

INTERNAL AUDIT REPORT

2020

PROCUREMENT OF PROFESSIONAL SERVICES

An Assessment of:

- Risks
- Control Design Adequacy
- Control Operating Effectiveness



SOUTH CAROLINA OFFICE OF THE STATE
AUDITOR

**INTERNAL AUDIT
SERVICES**

September 21, 2020

1 EXECUTIVE SUMMARY

QUALITY ASSURANCE ON DESIGN PLANS

OBJECTIVE:

- To facilitate Management's assessment of risks that threaten the achievement of its objectives for procuring professional services contracts.
- To assess the adequacy of the design and operating effectiveness of internal controls to manage the activity's risks to an acceptable level.

BACKGROUND:

- The Procurement Office is responsible for securing all services and goods necessary to accomplish SCDOT's mission. The Professional Services Contracting Office is a division of the procurement office.
- The Professional Services Contracting Office facilitates the development of contracts for the acquisition of architectural and engineering (A&E) and other professional services in support of the construction, maintenance, and repair of bridges, highways and roads. This office resides in the Division of Finance and Administration but collaborates with employees in the Engineering Division who are appointed to professional services bid selection committees. As such, responsibility for the steps in the procurement activity included in this engagement is divided between the two divisions. This division of responsibility is noted in our observation and performance opportunities as applicable.

CONCLUSION:

In our opinion, existing internal controls are adequately designed and operating effectively. However, those controls by themselves are insufficient for reducing some risks to within the Agency's risk appetite. Our recommendations to improve control design are described in the Observations section beginning on page 10.

EXECUTIVE SUMMARY Continued

INTERNAL CONTROL OBSERVATION:

Observation 5.1 - Procurement Training	Risk Exposure:	Medium
Although not required, not all individuals in the Regional Production Group who are involved in the professional services contract process receive the full gamut of training. This can lead to errors or noncompliance in the procurement process.		
(See detailed Observation 5.1 on page 10)		

PERFORMANCE OPPORTUNITIES:

While our engagement was primarily focused on risk management, we have identified other matters that represent opportunities for cost savings, revenue enhancement, process improvement, strengthened control environment, or more effective performance.

Performance Opportunity 6.1 - Solicitation Numbers in P2S
Some solicitation numbers in the new professional services module in P2S (project programming system) do not match with supporting documentation in the Project Wise system. This makes finding associated documentation time-consuming.
(See detailed Performance Opportunity 6.1 on page 12)

Performance Opportunity 6.2 – Disclosure Policy
The Professional Services policy manual states that consultants are not to communicate with program managers but does not specifically address the consequences of intentional and unintentional compromised independent estimates.
(See detailed Performance Opportunity 6.2 on page 13)

EXECUTIVE SUMMARY Continued

Performance Opportunity 6.3 – Reliability of DBE Information

Disadvantaged Business Enterprise (DBE) information is inconsistently entered into P2S giving the appearance that DBEs are underutilized on professional services contracts. We noted that DBEs are represented in every solicitation and contract we sampled.

(See detailed Performance Opportunity 6.3 on page 14)

Management Action Plans are included in Section 5 following the detailed Observation and each Performance Opportunity as referenced above.

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2 FOREWORD

AUTHORIZATION

The South Carolina Office of the State Auditor established the Internal Audit Services division (IAS) pursuant to SC Code Section 57-1-360 as revised by Act 275 of the 2016 legislative session. IAS is an independent, objective assurance and consulting function designed to add value and improve the operations of the South Carolina Department of Transportation (SCDOT). IAS helps SCDOT to achieve its objectives by bringing a systematic, disciplined approach to evaluating the effectiveness of risk management, internal control, and governance processes and by advising on best practices.

STATEMENT OF INDEPENDENCE

To ensure independence, IAS reports administratively and functionally to the State Auditor while working collaboratively with SCDOT leadership in developing an audit plan that appropriately aligns with SCDOT's mission and business objectives and reflects business risks and other priorities.

REPORT DISTRIBUTION

This report is intended for the information and use of the SCDOT Commission, SCDOT leadership, the Chairman of the Senate Transportation Committee, the Chairman of the Senate Finance Committee, the Chairman of the House of Representatives Education and Public Works Committee, and the Chairman of the House of Representatives Ways and Means Committee. However, this report is a matter of public record and its distribution is not limited.

