

SOUTH CAROLINA DEPARTMENT OF SOCIAL SERVICES

PROCUREMENT AUDIT REPORT

OCTOBER 1, 2006 – SEPTEMBER 30, 2009

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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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November 17, 2010

Mr. R. Voight Shealy
Materials Management Officer
Procurement Services Division
1201 Main Street, Suite 600
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Dear Voight:

We have examined the procurement policies and procedures of the SC Department of Social Services for the period October 1, 2006 through September 30, 2009. 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 established a basis for reliance upon the system of internal control to assure adherence to the Consolidated Procurement Code, State regulations and the procurement policy of the South Carolina Department of Social Services. Additionally, the evaluation determined 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 at the South Carolina Department of Social Services is responsible for establishing and maintaining a system of internal control over procurement transactions. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits

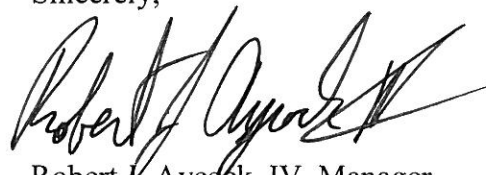
and related costs of control procedures. The objectives of a system of internal controls are to provide management with reasonable, but not absolute, assurance of the integrity of the procurement process, that affected assets are safeguarded against loss from unauthorized use or disposition and those transactions are executed in accordance with management's authorization and are 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 Social Services in compliance with the 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".

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 Social Services, hereinafter referred to as DSS. We conducted our on-site review from January 22, 2010 through March 31, 2010 covering the audit period October 1, 2006 through September 30, 2009. We conducted our audit under authority granted in 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 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.

On January 25, 2005, the State Budget and Control Board granted DSS the following procurement certifications which expired January 24, 2008:

<u>PROCUREMENT AREAS</u>	<u>CERTIFICATION LIMITS</u>
Service Provider Contracts funded from Social Services Block Grant and Child Welfare Service Provider Contracts funded from Federal Title IV-Service Provider being provider of services directly to a client.	\$2,000,000 per contract per year, with option to extend 4 additional years
Supplies and Services	* \$ 50,000 per commitment
Information Technology	* \$ 50,000 per commitment
Consultant Services	* \$ 50,000 per commitment

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

DSS requested the following certifications. We performed our audit to determine if the certifications were warranted.

PROCUREMENT AREAS

CERTIFICATION LIMITS

Service Provider Contracts funded from Social Services Block Grant and Child Welfare Service Provider Contracts funded from Federal Title IV- Service Provider being provider of services directly to a client.

\$3,000,000 per contract per year, with option to extend 4 additional years

Supplies and Services

* \$ 100,000 per commitment

Consultant Services

* \$ 100,000 per commitment

Information Technology

* \$ 100,000 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 of DSS 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 October 1, 2006 through September 30, 2009 of procurement transactions for compliance testing and performed other audit procedures that we considered necessary to formulate this opinion. Specifically, the scope of our audit included, but was not limited to, a review of the following:

- (1) Procurement transactions for the period October 1, 2006 through September 30, 2009 as follows:
 - a) One hundred eight payments each exceeding \$2,500, with exceptions noted in Section I of the report
 - b) A purchase order block sample review for the period December 12, 2008 through September 29, 2009 to check against the use of order splitting and favored vendors, with no exceptions
 - c) Procurement card transactions for March, April, and May 2009, with exceptions noted in Section III of the report
- (2) All sole source, emergency, and trade-in sale procurements for the period October 1, 2006 through September 30, 2009, with exceptions noted in Section II of the report
- (3) Minority Business Enterprise Plans and reports with the following activity reported to the Governor's Office of Small and Minority Business Assistance:

<u>Fiscal Year</u>	<u>Goal</u>	<u>Actual</u>
FY06-07	\$348,454	\$175,033
FY07-08	\$394,659	\$148,834
FY08-09	\$132,273	\$141,289

- (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 RESULTS

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RESULTS OF EXAMINATION

I. Supplies and Services

A. State Contracts Not Utilized

Mandatory state contracts were not utilized for the following procurements.

