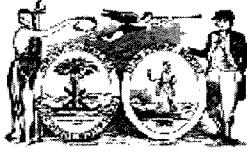


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*State Budget and Control Board*  
PROCUREMENT SERVICES DIVISION

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R. VOIGHT SHEALY  
MATERIALS MANAGEMENT OFFICER

July 20, 2006

Mr. Delbert H. Singleton Jr.  
Director  
Procurement Services Division  
6<sup>th</sup> Floor-Wade Hampton Building  
Columbia, South Carolina 29201

Dear Delbert:

I have attached the Department's procurement audit report and recommendations made by the Office of Audit and Certification. I concur and recommend the Budget and Control Board grant the South Carolina Department of Health and Human Services a three-year certification as noted in the audit report.

Sincerely,

A handwritten signature in cursive script that reads "Voight Shealy".

R. Voight Shealy  
Materials Management Officer

/gs

**SOUTH CAROLINA DEPARTMENT OF HEALTH AND  
HUMAN SERVICES  
PROCUREMENT AUDIT REPORT  
JANUARY 1, 2005 – DECEMBER 31, 2005**

**TABLE OF CONTENTS**

**PAGE**

Transmittal Letter.....	1
Introduction.....	3
Scope.....	4
Results of Examination.....	5
Certification Recommendations.....	10
Follow-up Letter .....	11

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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R. VOIGHT SHEALY  
MATERIALS MANAGEMENT OFFICER

June 2, 2006

Mr. R. Voight Shealy  
Materials Management Officer  
Office of Procurement Services  
1201 Main Street, Suite 600  
Columbia, South Carolina 29201

Dear Voight:

We have examined the procurement policies and procedures of the South Carolina Department of Health and Human Services for the period January 1, 2005 through December 31, 2005. 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, state regulations and the Department's 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 South Carolina Department of Health and Human 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 are to provide management with reasonable, but not absolute, assurances 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 that we believe need correction or improvement by the South Carolina Department of Health and Human Services. 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 Consolidated Procurement Code and ensuing regulations.

Sincerely,

A handwritten signature in black ink, appearing to read "Larry G. Sorrell".

Larry G. Sorrell, 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. Our on-site review was conducted March 21, 2006 through March 27, 2006 and 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 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 June 14, 2005 the Budget and Control Board granted the South Carolina Department of Health and Human Services the following procurement certifications.

### PROCUREMENT AREAS

### CERTIFICATION LIMITS

Service Provider Contracts funded from any source: Service Provider being a Provider of Services directly to a client	\$3,000,000 per contract, per year. Limit four one-year extension options
Consultant Services including Information Technology Consultants	\$ 150,000 per commitment
Information Technology	\$ 25,000 per commitment
Goods and Services	\$ 25,000 per commitment

Our audit was performed primarily as a follow-up audit as requested by the Department. Additionally, the Department requested the following increased certifications.

### PROCUREMENT AREAS

### CERTIFICATION LIMITS

Service Provider Contracts funded from any source: Service Provider being a Provider of Services directly to a client	\$3,000,000 per contract, per year. Limit four one-year extension options
Consultant Services including Information Technology Consultants	\$ 150,000 per commitment
Information Technology	\$ 100,000 per commitment
Goods and Services	\$ 150,000 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 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 a judgmental sample for the period January 1, 2005 through December 31, 2005 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) All sole source, emergency and trade-in sale procurements for the period January 1, 2005 through December 31, 2005
- (2) Procurement transactions for the period January 1, 2005 through December 31, 2005 as follows:
  - a) Ninety-six payments each exceeding \$1,500
  - b) Procurement card transactions for November and December of 2005
- (3) Minority Business Enterprise Plans and reports
- (4) Internal procurement procedures manual
- (5) File documentation and evidence of competition
- (6) Review of internal audit report issued by Internal Audit Department

## RESULTS OF EXAMINATION

After our last audit, the Department took immediate corrective action to address the issues noted in that audit report. Based on these actions, we noted substantial improvements that support the purposes and policies as defined in Section 11-35-20 of the Code.

We did, however, note the following items that should be addressed by management.

### Misapplication of Exemptions

The Department incorrectly considered two procurements as being exempt from the Code.

