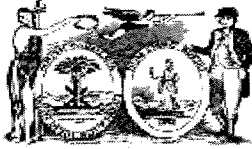


STATE OF SOUTH CAROLINA
State Budget and Control Board
PROCUREMENT SERVICES DIVISION

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FRANK W. FUSCO
EXECUTIVE DIRECTOR

DELBERT H. SINGLETON, JR.
DIVISION DIRECTOR
(803) 734-2320

MATERIALS MANAGEMENT OFFICE
1201 MAIN STREET, SUITE 600
COLUMBIA, SOUTH CAROLINA 29201
(803) 737-0600
Fax (803) 737-0639

R. VOIGHT SHEALY
MATERIALS MANAGEMENT OFFICER

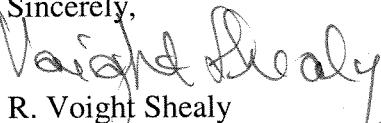
January 10, 2005

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

Dear Delbert:

I have attached Department of Social Services' procurement 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 Social Services a three-year certification as noted in the audit report.

Sincerely,


R. Voight Shealy
Materials Management Officer

/jl

SOUTH CAROLINA DEPARTMENT OF SOCIAL SERVICES

PROCUREMENT AUDIT REPORT

JULY 1, 2001 – JUNE 30, 2004

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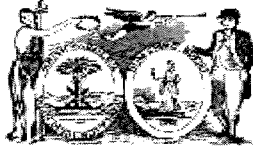
NOTE: The Department's response to issues noted in this report have been inserted immediately following the items they refer to.

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COLUMBIA, SOUTH CAROLINA 29201
(803) 737-0600
Fax (803) 737-0639

R. VOIGHT SHEALY
MATERIALS MANAGEMENT OFFICER

December 22, 2004

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 Social Services for the period July 1, 2001 through June 30, 2004. 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 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 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 Department of Social Services. 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,



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 Social Services. Our on-site review was conducted June 30, 2004 through August 4, 2004 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 February 14, 2002, the Budget and Control Board granted the South Carolina Department of Social Services the following procurement certifications:

<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
Goods and Services	\$50,000 per commitment
Consultant Services	\$50,000 per commitment
Information Technology	\$50,000 per commitment

Our audit was performed primarily to determine if recertification is warranted. No additional certification over the current limits was requested.

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 Social 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 July 1, 2001 through June 30, 2004 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 July 1, 2001 through June 30, 2004
- (2) Procurement transactions for the period July 1, 2001 through June 30, 2004 as follows:
 - a) Ninety-eight payments each exceeding \$1,500
 - b) A block sample of four hundred numerical purchase orders
 - c) Procurement card transactions for the months of March, April and May of 2004
- (3) Minority Business Enterprise Plans and reports
- (4) Approval of most recent Information Technology Plan
- (5) Internal procurement procedures manual
- (6) Surplus property disposition procedures
- (7) File documentation and evidence of competition

SUMMARY OF AUDIT FINDINGS

Our audit of the procurement system of the South Carolina Department of Social Services, hereinafter referred to as the Department, produced the following findings and recommendations.

	<u>PAGE</u>
I. <u>Temporary Information Technology Services Contracts</u>	6
The Department utilized state term contracts for short term information technology temporary personnel services beyond the period allowed.	
II. <u>Unauthorized Amendments</u>	7
The Department issued two amendments on a contract for adoption resource services but did not seek authorization from MMO.	
III. <u>Overpayments</u>	7
The Department overpaid four invoices.	
IV. <u>Bid Procedures</u>	8
The Department omitted several procedural requirements in a bid.	
V. <u>Blanket Purchase Agreements</u>	8
Blanket purchase agreements did not contain all of items required in Regulation 19-445.2100 B.(3)	

