

SOUTH CAROLINA DEPARTMENT OF HEALTH AND HUMAN SERVICES

PROCUREMENT AUDIT REPORT

JANUARY 1, 2007 – DECEMBER 31, 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 15, 2010

Mr. R. Voight Shealy
Materials Management Officer
Procurement Services Division
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, 2007 through December 31, 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 Department. 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 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 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 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 Consolidated Procurement Code and ensuing regulations.

Sincerely,

A handwritten signature in black ink, appearing to read "Robert J. Aycock, IV". The signature is stylized and written in cursive.

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 as DHHS. We conducted our on-site review from May 11, 2010 through June 15, 2010 covering the audit period January 1, 2007 through December 31, 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 August 22, 2006 the State Budget and Control Board granted DHHS the following procurement certifications:

PROCUREMENT AREAS

CERTIFICATION LIMITS

Service provider contracts Service 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	*\$ 150,000 per commitment
Information Technology	*\$ 100,000 per commitment
Consultant Services including Information Technology Consultants	*\$ 150,000 per commitment

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

We performed our audit to determine if recertification is warranted. Additionally, DHHS requested the following increased certifications:

PROCUREMENT AREAS

CERTIFICATION LIMITS

Service provider contracts,
Service 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

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

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 DHHS 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, 2007 through December 31, 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 January 1, 2007 through December 31, 2009 as follows:
 - a) One hundred and one payments each exceeding \$2,500 with exceptions noted in Section I of the report
 - b) A purchase order block sample review for the period September 26, 2008 through February 26, 2009 to check against the use of order splitting and favored vendors with no exceptions
 - c) Procurement card transactions for March and April 2009 with no exceptions
- (2) All sole source, emergency, and trade-in sale procurements for the period January 1, 2007 through December 31, 2009, with exceptions noted in Section III 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	\$ 648,939	\$ 506,212
FY07-08	\$ 833,955	\$ 721,246
FY08-09	\$2,044,639	\$9,134,824

- (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 an exception noted on Section II.
- (8) File documentation and evidence of competition with no exceptions
- (9) Other tests performed as deemed necessary with no exceptions

RESULTS OF EXAMINATION

I. Inappropriate Use of Exemption

Purchase order PN17530 dated 10/14/08 in the amount of \$5,000 for a software license fee was procured under a Board-granted exemption for software license renewals. This procurement, however, did not meet the criteria established for the exemption since the original software license was not competitively procured.

The Board exempted from the purchasing procedures of the Procurement Code license agreements for computer software after such software has been competitively bid as required by the Procurement Code.

On April 22, 2008, the chief procurement officer (CPO) for information technology issued guidance¹ 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."

We recommend DHHS follow the CPO guidance in using this exemption.

DEPARTMENT RESPONSE

The Agency agrees with the finding and will follow the Chief Procurement Office (CPO) guidance on all exemptions pertaining to software licenses.

II. Ratifications Not Reported to MMO

Ratifications of unauthorized procurements were not being reported quarterly to the Materials Management Office (MMO) for the period under review.

Per Regulation 19-445.2015(B) of the South Carolina Procurement Code, for solicitations issued after the first Monday in September 2007, "Any governmental body shall submit quarterly a record listing all decisions required by subsection A to the chief procurement officers."

¹ The full text of the CPO guidance is available on the web at:
http://www.mmo.sc.gov/MMO/webfiles/MMO_POL_GD/Exemption_78_Clarification.pdf

The disclosure of ratifications for unauthorized procurements should be reported electronically along with sole source, emergency, and trade-in procurements even though no activity may have occurred during the quarter.

We recommend DHHS comply with reporting requirements for ratifications of unauthorized procurements.

DEPARTMENT RESPONSE

The Agency will comply with the reporting requirements for ratifications of unauthorized procurements.

III. Improper Reporting of Sole Source Procurements

Our review of sole source, emergency, and trade-in sale procurements reported to MMO for the period 01/01/07 through 12/31/09, identified the following issues.

Purchase order R8005IS dated 6/12/07 in the amount of \$10,724,000 for temporary services was incorrectly reported to MMO for \$10,973,504.

Purchase order R0018EO dated 10/06/09 in the amount of \$163,847 for interpreting services was incorrectly reported to MMO for \$85,000.

Per Section 11-35-2440(1)(a) of the South Carolina Procurement Code, "A governmental body as defined in Section 11-35-310(18) shall submit quarterly a record listing all contracts made pursuant to Section 11-35-1560 (Sole Source Procurements) or Section 11-35-1570 (Emergency Procurements) to the chief procurement officers."

We recommend that DHHS ensure all sole source and emergency procurements are accurately reported to MMO on a quarterly basis.

DEPARTMENT RESPONSE

The Agency will comply with accurately reporting all sole source and emergency procurements electronically to MMO on a quarterly basis.

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 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 Health and Human Services be recertified to make direct agency procurements for three years up to the following levels::

PROCUREMENT AREAS

CERTIFICATION LIMITS

Service provider contracts,
Service 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

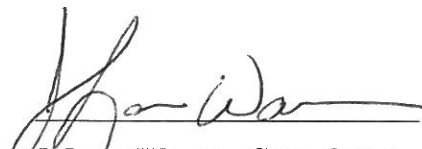
Information Technology

*\$ 300,000 per commitment


Consultant Services

*\$ 300,000 per commitment

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



J. Lane Warren, CFE, CBM
Audit Manager



Robert J. Aycock, IV, Manager
Audit and Certification

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FRANK W. FUSCO
EXECUTIVE DIRECTOR

November 30, 2010

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 Department of Health and Human Services to our audit report for the period of January 1, 2007 to December 31, 2009. Also we have followed the Department's corrective action during and subsequent to our fieldwork. We are satisfied that the 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 Department of Health and Human Services the certification limits noted in our report for a period of three years.

Sincerely,

Robert J. Aycock, IV, Manager
Audit and Certification

RJA/gs

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