dear Rick:

Attached is the final South Carolina Department of Youth Services audit report and recommendations made by the Office of Audit and Certification. I concur and recommend the Budget and Control Board grant the Department of Youth Services three (3) years certification as outlined in the audit report.

Sincerely,

Richard J. Campbell
Assistant Division Director

Attachment

MATERIALS MANAGEMENT OFFICE

State Supply & Surplus Property Management
Surplus Property
Boston Avenue
W. Cola. S.C. 29169
734-6335

Supply, Warehouse & IMS
1942 Laurel Street
Cola. S.C. 29201
734-7019

Training & Research
300 Gervais Street
Annex 3
Cola. S.C. 29201
737-2060

State Procurements & Information Technology Management Office
1201 Main Street
Suite 600
Cola. S.C. 29201
737-0600

Office of Audit & Certification
1201 Main Street
Suite 600
Cola. S.C. 29201
737-0600

Installment Purchase Program
1201 Main Street
Suite 600
Cola. S.C. 29201
737-0600
SOUTH CAROLINA DEPARTMENT OF YOUTH SERVICES
AUDIT REPORT

January 1, 1985 - December 31, 1986
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June 25, 1987

Mr. Richard J. Lampell  
Assistant Director  
General Services  
Columbia, South Carolina 29201

We have examined the procurement policies and procedures of the South Carolina Department of Youth Services, for the period January 1, 1986 through December 31, 1986. As a part of our examination, we made a study and evaluation of the system of internal control over procurement transactions to the extent we considered necessary.

The purpose of such 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 that were necessary for developing an opinion on the adequacy, efficiency and effectiveness of the procurement system.

The administration of the Department of Youth 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 due professional care. They would not, however, because of the nature of audit testing, necessarily disclose all weaknesses in the system.

The examination did disclose conditions enumerated in this report which we believe to be subject to correction or improvement.

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

R. Voight Shealy, Manager
Audit and Certification
INTRODUCTION

The Office of Audit and Certification conducted an examination of the internal procurement operating procedures and policies and related manual of the Department of Youth Services.

Our on-site review was conducted January 20, 1987 through February 13, 1987, and was made under the 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.
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 operations, shall certify 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.

Our audit was performed primarily to determine if recertification is warranted for these existing limits:

<table>
<thead>
<tr>
<th>Category</th>
<th>Requested Limit</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Goods and Services</td>
<td>$25,000</td>
</tr>
<tr>
<td>2. Consultant Services</td>
<td>25,000</td>
</tr>
<tr>
<td>3. Information Technology</td>
<td>25,000</td>
</tr>
<tr>
<td>4. Construction</td>
<td>25,000</td>
</tr>
</tbody>
</table>
SCOPE

Our examination encompassed a detailed analysis of the internal procurement operating procedures of the Department of Youth Services and the 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.

The Audit and Certification team statistically selected random samples for the period July 1, 1985 through June 30, 1986, of procurement transactions for compliance testing and performed other auditing procedures that we considered necessary in the circumstances 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. adherence to provisions of the South Carolina Consolidated Procurement Code and Regulations;
2. procurement staff and training;
3. adequate audit trails and purchase order registers;
4. evidences of competition;
5. small purchase provisions and purchase order confirmations;
6. emergency and sole source procurements;
7. source selections;
8. file documentation of procurements;
9. disposition of surplus property;
10. economy and efficiency of the procurement process;
11. Minority and Business Enterprise Utilization Plan approval.
SUMMARY OF AUDIT FINDINGS

Our audit of the procurement system of the South Carolina Department of Youth Services, hereinafter referred to as DYS, produced findings and recommendations in the following areas:

I. Contractual Bedspace

DYS requested and received a temporary waiver from the Consolidated Procurement Code for the procurement of contractual bedspace for clients. After thorough review of this issue, we find that continuation of this waiver is unnecessary.

II. Compliance—Information Technology

A. New Telephone Systems

DYS exceeded its procurement authority in the purchase of new telephone systems for three area offices.

B. Leases of Modems

Three annual lease agreements were extended improperly, without competition.

III. Compliance—Sole Source Procurements and Trade-in Sales

A. Sole Source Procurements

One procurement was handled improperly as a sole source.
B. Trade-in Sales

Eleven purchase orders involving trade-ins totalling $8,070.00 were not approved by the Materials Management Officer as required by Section 19-445.2150, Subsection E, of the regulations.