RESULTS OF EXAMINATION

I. Temporary Information Technology Services Contracts

The Department utilized a state term contract for short term information technology temporary personnel services. The state contract scope limited the services to a maximum period of six months. However, the Department utilized the contract from June 2000 through September 2001 in violation of the contract terms. In a letter dated September 7, 2001, the Executive Manager with the Office of the Chief Information Office (CIO) advised the Department of the violation of the contract. Additionally, the Executive Manager advised the Department that the CIO was available to solicit for a long term engagement. In a letter dated September 24, 2001 to the CIO, the Department acknowledged the violation of the state term contract and cancelled the services. Instead of issuing a solicitation to compete the additional temporary services, as noted in the CIO's letter of September 7, 2001, the Department issued purchase order 33989 as a sole source procurement in the amount of \$283,600 to the same vendor. The sole source procurement was not appropriate as other vendors could provide the service.

In 2003 the Department utilized another state term contract for short term information technology temporary personnel services with a rate of \$90 per hour. The maximum period on the state term contract was six months. The Department again exceeded the maximum six month period as noted on the following two procurements for the period May 6, 2003 to May 5, 2004.

<u>DSS Contract</u>	<u>Contract Period</u>	<u>Total</u>
582323541-01	05/06/03 to 11/05/03	\$ 97,920
582323541-01	11/06/03 to 05/05/04	<u>103,410</u>
	Total	<u>\$201,330</u>

Due to the procurement for the period of 11/06/03 to 05/05/04 exceeding the state term contract maximum period of 6 months for temporary services, a separate solicitation should have been issued.

We recommend the Department comply with temporary personnel contracts and not exceed maximum contract periods. We also recommend the Department comply with the competitive requirements of the Code for services that exceed the amounts allowed in state contracts.

DEPARTMENT RESPONSE

The Department does not agree with the finding concerning the sole source of purchase order 33989. The report stated that the sole source was not appropriate as other vendors could provide the service. DSS based the sole source on the fact that this vendor had begun the work on this project under a state term contract for short-term information technology services. This contract only allowed for six months for the project to be complete. Through no fault of the contractor or

DSS, this project had to be extended beyond the allowable six months. It was DSS's opinion that the project team that started the project was the only vendor that could finish the project, which resulted in a sole source since the state contract did not allow for the extended time. The letter from the CIO suggested the agency hire staff or, if a solution were not reached, that they would be available to solicit the requirements. We believe the sole source was the best method and the most advantageous to the state.

The Department does not agree with the finding concerning the state term contract for short-term information technology services, contract number 58232354-01 dated 05/06/03 – 11/05/03 and contract number 58282354-01 dated 11/06/03-05/05/04. The contractor was hired under the first contract to provide technical management and oversight of the technical component of the Child Support Enforcement Services (CSES) project. This contract was managed directly by the CSES Project Manager, a full time employee of DSS. The CSES Project Manager retired and it was the decision of DSS to not replace this position with a full time employee but instead have the position filled through a contracted vendor. Since a solicitation was needed to fill the project managers' position and knowing that the solicitation could take more than 90 days to complete it was decided that a temporary project manager was needed. Since the contractor's first contract was ending and knowing that this contractor knew the project it was decided to hire this contractor for a short term. It is DSS's opinion that the two contracted jobs are completely different and DSS was in it's right under the state term contract for short-term information technology services to hire this contractor.

II. Unauthorized Amendments

The Materials Management Office (MMO) issued solicitation 02-S4718 as a multi-term contract for adoption resource services and issued contract 02-S4718-A7897 for \$174,104 per year. The contract period was February 2, 2002 through September 30, 2006. The Department issued two amendments to the contract but did not obtain the approval from MMO thus resulting in each amendment being unauthorized as defined in Regulation 19-445.2015.

<u>Amendment and Contract Period</u>	<u>Contract</u>	<u>Change Order</u>	<u>Unauthorized</u>
Amendment 1 10/01/02 to 9/30/03	\$175,104	\$220,454	\$ 45,350
Amendment 2 07/01/03 to 9/30/03		48,501	<u>48,501</u>
		Total	<u>\$ 93,851</u>

We recommend the Department seek authorization to amend contracts issued by the Materials Management Office. The Department must request ratification of the two unauthorized amendments to the Materials Management Officer in accordance with Regulation 19-445.2015.