PERFORMED BY

Amanda Newell, CSSBB, CPM, PMP
Senior Manager
Specializing in Efficiency Assessment

REVIEWED BY

Wayne Sams, CPA
Director of Internal Audit Services

ACKNOWLEDGEMENT

We wish to thank members of management and staff in the Professional Services Contracting Office, Regional Production Groups, Financial Planning, and Accounting for their cooperation in sharing their knowledge and experience and developing actions to improve internal control and performance.

3 INTERNAL AUDITOR'S REPORT

September 21, 2020

Ms. Christy A. Hall, Secretary of Transportation
and
Members of the Commission
South Carolina Department of Transportation
Columbia, South Carolina

We have completed a risk and control assessment of the South Carolina Department of Transportation's (SCDOT) Procurement of Professional Services activity. The objective of this assessment was to contribute to the improvement of risk management by evaluating SCDOT's exposure to risks and the controls designed by Management to manage those risks. Our engagement included the following aspects:

- Facilitation of Management's assessment of risks
- Independent assessment of internal controls established by the Professional Services Contracting Office to determine whether those controls are adequately designed and operating effectively to manage the identified risks to an acceptable level.

We planned and performed the engagement with due professional care in order to obtain sufficient, appropriate evidence to provide a reasonable basis for our observations and conclusions.

While our engagement was primarily focused on risk management, we have identified matters that may represent opportunities for process improvement. These matters are detailed in the *Performance Opportunities* section beginning on page 12.

A handwritten signature in blue ink that reads 'George L. Kennedy, III'.

George L. Kennedy, III, CPA
State Auditor

4 ENGAGEMENT OVERVIEW

4.1 BACKGROUND

The Procurement Office is responsible for securing all services and goods necessary to accomplish SCDOT's mission. The office is divided into three separate areas:

- **Commodities and Services Office** - Directs and oversees the acquisition of commodities and services for the Agency to ensure items are legally procured and available to meet Agency needs.
- **Project Delivery Office** - Ensures compliance for contractor/consultant Design-Build delivery. Additionally, this office oversees and directs the management of procurement cards.
- **Professional Services Contracting Office** - Provides guidance in acquisition of architectural and engineering (A&E) and other professional services in support of the construction, maintenance, and repair of bridges, highways and roads. This office serves as the cradle to grave point of contact for all professional services contracting actions to include: solicitations, selection, negotiation, execution, invoicing, performance evaluation, and records management.

Our engagement focuses on the Procurement of Professional Services activity that falls within the purview of the Professional Services Contracting Office. This office resides in the Division of Finance and Administration but collaborates with employees in the Engineering Division who are appointed to professional services bid selection committees. As such, responsibility for the steps in the procurement activity included in this engagement is divided between the two divisions. This division of responsibility is noted in our observation and performance opportunities as applicable.

The Professional Services Contracting Office has experienced significant staff turnover and changes in management over the past two years. In spite of that challenge, the office has been working on changes designed to improve its operations. The most significant changes of note are:

- Implementation of a new module of P2S (the Agency's construction project programming software) for professional services went live in the spring of 2019.
- Development of a two-tiered selection policy that includes a technical evaluation by a selection committee and a workload evaluation by the Professional Services Contracting Office. [This policy was not implemented until after the period we tested.]

4.2 OBJECTIVES

Management's objective of the Procurement of Professional Services activity is to:

- Serve as the point of contact for all professional services contracts
- Solicit proposals for all professional services contracts
- Select the best submitted proposal in a timely manner
- Comply with FHWA regulations, AASHTO standards, SCDOT standards, and Professional Services procurement policy
- Negotiate the contract

Our objective was to facilitate Management's assessment of risks that threaten the achievement of its objectives and to assess the effectiveness of controls designed to manage those risks to an acceptable level.

4.3 SCOPE

The Procurement of Professional Services activity is organized into the following processes that are further described in Appendix A:

- Selection of proposals
- Contract negotiation

We included both processes in the scope of our risk and control assessment. Our testing focused on all active contracts as of December 5, 2019. We tested proposal selection, and contract negotiation for a sample of 10 out of 226 active contracts. The sample covers \$147,879,924 or 23% of the total dollar value of active professional services contracts.

