SOUTH CAROLINA DEPARTMENT OF SOCIAL SERVICES

PROCUREMENT AUDIT REPORT

OCTOBER 1, 2009 – DECEMBER 31, 2014

TABLE OF CONTENTS

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

THE DIVISION OF PROCUREMENT SERVICES
DELBERT H. SINGLETON, JR.
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JOHN ST. C. WHITE
MATERIALS MANAGEMENT OFFICE
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June 29, 2016

Mr. John St. C. White
Materials Management Officer
Procurement Services Division
1201 Main Street, Suite 600
Columbia, South Carolina 29201

Dear John:

We have examined the procurement policies and procedures of the South Carolina Department of Social Services for the period October 1, 2009 through December 31, 2014. As part of our examination, we studied and evaluated the system of internal controls over procurement transactions to the extent we considered necessary.

The evaluation established a basis for reliance upon the system of internal controls 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 of the South Carolina Department of Social Services is responsible for establishing and maintaining a system of internal controls 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 the degree of compliance 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,

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 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 December 14, 2010, the State Budget and Control Board granted DSS the following procurement certifications:

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.	$2,000,000 per contract per year, with option to extend 4 additional years
Supplies and Services	*$ 100,000 per commitment
Information Technology	*$ 100,000 per commitment
Consultant Services	*$ 100,000 per commitment

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

DSS requested to remain at its current certification levels. We performed our audit to determine if re-certification was warranted.

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, 2009 through December 31, 2014 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 July 1, 2011 through September 30, 2014 as follows:

   a) One hundred forty-eight payments each exceeding $2,500, with exceptions noted in Section III of the report

   b) A purchase order block sample review for the period August 2, 2013 through September 25, 2014 to check against the use of order splitting and favored vendors, with no exceptions

   c) Procurement card transactions for July, August, and September 2014, with no exceptions

(2) All sole source, emergency, and trade-in sale procurements for the period October 1, 2009 through December 31, 2014, with exceptions noted in Section I of the report

(3) Minority Business Enterprise Plans and reports with the following activity reported to the Governor's Office Division of Small and Minority Business Contracting and Certification:

Fiscal Year	Goal	Actual
FY11-12	$332,540	$1,023,722
FY12-13	$ 65,542	$1,897,545
FY13-14	$414,906	$ 414,906

(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 one exception noted in Section II of the report

SUMMARY OF RESULTS

RESULTS OF EXAMINATION

I. Sole Source and Emergency Procurements

Our review of sole source and emergency procurements reported to the Division of Procurement Services for the period October 1, 2009 through December 31, 2014, identified the following issues.

A. Sole Source and Emergency Procurement Not Reported

DSS sole source and emergency procurement reports were not accurate. From January 1, 2010 to December 31, 2014, DSS omitted $4,515,406 of sole source procurements and $1,199,958 of emergency procurements from its statutorily required quarterly reports. See Attachment A for a listing of these transactions.

Section 11-35-2440 of the Procurement Code requires that governmental bodies submit quarterly, a record listing of 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 DSS report all procurements on its quarterly reports of sole source and emergency procurements. Amended reports will need to be submitted adding these transactions.

B. No Written Determinations Authorizing Sole Source and Emergency Procurements

No written determinations authorizing sole source and emergency procurements were provided for $906,618 of sole source procurements and $2,567,427 of emergency procurements. See Attachment B for a listing of these transactions. 11-35-1560 (B) states in part, "... Written documentation must include the determination and basis for the proposed sole source procurement. ... Any decision by a governmental body that a procurement be restricted to one potential vendor must be accompanied by an explanation as to why no other will be suitable or acceptable to meet the need." Without the written determinations, we cannot determine the appropriateness of the decision in declaring these transactions as either sole sources or emergencies. Additionally, we have no evidence that these transactions were appropriately authorized

by a person with requisite authority. We must therefore consider the transactions inappropriate and unauthorized.

