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South Carolina
Division of General Services

PROCUREMENT AUDIT AND CERTIFICATION

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S.C. DEPARTMENT OF PAROLE AND
COMMUNITY CORRECTIONS

AGENCY

NOVEMBER 2, 1984

DATE

STATE OF SOUTH CAROLINA
BUDGET AND CONTROL BOARD
DIVISION OF GENERAL SERVICES
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WILLIAM E. PUTNAM
EXECUTIVE DIRECTOR

RICHARD J. CAMPBELL
ASSISTANT DIVISION DIRECTOR

November 2, 1984

Mr. Tony Ellis
Division Director
Division of General Services
300 Gervais Street
Columbia, South Carolina 29201

Dear Tony:

Attached is the final S. C. Department of Parole and Community Corrections audit report and recommendations made by the Materials Management Office. Since no certification request above the \$2,500 allowed by law remains to be considered by the Budget and Control Board, I recommend that this report be presented to them for the purpose of information.

Sincerely,

A handwritten signature in cursive script that reads "Richard J. Campbell".

Richard J. Campbell
Materials Management Officer

RJC:mm

Attachment

MATERIALS MANAGEMENT OFFICE

State Supply & Surplus Property Management
Surplus Property Supply, Warehousing & IMS
Boston Avenue 1942 Laurel Street
W. Columbia, S.C. 29169 Columbia, S.C. 29201
758-2626 758-3246

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State Procurements
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Information Technology Management Office
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Columbia, S.C. 29210
758-6060

Installation Purchase Program
800 Dutch Sq. Blvd.
Suite 150
Columbia, S.C. 29210
758-6060

S. C. DEPARTMENT OF PAROLE AND COMMUNITY CORRECTIONS

AUDIT REPORT

June 27, 1984

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TOM G. MANGUM
CHAIRMAN,
HOUSE WAYS AND MEANS COMMITTEE

WILLIAM T. PUTMAN
EXECUTIVE DIRECTOR

May 14, 1984

Mr. Richard J. Campbell
Materials Management Officer
Columbia, South Carolina 29210

We have examined the procurement policies and procedures of South Carolina Department of Parole and Community Corrections, as of March 1, 1984. As a part of our examination, we made a study and evaluation of the system of internal control over procurement transactions to the extent we considered necessary.

The purpose of such evaluation was to establish a basis for reliance upon the system of internal control to assure adherence to the Consolidated Procurement Code and State and Agency procurement policy. Additionally, the evaluation was used in determining the nature, timing and extent of other auditing procedures that were necessary for developing an opinion on the adequacy, efficiency and effectiveness of the procurement system.

The administration of the Department of Parole and Community Corrections is responsible for establishing and maintaining a system of internal control over procurement transactions. In fulfilling this responsibility, estimates and judgements 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.

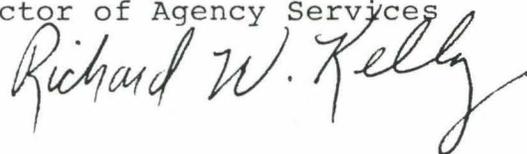
Because of inherent limitations in any system of internal control, errors or irregularities may occur and not be detected. Also, projection of any evaluation of the system to future periods is subject to the risk that procedures may become inadequate because of changes in conditions, or that the degree 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 due professional care. They would not, however, because of the nature of audit testing, necessarily disclose all weaknesses in the system.

The examination did disclose conditions enumerated in this report which we believe to be subject to correction or improvement.

Corrective action based on the recommendations described in these findings will in all material respects place the Department of Parole and Community Corrections in compliance with the South Carolina Consolidated Procurement Code and ensuing regulations.

Richard W. Kelly
Director of Agency Services



SCOPE

Our examination encompassed a detailed analysis of the internal procurement operating procedures of the Department of Parole and Community Corrections to the extent we deemed necessary to determine whether, in all material respects, the procurement systems 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.