IV. Omission of Fixed Assets From Property Records

In a test of twenty equipment procurements, we discovered that three items had not been added to DYS's property inventory records.
I. Contractual Bedspace

In February, 1982, shortly after enactment of the Consolidated Procurement Code, DYS requested a waiver from the provisions of the Code which pertained to the procurement of contractual bedspace for clients. On March 5, 1982, the Materials Management Officer granted such a waiver saying, "Until such time as our audit staff can thoroughly review this situation, I recommend you continue to contract for bedspace as you have in the past."

The audit staff has had the opportunity to explore this issue thoroughly and can find insufficient justification for continuing the waiver. Toward this end, we recommend that DYS work with the Materials Management Office of the Division of General Services toward development of competitive solicitations for contractual bedspace for clients.

We indicated this in the attached letter to DYS on December 4, 1986. We cannot accept continued use of the waiver beyond that date. Any procurement of contractual bedspace after December 4, 1986 that is not handled in compliance with the Consolidated Procurement Code must be considered a violation.

II. Compliance—Information Technology

In the area of information technology we noted two contracts initiated in violation of the Consolidated Procurement Code and Regulations. These exceptions were as follows:
A. **New Telephone Systems**

Proposal number 1102 was for the lease/purchase of electronic key telephone systems for DYS offices in North Charleston, Oconee County, and Aiken County. The lease/purchase commitment for each office was $3,304.80, $4,594.32 and $7,546.20, respectively, making the total procurement resulting from this request for proposals $15,445.32. The proposal was handled as one solicitation with three separate awards. Requests for proposals were mailed to two potential offerors for all three contracts.

The following violations were noted:

1) The total awards resulting from this solicitation exceeded DYS's procurement certification limit of $10,000.00, thus these are unauthorized procurements.

2) Proposals were solicited from only two offerors. The Procurement Code regulations require solicitation of a minimum of ten bids or proposals for procurements in excess of $10,000.00. (Reference Section 19-445.2035). Even if the transaction could be considered to be three separate procurements, proposals should have been solicited from a minimum of three qualified sources for two of the systems and a minimum of five qualified sources for the other.

3) A written determination was not prepared to justify the use of competitive sealed proposals rather than competitive sealed bidding, as required by Section 11-35-1530 of the Procurement Code.

4) The solicitation was not formally advertised in South Carolina Business Opportunities as required by Section 11-35-1580(4) of the Procurement Code for information technology procurements.
5) The State of South Carolina Standard Equipment Agreement was not used nor were the agreements approved by the Director of General Services, as required by Section 19-445.2150, Subsection F, of the regulations.

The procurements must be ratified by the Materials Management Officer in accordance with Section 19-445.2015 of the regulations. In the future, when determining the required amount of competition or the required authority level for a transaction, the total potential award should be considered, not the award to each vendor.

B. Leases of Modems

The following three purchase orders were for annual lease agreements for modems:

<table>
<thead>
<tr>
<th>PURCHASE ORDER #</th>
<th>DATE</th>
<th>AMOUNT</th>
</tr>
</thead>
<tbody>
<tr>
<td>50707</td>
<td>8/22/85</td>
<td>$3,024.00</td>
</tr>
<tr>
<td>54748</td>
<td>4/29/86</td>
<td>1,008.00</td>
</tr>
<tr>
<td>56783</td>
<td>8/29/86</td>
<td>3,840.00</td>
</tr>
</tbody>
</table>

The lease extensions were not competitively bid, nor were sole source determinations prepared. Further, these same modems are available for purchase on state contract. The payback period of buying versus leasing these modems is about one additional month beyond the twelve month lease. DYS should strongly consider the option of procuring similar modems from State contract vendors upon expiration of the existing lease agreements. They have been leasing this equipment since 1981.
III. Compliance—Sole Source Procurements and Trade-in Sales

We examined the quarterly reports of sole source and emergency procurements and trade-in sales and all available supporting documents for the period January 1, 1985-December 31, 1986, for the purpose of determining 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 found the majority of these transactions to be proper and accurately reported, but we did note the following exceptions.

A. Sole Source Procurements

We noted the following exceptions to purchase order 46825 for $1500, dated 12/10/84, for providing class instructions in the "Youth Law Diversion Program". First, we disagree that this company is a sole source vendor for this program and competition should have been sought. Second, there was no approval date on the sole source determination, so we do not know if approval was obtained prior to the contract. Third, we could find no record of the procurement being reported to the Division of General Services.

