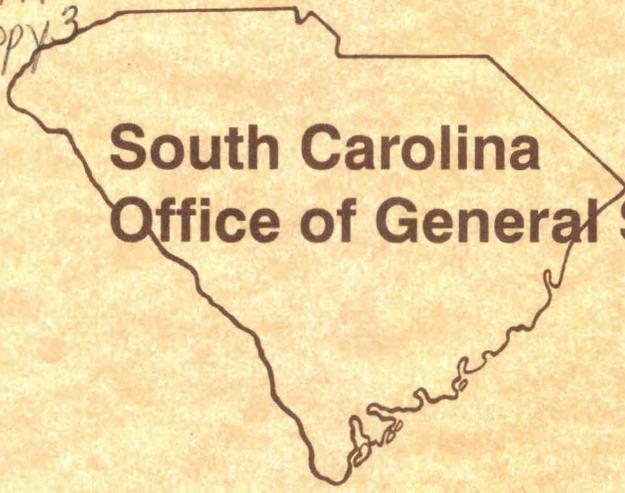


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**South Carolina
Office of General Services**

PROCUREMENT AUDIT AND CERTIFICATION

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**SOUTH CAROLINA DEPARTMENT
OF JUVENILE JUSTICE**
AGENCY
JANUARY 1, 1996 - JUNE 30, 1998
DATE

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State Budget and Control Board
OFFICE OF GENERAL SERVICES



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MATERIALS MANAGEMENT OFFICE
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COLUMBIA, SOUTH CAROLINA 29201
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R. VOIGHT SHEALY
ASSISTANT DIRECTOR

April 5, 1999

Ms. Helen T. Zeigler, Director
Office of General Services
1201 Main Street, Suite 420
Columbia, South Carolina 29201

Dear Helen:

I have attached the South Carolina Department of Juvenile Justice's 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
R. Voight Shealy
Materials Management Officer

/tl

SOUTH CAROLINA DEPARTMENT OF JUVENILE JUSTICE
PROCUREMENT AUDIT REPORT
JANUARY 1, 1996 - JUNE 30, 1998

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

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R. VOIGHT SHEALY
ASSISTANT DIRECTOR

February 2, 1999

Mr. R. Voight Shealy
Materials Management Officer
Office of General 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 Juvenile Justice for the period January 1, 1996 through June 30, 1998. 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 and Department 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 Juvenile Justice 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 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.

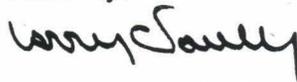
Because of inherent limitations in any system of internal control, errors or irregularities may occur and not be detected. Also, projection of any evaluation of the system to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or that the degree 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 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 Juvenile Justice in compliance with the South Carolina 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 Department of Juvenile Justice. Our on-site review was conducted October 5 through 23, 1998, 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 May 21, 1996, the Budget and Control Board granted the South Carolina Department of Juvenile Justice the following procurement certification. These limits will expire on May 21, 1999.

<u>Category</u>	<u>Limit</u>
Goods and Services	\$50,000 per commitment
Information Technology in accordance with the approved Information Technology Plan	\$50,000 per commitment
Consultant Services	\$50,000 per commitment
Construction Services	\$25,000 per commitment

Our audit was performed primarily to determine if recertification is warranted. The Department did not request increased certification limits.

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 Juvenile Justice 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 January 1, 1996 through June 30, 1998, 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 January 1, 1996 through June 30, 1998
- (2) Procurement transactions for the period January 1, 1996 through June 30, 1998 as follows:
 - a) One hundred and two payments each exceeding \$1,500
 - b) A block sample of four hundred numerically sequential purchase orders reviewed for order splitting and favored vendors
 - c) Additional sample of two sealed bids and eight written quotations greater than \$1,500
- (3) Four professional services contracts and four construction contracts for compliance with the Manual for Planning and Execution of State Permanent Improvements
- (4) Minority Business Enterprise Plan approvals and reports for the audit period
- (5) Information Technology Plans and approvals
- (6) Internal procurement procedures manual
- (7) Surplus property procedures
- (8) Procurement file documentation

SUMMARY OF AUDIT FINDINGS

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

	<u>PAGE</u>
I. <u>Drug-Free Workplace Certifications</u>	6
Four sole source procurements and two emergency procurements did not have the drug-free workplace certification.	
II. <u>Surplus Property</u>	7
The Department has not reported surplus property in a timely manner as required by the Code.	
III. <u>Unauthorized Contract Extension And Multi-Term Determination Not Prepared</u>	7
One contract was extended beyond the time allowed by the original bid. The file did not contain the multi-term determination.	
IV. <u>Exemption Misapplied</u>	8
A procurement was inappropriately classified as exempt.	
V. <u>Missing Bid Information</u>	8
Two purchase orders were not supported by the vendors' quotes.	
VI. <u>Internal Procurement Procedures Manual Needs Amending</u>	9
Changes need to be made to the procurement procedures manual.	

