

DEPARTMENT OF HEALTH AND HUMAN SERVICES

PROCUREMENT AUDIT REPORT

JANUARY 1, 2010 – JUNE 30, 2014

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NOTE: The Department's responses to issues noted in this report have been inserted immediately following the items they refer to.

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December 11, 2015

Mr. John St. C. White
Interim Materials Management Officer
Division of Procurement Services
1201 Main Street, Suite 600
Columbia, South Carolina 29201

Dear John:

We have examined the procurement policies and procedures of the South Carolina Department of Health and Human Services for the period January 1, 2010 through June 30, 2014. 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 used to establish a basis for reliance upon the system of internal controls to assure adherence to the South Carolina Consolidated Procurement Code, State regulations, and the Agency's procurement policies. 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 controls 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 with reasonable, but not absolute, assurance of the integrity of the procurement process, that affected

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 recorded properly.

Because of inherent limitations in any system of internal controls, 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 controls 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,

A handwritten signature in black ink, appearing to read "Robert J. Aycock, IV". The signature is fluid and cursive, with a prominent initial "R" and a long, sweeping underline.

Robert J. Aycock, IV, 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, hereinafter referred to DHHS. Our review 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 of 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 ensuing regulations.

On December 14, 2013 the State Budget and Control Board granted DHHS the following procurement certifications:

PROCUREMENT AREAS

CERTIFICATION LIMITS

Service Provider Contracts, Services Provider being a Provider of Services directly to a client.

\$3,000,000 per contract per year.
Limit four one-year extension options.

Supplies and Services

\$ 300,000 per commitment

Information Technology

\$ 300,000 per commitment

Consultant Services

\$ 300,000 per commitment

Our audit was performed primarily to determine if recertification is warranted. Additionally, the South Carolina Department of Health and Human Services requested the following certifications.

PROCUREMENT AREAS

REQUESTED CERTIFICATION LIMITS

Service Provider Contracts, Services Provider being a Provider of Services directly to a client.

\$3,000,000 per contract per year.
Limit four one-year extension options.

Supplies and Services

\$ 600,000 per commitment

Information Technology

\$ 300,000 per commitment

Consultant Services

\$ 300,000 per commitment

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 at 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 samples for the period January 1, 2010 through June 30, 2014 of procurement transactions for compliance testing and performed other audit procedures that we considered necessary to formulate our 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 January 1, 2010 through June 30, 2014 with exceptions noted in Section I
- (2) Procurement transactions for the period January 1, 2010 through June 30, 2014 as follows:
 - a) One hundred and two payments each exceeding \$2,500 with exceptions noted in Section II
 - b) Four hundred and thirty-eight sequentially filed purchase orders reviewed against the use of order splitting and favored vendors with no exceptions
 - c) Procurement card transactions during February, March, and April 2014 with an exception noted in Section III
- (3) Minority Business Enterprise Plans and reports with no exceptions noted. The following activity was reported to the Governor's Office Division of Small and Minority Business Contracting and Certification:

<u>Fiscal Year</u>	<u>Goal</u>	<u>Actual</u>
2011-2012	\$4,640,522	\$621,795
2012-2013	\$3,537,539	\$558,143
2013-2014	\$ 778,436	\$559,100

- (4) Approval of the most recent Information Technology Plan with no exceptions
- (5) Internal procurement procedures manual with no exceptions
- (6) Surplus property disposition procedures with no exceptions
- (7) Ratification of unauthorized procurements with no exceptions
- (8) File documentation and evidence of competition with no exceptions
- (9) Other tests performed as deemed necessary with no exceptions

SUMMARY OF AUDIT FINDINGS

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I.	<u>Sole Source and Emergency Procurements</u>	
	A. <u>Inappropriate Sole Source Procurement</u>	7
	A procurement made as a sole source for call center services should have been competed.	
II.	<u>Supplies and Services</u>	
	A. <u>Inappropriate Use of Exemptions</u>	8
	Exemptions were inappropriately applied to nine procurements.	
	B. <u>No Proof of Competition</u>	10
	No proof of competition could be provided for four procurements.	
III.	<u>No Independent Audit of Procurement Cards Performed</u>	10
	No annual independent audits were being performed of procurement card activity.	