<u>PO Number</u>	<u>PO Date</u>	<u>Description</u>	<u>Amount</u>
38474	01/31/08	Printer and Supplies	\$3,543
38833	05/22/08	Table and Chairs	\$3,133
P-Card ending 2771	Statement date 3/27/09	Paper	\$3,235
P-Card ending 2771	Statement date 4/27/09	Paper	\$3,380

Per Section 11-35-310(35) of the Procurement Code, “Term Contract means contracts established by the chief procurement officer for specific supplies, services, or information technology for a specific time and for which it is mandatory for all governmental bodies procure their requirements during its term. As provided in the solicitation, if a public procurement unit is offered the same supplies, services, or information technology at a price that is at least ten percent less than the term contract price, it may purchase from the vendor offering the lower price after first offering the vendor holding the term contract the option to meet the lower price.”

We recommend that DSS comply with the Procurement Code regarding the use of state term contracts.

DEPARTMENT RESPONSE

PO 38474 and PO 38833:

The state contract should have been used for these purchases. Procurement should purchase similar items or provide justification why the items on state contract were not used. Procurement will follow this guideline for all future purchases.

P-Card ending 2771:

This was an unauthorized procurement. Procurement contacted the cardholder and explained why, we also explained that paper is on state contract and all further purchases are to be made by the contract holder.

B. Procurements Not Competed

The following procurements were not supported by solicitations of competition.

<u>PO Number</u>	<u>PO Date</u>	<u>Description</u>	<u>Amount</u>
38086	08/27/07	Employment DVDs	\$8,652
37780	04/19/07	Brochures	\$2,660

Per Section 11-35-1550(2)(b) of the Procurement Code, "Solicitations 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."

We recommend that DSS comply with the competitive requirements of the Procurement Code as required by the statute.

DEPARTMENT RESPONSE

PO 38086 and PO 37780:

Both should have been processed as sole sources. Both are for items related to child and foster care. No competition was required. Procurement will provide proper justification and/or advertise in SCBO for purchases of this type in the future.

C. Payments Not Processed Timely

The following payments were not made within the time period allowed by the Procurement Code.

<u>Item</u>	<u>PO Number</u>	<u>PO Date</u>	<u>Description</u>	<u>Amount</u>
1	39126	09/17/08	Security System Repairs	\$ 5,855
2	38004	07/10/07	Vertical Files/Desk	\$20,010
3	37968	07/12/07	Office Furniture	\$ 7,711
4	38419	01/04/08	Shredder	\$ 2,914
5	38731	04/18/08	Web Conf. Service	\$14,979

For item 1, the invoice was dated October 13, 2008. The receiving report was signed and dated November 20, 2008, and the voucher was dated February 20, 2009. The voucher was submitted after thirty workdays from acceptance of the goods and services and proper invoice.

For item 2, the two invoices for this procurement were dated September 18 and October 31, 2007. The receiving report was signed September 30, 2007 and the voucher was dated December 21, 2007. The voucher was submitted after thirty workdays from the acceptance of the goods and services and proper invoice.

For item 3, the invoice was dated October 31, 2007. The receiving report was signed February 01, 2008, and the voucher was dated April 01, 2008. The voucher was submitted after thirty workdays from acceptance of the goods and services and proper invoice.

For item 4, the invoice was dated January 18, 2008. The receiving report was signed January 10, 2008, and the voucher was dated March 17, 2008. The voucher was submitted after thirty workdays from acceptance of the goods and services and proper invoice.

For item 5, the three invoices for this procurement were dated April 30, May 31, and June 30, 2008. We were not provided with the receiving reports. The voucher was dated July 15, 2008. The voucher was submitted after thirty workdays from acceptance of the goods and services and proper invoice.

Section 11-35-45(A) of the Procurement Code states in part, "All vouchers for payment of purchases of services, supplies, or information technology must be delivered to the Comptroller General's Office within thirty workdays from acceptance of the goods and services and proper invoice."

We recommend that DSS comply with the time frame relating to the payment of supplies and services required by the statute.

DEPARTMENT RESPONSE

Finance Issue:

Procurement will provide this recommendation to the Finance Office.

D. Vouchers not supported by Receiving Reports

Vouchers for the following procurements were not supported by properly approved receiving reports.