RESULTS OF EXAMINATIONS

I. Drug-Free Workplace Certifications

We noted four sole source procurements and two emergency procurements for \$50,000 or greater where the Department did not obtain the required drug-free workplace certification from the vendors stating they are in compliance with the South Carolina Drug-Free Workplace Act.

<u>PO</u>	<u>Date</u>	<u>Sole Source Procurements Description</u>	<u>Amount</u>
1617	07/01/96	Professional services of aftercare and sex offenders	\$ 50,000
719	07/01/97	Data center operational support	214,250
572	10/01/97	Bed space for runaways and homeless	50,988
3969	04/14/98	Accreditation contract	54,894

<u>PO</u>	<u>Date</u>	<u>Sole Source Procurements Description</u>	<u>Amount</u>
1005	07/01/96	Regional youth care facility	\$ 2,531,710
1263	08/28/96	Contract to reduce existing population	13,775,976

Effective January 1, 1991, Section 44-107-30 of the South Carolina Code of Law, 1976, requires that no State agency may enter into a domestic contract or make a domestic grant with any individual for a stated or estimated value of fifty thousand dollars or more unless the contract or grant includes a certification that the individual will not engage in the unlawful manufacture, distribution, possession, or use of a controlled substance in the performance of the contract. Sole and emergency procurements are subject to this law.

We recommend the Department obtain the Drug-Free Workplace certification on all contracts of \$50,000 or more.

DEPARTMENT RESPONSE

We concur with the finding. The Drug-Free Workplace certifications are now being required for all procurements over \$50,000, including sole source and emergency procurements. The Department has begun requiring the completion of an affidavit certifying compliance to the Drug-Free Workplace Act by vendors for sole source and emergency procurements over \$50,000. We will follow-up to ensure the completion and return of the affidavit from the vendor.

II. Surplus Property

During our review, we noted that surplus property has not been reported to State Surplus Property since September of 1997. The Department has an excessive amount of surplus stored in its warehouse. Regulation 19-445.2150 requires that surplus be reported within 180 days of becoming surplus. We noted this problem in our previous audit.

We recommend the Department prepare a turn-in document for surplus in the warehouse. We also recommend the Department comply with the Regulations concerning the disposal of surplus property.

DEPARTMENT RESPONSE

We concur with the finding. Although the Department has an excessive amount of surplus property stored in its warehouse, much of which has exceeded the 180 days reporting limit, a turn-in document has been prepared and submitted to State Surplus. State Surplus has scheduled an on-site visit, March 18, 1999, to screen the property and has the pick-up of the property scheduled for March 29 and 30, 1999. Upon the removal of the screened property on March 30, 1999, a second turn-in document will be immediately prepared for all surplus property currently on hand. In addition, the Department has posted a position for an employee whose duties will include the documentation and the reporting of surplus property. We anticipate that this action will preclude recurrence of this finding.

III. Unauthorized Contract Extension and Multi-Term Determination Not Prepared

The Department awarded a contract for laundry supplies in February of 1996, that contained an option to extend for one additional year. The Department extended the contract for a third year on purchase order 479 on July 2, 1998 for \$15,000. The extension should have been done as a new contract and competition solicited in accordance with Section 11-35-1550(2)(d) of the Code.

The Department failed to prepare the multi-term determination. Section 11-35-2030 requires that a written determination be prepared, prior to the contract, to justify a contract that exceeds one year.

We recommend the Department comply with the contract provisions as to the maximum contract time and with the multi-term requirements of the Code.

DEPARTMENT RESPONSE

We concur with the finding. In the future, the Department will comply with the contract period stated in the contract. Contracts will be reviewed and flagged to ensure that services are discontinued at the end of a contract period. Files will be established to ensure the review of contracts three months prior to end of the contract period. During the review process, it will be determined whether the contract needs to be extended or the services should be terminated or the goods returned. If the services need to be extended, the Department will follow the proper procedures to comply with the Code.

IV. Exemption Misapplied

The Department paid another state agency \$1,762 on voucher 6987 dated January 1, 1997, to produce a promotional tape. The Department used the exemption granted by the Budget and Control Board on March 22, 1994, which states:

The following types of contracts between state government agencies shall be exempted from the Consolidated Procurement Code and submission to General Services is not required: (1) agreements between state government agencies which are mandated by federal or state laws; and (2) services agreements between state government agencies for services authorized by that agency's enabling legislation as its purpose, duty, or mission.