4.4 METHODOLOGY

For the significant processes included in the engagement scope, we performed the following procedures:

1. We facilitated Management's completion of a process outline that documented the steps in the process and the individuals responsible for those steps.
2. We facilitated Management's completion of a risk and control matrix used to:
 - a. Identify risks which threaten process objectives;
 - b. Score the risks as to their consequence and likelihood of occurrence using the risk scoring matrix in Appendix B;
 - c. Determine if controls are adequately designed to manage the risks to within the Agency's risk appetite; and
 - d. Propose design improvements to controls when risks are not managed to within the Agency's risk appetite.

As shown on the Risk Scoring Matrix in Appendix B, risk significance is rated on a scale of 1 (lowest) to 25 (highest) and is the product of the risk consequence score (1 to 5) multiplied by the risk likelihood score (1 to 5). Risk appetite is the amount of risk exposure Management is willing to accept in pursuit of its objectives. Executive Management has set various risk appetites by risk type as shown in Appendix C. Risks scoring below Management's risk appetite require no further risk management. Controls determined to be inadequate in design result in risk exposure to the Agency if risk scores exceed risk appetite.

3. We observed the discussion by key process owners and other subject matter experts performing the steps in procedure two above.
4. We evaluated Management's assessment to determine if it was reasonable and comprehensive.

5. We tested key controls for controls with inherent risk scores of 9 and above [scale of 1 (low) to 25 (high)] to determine if controls are designed adequately and operating effectively. Our testing included inquiry, observation, inspection of documentation, and re-performance of process steps to determine if key controls are operating effectively. We tested controls for risks with inherent scores of 9 and above.
6. We developed observations for controls determined to be inadequate in design and/or ineffective in operation.
7. We collaborated with management to develop action plans to improve control design and/or operating effectiveness.
8. While our engagement was primarily focused on risk management, we have identified other matters that represent opportunities for process improvement.
9. We collaborated with Management to develop action plans for improving performance.

4.5 CONCLUSION

In our opinion, existing internal controls are adequately designed and operating effectively. However, those controls by themselves are insufficient for reducing some risks to within the Agency's risk appetite. Our recommendation to improve control design and effectiveness is described in Observation 5.1 on page 10.

While our engagement was primarily focused on risk management, we have identified matters that represent opportunities for process improvement. These matters are detailed in the Performance Opportunities section on page 12.

4.6 DEVELOPMENT OF MANAGEMENT ACTION PLANS

We facilitated Management's development of action plans for each observation to improve control design with practical, cost-effective solutions. These improvements, if effectively implemented, are expected to reduce the overall risk exposure to an acceptable level (i.e. within the Agency's risk appetite).

We will follow up with Management on the implementation of the proposed actions on an ongoing basis and provide SCDOT leadership with periodic reports on the status of management action plans and whether those actions are effectively and timely implemented to reduce risk exposure to an acceptable level.

5 OBSERVATIONS

Observation 5.1 Procurement Training	Risk Exposure Medium
Division: Engineering Division	
Controls Assessed: Training	
Control Descriptions: The Professional Services Contracting Office employees are required to complete a variety of training including: procurement, conflict of interest, ethics, and code of conduct. This control provides a function for trained and experienced employees to catch issues as they occur.	
Processes Affected: (See process descriptions in Appendix A on page referenced below) Process 1 – Selection of Proposals (Page 15) Process 2 – Contract Negotiation (Page 16)	
<p>Observation: Not all individuals who are involved in the professional services contract process receive the full gamut of training. Although not required, we noted that 6 out of 21 RPG (Regional Production Group) staff in the Engineering Division had not completed procurement training in the past 10 years. RPG staff are part of the business area that:</p> <ul style="list-style-type: none"> • Initiates professional services contracts • Determines who will be on the selection committee • Participates in the review, ranking and selection of proposals • Facilitates internal estimates used in the negotiation process • Participates in the negotiation process • Reviews and approves the negotiation package <p>Without proper training, staff may misunderstand the process, be unaware of procurement laws and regulations, and overlook errors or omissions. This could lead to noncompliance and/or delay in procurement.</p> <p>Recommendations:</p> <ol style="list-style-type: none"> a. The Professional Services Contracting Office should review and update its training as needed to address the procurement roles of the Engineering Division. b. The Engineering Division should require all of its staff with input, review, and/or approval responsibilities involving professional services procurement activities (selection, negotiation, etc.) receive formal training by the Professional Services Contracting Office on procurement rules and best practices. Training records should be maintained and periodic training refreshers offered. 	