<u>PO Number</u>	<u>PO Date</u>	<u>Description</u>	<u>Amount</u>
37388	08/23/06	Software Purchase	\$10,044
37208	06/08/06	Guard Services	\$ 3,161
38873	06/18/08	Guard Services	\$10,308
38981	07/31/08	Software Maintenance	\$ 2,878
37589	01/05/07	Records Management	\$ 3,959
37990	07/17/07	Software Maintenance	\$20,230
38019	07/25/07	Software Renewal	\$ 9,159
38731	04/18/08	Web Conference Service	\$14,979
37756	04/05/07	Copier Leases	\$ 3,161

Per Chapter 13, Section A, 1308.01 of the DSS Procurement Manual, "When the item has been received, the requesting office is to sign their copy of the purchase order that has been designated as a receiving report and forward the original to the Procurement Office and keep a copy for their records."

We recommend that the DSS approval process authorizing payments to vendors be applied to all supplies and services.

DEPARTMENT RESPONSE

Finance Issue:

Procurement will provide this recommendation to the Finance Office. Finance is now requiring program area authorization from the requester prior to payment.

II. Sole Source, Emergency and Trade-in Sale Procurements

Our review of sole source, emergency, and trade-in sale procurements reported to the Materials Management Office (MMO) for the period October 1, 2006 through September 30, 2009, identified the following issues.

A. Inadequate Written Determinations for Sole Source Procurements

The written determinations did not adequately explain the basis for the following sole source procurements.

<u>Item</u>	<u>PO Number</u>	<u>PO Date</u>	<u>Description</u>	<u>Amount</u>
1	C0001R1	09/28/06	Employment Services	\$ 56,965
2	C80001R2	09/27/07	Employment Services	\$103,600
3	39525	04/21/09	Server License	\$ 3,495

The written determinations for items 1 and 2 state that the organization has been the most active voluntary agency that resettles refugees in South Carolina and is best equipped. This implies that other organizations exist that can potentially fulfill this need.

The written determination for item 3 states the vendor is a leading vendor in the area of imaging software. This implies other vendors exist that could potentially meet the need.

Per 11-35-1560 of the Procurement Code, "A contract may be awarded for a supply, service, information technology, or construction without competition if, under regulations promulgated by the board, chief procurement officer, the head of the 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 a declaratory judgment issued in Sloan v. School District of Greenville County, No. 98-CP-23-2816 (Greenville, S.C., Ct. Common Pleas, July 15, 2003) regarding an emergency procurement which we also believe applies to sole source procurements, the Court stated in part in regards to a written determination that:

The Code requires a written determination to afford the District and the public sufficient information to intelligently and objectively review the decision. The decision to use the emergency exception must be sufficiently detailed to satisfy an audit, and it must be made available to the public. The purpose of the determination is to provide the basis of the decision to the school board and to the public. If the determination provides, in sufficient detail, the information necessary for the school board and the public to make an intelligent, objective review of these decisions, then it has accomplished its purpose.

We recommend that the Department follow the court ruling in preparing its written determinations by providing sufficient, factual details that allow intelligent, objective reviews of the decisions.

DEPARTMENT RESPONSE

DSS Procurement agrees with this finding. All future sole source and emergency justifications will have adequate explanations included.

B. Old Determinations Improperly Used to Authorize New Sole Source Procurements

DSS failed to authorize sole source determinations for the following procurements.

<u>PO Number</u>	<u>Determination Date</u>	<u>PO Date</u>	<u>Description</u>	<u>Amount</u>
C70024H2	11/05/04	09/22/06	Childcare Referral	\$1,076,009
C80030S1	12/19/06	12/03/07	Task force Support	\$ 161,157
C1025502	06/23/08	06/26/09	Medically Fragile Program	\$2,160,000
C10000O5	07/28/08	06/24/09	Youth Leadership Program	\$1,775,000

The written determinations used were for earlier versions of the same procurements. The authorizing official did not authorize these new sole sources. Regulation 19-445.2105 requires determinations to be authorized in advance of contract execution and allows the authorizing official to specify the duration of its effectiveness. Without the duration of effectiveness being specified, the determination applies to only one transaction. We recommend DSS either authorize sole source determinations for each contract or prepare blanket sole source determinations specifically stating the duration of their effectiveness.

DEPARTMENT RESPONSE

DSS Procurement agrees with this finding. All future sole source justifications will have contract start and end dates included. Or, new sole source(s) will be signed for the additional year(s).

C. Unauthorized Sole Source Procurements

The written sole source determination for Contract #71092128 dated 12/27/08 for Behavior Intervention in the amount of \$15,552 did not include an authorizing signature.