Our on-site review was conducted February 13, 1984 through March 13, 1984 and was made under the authority as described in Section 11-35-1230(1) of the South Carolina Consolidated Procurement Code and Regulation 19-445.2020.

The Audit and Certification team selected all procurement transactions over \$500.00 for the period July 1, 1982 - June 30, 1983 for compliance testing and performed other auditing procedures through March 1, 1984 that we considered necessary in the circumstances to formulate this opinion. As specified in the Consolidated Procurement Code and related regulations, our review of the system included, but was not limited to, the following areas:

- (1) adherence to provisions of the South Carolina Consolidated Procurement Code and ensuing regulations;

- (2) procurement staff and training;
- (3) adequate audit trails and purchase order register;
- (4) evidence of competition;
- (5) small purchase provisions and purchase order confirmations;
- (6) emergency and sole source procurements;
- (7) source selection;
- (8) file documentation of procurements; and
- (9) reporting of Fiscal Accountability Act.

SUMMARY OF AUDIT FINDINGS

Our audit of the procurement system of the South Carolina Department of Parole and Community Corrections produced findings and recommendations in the following areas:

	PAGE
I. REVIEW OF THE PROCUREMENT PROCEDURES MANUAL	
A. Our review of the current manual indicated several areas that need to be added, changed or expanded.	6
II. CODE COMPLIANCE	
A. Goods, Services and Consultants	9
Our examination of transactions in the areas of goods, services and consultants determined that some procurements were not made in compliance with the Code.	
B. General Compliance	13
The Department of Parole and Community Corrections has not submitted a Minority Business Utilization Plan to the Office of Small and Minority Business Assistance for approval.	
III. INTERNAL CONTROL AND PROCEDURAL WEAKNESSES	14
A. Our examination of the procurement department's internal procedures revealed certain weaknesses that could adversely affect internal controls.	

RESULTS OF EXAMINATION

I. REVIEW OF THE PROCUREMENT PROCEDURES MANUAL

Our review of the current Internal Operating Procedures Manual revealed that the following areas need to be added, changed or expanded:

1. Section 1610.4 - The list of exemptions noted in this section needs to be expanded to include the more recent ones granted by the Budget and Control Board.
2. Section 1620 - In addition to the policy statement dealing with minority businesses, a reference needs to be made regarding the location of the agency's Minority Business Enterprise Plan and its approval by the Office of Small and Minority Business.
3. Section 1630.3 - A reference is made to all requisitions being approved by the Agent-In-Charge of each county office. We recommend a policy statement whereby it is made a requirement for all authorized signatures to be on file at the procurement office.
4. Section 1630.3 - Some visible authorization of budget approval needs to be affixed to the internal requisition by the administration of the agency, i.e., initials, rubber stamp, etc.
5. Section 1630.3 - Delete references to the procurement reviews of invoices. This is an accounts payable

function, and for internal control, all invoices should be sent to accounting.

6. Section 1630.3 - This section should reflect the numerical purchase order system procedure as recommended to the agency under area III - Internal Control and Procedural Weaknesses on page 13 of this audit report.
7. Section 1630.4 - Change the receiving report procedures to reflect the ones associated with the new purchase order system.
8. Section 1640.1 - Should the agency determine that the Procurement Officer's signature on a purchase order will supersede the statement "Price is fair and reasonable" a written policy to this effect needs to be included.
9. Section 1640.2 - The usage of a "phone quote" form for documenting solicitations and quotes between \$500.01 and \$1499.99 is recommended.
10. Section 1640.6 - Any designations of individuals for making Sole Source determinations, under the level of the agency head, should be in writing.
11. Section 1640.7 - Information Technology procurement procedures need to be amplified; i.e., in accordance with Small Purchase Procedures up to \$2500.00. etc. Also, the reference here to "Emergency Procurement Regulation" should be changed to "Permanent Regulation".
12. Section 1640.8 - A section could be added here or in a different location in the manual to deal with the procedures for establishing maintenance service contracts for equipment.

