



**South Carolina
Department of Social Services (DSS)
INDEPENDENT PROCUREMENT AUDIT REPORT
For the Audit Period:
January 1, 2015 to March 31, 2020**

**Office of Audit & Certification
Division of Procurement Services
November 10, 2020**

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INTRODUCTION

Audit section staff of the Division of Procurement Services audited DSS' internal procurement operating policies and procedures, as outlined in their Internal Procurement Operating Procedures Manual, under § 11-35-1230(1) of the South Carolina Consolidated Procurement Code (Code) and Reg. 19-445.2020 of the ensuing regulations.

The primary objective of the audit was to determine whether, in all material respects, the internal controls of DSS' procurement system were adequate to ensure compliance with the Code and ensuing regulations.

The management of DSS is responsible for the agency's compliance with the Code. Those responsibilities include the following:

- Identifying the agency's procurement activities and understanding and complying with the Code
- Establishing and maintaining effective controls over procurement activities that provide reasonable assurance that the agency administers its procurement programs in compliance with the Code
- Evaluating and monitoring the agency's compliance with the SC Consolidated Procurement Code
- Taking corrective action when instances of noncompliance are identified, including corrective action on audit findings of this audit

Because of inherent limitations in any system of internal controls, errors or irregularities may occur and not be detected. 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 review and evaluation of the system of internal control over procurement transactions, as well as our overall audit of procurement policies and procedures, was conducted with professional care. However, because of the nature of audit testing, they would not necessarily disclose all weaknesses in the system.

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Our audit was also performed to determine if recertification under § 11-35-1210 is warranted.

On November 7, 2016, the State Fiscal Accountability Authority granted DSS the following procurement certifications:

<u>PROCUREMENT AREAS</u>	<u>CERTIFICATION LIMITS</u>
Service Provider Contracts ¹	\$ 2,000,000 per contract per year ²
Supplies and Services ³	*\$ 100,000 per commitment
Information Technology ⁴	*\$ 100,000 per commitment
Consultant Service	*\$ 100,000 per commitment

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

During the audit DSS did not request an increase in its certification limits.

¹ 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 With option to extend for four additional years.

³ Supplies and Services includes non-IT consulting services.

⁴ Information Technology includes consulting services for any aspect of information technology, systems and networks.

SCOPE

We conducted our audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. Our audit included testing, on a sample basis, evidence about DSS' compliance with the Code for the period January 1, 2015 through March 31, 2020, the audit period, and performing other procedures that we considered necessary in the circumstances. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

The scope of our audit included, but was not limited to, a review of the following:

- (1) Internal procurement and purchasing card (P-Card) procedure manuals.
- (2) All available internal and external audit reports pertaining to Procurements.
- (3) All sole source and emergency procurement justifications for the audit period. DSS reported the following sole source procurement activity to DPS during the audit period:

<u>Fiscal Year</u>	<u>Count</u>	<u>\$ Amount</u>
2015	5	437,394
2016	13	2,985,112
2017	14	2,979,815
2018	12	1,422,202
2019	24	2,112,915
2020	23	4,342,163

- (4) Procurement transactions for the audit period as follows:
 - a) Seventy-one expenditures each exceeding \$2,500.
 - b) A block of sequential expenditures over a two-month period reviewed for order splitting or the use of favored vendors.
- (5) Small and Minority Business utilization plans and reports. The following activity was reported to the Division of Small and Minority Business Contracting and Certification (SMBCC):

<u>Fiscal Year</u>	<u>\$ Goal</u>	<u>\$ Actual</u>
2015	644,848	258,332
2016	821,613	997,428
2017	415,664	336,055
2018	432,533	75,572
2019	499,002	68,909
2020	290,084	60,612

- (6) Information Technology Procurements under approved IT Plans.
- (7) Surplus property dispositions, and approval of trade-ins in excess of \$5,000.