No written determination was provided for PO #38206 for Record Storage in the amount of \$30,000 authorizing the sole source procurement. The procurement was reported during second quarter FY08.

Per Section 11-35-1560 of the Procurement Code, “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 office, 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.”

Per 11-35-2430, all procurement records of governmental bodies shall be retained and disposed of in accordance with records retention guidelines and schedules approved by the Department of Archives and History after consultation with the Attorney General. All retained documents shall be made available to the Attorney General or a designee upon request and proper receipt therefore.

We recommend that DSS ensure that all sole source justifications are signed by authorized individuals as referenced in Section 11-35-1560 of the Procurement Code. Without the appropriate authorized signature, the procurement was unauthorized and must be ratified in accordance with Regulation 19-445.2015.

We also recommend that DSS comply with the Procurement Code and those guidelines and schedules approved by the Department of Archives and History regarding the retention and disposal of Departmental records. Without the written determination, the procurement was unauthorized and will have to be ratified in accordance with Regulation 19-445.2015.

DEPARTMENT RESPONSE

Contract number 71092128:

Sole source was completed; however, the procurement office did not receive a signed copy from the program area. We have requested this and will forward a copy when received. The files reviewed by the auditors did not have signed justifications.

PO 38206:

Procurement is unable to locate the Sole Source justification for this purchase.

D. No Drug-Free Workplace Certification

No Drug-Free Workplace Certifications were provided for the following procurements.

<u>PO Number</u>	<u>PO Date</u>	<u>Description</u>	<u>Amount</u>
C80030S1	12/03/07	Support for Task Force	\$ 161,157
C90009H1	07/10/08	Training and Assistance	\$ 136,778
C90145O16	06/03/08	Foster parent Conference	\$ 796,950
C90009H3	01/29/09	Training and Assistance	\$ 123,100
C10026J	09/28/09	Abstinence First	\$ 575,760
C10000O5	06/24/09	Leadership Development	\$1,775,000
C10047C	05/15/09	Service of Process	\$1,988,125
C10093C	05/15/09	Service of Process	\$1,988,125
C10094C	05/15/09	Service of Process	\$ 422,700
C10103C	05/15/09	Service of Process	\$ 422,700

Per Section 44-107-30 of the Drug-Free Workplace Act, “No person, other than an individual, may receive a domestic grant or be awarded a domestic contract for the procurement of goods, construction, or services for a stated or estimated value of fifty thousand dollars or more from any state agency unless the person has certified to the using agency that it will provide a drug-free workplace...”

We recommend that DSS obtain signed Drug-free Workplace Certifications from vendors on all future procurements of \$50,000 or more as required by the Act.

DEPARTMENT RESPONSE

DSS procurement concurs with the contracts not having this certification statement. The procurement staff has been made aware of this requirement and all procurements over \$50,000, including sole source and emergency procurements will have the statement included.

E. Sole Source and Emergency Procurement Reporting

DSS reports expenditure data on its sole source and emergency reports whereas the Code requires contract values. Section 11-35-2440 requires agencies to report:

- (a) each contractor's name
- (b) the amount and type of each contract
- (c) a listing of supplies, services, information technology or construction procured under each contract.

We recommend DSS report contract values on its quarterly reports of sole source and emergency procurements.

DEPARTMENT RESPONSE

DSS procurement concurs with this finding. Future reports will have the proper items reported.

III. Procurement Cards

A. No Procurement Card Liaisons Designated

No departmental liaisons have been designated to review transactions of cardholders to ensure purchases are legitimate business expenses and are classified appropriately.

Per the DSS Cardholder's Policies and Procedures Manual (Rev. 11/10/09), each department head must designate one or more departmental liaisons for his or her department. The department head will assign a departmental liaison for each purchasing card application approved for his/her employees. The departmental liaison must receive training from the credit card coordinator either by phone, e-mail, or a power point presentation before any employee in the department may receive a purchasing card.

We recommend that DSS comply with its Cardholder Policies and Procedures Manual regarding the assignment of departmental liaisons and to ensure that the responsibilities of this position which are outlined in this manual are properly performed.

DEPARTMENT RESPONSE

The DSS Cardholder Policies and Procedures Manual is in the process of being updated to reflect implementation to SCEIS as well as to address these findings. The Manual update is scheduled for release by January 31, 2011. In concert with the Manual update release, agency-wide training for all cardholder liaisons will be conducted.