Directives 111-10 and 111-11 in the appendix state that delivery receipts must be signed, dated, and forwarded to the Procurement Officer. These delivery tickets should be attached to the delivery copy of the purchase order after the items are received, and forwarded to Accounts Payable.

The items on the following list need to be incorporated into the agency's Policy and Procedure Manual as a policy statement:

1. Unauthorized Procurements - Regulation 19-445-2015;
2. Retention of Records - Code Section 11-35-2430;
3. Official File of Determination and Findings -
Code Section 11-35-210;
4. Change Order Procedures; and
5. Professional Development.

AGENCY RESPONSE

I. REVIEW OF PROCUREMENT PROCEDURES MANUAL

The Internal Procurement Procedures Manual has been revised to reflect the recommendations made in this area (items 1-12, pp 6-7). Related directives have also been revised to reflect same (p.8).

II. CODE COMPLIANCE

A. Goods, Services and Consultants

Our examination of the agency's procurements consisted of a review of sample transactions which were judgmentally selected from the Fiscal Year 1982-83 voucher register. We found the following purchases were not made in compliance with the Code:

1. No evidence of competition.

<u>VOUCHER</u>	<u>AMOUNT</u>	<u>DESCRIPTION</u>
a. 016	\$ 655.00	Zoom Projector
b. 01018	\$1,141.43	Data Racks/Label Holder
c. 02163	\$ 645.84	Word Processor Ribbons

The above items showed no evidence of competition as required by Regulations 19-445.2000 and 19-445.2100 nor were they justified as sole source or emergency procurements.

2. Maintenance Contracts Renewed Out of Compliance

<u>VOUCHER</u>	<u>AMOUNT</u>	<u>DESCRIPTION</u>
a. 0008	\$1,205.00	Printer and Camera
b. 0034	\$ 296.00	Recorder and Transcriber

The above vouchers were payments for annual maintenance service on some agency equipment. One of these vouchers (#0008)

was paid from an invoice only without any verification of prices to a contract.

Neither of these services were supported by purchase orders and in the case of voucher #0008 we were unable to locate competitive bid documentation nor a sole source justification.

These agreements apparently are extended each year automatically through the payment of the invoice and are, therefore, not in compliance with the Code (see item 4 below).

3. Improper Purchase of Leased Equipment

	<u>VOUCHER</u>	<u>AMOUNT</u>	<u>DESCRIPTION</u>
a.	01016	\$2,433.60	Terminal and Printer

The agency had determined that the purchases of the above terminal and printer would be more economical than the continued leasing of the equipment. Although this may be a valid judgement on their part, the purchase conversion was made without regard to the competitive requirements of the Code and Permanent Regulations 19-445.2150, Subsection F and 19-445.2115, Subsection A & B.

4. Open End Contracts for Services

The agency is currently contracting for psychological evaluation services with a local psychologist. These professional services are a requirement of the Community Corrections Act of 1981 - State Law 24-21-610 which states in part,

...no prisoner who has served a total of ten consecutive years or more in prison shall be paroled until the Board has first received a report as to his mental condition and his ability to adjust to life outside the prison from a duly qualified psychiatrist or psychologist.

The contract for these professional services exceeds the agency certification limit of \$2,500.00 as per the requirements of Regulations 19-445.2020, and should have been forwarded to the appropriate Chief Procurement Officer for processing as required by Regulation 19-445.2025.

Additionally, since the contract is basically open end with no specified term, the agency has been "rolling over" these contracts from year to year without soliciting new proposals.

Section 11-35-2030 of the Procurement Code and Regulation 19-445.2135 addresses the use of multi-term contracts or agreements. Specifically, this section of the Code states in part:

"Unless otherwise provided by law, a contract for supplies and services shall not be entered into for any period of more than one year unless approved in a manner prescribed by regulation of the Board....."