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(8) Disposition of unauthorized procurements. The following unauthorized procurement activity was reported to the Division of Procurement Services:

<u>Fiscal Year</u>	<u>Count</u>	<u>\$ Amount</u>
2015	3	463,978
2016	5	2,524,999
2017	-	-0-
2018	-	-0-
2019	-	-0-
2020	-	-0-

SUMMARY OF FINDINGS

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Weaknesses in management oversight of the P-Card program result in increased risk that inappropriate use of P-Cards could go undetected.

- A. Bank Statements Lacked Management and Cardholder Approval 7
Fifteen transactions were identified in which the cardholder did not sign the bank statement and 20 transactions in which the manager did not sign the bank statement.
- B. Independent Audit of P-Cards Not Performed..... 7
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- C. Inactive P-Cards Not Cancelled..... 8
Thirteen cards that had not been used in over one year and five cards that had never been used.

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Note: DSS’ responses to the findings in this report have been inserted at the end of each recommendation.

RESULTS OF AUDIT

I. Purchasing-Card Program Internal Control

We reviewed DSS' P-Card policies and procedures for compliance with the South Carolina Purchasing Card Policy and Procedures and identified areas of non-compliance. DSS had 121 cardholders who spent \$7,260,529 during the audit period. The high usage volume increases the risk that misuse may not be detected without adequate management oversight.

A. Bank Statements Lacked Management and Cardholder Approval

Twenty bank statements had not been signed by management and 15 bank statements had not been signed by the cardholder. Per State P-Card Policy Section III(B)(8), supervisors "Sign the cardholder activity statements signifying review and approval for payment. This responsibility cannot be delegated to another person." State P-Card Policy III(D)(4) states, cardholders "sign the cardholder activity statements attesting to the accuracy and completeness of the statement. All signatures must be original. Signatures made with rubber stamps are prohibited."

Recommendation: We recommend DSS follow its policy that both management *and* the cardholder sign the activity statements as required by the State P-Card Policy.

Agency Response

There is no disagreement with the audit finding.

Management signatures were only being required on the certification. Beginning with the period ending August 27, 2020, the agency required Liaisons to sign both the certification and statement. The agency will update its policy and training to require Manager and Cardholder signatures on the Bank of America statements and Liaison signatures on the Certifications. This change will be made with the March 2021 P-Card submissions.

B. Required Audit of P-Cards Not Performed

Required audits of P-Card activity had not been performed by the agency. Section V. 6. of the State P-Card Policy requires the agency to create a "provision for an annual independent audit or review of the P-Card Program..." DSS' Manual for Procedures for the Purchasing Card Program states in Section IV (B)(6), "Ensure an annual provision for the audit or independent review of the purchasing card program."

Recommendation: We recommend that DSS conduct independent audits of the P-Card program, at least annually, including program administration and transaction testing.

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Agency Response

There is no disagreement with the audit finding.

Since July 2020, Internal Audit staff have been established as auditors in BOA Works. This provides them access to all transactions from all cardholders. The Internal Audit department has identified a staff auditor who will be responsible for performing a monthly review. This review will entail checking for purchases made against blocked MCCs, identifying any possible split transactions, and reviewing a sample of transactions to ensure compliance with DSS' P-Card manual and appropriate supporting documentation. Semiannual reviews will be performed to ensure card holders are current DSS employees. Any issues covered during the monthly review will be discussed with the Department Liaison and the Procurement P-Card Coordinator. A yearly report will be provided to Executive Management.

C. Inactive P-Cards Not Cancelled

There were 13 cards which had not been used in over one year. There were five additional cards issued prior to 2020 that had never been used. Per State P-Card Policy III State Agency Roles and Responsibilities III. A. 1. (a) (xi), "Monitor Cardholder accounts for inactivity and promptly close accounts and cards that are no longer needed."

Recommendation: We recommend closing all unused P-Card accounts and developing and implementing procedures to require monitoring and timely closing of inactive cards as required by the State P-Card Policy.

Agency Responses

There is no disagreement with the audit finding.