B. Trade-in Sales

Eleven purchase orders, with trade-ins totalling $8,070.00, did not have the Materials Management Officer's approval as required by Section 19-445.2150, Subsection E, of the regulations. This section states "Governmental bodies may trade-in personal property, the trade-in value of which may be applied to the purchase of new like items. The trade-in values of such personal property shall not exceed five hundred dollars ($500.00). When the trade-in value exceeds five hundred dollars ($500.00), the governmental body shall refer that
matter to the Materials Management Officer for disposition by the office or for submission to the Board for consideration."

IV. **Omission of Fixed Assets from Property Records**

In a test of twenty equipment procurements, we discovered that three items had not been added to DYS'S property inventory records. When the voucher was prepared for payment, the fixed asset forms were not completed and forwarded to fixed asset control resulting in an understatement of the fixed asset records of $1,110.00. We recommend that these procurements of fixed assets be added to property control records.
CERTIFICATION RECOMMENDATIONS

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

Prior to October 15, 1987, the Office of Audit and Certification 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 department. Based on the follow-up review, and subject to this corrective action, we will recommend that the Department of Youth Services be re-certified to make direct agency procurements for a period of three years as follows:

<table>
<thead>
<tr>
<th>Procurement Area</th>
<th>Recommended Certification Limits</th>
</tr>
</thead>
<tbody>
<tr>
<td>I. Goods and Services excluding procurements of contractual bedspace as addressed in Item I. herein.</td>
<td>$25,000* per purchase commitment</td>
</tr>
<tr>
<td>II. Consultant Services</td>
<td>$25,000* per purchase commitment</td>
</tr>
<tr>
<td>III. Information Technology in accordance with the approved Information Technology Plan.</td>
<td>$25,000* per purchase commitment</td>
</tr>
<tr>
<td>IV. Construction Services</td>
<td>$25,000* per purchase commitment</td>
</tr>
</tbody>
</table>

* The total potential purchase commitment to the State whether single year or multi-term contracts are used.
Contractual bedspace has never been procured in accordance with the Consolidated Procurement Code by the Department of Youth Services. Without an auditable track record for this procurement activity we cannot recommend certification at this time.

James M. Stiles
Audit Supervisor

R. Voight Shealy, Manager
Audit and Certification
December 4, 1986

Ms. Susan DeWitt
Director of Finance Division
Department of Youth Services
1122 Lady Street, Suite 500
Columbia, South Carolina 29202

Dear Susan:

This letter is pursuant to our meeting of November 25 with Richard Campbell, Materials Management Officer, concerning the Department of Youth Services' (DYS) procurement of foster homes and residential group homes. Since the discussion clearly separated the procurement of different service lines, I will address them separately here.

Foster Homes

As I understand it, DYS contracts with approximately 100 regular foster homes and approximately 50 jail removal or emergency foster homes. Each home must be licensed by DYS and meet various other standards established by the department. Once a home is licensed, DYS counsellors assign clients based on availability, community location and the needs of each client. Assignment is handled locally.

Fees per unit of service are established in the Appropriations Act annually. Since this is not a variable, price competition is eliminated.

With that in mind, the only competition aspect to be satisfied is to ensure that qualified and willing potential providers are afforded an opportunity to participate in the program. We must ensure that the door is not closed to competition based on quality of service.
Ms. DeWitt  
December 4, 1986  
Page 2

The current list of licensed homes provides the nucleus of a potential provider list (bidders list). Obviously, these are both qualified and willing.

To supplement this list, we recommend that DYS advertise annually or bi-annually in newspapers of general circulation across the state for interested potential providers. Possibly, newspapers from Greenville, Columbia and Charleston should be used. South Carolina Business Opportunities should also be utilized. Finally, if DYS identifies specific target areas local papers might be used periodically.

Interested parties would, of course, be required to meet all DYS licensure qualifications. If acceptable, they should be licensed. If not acceptable, reasons for rejection should be documented carefully. We are not proposing that licensure requirements be changed, but merely that sufficient documentation be maintained to support their rejection.

It should be made clear to all potential providers that each home will be used on an "as needed" basis with each client's welfare in mind. Counsellors would continue to assign clients to homes as they do now.

We recommend that licenses be expanded slightly to document this assignment procedure and to indicate that, by signing, the provider agrees to accept the rate per unit of service established in the Appropriations Act.

There should be a central depository for these licenses/contracts, possibly in Purchasing. I believe they prepare purchase orders for foster homes annually anyway, so hopefully the additional workload will be manageable.

As in the past, interested parties who contact DYS directly asking to be licensed should be afforded the same opportunity. I believe the combination of using the existing list of licensed homes, advertising for interested qualified providers and accepting inquiries from interested parties throughout the year meets the goals of the Consolidated Procurement Code, particularly that of ensuring the fair and equitable treatment of all persons.

