South Carolina Division of General Services

PROCUREMENT AUDIT AND CERTIFICATION

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S. C. DEPARTMENT OF CORRECTIONS
AGENCY

JUNE 27, 1985
DATE
June 27, 1985

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

Dear Tony:

Attached is the final S. C. Department of Corrections audit report and recommendations made by the Audit and Certification Section. 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 their information.

Sincerely,

Richard W. Kelly  
Assistant Division Director

RWW:kl  
Attachment
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August 23, 1984

Mr. Richard W. Kelly  
Director of Agency Certification & Engineering Management  
Columbia, South Carolina 29201

We have examined the procurement policies and procedures of S. C. Department of Corrections for the period July 31, 1981 - June 30, 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 department 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 S. C. Department of 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 S. C. Department of Corrections in compliance with the South Carolina Consolidated Procurement Code and ensuing regulations.

R. Voight Shealy
Director of Audit & Certification
INTRODUCTION

The Audit and Certification Section conducted an examination of the internal procurement operating procedures and policies and related manual of S. C. Department of Corrections.

Our on-site review was conducted July 3, 1984 through August 10, 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 examination was directed principally to determine whether, in all material respects, the procurement system's internal controls were adequate and the procurement procedures, as outlined in the Internal Procurement Operating Procedures Manual, were in compliance with the South Carolina Consolidated Procurement Code and its ensuing regulations.
SCOPE

Our examination encompassed a detailed analysis of the internal procurement operating procedures of S. C. Department of Corrections and the 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.

The Audit and Certification team statistically selected random samples for the period July 1, 1982 - June 30, 1984, of procurement transactions for compliance testing and performed other auditing procedures 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 regulations;
(2) procurement staff and training;
(3) adequate audit trails and purchase order registers;
(4) evidences of competition;
(5) small purchase provisions and purchase order confirmations;
(6) emergency and sole source procurements;
(7) source selections;
(8) file documentation of procurements;
(9) reporting of Fiscal Accountability Act;
(10) disposition of surplus property;
(11) economy and efficiency of the procurement process;
(12) analysis of duplicating equipment utilization;
(13) Minority Business Enterprise Plan review.
SUMMARY OF AUDIT FINDINGS

Our audit of the procurement system of the S. C. Department of Corrections produced findings and recommendations in the following areas:

I. Authority and Responsibility

   Periodic billing purchase orders are being misused.  

II. Compliance - Sole Source and Emergency Procurements

   A. Sole Source Procurements - 
      Procurements of drugs from wholesale suppliers are processed as sole sources.  

   B. Emergency Procurements
      Competition could have been obtained on several emergency procurements.

III. Compliance - Goods and Services

   Several transactions lack competition as required by the Code.

IV. Compliance - Consulting Services

   Procurements were made without evidence of competition and not documented as sole sources or emergencies.

V. Compliance - Information Technology

   Contracts were renewed in violation of
VI. Compliance - Construction Related Professional Services
A. Competition not Documented
Procurements were made without evidence of competition nor documented as sole sources or emergencies.
B. Emergency Procurements without Competition
Competition could have been obtained on emergency procurements.
C. Emergency Determination Prepared for Non-emergency
The procurement of material received over a five month period was declared an emergency.
D. Purchase without Documented Justification
A contract for new pumps was issued without requisition, competition, sole source or emergency determination.

VII. Compliance - Division of Industries
Procurements were made without evidence of competition nor documented as sole sources or emergencies.

VIII. Minority Business Enterprise Utilization Plan
S. C. Department of Corrections does not have an approved plan for fiscal year 1983/1984.
IX. General Transaction Control

A. Discounts Lost
   The department has failed to take several allowable discounts.

B. Discounts Taken in Amounts less than Authorized
   The software program for discounts needs to be analyzed.

C. Payments for Partial Receipts
   There are no provisions for partial receipt of a "lot" purchase order.

D. Accountability of Office Supplies
   A perpetual inventory system should be installed for office supplies.

X. Internal Audit
   We found that there has been insufficient involvement in review and audit of the procurement process by Internal Audit.