We recommend written determinations be prepared and authorized for all sole source and emergency procurements.

C. Inadequate Written Determinations for Sole Source Procurements

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

Item	PO Number	Description	Amount
1	4600127185	SC Teach Fiscal Management Services	$ 978,625
2	4600299077	SC Teach Fiscal Management Services	$ 953,625
3	4600055813	Foster & Adoptive Parents Support	$ 813,350
4	4600114147	Foster & Adoptive Parents Support	$1,898,889
5	4600139894	Foster & Adoptive Parents Support	$ 286,000
6	4600353556	Foster & Adoptive Parents Support	$1,420,230

The written determinations for items 1 and 2 contained a scope of work and services that most accounting/auditing firms appear to be able to perform.

The written determination for items 3-6 states the vendor is the only vendor in the state that can perform these services. 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 the Department follow the court ruling in preparing its written determinations. This court decision was so profound, that similar wording was promulgated into regulations 19-445.2105 (Sole Source Procurements) and 19-445.2110 (Emergency Procurements).

Department Response

We concur with the finding. We will insure that all sole source and emergency procurements have proper and complete written determinations in accordance with regulations 19-445.2105 and 19-445.2110. To ensure that all sole source and emergency procurements are reported to the Chief Procurement Officer, we will run reports in SCEIS to confirm that all required procurements are reported.

II. Other Tests Performed as Deemed Necessary

A. Unauthorized Procurement

The following procurement was unauthorized.

Solicitation Number	Solicitation Date	Description	Amount
5400001502	04/01/10	Family Group Conferencing	$865,450

On the Family Group Conference fixed priced bid (FPB# 5400001502) contract, vendors were providing services who were not awarded contracts. According to the internal ratification letter, all contracting with non FPB providers stopped based on the direction from the Procurement Director and no new contracts were written for services after July 31, 2013. This ratification letter was sent to the Chief Procurement Officer for approval on March 4, 2014. The Chief Procurement Officer denied ratification in

accordance with regulation 19-445.2015. The CPO pointed out that either remedy offered under the regulation, ratification or termination, assume an ongoing agreement, a need for the services to continue. In this case the unauthorized activity had ceased; therefore it is not ongoing. Termination is not applicable because the unauthorized activity had already ceased. Ratification was not necessary because the unlawful contracts were not ongoing. Therefore, ratification would not offer any remedy at this time.

We recommend that DSS comply with the Procurement Code regarding ratification of unauthorized procurements before contracts expire. Contracts must not be awarded to vendors who have not responded to solicitations whereby they must agree to our terms and conditions. We also recommend that DSS comply with the Procurement Code when procuring services so that procurements will not need to be ratified.

Department Response

We concur with the finding. We will ensure that ratification letters are sent to the Chief Procurement Officer and approved prior to the expiration of the contract in question.

III. Supplies and Services

A. Procurements Not Competed

The following procurements were not supported by solicitations of competition.

PO Number	PO Date	Description	Amount
4600194814	08/16/12	Deliver employment placement program services for TANF clients	$419,135
4600148450	02/07/12	Deliver employment placement program services for TANF clients	$480,000

Per Section 11-35-1520 of the Procurement Code, "Contracts greater than fifty thousand dollars must be awarded by competitive sealed bidding...."

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

Department Response

We concur with the findings. We will ensure that all competitive bid requirements of the SC State Procurement Code are followed.