If the agency feels that the Psychological Services could be best accounted using a multi-term agreement, then the agreement must meet the following criteria:

1. It must have been originally solicited as a multi-year agreement with all the respondents to the solicitation being aware of this; and
2. The contract must have specific guidelines for estab-

lishing charges and rate increases for subsequent years within the life of the agreement.

If the contract does not already contain these renewal provisions, it should be resolicited at the end of the current contract year. Either competition must be solicited or a sole source determination prepared.

Our sample selection included a review of all procurements over \$500.00 in the areas of Goods, Services and Consultants. We noted that four of these transactions made during the audit period of 1982-83 were out of compliance with the Consolidated Procurement Code.

During this period, the agency did not have a full-time purchasing agent, and apparently a certain amount of unfamiliarity with the Code and Regulations has resulted in these procurements being improperly processed.

We recommend that all future procurements be made within the requirements of the Code and Regulations, and, where necessary, procedures be developed to ensure this compliance.

AGENCY RESPONSE

II. CODE COMPLIANCE

A. Goods, Services, and Consultants

1. While telephone quotes were obtained in procurement of the referenced items, no telephone quote forms were used to substantiate this process. The agency has designed and began using telephone quote forms on July 1, 1984.

2. Controls have been significantly strengthened since the referenced maintenance contracts were renewed. Procedures are in place to insure purchase order support and bid documentation as appropriate.
3. Exception noted.
4. The contract has been reviewed and services beyond January 4, 1985 (contract anniversary date) will be solicited by bid consistent with Code requirements.

B. General Compliance

The South Carolina Parole and Community Corrections Board has not developed a Minority Business Enterprise Utilization Plan (MBE Plan) and submitted it to the Small and Minority Business Assistance Office (SMBAO) for approval.

Section 11-35-5240(1) states in part:

"...each agency director shall develop a Minority Business Enterprise (MBE) Utilization Plan..."

Additionally, Section 11-35-5240(2) states in part:

"...MBE Utilization Plans shall be submitted to the SMBAO for approval not later than July thirtieth, annually. Progress reports shall be submitted to the SMBAO not later than ten days after the end of each fiscal quarter."

- a) Number of minority firms solicited;
- b) Number of minority firms received; and
- c) Dollar amounts of minority bids awarded.

We recommend the Department immediately develop their MBE utilization plan and submit it to the SMBAO for approval.

AGENCY RESPONSE

B. General Compliance

A Minority Business Enterprise Utilization Plan has been developed and submitted to the Small and Minority Business Assistance Office for approval.

III. INTERNAL CONTROL AND PROCEDURAL WEAKNESSES

Our examination of the procurement department's internal procedures revealed certain weaknesses that could adversely affect internal controls. These are as follows:

1. The majority of transactions reviewed in our sample test showed a lack of initiating documents from requestors for equipment. A properly approved requisition serves as the authorization document for the Procurement Officer to begin the procurement process. We recommend a properly approved requisition be received by purchasing prior to making any procurements unless it is an emergency.
2. Purchasing, as a matter of standard practice, approves all invoices for payment. This is apparently the result of the purchasing agent being delegated the responsibility for matching receiving reports and vendor invoices prior to payment. In reality, this is an

Accounts Payable function. We recommend that the purchasing department refrain, in the future, from approving invoices for payment, thus eliminating any breakdown in internal controls.

3. The agency did not have a formal hard copy numerical receiving report system in effect during the fiscal year examined by the auditor. Accounts Payable generally accepts a bill of lading or delivery ticket as documentation in preparing vouchers for payment. We recommend the agency develop a system of using formal hard copy receiving reports which are completed by the county officer upon receipt of goods and forwarded to the Accounting Department (see item 4 below).
4. While we commend the agency for its progressive attitude in the implementation of a purchase order system, we recommend that the current documents be revamped to provide for future growth and expansion. The new purchase order would be a multi-part document to ensure that all pertinent entities receive their own separate copies for their records. For example, a copy should be maintained by purchasing for its numerical file, and Accounts Payable should receive one to match with the formal receiving copy which is forwarded by the county officer. Additionally, a department copy, expenditure copy, vendor copy, etc., also needs to be included.