XI. Property Management
    Inventory must be accounted for in a timely manner and assets properly identified.

XII. Review of the Procurement Procedures Manual
     Our review of the current manual indicated several areas that needed to be added, changed or expanded.
XIII. Print Shop Analysis

As part of our examination, we requested that the State Printing Officer evaluate the print shop utilization at the department.
RESULTS OF EXAMINATION

I. Authority and Responsibility

The Department of Corrections utilizes an automated procurement system which requires the issuance of a purchase order in order to pay vendor invoices. At the time of the implementation of this automated system, they developed a method for paying vendor invoices for recurring monthly charges such as utilities, travel, subscriptions, etc. which would not be subject to the Consolidated Procurement Code. This portion of the accounts payable procedure is referred to as a "periodic billing purchase order". Under this system, the invoice is sent to purchasing when it is received and a purchase order is assigned to it with a subsequent hard copy document issued for the files.

However, our audit revealed that the periodic billing system is being used to pay invoices for recurring charges in areas regulated by the Consolidated Procurement Code. Specifically, this occurs in the area of information technology, such as invoices for monthly equipment maintenance, rental charges and consultant services.

The Purchasing Branch generates these periodic billing purchase orders to match the invoices without having requisitions, competitive quotations or sole source or emergency determinations to verify that transactions were authorized, services were procured properly or payment requests were justified.
As noted above, a document from the Purchasing Branch, either a purchase order or a periodic billing purchase order, is required to facilitate procurements. This is done to control procurement activity and ensure that payments are proper. This cannot be done when the Purchasing Branch does not have copies of contracts or other documents to use for payment verification.

The Purchasing Branch, we were told, has been designated as the office of record, therefore copies of all pertinent documents should be filed there.

We recommend that the Purchasing Branch obtain copies of all contracts prior to generating periodic billing purchase orders. In most cases purchase orders should be established. Further, procurement policies and procedures should be expanded to identify how periodic billing purchase orders are to be used, what dollar limits are established and how they are to flow through the department.

II. Compliance - Sole Source and Emergency Procurements

During a special review we examined the sole source and emergency procurements for the period July 1, 1981 - June 30, 1984. The results can be found in Appendix A.

Since this was accomplished previously, during this audit we examined the quarterly reports of sole source and emergency procurements and all available supporting documents for the period July 1, 1983 through June 30, 1984, for the purpose of determining the appropriateness of the procurement actions taken.
and the accuracy of the reports submitted to the Division of General Services, as required by Section 11-35-2440 of the Consolidated Procurement Code. We found the majority of these transactions to be proper and accurately reported, but we did encounter the following problems:

A. Sole Source Procurements

The Department of Corrections buys the majority of their drugs through the following means: 1. An agency contract established by the Materials Management Office, 2. S.C. Department of Corrections price agreements approved by Materials Management Office, 3. Piggy-backing off other agency contracts, 4. Sole source procurement from the manufacturer and 5. Competition between suppliers.

However, during our examination we also reviewed seventeen sole source procurements that were made from two drug wholesalers. The total of these transactions was $20,619.00 and the drugs bought were mostly over-the-counter items. These items are not exclusive to either of the wholesalers but they were bought under a blanket sole source determination. These orders ranged from $646.00 to $2,495.00 each.

Regulation 19-445.2105, Subsection B, states in part: "Sole source procurement is not permissible unless there is only a single supplier.... In cases of reasonable doubt, competition should be solicited."

Since competition was available, these sole source procurements are in violation of the Code.
To alleviate this problem, we recommended that Corrections maintain current price sheets either on microfiche or hard copy from wholesalers and use these to determine the lowest price for each order. This will satisfy the competitive requirements of the Code for orders less than $2,500.00 if prices are documented. The department has already made the appropriate arrangements with pharmaceutical wholesalers to obtain their price lists and is now working under this method. We feel this action has eliminated the compliance problem.

Further, we recommend continuing effort be made to establish drug term contracts for repetitive needs.

B. Emergency Procurements

<table>
<thead>
<tr>
<th>P.O. #</th>
<th>Amount</th>
<th>Exception/Justification</th>
</tr>
</thead>
<tbody>
<tr>
<td>34571</td>
<td>$5,398.00</td>
<td>This procurement for a whirlpool bathing system was justified as &quot;... needed now for patient care ... health and safety of inmate patients.&quot;</td>
</tr>
<tr>
<td>35395</td>
<td>$2,200.00</td>
<td>This order for four septic tanks and drain lines was justified as &quot;... needed to upgrade perimeter security.&quot;</td>
</tr>
<tr>
<td>35264</td>
<td>$2,835.00</td>
<td>This procurement for five washing machines and dryers was justified as &quot;... to replace inoperable units.&quot;</td>
</tr>
<tr>
<td>17538</td>
<td>$2,061.00</td>
<td>This order was for three generators and justified by ... needed for emergency generating capability.</td>
</tr>
</tbody>
</table>

No documented competition, phone quotes, or written quotations were obtained on the above transactions.