The agency conducted a purge of P-Card accounts for former employees in August 2020. A review of P-Card accounts will be conducted every quarter to ensure that all P-Cards are issued to only active full-time employees. Each December, the agency will conduct a review of all card's utilization. Any card that has not been used during the previous twelve months will be cancelled.

II. Sole Source Procurements

A. Written Determinations for Sole Source Procurements Not Provided

Required justifications for four sole source procurements totaling \$1,676,234 were not provided. There were no findings in the last two years. We commend DSS for putting controls in place to ensure compliance.

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Per SC Code Ann. § 11-35-1560:

A contract may be awarded for a supply, service, information technology, or construction item without competition if, under regulations promulgated by the board, the 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.

Recommendation: We recommend that DSS continue to follow its procedures to ensure that sole source procurements are appropriately and adequately justified in writing as required by SC Code Ann. § 11-35-1560.

Agency Response

There is no disagreement with the audit finding.

The Department will ensure that Sole Sources are justified in writing in addition to developing training concerning the use and justification of Sole Source procurements. The Department developed a checklist of required information for Sole Source procurements that should be accompanied for management's review and approval to ensure reporting of information.

B. Sole Source Determinations Not Properly Approved

One sole source justification was not signed, and 17 other justifications were not dated. The 18 sole sources total \$2,693,794.

Per Regulation 19-445.2105(C) (2), "The determination must be authorized prior to contract execution". A signature provides documentation that the justification was made by the appropriate official. Dating the approval provides documentation that the required approval was obtained before the procurement of supplies and services without competition.

Recommendation: We recommend DSS develop and implement procedures to ensure that sole source determinations are properly and timely approved by the appropriate official(s) as required. We also recommend that the format of written determinations include printed names and titles, in addition to signatures and dates, of approvers.

Agency Response

There is no disagreement with the audit finding.

The Department will ensure that justifications are signed and dated for each Sole Source in a timely manner. The training referenced above will cover this matter.

C. Omissions from Sole Source Reporting

DSS omitted eight sole source procurements totaling \$2,494,835 from its statutorily required quarterly reports. SC Code Ann. § 11-35-2440 requires that governmental bodies submit quarterly,

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a record listing of all contracts made pursuant to § 11-35-1560 – Sole Source Procurements, to the Chief Procurement Officers. There were no findings in the most recent two years. We commend DSS for putting controls in place to ensure compliance.

Recommendation: We recommend DSS continue to follow its procedures to ensure that a complete list of all sole source procurements are reported quarterly in a timely manner.

Agency Response

There is no disagreement with the audit finding.

The Department will ensure that Sole Source procurements are reported quarterly and in a timely manner. The Department developed a checklist of required information for Sole Source procurements that should be accompanied for management's review and approval to ensure reporting of information. The Department will also conduct a quarterly peer review of Sole Source documentation to ensure all required information is noted in the Procurement file. It is expected that this process will begin April 2021 as we are developing our storage documentation system.

D. Non-Compliance with DFWA

Our review of sole source procurements valued at \$50,000 or more identified 12 procurements totaling \$3,118,114 for which the DFWA certifications were not obtained, even though the solicitation required such certification by the vendor.

The DFWA § 44-107-30 states, in part, "no person, other than an individual, may receive a domestic grant or be awarded a domestic contract for the procurement of any goods, construction, or services for a stated or estimated value of \$50,000 or more from any state agency unless the person has certified to the using agency that it will provide a drug-free workplace."

Recommendation: We recommend DSS revise its procedures to ensure that solicitations greater than \$50,000 require contractors to certify that they will provide a drug-free workplace as required by the DFWA and verifying that such certifications are obtained prior to commencement of work under the contract.

Agency Response

There is no disagreement with the audit finding.

The Department will ensure that Drug Free Workplace Certificates are completed for procurements over \$50,000. The Department will also conduct a quarterly peer review of Sole Source and Emergency documentation to ensure all required information is noted in the Procurement file. It is expected that this process will begin March 2021 as we are developing our storage documentation system. Additionally, the Department is in the process of revising

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Chapter 13: SCDSS Procurement Manual and will ensure that this information is addressed specifically before submitting the Manual to SFAA for recommendations and approval.