Management Action Plan (MAP) 5.1a

Professional Services is working on training for both the Professional Services Contracting Office and the engineering side of the house. This training will include the entire negotiation process from selection through contract closeout. Training will include a “negotiation handbook” and presentation. This MAP will be considered completed when the professional services training has been developed and is available to staff in Professional Services and engineering.

MAP Owner:	Chief, Professional Services Contracting Office
Division:	Professional Services
Scheduled Date:	June 30, 2021

Management Action Plan (MAP) 5.1b

Engineering will develop a policy requiring staff who may have involvement in the procurement of professional services contracts to complete professional services training. This training will be provided by the Professional Services Contracting Office and include the entire procurement process from selection through contract closeout. The policy will outline a plan to assure that staff complete training within a designated timeframe. Refresher training will be required periodically – specific frequency will be outlined in the policy.

MAP Owner:	Deputy Secretary for Engineering
Division:	Engineering
Scheduled Date:	June 30, 2021

6 PERFORMANCE OPPORTUNITIES

While our engagement was primarily focused on risk management, we have identified other matters that represent opportunities for cost savings, revenue enhancement, process improvement, strengthened control environment, or more effective performance.

Performance Opportunity 6.1 Solicitation Numbers in P2S

Division: Procurement Office - Professional Services

Process Affected: (See process description in Appendix A on page referenced below)
Process 1 – Selection of Proposals (Page 15)

Some solicitation numbers in the new professional services module in P2S (project programming system) do not match with supporting documentation in the Project Wise system. This makes finding associated documentation time-consuming. In 2019, when solicitation data was imported into P2S, the system automatically changed some solicitation numbers based on the advertisement date. This occurred when work on a solicitation was started in one fiscal year and advertised in the next.

Recommendation: Identify solicitation numbers changed by P2S and note the change on the supporting documentation.

Management Action Plan (MAP) 6.1

Most of the issues in this section were due to the data migration process when switching over to P2S. These issues should phase themselves out due to the age of the selections and the continuing use of P2S. The numbers in question have been noted and the Professional Services Contracting Office is aware of the differences. During the summer of 2019 a SCDOT summer intern reviewed all data migration reports and corrected any items that did not match up. The Professional Services Contracting Office will continue to monitor the P2S database and correct/modify any selection that may be found to be inconsistent. Professional Services considers this MAP complete.

MAP Owner:	Chief, Professional Services Contracting Office
Division:	Professional Services
Scheduled Date:	Completed 2020

Performance Opportunity 6.2 Disclosure Policy

Division: Procurement Office - Professional Services

Process Affected: (See process description in Appendix A on page referenced below)
Process 1 – Solicitation of Proposals (Page 15)

The Professional Services policy manual states that consultants are not to communicate with program managers but does not specifically address the consequences of intentional and unintentional compromised independent estimates. We determined that staff have a shared understanding of what to do in the event of a disclosure; however, the policy does not specifically state what actions to take, including assessing the impact, in the event of a disclosure.

Recommendation: Add language to the Professional Services policy manual that describes how to assess impact and what actions to take in the event of an unauthorized disclosure.

Management Action Plan (MAP) 6.2

The Professional Services Contracting Office has no issue with adding language to include actions to take on nonconforming communication. The Professional Services Contracting Office will work with the SCDOT Legal Team to add this language. This MAP will be considered complete when policy is updated.

MAP Owner:	Chief, Professional Services Contracting Office
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Division:	Professional Services
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Scheduled Date:	June 30, 2021
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Performance Opportunity 6.3
Reliability of DBE Information

Division: Procurement Office - Professional Services

Process Affected: (See process description in Appendix A on page referenced below)
 Process 1 – Solicitation of Proposals (Page 15)

Disadvantaged Business Enterprise (DBE) information is inconsistently entered into P2S giving the appearance that DBEs are underutilized on professional services contracts. We noted that DBEs are represented in every solicitation and contract we sampled.

Recommendation: Establish a control to ensure DBE information is consistently entered into P2S. Alternatively, remove the field from P2S so DBE information can be obtained from a more reliable source.

Management Action Plan (MAP) 6.3

The Professional Services Contracting Office currently does list DBE in contracts and that information and payment information is submitted to the DBE office quarterly for their review. The Professional Services offices will continue to submit this information to the DBE office. Only contracts with goals will have the goal percentage listed in P2S. Due to regulations, state funded projects or on-call contracts will not have goals attached to them.