Regulation 19-445.2110, Subsection C requires that, "such competition as is practicable shall be obtained." All of the above transactions could have waited until at least phone quotes
were obtained. As a result, none of these emergency procurements are in compliance.

Additionally the Department of Corrections has not fully applied the justification standard for emergency procurements. None of the above justifications indicate what happened that created the emergency situation.

Future emergency procurements should only be made for those unforeseen complications created by machine malfunction, natural disaster or fire loss, which create an immediate and serious need for supplies, services, or construction that cannot be met through normal procurement methods and the lack of which would seriously threaten:

1. the function of state government;
2. the preservation or protection of property; or
3. the health and safety of any person.

In all cases, the determination and finding should completely justify the action taken. This must include an explanation of how the emergency situation arose, what efforts were made to obtain competition in the time available and a full explanation of events and the conclusions reached.

III. Compliance - Goods and Services

Our examination in the area of goods and services started with a random sample of sixty transactions from the period July 1, 1982 - June 30, 1984. Of these sixty procurements the following were not made in compliance with the Code.
Purchase order number 30792 in the amount of $674.92 for repairs to a hydraulic lift was not competed nor justified with a sole source or emergency determination. There was only the following note on the requisition: "labor and parts ran more than original estimate."

Regulation 19-445.2100, Subsection B, item 2, requires solicitation of verbal or written quotes from two qualified sources of supply for this procurement.

We understand that an estimate can run over $500. However, an hourly rate and parts discount schedule could have been obtained from two vendors prior to contracting for the service.

Purchase order number 34551 for a mixer with attachments totaling $3,811.00 was made as an emergency procurement. There are a number of dealers in the Columbia area that handle this product but only one phone quote was documented.

We requested a price from the manufacturer and received a written quote for this exact item that was $662.00 less than the price paid. As noted previously, Regulation 19-445.2110, Subsection C, requires that, "such competition as is practicable shall be obtained." Had this been done in this case, the department could have saved over $600.00.

Based on the sampling parameters used, we can project statistically with 95% confidence that up to 12% of all procurements over $500.00 in the goods and services area for the audit period may be out of compliance.

Additionally, we reviewed periodic billing number 6319 in the amount of $966.00 for the annual maintenance/service
agreement for an offset press. We could not locate a current agreement with the vendor justifying the payment. This appeared to be an ongoing agreement that, apparently, has been continued from a prior year.

We were told that the Purchasing Branch is the office of record for procurement documents; so the contract should be located and kept on file there. If the contract indicates that it was procured under the Code and properly documented as a multi-term agreement it can continue for up to five years. However, if the agreement was signed prior to July 31, 1981, Part II, Permanent Provisions, Section 17, of the 1983/84 Appropriations Act requires that it be renewed in accordance with the Procurement Code at the next anniversary date.

Further testing revealed a maintenance agreement which was not extended in compliance with the Code. The contract is for preventative maintenance for an A.R. Dick model 1600 copy center at an annual cost of $14,402.00.

The original maintenance agreement was included in the purchase price of the equipment when procured through State Procurement. The extension of the agreement appears to be based on a clause on the original agreement which states, "This agreement is to be automatically renewed for successive periods ... based on current customer usage of equipment at time of renewal." However, this renewal of service was neither competitively bid nor justified as a sole source procurement. As stated previously in this point, any contract entered into prior to or after the Code, which is renewed, must be renewed in accordance with the provisions of the Code.
Finally, a review of the blanket purchase agreements revealed that most were handled in accordance with the Code. However, we did find two transactions that were in violation of the Code and the intended use of blanket purchase agreements.

HPO Number 30428 for $826.82 was for tractor repair and parts and P.O. Number 20934 for $607.39 was for repairs to walk-in coolers. These two procurements were neither competed nor determined to be sole source or emergency procurements, as required by the Code.