III. Emergency Procurements

A. Emergency Determinations Not Adequate

Required written determinations for emergency procurements provided for three transactions totaling \$550,656 were inadequate to explain why these procurements were not competed.

Per SC Code Ann. § 11-35-1570 (A), and DSS' internal procurement policy manual:

Notwithstanding any other provisions of the code, the chief procurement officer, the head of a purchasing agency, or a designee of either officer may award or authorize others to award emergency contracts only when there exists an immediate threat to public health, welfare, critical economy and efficiency, or safety under emergency conditions as defined in regulations promulgated by the board: and provided, that such emergency procurements shall be made with as much competition as is practical under the circumstances.

Recommendation: We recommend that DSS develop and implement procedures to ensure that emergency procurements are appropriately and adequately justified in writing as required by SC Code Ann. § 11-35-1570.

Agency Response

There is no disagreement with the audit finding.

The Department will develop and implement procedures to ensure emergency procurements are adequately and appropriately justified in writing. The Department will also conduct a quarterly peer review of Emergency documentation to ensure all required information is noted in the Procurement file. It is expected that this process will begin March 2021 as we are developing our storage documentation system. The Department also implemented an internal review by the Contract Advisor before final signature approval.

B. Emergency Determinations Not Properly Approved

Two written determinations totaling \$174,448 were not dated.

While SC Code Ann. § 11-35-1570, does not specifically require written determinations to be dated, the date is an integral part of the approval process. Regulation 19-445.2110 (D) provides that "...whenever practical, approval ... shall be obtained prior to the procurement." Dating the approval provides documentation that required approval was obtained for the procurement of supplies or services without competition. Additionally, in order to ensure that the required approval(s) are obtained, accepted practice is to print the name and title of the individual approver(s) signing the determination.

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Recommendation: We recommend DSS develop and implement procedures to ensure that emergency determinations are signed and dated by the appropriate official(s) prior to the procurement whenever practical. When approval prior to the procurement is not practical, the procedure shall require an explanation as to why prior approval was not obtained. We also recommend that the format of written determinations include printed names and titles, in addition to signatures and dates, of approvers.

Agency Response

There is no disagreement with the audit finding.

The Department will develop and implement procedures to ensure that justifications are signed and dated for each Emergency procurement in a timely manner or provide an explanation as to why prior approval was not obtained. The Department will also conduct a quarterly peer review of Sole Source and Emergency documentation to ensure all required information is noted in the Procurement file. It is expected that this process will begin March 2021 as we are developing our storage documentation system.

C. Non-compliance with DFWA

DSS solicitations greater than \$50,000 require contractors to certify that they will provide a drug-free workplace as required by the DFWA. Our review of emergency procurements valued at \$50,000 or more identified 11 procurements totaling \$2,149,273 for which the DFWA certifications were not obtained even though the solicitation required such certification by the vendor.

The DFWA § 44-107-30, states, "no person, other than an individual, may receive a domestic grant or be awarded a domestic contract for the procurement of any goods, construction, or services for a stated or estimated value of \$50,000 or more from any state agency unless the person has certified to the using agency that it will provide a drug-free workplace..."

Recommendation: We recommend DSS revise its procedures to verify that Drug-Free Workplace Act certifications are obtained prior to commencement of work under all contracts, to include renewals and extensions beyond the original contract term.

Agency Response

There is no disagreement with the audit finding.

The Department will ensure that Drug Free Workplace Certificates are completed for procurements over \$50,000. The Department will also conduct a quarterly peer review of Sole Source and Emergency documentation to ensure all required information is noted in the

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Procurement file. It is expected that this process will be begin April 2021 as we are developing our storage documentation system to be completed by October 2021. Additionally, the Department is in the process of revising Chapter 13: SCDSS Procurement Manual and will ensure that this information is addressed specifically before submitting the Manual to SFAA for recommendations and approval.

