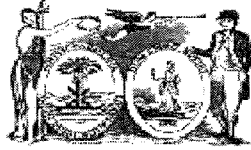


STATE OF SOUTH CAROLINA  
*State Budget and Control Board*  
PROCUREMENT SERVICES DIVISION

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DELBERT H. SINGLETON, JR.  
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MATERIALS MANAGEMENT OFFICE  
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COLUMBIA, SOUTH CAROLINA 29201  
(803) 737-0600  
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R. VOIGHT SHEALY  
MATERIALS MANAGEMENT OFFICER

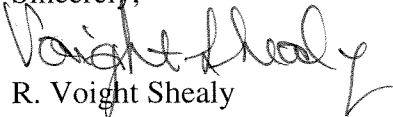
April 17, 2002

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 of Health and Human 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 a three-year certification as noted in the audit report.

Sincerely,

  
R. Voight Shealy  
Materials Management Officer

/jl

**SOUTH CAROLINA DEPARTMENT OF  
HEALTH AND HUMAN SERVICES  
PROCUREMENT AUDIT REPORT**

**APRIL 1, 1999 - DECEMBER 31, 2001**

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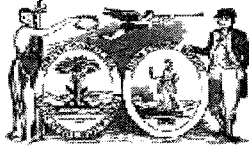
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R. VOIGHT SHEALY  
MATERIALS MANAGEMENT OFFICER

April 17, 2002

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 April 1, 1999 through December 31, 2001. 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 South Carolina 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, assurance of the integrity of the 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 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,



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 February 4-20, 2002, 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.

Section 11-35-1210 of the South Carolina Consolidated Procurement Code states:

The (Budget and Control) Board may assign differential dollar limits below which individual governmental bodies may make direct procurements not under term contracts. The Office of General Services shall review the respective governmental body's internal procurement operation, shall verify in writing that it is consistent with the provisions of this code and the ensuing regulations, and recommend to the Board those dollar limits for the respective governmental body's procurement not under term contract.

On September 14, 1999, the Budget and Control Board granted the South Carolina Department of Health and Human Services the following procurement certifications.

<u>PROCUREMENT AREAS</u>	<u>CERTIFICATION LIMITS</u>
Service Provider Contracts Funded From Any Source - Service Provider Being a Provider of Services Directly to a Client	\$2,000,000 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 to determine if recertification is warranted. 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	\$ 25,000 per commitment
Goods and Services	\$ 25,000 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, hereinafter referred to as the Department, 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 judgmental samples for the period July 1, 1999 through December 31, 2001 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 April 1, 1999 through December 31, 2001
- (2) Procurement transactions for July 1, 1999 through December 31, 2001 as follows:
  - a) One hundred twenty payments each exceeding \$1,500
  - b) A block sample consisting of three hundred sixty numerically issued purchase orders and two hundred ninety requisitions used as purchase orders
  - c) Procurement card purchases for one month
- (3) Minority Business Enterprise Plans and reports
- (4) Information technology plans
- (5) Internal procurement procedures manual
- (6) Surplus property procedures
- (7) Blanket purchase order
- (8) File documentation and evidence of competition



## RESULTS OF EXAMINATION

### Unauthorized Procurements

Three procurements were made prior to the Procurement Office's knowledge and one procurement exceeded the Department's certification of \$25,000 for goods and services.

<u>Reference Number</u>	<u>Amount</u>	<u>Description</u>
192-56823	\$ 5,000	Dementia study
192-56869	15,000	Conference speaker
192-82392	2,000	Report preparation services
PO 9259	33,131	Conference facilities

Each procurement was unauthorized as defined in Regulation 19-445.2015.

We recommend the Department review its operating procedures to identify the weakness on each of the procurements and make the appropriate corrective action. Ratification for the three unauthorized procurements less than \$25,000 must be requested per Regulation 19-445.2015 from the Director or his designee. Ratification for the unauthorized procurement on purchase order PO 9259 must be requested per Regulation 19-445.2015 from the Materials Management Officer as the amount exceeded the Department's certification.

### No Evidence of Compliance on Two Procurements

Two procurements were not supported by solicitations of competition.

<u>Reference Number</u>	<u>Amount</u>	<u>Description</u>
PO 10522	\$ 4,759	Renovations
PO 11136	3,000	Interpreter services

We recommend competition be solicited for items that exceed \$1,500.

### Combining Procurements

We noted two occurrences where items should have been combined and competition solicited based on the total value.

<u>Reference Number</u>	<u>Amount</u>	<u>Description</u>
PO 11303	\$ 529	Printer toner
PO 11302	<u>1,100</u>	Printer toner
<u>Total</u>	<u>\$1,629</u>	
PO 11110	\$ 314	Replacement battery cartridges
PO 11111	1,007	Emergency power for computers
PO 11112	<u>1,584</u>	Emergency power for computers
<u>Total</u>	<u>\$2,905</u>	

We recommend the Department combine its needs and solicit competition based on the total potential value.

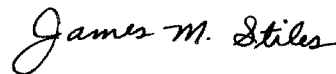
**CERTIFICATION RECOMMENDATIONS**

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 Procurement Code.

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 re-certified to make direct agency procurements for three years up to the following levels.

<u>PROCUREMENT AREAS</u>	<u>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	* \$ 25,000 per commitment
Goods and Services	* \$ 25,000 per commitment

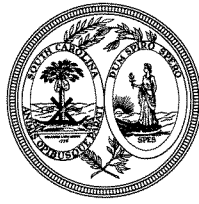
\*The total potential purchase commitment whether single year or multi-term contracts are used.



\_\_\_\_\_  
James M. Stiles, CPPB  
Audit Manager



\_\_\_\_\_  
Larry G. Sorrell, Manager  
Audit and Certification



State of South Carolina  
Department of Health and Human Services

Jim Hodges  
Governor

William A. Prince  
Director

April 16, 2002


Mr. Larry Sorrell  
State Budget and Control Board  
Material Management Office  
1201 Main Street, Suite 600  
Columbia, South Carolina 29201

RE: State Budget and Control Board, Draft Procurement Audit Report for South Carolina  
Department of Health & Human Services (DHHS), dated, March 20, 2002

Dear Mr. Sorrell:

In accordance with the above referenced procurement audit report, the South Carolina Department of Health & Human Services concurs with the findings and recommendations. DHHS will review its operating procedures to identify the weakness on each of the procurements and make the appropriate corrective action.

Sincerely,

  
Robert M. Cannon, Bureau Chief  
Administrative Services

RMC: jym

cc: Martha Borg  
Jim Stiles, CPPB Audit Manager

Office of Administrative Services  
1801 Main Street, 6<sup>th</sup> Floor  
Columbia, South Carolina 29202  
Phone: (803) 898-2605 or Fax: (803) 898-4508

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R. VOIGHT SHEALY  
MATERIALS MANAGEMENT OFFICER

April 17, 2002

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 April 1, 1999 – December 31, 2001. Also we have followed the Department's corrective action during and subsequent to our fieldwork. We are satisfied that the Department 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/jl

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