CERTIFICATION RECOMMENDATION

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
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.	$2,000,000 per contract per year, with option to extend 4 additional years
Supplies and Services	*$ 100,000 per commitment
Information Technology	*$ 100,000 per commitment
Consultant Services	*$ 100,000 per commitment

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

Robin Deviette Jacobs, CPA, CGMA

Robin D. Jacobs, CPA, CGMA
Audit Manager

Robert J. Aycock, IV, Manager
Audit and Certification

Attachment A

Sole Sources Not Reported

Company Name	Date Book Signed	PO #	Contract #	Amount
Bethany Christian Services	05/14/10	unknown	C10055J	$ 10,750
Families First Inc.	11/17/11	4600142481	5000012415	7,400
Franklin Covey	06/10/11	4600102767	4400003915	111,500
Greenville Work Investment Board	03/19/12	4600161491	5000012526	21,369
Lutheran Family Services of Virginia	03/15/11	4600091446	5000011336	4,500
Lutheran Family Services of Virginia	04/08/11	4600095456	5000011351	6,000
Lutheran Family Services of Virginia	10/26/11	4600136513	5000012345	4,200
SC for Fathers and Families	03/19/12		5000012525	61,672
SC Foster Parent Association	06/21/11	4600055813	5000010923	818,350
TALX Corporation	05/16/11	4600112144		378,000
Upstate Fatherhood Coalition	03/19/12		5000012551	46,533
AM Accessibility a Division of All Medical	12/12/12	4600232214		8,116
Barnwell County	03/22/12	4600225940		14,080
Cherry, Bekaert, & Holland LLP	09/06/12	4600212087		953,625
Connected Families	11/30/12	5000011685	Repeat (Goes w/ 1/1/13)	
Florence County First Steps to School Readiness	10/23/12	4600224776		47,273
Richland County	03/22/12	4600165028/ 4600191969	5000012583	11,180
Spartan Technology Solutions, Inc.	09/28/12	4600214323	5000013038	146,600
Collier International	10/11/13			3,500
Commonwealth Catholic Charities	07/26/13	4600281068	5000013746	3,450
Florence county First Steps to School Readiness	11/01/13	4600325097	5000013921	47,273
QS/1 Data Systems	12/12/13	4600307679	4400007628	384,530
Campaign to Prevent Teen Pregnancy (Proviso 38.25)	10/03/13	4600295688	4400005677	546,972
TALX Corporation	01/15/13	4600305169	4400007556	408,240
Lutheran Services in the Carolinas	10/29/14	4600385892	4400009656	21,229
TALX Corporation	04/15/14	4600356724		449,064
Total:				$4,515,406

Emergencies Not Reported

Company Name	Date Book Signed	PO #	Contract #	Amount
Laboratory Corporation of America (LabCorp)	09/27/10	4600116856	5000011627	$ 250,000
Sandie Hoback	02/15/12	4600155918	5000012488	114,800
American Institute for Full Employment (AIFE)	12/20/11	4600148449	5000012438	115,750
CASA Family System	02/21/12		5000012530	20,832
CASA Family System	02/21/12		5000012543	10,416
Citizens Against Spouse Abuse	02/21/12		5000012531	15,624
Citizens Against Spouse Abuse	02/21/12		5000012532	
Citizens Opposed to Domestic Abuse	02/21/12		5000012550	15,624
Compass of the Carolinas	02/21/12		5000012548	10,416
Cumbee Center to Assist Abused	02/21/12		5000012533	15,624
Domestic Abuse Center	02/21/12		5000012544	52,080
Domestic Abuse Center	02/21/12		5000012545	10,416
Family Services Center of the South	02/21/12		5000012546	10,416
My Sister's House, Inc.	02/21/12		5000012536	15,624
Pee Dee Coalition Against Domestic Violence	02/21/12		5000012570	10,416
Safe Passage Inc.	02/21/12		5000012534	15,624
Safe Homes-Rape Crisis Coalition	02/21/12		5000012538	15,624
Safe Passage Inc.	02/21/12		5000012539	15,624
Seneca Family of Agencies	12/21/11	4600357115	5000012414	40,005
Sister Care Inc.	02/21/12		5000012540	15,624
YWMA of the Upper Lowlands Inc.	02/21/12		5000012549	15,624
Addus Health Care, Inc.	10/03/13	4600296808	5000013857	209,652
Advanced Business Software Corporation	11/20/13	4600304485	4400007543	22,700
Edgefield County Senior Citizens Co.	10/03/13	4600298579	5000013858	5,760
Family Justice Center of Georgetown County	05/26/13	5000013730 (Repeat of 1/1/13)		
Jasper County Council on Aging	10/03/13	4600301994	5000013863	15,416
Lancaster County Council on Aging	10/03/13	4600296841	5000013859	7,612
Newberry County Council on Aging	10/03/13	4600296840	5000013860	128,383
Senior Resources Inc.	10/03/13	4600296806	5000013862	14,156
Union County Council on Aging	10/03/13	4600296809	5000013861	10,116
Total:				$1,199,958