IV. Delays in Procurement Records

We experienced unusual delays in response to requests for documentation or explanation during the audit. Required procurement records did not appear to be organized in a consistent manner or location for access by current procurement personnel. DSS has experienced significant turnover in key procurement staff in recent years.

SC Code Ann. § 11-35-2430. Retention of procurement records, requires that all procurement records of governmental bodies shall be retained and disposed of in accordance with records retention guidelines and schedules approved by the Department of Archives and History after consultation with the Attorney General. Per Regulation 19-445.2005 (B) Procurement Records, “Each governmental body must maintain procurement files sufficient to satisfy the requirements of external audit.”

Recommendation: We recommend DSS develop and implement procedures that establish a consistent methodology for organization and location of required documentation of procurement activity as required by the Code and Regulations.

Agency Response

There is no disagreement with the audit finding.

Due to Covid-19, Stay at home order, and change in staffing and leadership since 2015, documentation was difficult to locate. The Department will be implementing a new storage documentation system in October 2021 (OnBase), along with systematic filing of documentation.

V. Small and Minority Business Utilization Plans and Reports Not Filed or Filed Late

A Quarterly Progress Reports Not Filed

Four of the quarterly progress reports were not filed. SC Code Ann. § 11-35-5240 (2) states in part that progress reports be submitted to the SMBCC no later than 30 days after the end of each fiscal quarter. There were no findings in the most recent three years. We commend DSS for putting controls in place to ensure compliance with the filing requirements.

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Recommendation: We recommend DSS continue to follow its procedures, including management review and approval, to ensure compliance with SC Code Ann. § 11-35-5240 (2) that requires quarterly progress reports to be submitted to the SMBCC.

Agency Response

There is no disagreement with the audit finding.

The Department will implement a checklist to ensure that Small and Minority Business information annual and quarterly reports are submitted in a timely manner. The Department has also hired and will cross train an additional staff to submit reports timely. Furthermore, we will create a tracking system so that submission of reports will be logged quarterly and annually in new storage documentation system.

B Annual Utilization Plans and Progress Reports Not Filed Timely.

Five of the required annual utilization plans were not filed in a timely manner and five of the quarterly progress reports were not filed in a timely manner. SC Code Ann. § 11-35-5240 (2) states in part that MBE utilization plans be submitted to the SMBCC for approval no later than July 30th, annually, and that progress reports be submitted to the SMBCC no later than 30 days after the end of each fiscal quarter.

Recommendation: We recommend DSS develop and implement procedures, including management review and approval, to ensure compliance with SC Code Ann. § 11-35-5240 (2) that requires submitting annual utilization plans and quarterly progress reports to the SMBCC in a timely manner.

Agency Response

There is no disagreement with the audit finding.

The Department will implement a checklist to ensure that Small and Minority Business information annual and quarterly reports are submitted in a timely manner. The Department has also hired and will cross train additional staff to submit reports timely. Furthermore, we will create a tracking system so that submission of reports be logged quarterly and annually in new storage documentation system.

CERTIFICATION RECOMMENDATION

We believe corrective action based on the recommendations in this report will make the Department of Social Services' internal procurement operations consistent, in all material respects, with the South Carolina Consolidated Procurement Code and ensuing regulations.

As provided in SC Code Ann. § 11-35-1210, we recommend that the Department of Social Services procurement authority to make direct agency procurements be re-certified up to the following limits for three years:

<u>PROCUREMENT AREAS</u>	<u>RECOMMENDED CERTIFICATION LIMITS</u>
Service Provider Contracts ¹	\$ 2,000,000 per contract per year, ²
Supplies and Services ³	*\$ 100,000 per commitment
Information Technology ⁴	*\$ 100,000 per commitment

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



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¹ 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 With option to extend four additional years.

³ Supplies and Services includes non-IT consulting services.

⁴ Information Technology includes consulting services for any aspect of information technology, systems and networks.