MAP Owner:	Chief, Professional Services Contracting Office
Division:	Professional Services
Scheduled Date:	11/17/2020

APPENDIX A PROCESS DESCRIPTIONS

Process 1 Selection of Proposals

When there is a need for acquisition of architectural and engineering (A&E) and other professional services in support of the construction, maintenance, and repair of bridges, highways and roads, the point of contact for that project will notify the Professional Services office. The Professional Services office will assist to establish a contract with a firm. The selection process is the first step in establishing a contract with a firm.

Note: The point of contact is often Regional Production Group (RPG) staff.

The following is a high level overview of the major process steps in selecting a proposal for a professional services contract:

- Internal approval of a new contract
- Advertisement of Request for Proposals (RFP)
- Review submitted proposals for compliance with RFP requirements
- Assemble selection committee to review and rate proposals
 - Scoring criteria included in the RFP advertisement is used to score submitted proposals
 - Committee usually includes the project manager, and appropriate subject matter experts based on the specific criteria identified in the RFP
- Committee selection of proposal
 - Proposals are ranked based on RFP criteria
 - Proposals are ranked in order of high to low score
 - The highest ranked proposal or proposals are selected
- Internal approval of selection
- Firm is notified that their proposal was selected for award

RFPs for Professional Services contracts do not have fully defined scopes or cost estimates. The purpose of selection is to evaluate the proposals and pick the best one based on the criteria identified in the RFP.

Process 2 Contract Negotiation

Following the selection of the best proposal, the scope, cost and timeline of the contract must be negotiated with the firm. The following are the major process steps required for the Professional Services office to facilitate a contract negotiation:

- Contract Scoping
 - Internal scoping discussion
 - Firm review of scope
 - Scope negotiation between SCDOT and Firm
 - Agreement and finalized scope
- Time and cost estimate
 - Create a time and cost estimate template based on the finalized scope
 - Request an internal estimate
 - Internal estimate completed and returned to the negotiator
 - Send estimate template to the awarded firm
 - Firm estimate completed and returned to the negotiator
 - Identify estimate variances and start negotiations with firm and SCDOT staff
 - Fair and reasonable estimate reached
 - Approval of negotiation
 - Firm and SCDOT sign contract
 - Contract entered into appropriate systems
 - Contract distributed as appropriate

Note: In the event that SCDOT and the awarded firm cannot come to agreement on the scope and cost of the contract, the firm with the next highest ranked proposal will be asked to engage in negotiations to establish a contract.

APPENDIX B

RISK SCORING MATRIX

Risk significance is rated on a scale of 1 (lowest) to 25 (highest) and is the product of the risk consequence score (1 to 5) multiplied by the risk likelihood score (1 to 5). The following matrix provides a color scale corresponding to risk significance scores.

Likelihood	Frequent or Almost Certain	3-4 Low	9-13 Medium	14-17 Med-High	18-21 High	22-25 Extreme
	Likely	3-4 Low	5-8 Med-Low	9-13 Medium	14-17 Med-High	18-21 High
	Possible	3-4 Low	5-8 Med-Low	5-8 Med-Low	9-13 Medium	14-17 Med-High
	Unlikely	1-2 Minimal	3-4 Low	5-8 Med-Low	5-8 Med-Low	9-13 Medium
	Rare	1-2 Minimal	1-2 Minimal	3-4 Low	3-4 Low	3-4 Low
		Incidental	Minor	Moderate	Major	Extreme
		Consequence				

APPENDIX C

RISK APPETITE

Risk appetite is defined as the amount of risk the Agency is willing to accept in the pursuit of its objectives. Management’s goal is to manage risks to within the appetite where mitigation is cost-beneficial and practical. Management has set the Agency’s risk appetite by risk type using scoring methodology consistent with the Risk Scoring Matrix shown in Appendix B. Risk appetites by risk type are as follows:

RISK TYPE	EXAMPLES	RISK APPETITE SCORE 1 = Minimal Risk 25 = Extreme Risk (See Scoring Matrix in Appendix B)
Safety	Employee and Public Well-Being	2
Ethical	Fraud, Abuse, Mismanagement, Conflict of Interest	2
Financial	Funding, Liquidity, Credit, Reporting	4
Strategic	Resources not Aligned, Unclear Objectives	4
Reputational	Unintentional Unwanted Headlines	4
Operational	Delays, Cost Overruns, Waste, Inefficiency	6
Regulatory	Non-Compliance	6
Legal	Lawsuits	10