B. Artificially Divided Procurement Card Transactions

We obtained procurement card statements for March, April, and May 2009 to review all procurement card activity for compliance with the DSS Cardholder's Policies and Procedures Manual. Our review of procurement card activity identified the following procurements artificially divided. Also, competition was not solicited nor were some receipts available.

<u>Statement Date</u>	<u>Purchase Date</u>	<u>Amount</u>	<u>Description</u>
March 2009	03/18/09	\$1,356.10	Receipts not available
	03/18/09	678.05	Receipts not available
	03/18/09	<u>708.18</u>	Receipts not available
		\$2,742.33	
April 2009	03/27/09	\$1,356.10	Receipts not available
	03/27/09	<u>1,315.41</u>	Receipts not available
		\$2,671.51	
April 2009	04/06/09	\$1,369.60	Printed Documents
	04/06/09	<u>1,369.60</u>	Printed Documents
		\$2,739.20	

Per the Purchasing Card Policy and Procedures Manual (Rev. 3/10), Section II (D)(1), "Neither cardholders, nor merchants may exceed the small purchase limit or split the purchase in order to accommodate for the P-Card limit or circumvent the Small Purchase thresholds of the Code."

Per the DSS Cardholder's Policies and Procedures Manual, a cardholder is subject to disciplinary action and termination in cases in which the cardholder splits a purchase to circumvent the limitations of the purchasing card.

Per 11-35-1550(2)(b) 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." The statute also states, "Procurement requirements must not be artificially divided...."

We recommend that DSS closely review procurement card activity to prevent artificially divided transactions that circumvent competition requirements. Receipts must be retained in the files. Ratification will have to be requested on these transactions in accordance with Regulation 19-445.2015.

DEPARTMENT RESPONSE

DSS procurement agrees with this finding. Procurement card activity will be closely monitored by the procurement staff and by the liaisons for future purchases. Ratifications will be completed on these purchases as soon as possible.

C. Prohibited Procurement Card Transactions

The following procurement card transactions violated the DSS Cardholder’s Policies and Procedures Manual regarding permissible usage.

<u>Statement Date</u>	<u>Purchase Date(s)</u>	<u>Amount</u>	<u>Description</u>
March 2009	03/02/09 - 03/20/09	\$4,059	Airline Tickets (7)
April 2009	04/26/09	\$ 51	Hotel
April 2009	04/07/09	\$ 385	Airline Ticket (1)
May 2009	05/04/09 - 05/22/09	\$3,544	Airline Tickets (9)

Per the DSS Cardholder’s Policies and Procedures Manual (Page 5 - Cardholder Responsibilities), “The Purchasing Card may not be used for travel, registration fees, entertainment, cash and other categories as included in the Listing of Blocked Vendors. (Furniture such as desks, chairs, file and storage cabinets; Information Technology items, computer hardware, software, digital cameras, fax machines, printers, shredders, child or car booster seats, gas, and hotel, banquets). Such items must be purchased by a purchase order issued by the Procurement Department and is strictly prohibited from use by the procurement card.”

We recommend that DSS comply with the guidelines established within its Cardholder’s Policies and Procedures Manual regarding prohibited use.

DEPARTMENT RESPONSE

Airline Tickets:

The DSS Cardholder Policy and Procedures Manual will be revised to correct this finding. Currently the Director of Finance or a finance person delegated by him is using the procurement card only for travel for DSS clients. No other staff at DSS has authority or approval to make travel purchases.

Hotel purchase:

This purchase was made in error. Employee paid using the state Visa card instead of a personal card. This purchase should be blocked by the MCC code so it would not have happened.

DSS Cardholder's Policies and Procedures Manual is expected to be revised by January 31, 2011.

CONCLUSION

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 Consolidated Procurement Code and ensuing regulations.

Under the authority described in Section 11-35-1210 of the South Carolina Consolidated Procurement Code, subject to this corrective action, we recommend the Department of Social Services be recertified to make direct agency procurements for three years up to the following levels::

PROCUREMENT AREAS

CERTIFICATION LIMITS

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November 30, 2010

Mr. R. Voight Shealy
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Dear Voight:

We have reviewed the response from the Department of Social Services to our audit report for the