<u>PO/Contract</u>	<u>Date</u>	<u>Description</u>	<u>Amount</u>
A 5 1282 A	10/30/05	Disabilities determination	\$ 136,218
15477	07/01/05	Hardware maintenance agreement	7,344

The Department used the exemption for medical doctors to support the disabilities determination. However, the Department contracted with a university to provide the doctors. The Department referenced the exemption for software license renewal for the hardware maintenance agreement.

We recommend the Department comply with the competitive requirements of the Code and Regulations.

## DEPARTMENT RESPONSE

### Contract A 5 1282 A

While the vendor is a state agency, the Department also believes the medical doctor's exemption should apply as the Department seeks medical advice from doctors employed by the vendor under this contract. In any event, this contract has expired and the Department is now contracting with another state agency to provide these services. We agree the contract between two state agencies' provision is applicable.

### Purchase Order 15477

The Department exempted this procurement in error and in the future, will comply with the competitive procedures of the Code and Regulations.



Unauthorized Procurement

The Department processed requisition 192-85573 on September 14, 2005 in the amount of \$1,705 to procure a conference facility. The requisition was not processed through the Director of Procurement Services as defined in the approved operating procedures manual. The Department did not solicit competition nor utilize the exemption for conference facilities granted by the State Budget and Control Board in 1988. The payment of \$1,705 was made on voucher DV02100. The procurement was unauthorized as defined in Regulation 19-445.2015 as the person who made the procurement did not have procurement authority.

We recommend the Department comply with the approved operating procedures. A ratification request must be submitted to the Director or his designee in accordance with Regulation 19-445.2015 for the unauthorized procurement.

DEPARTMENT RESPONSE

The Department has discussed this unauthorized procurement with the appropriate staff and has forwarded a letter to Mr. Voight Sheary, Materials Management Officer, requesting ratification.

Inappropriate Sole Source

The Department declared a sole source referencing a line item in the appropriations act to justify the sole source procurement. The General Assembly authorized a program through a line item appropriation but did not direct the Department to contract with a particular vendor. Without more information, the sole source was inappropriate.

<u>Contract</u>	<u>Date</u>	<u>Description</u>	<u>Amount</u>
A 6 1407 A	07/01/05	Medicaid community and faith-based health promotions	\$150,000

Section 11-35-1560 limits sole source procurements to when there is only one source for the required supply, service or construction item. That decision must be accompanied by a written explanation as to why no other will be suitable or acceptable to meet the need.

We recommend that an adequate written explanation be supplied for this procurement that explains why no other vendor will meet the Department's need. Otherwise, competition must be solicited.

DEPARTMENT RESPONSE

Although the Appropriations Act references Palmetto Health Access, the legislative intent was clear to the Department that these funds must be distributed to the vendor. Therefore, the Department had no choice but to make this sole source procurement.

Payment Issues

Four procurements could not be reconciled to invoices because the procurement documents lacked sufficient detail.

<u>Reference</u>	<u>Description</u>	<u>Amount</u>
PO 15538	Interpreting services	\$ 65,000
Req 194- 84301	Vault storage and armored car delivery	15,000
A 6 0747 A	Facilitation of authorization and utilization	300,000
RFP 001-04	Consultant services for technical support	100,000

Purchase order 15538 issued in the amount of \$65,000 for interpreting services did not include any unit rates. Therefore, we could not determine the appropriate amount to be paid for each unit of service. However, we were able to verify with the end user department that the rate of \$1.60 per minute for interpreting services, as noted on the invoice, was appropriate.

Requisition 192-84301 was issued in the amount of \$15,000 for vault storage for MMIS checks and the weekly distribution and did not include any unit price rates. However, the invoice was itemized to include unit pricing which we verified through the end user department that the amount paid was appropriate.

The Department issued contract A 6 0747 A for the facilitation of the prior authorization and utilization review process for alcohol and other drug services provided through the South Carolina Medicaid program. Article VI, Conditions for Reimbursement, paragraph A. 1, required that the provider have an approved cost allocation plan supported by a system with the capability to isolate costs directly related to Medicaid. We have not been provided with the approved cost allocation plan. Without the cost allocation plan, we can not determine the appropriateness of the invoice paid on voucher DV01674.