5. To simplify the documentation of the solicitation of telephone quotes under \$1,500.00, we recommend the development of a telephone quotation form to be attached to purchasing's copy of the requisition or purchase order.
6. Supply requisitions are forwarded from the county officer once a month to the central office supply room where the orders are filled, however, central office personnel draw supplies on an "as needed" basis from the supply room, utilizing a sign-out sheet on an honor system basis. We recommend that the agency standardize their procedures for all personnel by requiring requisitions to be completed for all supply requests.

A procurement system must be operated precisely, with clear procedural guidelines, and commitment to use them by the employees. This is essential to eliminate any misunderstanding on the part of vendors conducting business with the agency as well as the maintenance of a uniform system of doing business.

It is our recommendation that the agency incorporate into their procurement internal operations the aforementioned procedural changes.

AGENCY RESPONSE

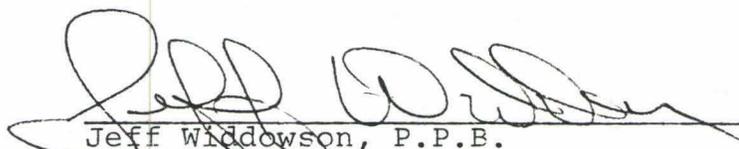
III. INTERNAL CONTROL AND PROCEDURAL WEAKNESSES

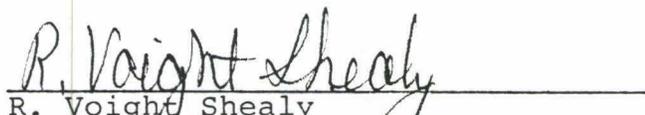
All recommendations contained in this section have been incorporated into the agency's internal procurement operations.

CONCLUSION

As enumerated in our transmittal letter, corrective action based on the recommendations described in the findings contained in the body of this report, we believe, will in all material respects place the South Carolina Department of Parole and Community Corrections in compliance with the South Carolina Consolidated Procurement Code and ensuing Regulations.

Subject to this corrective action and because additional certification was not requested at this time, we recommend that the South Carolina Department of Parole and Community Corrections be allowed to continue procuring all goods and services, construction, information technology and consulting services up to the basic level as outlined in the Consolidated Procurement Code.


Jeff Widdowson, P.P.B.
Auditor in Charge


R. Voight Shealy
Director, Audit and Certification

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WILLIAM T. PUTMAN
EXECUTIVE DIRECTOR

RICHARD W. KELLY
ASSISTANT DIVISION DIRECTOR

October 29, 1984

Mr. Richard J. Campbell
Materials Management Officer
Columbia, South Carolina 29210

Dear Richard:

We have returned to the South Carolina Department of Parole and Community Corrections to determine the progress made toward implementing the recommendations in our audit report covering the period of July 1, 1982 - March 1, 1984. During this visit, we followed up on each recommendation made in the audit report through inquiry, observation and limited testing.

The Audit and Certification Section observed that the Department of Parole and Community Corrections has corrected the problem areas found in the audit thus strengthening the internal controls over the procurement system. We feel that the system's internal controls are adequate to ensure that procurements are handled in compliance with the Consolidated Procurement Code and ensuing regulations.

Because additional certification was not requested, we recommend that the Department of Parole and Community Corrections be allowed to continue procuring all goods and services, construction, information technology and consulting services up to the basic level as outlined in the Procurement Code.

Sincerely,

A handwritten signature in cursive script that reads "Richard W. Kelly".

Richard W. Kelly
Director of Agency Services

RWK:kl

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PROCUREMENT AUDIT AND CERTIFICATION

S.C. DEPARTMENT OF PAROLE AND
COMMUNITY CORRECTIONS

AGENCY

NOVEMBER 2, 1984

DATE