RESULTS OF EXAMINATION

I. Sole Source and Emergency Procurements

We tested sole source and emergency procurements made pursuant to Sections 11-35-1560 (Sole Source Procurements) and 11-35-1570 (Emergency Procurements) of the South Carolina Consolidated Procurement Code to determine the appropriateness of the procurement actions and the accuracy of the quarterly reports submitted to the chief procurement officers required by Section 11-35-2440. We noted the following exceptions.

A. Inappropriate Sole Source Procurement

DHHS procured contract A201310253A as a sole source for the period July 1, 2012 through June 30, 2013 in the amount of \$996,000 for the purchase of a 2-1-1 call center service for Medicaid beneficiaries, potential beneficiaries, and/or third parties inquiring about the South Carolina Medicaid program. Additionally, this contract was renewed for the period July 1, 2013 through June 30, 2014 in the amount of \$2,443,746 as a sole source for the same purpose. The sole source determination document states the vendor is the provider of 2-1-1 services, is unique in its ability to deliver a one-stop service for South Carolina citizens, maintains a unique database for information and referral service, and has material and significant experience providing similar services. Although the sole source determination provided why the selected vendor could be considered the best source, it did not provide justification as to why no other vendors could perform the services. We must therefore disagree with DHHS's decision not to competitively procure 2-1-1 call center services.

Section 11-35-1560 of the Procurement Code provides in part, A contract may be awarded for a supply, service, information technology, or construction item without competition if, under regulations promulgated by the board, the chief procurement officer, the head of a purchasing agency, or a designee of either officer, above the level of the procurement officer, determines in writing that there is only one source for the required supply, service, information technology, or construction item. ... In cases of reasonable doubt, competition must be solicited.

Department Response

We concur with this finding. The Department (DHHS) has issued Solicitation No. 5400011045 for Member Contact Center Services for Medicaid beneficiaries, potential beneficiaries, and/or third parties inquiring about the South Carolina Medicaid program. The intent of the solicitation is to replace existing call center services. Following evaluation of the proposals submitted on May 3, 2016, we will issue an award upon approval from both the Materials Management Office and the Centers for Medicare and Medicaid Services (CMS).

II. Supplies and Services

A. Inappropriate Use of Exemptions

DHHS inappropriately applied Procurement Code exemptions to the following transactions.

<u>Item</u>	<u>PO #</u>	<u>PO Date</u>	<u>Description</u>	<u>PO Amount</u>
1	4600255971	05/23/13	ASG Annual Maintenance Fee	\$51,198
2	4600109747	07/26/11	Websense Web Security	\$ 9,540
2	4600110509	07/28/11	McAfee Active Virus Defense	\$ 4,000
4	4600139568	12/19/11	Mondula Security LLC	\$ 8,400
5	4600110422	07/27/11	Premium Tech Service	\$ 4,700
6	4600315930	02/06/14	MCR96/10 Software License Fee	\$ 5,000
7	4600321583	3/17/14	Software License Renewal & Upgrade	\$66,796
8	4600255562	5/22/14	Security Software	\$49,000
9	4600234982	2/19/13	Desk Audit Services	\$ 4,825

For items 1 through 6, the Board exempted from the competitive requirements of the Procurement Code renewals of software license agreements provided the original acquisition of such software was competitively bid under the Procurement Code. On April 22, 2008, the Chief Procurement Officer (CPO) for information technology issued guidance on this exemption. An excerpt from that document states, "If the software was procured through a competitive solicitation, then the renewal of that license is exempt." DHHS could not provide us evidence that these six license agreements were competitively awarded originally. Therefore, the exemption was inappropriately applied to the license renewals.

Department Response

We concur with this finding. Going forward, Exemption 78 will only be used for renewals of software license agreements when the acquisition of software has been competitively bid in accordance with the South Carolina Consolidated Procurement Code. The original solicitation and award for the software, along with a copy of the guidance letter issued by Mike Spicer in 2008, will be included in each procurement file.

For items 7 and 8, DHHS applied an exemption for, “The procurement of copyrighted educational films, filmstrips, slides and transparencies, CD ROM documents, data bases, computer assisted instructional materials, interactive video programs and other related materials made available by information technology that can only be obtained from the company providing the information or service.” Items 7 and 8 are not considered to be any of the items identified in the exemption.