DEPARTMENT RESPONSE

The Department agrees with the finding and DSS will request a ratification of the two unauthorized amendments.

III. Overpayments

We noted the following overpayments.

<u>Voucher</u>	<u>Description</u>	<u>Contract Rate</u>	<u>Invoice Rate</u>	<u>Overpayment</u>
DV00853	Child enforcement services	\$133,965	\$134,824	\$ 859
DV01390	Security services	3,810	4,466	597
DV08233	Moving services	4,617	6,520	1,903
DV10719	Microfiche services	2,125	2,321	196

The payments were partial payments for contracts issued by the Department.

We recommend the Department reconcile invoices to the applicable contract or purchase order. Any discrepancies should be resolved, documented and authorized prior to payment. We also recommend the Department review other payments on these contracts to determine if additional overpayments were made.

DEPARTMENT RESPONSE

The Department agrees with the finding. DSS will work to reconcile invoices to the applicable contract or purchase order.

IV. Bid Procedures

The Department issued purchase order 35511 in the amount of \$25,850 for shelving utilizing the sealed bid procedures per Section 11-35-1520 of the Code. The Department failed to include a vendor protest statement and the posting location in solicitation. Also, the Department did not issue a statement of award

We recommend the Department comply with the bid procedures as defined in the Code for these items.

DEPARTMENT RESPONSE

DSS agrees with the finding and corrections will be made to comply with the Code.

V. Blanket Purchase Agreements

Not all items required by Regulation 19-445.2100 B.(3) were contained in the Blanket Purchase Agreements issued by the Department. The missing items included notice of individuals authorized to place calls and delivery requirements that shipments be accompanied by delivery tickets or sales slip with certain information. This is a repeat finding from the last audit.

We recommend the Department comply with the Regulation.

DEPARTMENT RESPONSE

DSS agrees with the finding and corrections will be made to comply with this Regulation.

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 Social 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 Social Services be recertified to make direct agency procurements for three years up to the limits as follows:

PROCUREMENT AREAS

RECOMMENDED 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

\$2,000,000 per contract per year, with option to extend 4 additional years

Goods and Services

*\$50,000 per commitment

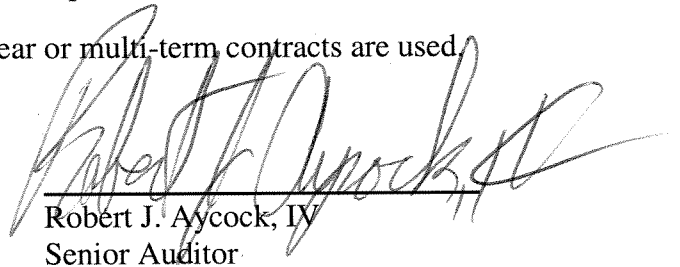
Consultants Services

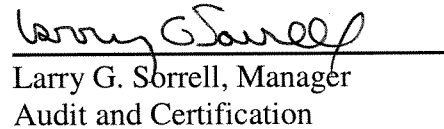
*\$50,000 per commitment

Information Technology

*\$50,000 per commitment

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


Robert J. Aycock, IV
Senior Auditor


Larry G. Sorrell, Manager
Audit and Certification

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MATERIALS MANAGEMENT OFFICE
1201 MAIN STREET, SUITE 600
COLUMBIA, SOUTH CAROLINA 29201
(803) 737-0600
Fax (803) 737-0639

R. VOIGHT SHEALY
MATERIALS MANAGEMENT OFFICER

January 10, 2005

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 Social Services to our audit report for the period of October 1, 2001 – June 30, 2004. Also we have followed the Department's corrective action during and subsequent to our fieldwork. We are satisfied that the Department of Social 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 Social Services the certification limits noted in our report for a period of three years.

Sincerely,

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

Larry G. Sorrell, Manager
Audit and Certification

LGS/jl

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