Attachment B

Sole Source Procurements Without Written Determinations

Company Name	Report Date	PO # on Report	Amount on Report
American Humane Association	01/01/11	4600083855	$ 123,672
Hope for Families Adoption and	01/01/11	4600087642	9,000
Sumter County Government	01/01/11	4600087660	24,240
SC Foster Parent Association	12/20/11	4600139894	286,000
Covey Software	07/01/12	4600153337/4600195643	35,490
Lutheran Family Services	07/01/12	4600211919	63,025
Lutheran Family Services	07/01/12	4600212036	32,425
All Medical Inc.	01/01/13	4600232214	8,116
Julie Osnes Consulting, LLC	01/01/13	4600237624	75,000
University of Oklahoma National Resource Center	07/01/13	4600290967	6,062
Lutheran Services in the Carolinas	10/01/13	4600295022	54,800
Julie Osnes Consulting, LLC	01/01/14	4600319138	70,000
Sharon L. Pate	04/01/14	4600346398	22,640
Ideaworks Software Engineering Inc.	07/01/14	4600364186	33,434
Dee Norton Low Country Children's Center	10/01/14	46003858123	54,208
The Children's Home Society of NC In	10/01/14	4600390344	8,506
Total:			$ 906,618

Emergency Procurements Without Written Determinations

Company Name	Report Date	PO # on Report	Amount on Report
SC Foster Parent Assn	07/01/11	4600114147	$1,898,889
Families First	10/01/11	4600195660	3,800
Lutheran Family Services in the Carolinas	10/01/11	4600129849/46	25,800
Florence Crittendon Programs	10/01/12	4600212039	60,000
Room at the Inn of the Carolinas, Inc.	10/01/12	4600212378	10,000
Xerox State & Local Solutions	01/01/14	4600315359	132,305
Allied Barton Security Services	01/01/14	4600321846	6,000
Kershaw County	01/01/14	4600312704	3,441
Union County Council on Aging Inc.	07/01/14	4600358585	56,060
Senior Resources, Inc.	07/01/14	4600358589	7,080
Newberry County Council on Aging	07/01/14	4600358622	19,338
Lancaster County Council on Aging	07/01/14	4600358624	11,418
Jasper County Council on Aging	07/01/14	4600358626	15,416
Addus Healthcare dba Carepro	07/01/14	4600358629	315,000
Edgefield County Senior Citizens Council	07/01/14	4600358628	2,880
Total:			$2,567,427

SFAA
State Fiscal Accountability Authority

THE DIVISION OF PROCUREMENT SERVICES
DELBERT H. SINGLETON, JR.
DIVISION DIRECTOR
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JOHN ST. C. WHITE
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October 11, 2016

Mr. John St. C. White
Materials Management Officer
Division of Procurement Services
1201 Main Street, Suite 600
Columbia, South Carolina 29201

Dear John:

We have reviewed the response from the Department of Social Services to our audit report for the period of January 1, 2009 through December 31, 2014. In our opinion, the Department of Social Services complies with the South Carolina Consolidated Procurement Code, State regulations, and the Department's procurement policies and procedures in all material respects and the internal procurement operating procedures are adequate to properly handle procurement transactions. Therefore, we recommend the State Fiscal Accountability Authority grant the Department of Social Services the certification limits noted in our report for a period of three years.

Sincerely,

Robert J. Aycock, IV, Manager
Audit and Certification

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