Department Response

We concur with this finding. In the future, procurements such as those referenced in Items 7 and 8 will be made in accordance with the Code.

For item 9, the Board exempted the purchase of certified public accountants and public accountants engaged to perform financial and/or compliance audits, subject to approval by the State Auditor's Office. Approval from the State Auditor's Office was not obtained.

We recommend DHHS appropriately apply Procurement Code exemptions or follow the competitive requirements of the Procurement Code in awarding contracts.

Department Response

We concur with this finding. Future acquisitions of certified public accountants engaged to perform financial and/or compliance audits will be made in accordance with Section 11-35-1250 of the Code and the corresponding exemption.

B. No Proof of Competition

No proof of competition was provided for the following three procurements.

<u>PO #</u>	<u>PO Date</u>	<u>Description</u>	<u>PO Amount</u>
4600112882	08/08/11	Facility & Equipment Rental	\$3,595
4600252243	05/07/13	Boxed Lunches	\$3,850
4600335011	05/24/14	Meals(Deli Box)	\$3,687
320049111 (DEV)	6/30/13	Conference Services	\$15,651

Per Section 11-35-1550 of the Procurement Code, "...solicitation of written quotes from a minimum of three qualified sources of supply must be made and documentation of the quotes attached to the purchase requisition for a small purchase over two thousand five hundred dollars but not in excess of ten thousand dollars." For procurements over ten thousand dollars up to fifty thousand dollars, written solicitation of written quotes, bids, or proposals must be made and the procurement must be advertised at least once in the South Carolina Business Opportunities publication.

We recommend DHHS comply with the competitive requirements of Section 11-35-1550 of the South Carolina Consolidated Procurement Code.

Department Response

We concur with these findings. We will comply with Section 11-35-1550 of the Procurement Code by soliciting written quotes from a minimum of three qualified sources of supply when procuring goods or services over two thousand five hundred dollars. The Conference Site Selection form will be completed and attached to the procurement file as required.

III. No Independent Audits of Procurement Cards Performed

No independent audits of procurement card activity were being performed annually by the Agency. DHHS does review all procurement card activity on a monthly basis. However, section III of the South Carolina Purchasing Card Policy and Procedures Manual requires the Agency to independently audit transactions at least annually.

We recommend that DHHS comply with the South Carolina Purchasing Card Policy and Procedures Manual regarding independent annual audits of the procurement card program.

Department Response

We concur with audit finding. An independent audit of the Procurement Card activity will be performed annually as required.

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 Health and Human Services in compliance with the Consolidated Procurement Code.

Under the authority described in Section 11-35-1210 of the Procurement Code, subject to this corrective action, we will recommend the Department of Health and Human Services be certified to make direct agency procurements for three years up to the following limits.

PROCUREMENT AREAS

REQUESTED CERTIFICATION LIMITS

Service Provider Contracts, Services Provider being a Provider of Services directly to a client.

\$3,000,000 per contract per year.
Limit four one-year extension options.

Supplies and Services

\$ 600,000 per commitment


Information Technology

\$ 300,000 per commitment

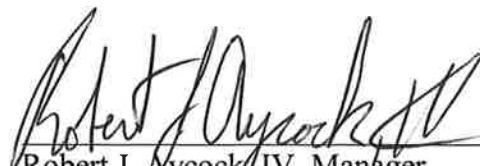
Consultant Services

\$ 300,000 per commitment

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



J. Lane Warren, CFE, CBM
Audits Manager



Robert J. Aycock IV, Manager
Audit and Certification

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EXECUTIVE DIRECTOR

August 30, 2016

Mr. John St. C. White
Materials Management Officer
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1201 Main Street, Suite 600
Columbia, South Carolina 29201

Dear John:

We have reviewed the response from the Department of Health and Human Services to our audit report for the period of January 1, 2010 through June 30, 2014. In our opinion, the Department of Health and Human Services complies with the South Carolina Consolidated Procurement Code, State regulations, and the Department's procurement policies and procedures in all material respects and the internal procurement operating procedures are adequate to properly handle procurement transactions. Therefore, we recommend the State Fiscal Accountability Authority grant the Department of Health and Human Services the certification limits noted in our report for a period of three years.

Sincerely,

Robert J. Aycok, IV, Manager
Audit and Certification

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