We reviewed the procurement for consultant services to provide technical support to the Medicaid eligibility determination system functions for \$100,000 on request for proposal (RFP) 001-04. We were not provided with the vendor's cost proposal portion of the RFP that was identified as Appendix A of the RFP. Since we were not provided with the cost proposal, we could not determine the payment schedule. Page 5 of the RFP instructed the vendor to invoice at least monthly and to itemize work performed, including date of invoice, dates of service, number of billable hours, amount billed. The invoice attached to voucher DV02494 did not include the number of billable hours. The vendor did itemize services provided on the invoice but nothing showed that the Department agreed to the fair compensation for those services in the RFP. Therefore we could not determine if the payment represented fair compensation for the services rendered.

The RFP solicitation must be supported by a written determination justifying the use of a RFP over a competitive sealed bid solicitation as defined in Section 11-35-1530 (1) of the Code.

We recommend the Department itemize procurement documents sufficiently to allow the Finance Department the ability to independently determine if invoices are properly charged. Cost proposals should be maintained with the contract/procurement files. We also recommend the Department locate the cost proposal documents so we can verify the appropriateness of the payments for contract A 6 0747 A and RFP 001-04.

## DEPARTMENT RESPONSE

### Purchase Order 15538 and Req. 194-84301

The Department will implement procedural changes to add detailed/itemized billing amounts to all procurement documentation.

### Contract A 6 0747 A

The Department has contacted the vendor for a copy of the approved cost allocation plan. We will make sure all future contracts that reference a cost allocation plan have a copy in the file.

### RFP 001-04

In reference to the missing written documentation justifying the use of an RFP over a competitive sealed bid for RFP-001-04, the Department utilized the certification for consultants which are usually obtained by an RFP process, not a sealed bid. The Department will, however, ensure proper documentation on all future RFPs.

### Sole Source Reports

For the July 1, 2005 through September 30, 2005 quarter, the Department incorrectly reported purchase order 12434 dated August 6, 2002 in the amount of \$17,437 for software license renewal. During this same quarter, the Department reported a sole source for folders in the amount of \$2,500 but could not provide the supporting documentation. Without the documentation we could not determine if the sole source was valid. The sole source reports did not contain document reference numbers which we believe contributed to the reporting errors.

We recommend the Department include document reference numbers on its quarterly reports of sole source, emergency and trade-in sale procurements. Amended reports should be filed correcting the errors.

## DEPARTMENT RESPONSE

The Department is now using the form provided by the Office of Audit and Certification and has amended all reports.

**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 South Carolina Department of Health and Human Services in compliance with the Consolidated Procurement Code and ensuing regulations.

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

<u>PROCUREMENT AREAS</u>	<u>RECOMMENDED CERTIFICATION LIMITS</u>
Service Provider Contracts funded from any source; Service Provider being a Provider of Services directly to a client	\$3,000,000 per contract, per year. Limit four one-year extension options
Consultant Services including Information Technology Consultants	*\$ 150,000 per commitment
Information Technology	*\$ 100,000 per commitment
Goods and Services	*\$ 150,000 per commitment

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



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Robert J. Aycock, IV  
Audit Manager



---

Larry G. Sorrell, Manager  
Audit and Certification

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R. VOIGHT SHEALY  
MATERIALS MANAGEMENT OFFICER

July 20, 2006

Mr. R. Voight Shealy  
Materials Management Officer  
Materials Management Office  
1201 Main Street, Suite 600  
Columbia, South Carolina 29201

Dear Voight:

We have reviewed the response from the South Carolina Department of Health and Human Services to our audit report for the period of January 1, 2005 to December 31, 2005. Also we have followed the Department's corrective action during and subsequent to our fieldwork. We are satisfied that the South Carolina Department of Health and Human Services has corrected the problem areas and the internal controls over the procurement system are adequate.

Therefore, we recommend the Budget and Control Board grant the South Carolina Department of Health and Human Services the certification limits noted in our report for a period of three years.

Sincerely,

Handwritten signature of Larry G. Sorrell in cursive.

Larry G. Sorrell, Manager  
Audit and Certification

LGS/gs

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