Finally, it is my understanding that all of these agreements are within the procurement certification of DYS. If so, ratification of current contracts is not necessary. DYS may continue to conduct this procurement activity within the current goods and services certification.
Ms. DeWitt  
December 4, 1986  
Page 3

Residential Group Homes

In addition to foster homes, DYS contracts with residential group homes for short term, intermediate and long term placement. I believe it was indicated during our meeting that DYS currently contracts with fifteen (15) residential group homes. Contracts are in two forms; (1) reserved bed space which is used in areas of high use and limited availability to ensure necessary bed space when needed, and (2) placement only for more long-term clients.

Based on my files, during fiscal year 1984/85 contracts ranged from $5,000.00 to $110,000.00. During this same time period, rates per unit of service ranged from $11.50 to $48.53, depending on the programs being provided.

It is my understanding that the contractual relationships between DYS and current group homes evolved over the years based upon needs for service, local cooperation, availability and political influence. Further, I understand that at one time certain group homes were listed by name in DYS's budget. When legislative intent was specifically directed, the Consolidated Procurement Code was not applicable. However, since this has been discontinued, the Procurement Code must be applied.

In order to ensure compliance, I recommend the following:

(1) Ratification be requested for fiscal year 1986/87 contracts that exceed DYS's procurement certification.

(2) DYS work with the Materials Management Office of the Division of General Services to develop a competitive request for proposal solicitation for provision of these services during fiscal year 1987/88.

As we discussed, this would be a statewide solicitation with resulting multiple awards based in part on the criteria stated in DYS's letter dated February 28, 1982, when a waiver from the Procurement Code was requested. These were:

a) licensing by the Department of Social Services (DSS),
b) compliance with local and state fire safety codes,
c) acceptable staffing patterns to deliver supervision as well as special treatment when required,
d) community location to meet anticipated geographical placement needs, and
e) willingness to accept children with sometimes extreme behavioral problems.
(3) Since licensing is required, the DSS list of licensed providers may comprise the bidders list. Of course, the solicitation would have to include those potential providers who demonstrated the capacity to obtain a license prior to award.

DYS Operated Residential Group Homes

Other group homes staffed and operated by DYS are fully under the Procurement Code so their purchases must be made accordingly. If facilities are leased, the leases must be approved by the Real Property Management Section of the Division of General Services.

In my opinion, the procedures that we have recommended will provide compliance with the South Carolina Consolidated Procurement Code without endangering the provision of required services. Certainly, this is our goal. If you have any questions or comments please let me know.

Sincerely,

[Signature]

R. Voight Shealy, Manager
Audit and Certification

CC: Mr. James LeBlanc, DYS
Ms. Nancy Kuhl, DYS
Mr. Richard J. Campbell, General Services
Mr. Jeff Widdowson, General Services
October 7, 1987

Mr. R. Voight Shealy, Manager
Audit and Certification
Budget and Control Board
Division of General Services
Columbia, South Carolina 29201

Dear Voight:

The procurement audit completed for the period of January 1, 1985 through December 31, 1986, has been received and reviewed by this office. We concur with all findings cited. I would like to emphasize that concurrence in no way indicates contentment with our performance. As in the past, we will continue to strive for an unqualified audit opinion.

Implementation of necessary internal control changes has, prior to audit completion or immediately upon receipt of the draft audit, taken place. Compliance with all recommendations will be completed by October 15, 1987.

Once again, I would like to thank you and your staff for their assistance, patience and extreme professionalism.

Sincerely,

Susan DeWitt
Director of Finance

cc: Richard Campbell
    Nic Church
    Tim Giffel
October 20, 1987

Mr. Richard J. Campbell  
Assistant Division Director  
Division of General Services  
1201 Main Street  
Columbia, South Carolina  29201

Dear Richard:

We have returned to the South Carolina Department of Youth Services to determine the progress made toward implementing the recommendations in our audit report covering the period January 1, 1985 through December 31, 1986. During this visit, we followed up on each recommendation made in the audit report through inquiry, observation and limited testing.

We observed that the Department of Youth Services has made substantial progress toward correcting the problem areas found and improving the internal controls over the procurement system. With the changes made, the system's internal controls should be adequate to ensure that procurements are handled in compliance with the Consolidated Procurement Code and ensuing regulations.

We, therefore, recommend that the certification limits as outlined in the audit report, be granted for a period of three (3) years.

Sincerely,

R. Voight Shealy, Manager  
Audit and Certification