The mission of the agency used to produce the tape is to provide a state-wide educational communications network for public schools, colleges, universities, and adult continuing education, not to produce promotional tapes.

We recommend the Department compete these services or comply with the exemption for contracts between state agencies.

DEPARTMENT RESPONSE

We concur with the finding. The Department will only utilize exemptions in accordance with the Code. Furthermore, the Department will focus additional review on the procurement of promotional videos and seek competition as required to ensure compliance with the Code.

V. Missing Bid Information

The Department could not furnish information on two procurements.

<u>PO</u>	<u>Date</u>	<u>Description</u>	<u>Amount</u>	<u>Missing Information</u>
3529	06/27/96	Heat pump unit	\$16,180	Written solicitations
3060	03/24/97	Water heater	9,995	Written quotes

When purchase order 3529 was prepared, the Code required the solicitation of written quotes from a minimum of five qualified sources. Solicitation of written quotes from a minimum of three qualified sources was required for purchase order 3060. Without the supporting documentation, we could not determine compliance to the Code.

We recommend the Department evaluate its filing procedures and make the necessary modifications so that information is available.

DEPARTMENT RESPONSE

We concur with the finding. The Department has implemented modifications in the filing of purchase orders and supporting documentation. These changes were made to ensure that documentation denoting the Department's compliance to the Code is retained on site and that controls are in place to prevent the misplacement or loss of the required documentation. File cabinets have been placed in a more secure area and are kept locked after work hours. Only authorized personnel have access to the files. Sign in/out cards must be used when removing a purchase order from the files.

VI. Internal Procurement Procedures Manual Needs Amending

The Code was amended on June 13, 1997. In January of 1998, the Office of Audit and Certification notified the Department to update its manual. As of our audit, the manual has not been updated.

The following items need to be addressed.

- 11-35-45 Payments
- 11-35-50 Political subdivisions
- 11-35-310 Definitions
- 11-35-410 Public access to information
- 11-35-1520 Competitive sealed bidding
- 11-35-1525 Fixed price bidding
- 11-35-2528 Competitive best value bidding
- 11-35-1530 Competitive sealed proposals
- 11-35-1550 Small purchases
- 11-35-1575 Procurements at auctions
- 11-35-1825 Pre-qualifications for construction bidders
- 11-35-2010 Type and forms of contracts
- 11-35-2030 Multi-term contracts
- 11-35-2410 Determinations
- 11-35-3020 Construction services
- 11-35-3220 Procurement procedures

- 11-35-3230 Exception small A & E and land surveying
- 11-35-3310 Indefinite delivery contracts
- 11-35-3830 Trade-in sales
- 11-35-4210 Resolution of protests
- 11-35-4215 Protest bond
- 11-35-4220 Authority to debar or suspend
- 11-35-4230 Resolution contract controversies
- 11-35-4810 Co-operative purchasing

We recommend the manual be updated to include these items and submitted to our office for review per Regulation 19-445.2005

DEPARTMENT RESPONSE

We concur with the finding. The Department's Manager of Procurement Services is currently in the process of up-dating the manual. We estimate that the manual will be submitted to your office no later than April 30, 1999.

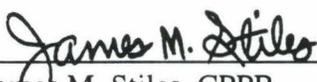
CERTIFICATION RECOMMENDATIONS

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 Juvenile Justice in compliance with the Procurement Code.

Under the authority described in Section 11-35-1210 of the Procurement Code, and subject to this corrective action, we will recommend the South Carolina Department of Juvenile Justice be recertified to make direct agency procurements for three years up to the limits as follows.

<u>PROCUREMENT AREA</u>	<u>RECOMMENDED CERTIFICATION LIMIT</u>
Goods and Services	\$50,000 per commitment
Information Technology	\$50,000 per commitment
Consultant Services	\$50,000 per commitment
Construction Services	\$25,000 per commitment

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



James M. Stiles, CPPB
Audit Manager



Larry G. Sorrell, Manager
Audit and Certification

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R. VOIGHT SHEALY
ASSISTANT DIRECTOR

April 5, 1999

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 South Carolina Department of Juvenile Justice to our audit report for the period of January 1, 1996 - June 30, 1998. Also we have followed the Department's corrective action during and subsequent to our field work. 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 Juvenile Justice the certification limits noted in our report for a period of three years.

Sincerely,

Handwritten signature of Larry G. Sorrell in cursive script.

Larry G. Sorrell, Manager
Audit and Certification

LGS/tl

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