Blanket Purchase Agreements should be used only for small, incidental purchases. As a rule, no purchase greater than $500.00 should be made by this means. If so, competition must be obtained regardless of whether blanket purchase agreements have been established or not.

IV. Compliance - Consulting Services

The Department of Corrections has several program areas which are contracting directly for consultant and professional services. Generally, these contracts follow an approval process which includes review by the department legal staff with final approval by the Commissioner but does not include Purchasing Branch participation.

During discussions concerning consultant and professional services it became apparent that that legal department was operating under the misconception that professional services are exempt from the Procurement Code.
This was evidenced by the following six service contracts out of our sample of fifteen which were improperly procured.

<table>
<thead>
<tr>
<th>P.O. #</th>
<th>Amount</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>14999</td>
<td>$882.00</td>
<td>Food Service Apprenticeship Program</td>
</tr>
<tr>
<td>5931</td>
<td>900.00</td>
<td>Assertiveness Training</td>
</tr>
<tr>
<td>5838</td>
<td>801.00</td>
<td>Effectiveness of Corrections</td>
</tr>
<tr>
<td>5836</td>
<td>801.00</td>
<td>Physical Conditioning Training</td>
</tr>
<tr>
<td>12536</td>
<td>836.00</td>
<td>Temporary Waste Treatment Operator</td>
</tr>
<tr>
<td>16101</td>
<td>612.00</td>
<td>Training in Correction Program</td>
</tr>
</tbody>
</table>

These services were obtained without competition and not justified as sole source or emergency procurements. We noted the following weaknesses in the contracting process for services.

1. Purchasing does not review the contracts during the process for compliance with the Code.

2. Confusion exists as to which services are exempted from the Code.

3. Internal procedures dictate the requisitioning process for all procurements. This process is not being adhered to in this area.

4. Contracts are filed in various areas. There is no central file of contracts that can be used for payment verification and audit purposes.

5. Payment is made upon receipt of an invoice in accounts payable. A periodic billing number is obtained from purchasing, but no supporting documents for the procurement are required.

Section 11-35-1270 states in part: "... a governmental body may act as a purchasing agent and contract on its own behalf for such services, subject to this Code and regulations which may be
established by the Board." This means that any procurement not specifically exempted by the Budget and Control Board which exceeds $500.00 must be competed, sole sourced or declared an emergency. There are not exceptions.

The Department of Corrections has designated the Purchasing Branch as the office of records so all procurement records should be controlled in this location. We further recommend the following:

1. Consultant procurement procedures should be clarified in the Internal Procedures Manual including the requisitioning process and the services exempted from the Procurement Code.

2. Consultant and contractual service contracts should be procured by the procurement division. If this isn't done, all contracts and supporting documents including evidence of competition or sole source justifications should be reviewed by the Purchasing Branch prior to commitments being made to ensure compliance with the Procurement Code. Any commitments made or services performed prior to the issuance of purchase orders constitute unauthorized procurements and must be ratified by the Commissioner up to the certification limit, and thereafter by the Materials Management Officer.
V. Compliance - Information Technology

Our review of fifteen transactions in the information technology area revealed the five following procurements which were not made in compliance with the Code.

<table>
<thead>
<tr>
<th>P.O. #</th>
<th>Amount</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>E--11685</td>
<td>$ 566.80</td>
<td>Equipment Rentals</td>
</tr>
<tr>
<td>E1- 6240</td>
<td>1,478.88</td>
<td>Equipment Rentals</td>
</tr>
<tr>
<td>S1- 6243</td>
<td>2,148.80</td>
<td>Equipment Rentals</td>
</tr>
<tr>
<td>E1-10727</td>
<td>1,020.76</td>
<td>Equipment Rentals</td>
</tr>
<tr>
<td>E1- 5857</td>
<td>576.20</td>
<td>Equipment Rentals</td>
</tr>
</tbody>
</table>

The above contracts were entered into prior to passage of the Code and have been renewed since their inception on an annual basis. These renewals were established without competition and were not processed as sole sources; therefore they were not in compliance with the Code and regulations.

Monthly and annual billings for the above data processing equipment are being paid through the issuance of an individual periodic billing for each invoice. These periodic billings are being issued by purchasing without proper verification of supporting contracts, requisitions, or authorization letters.

These contracts were entered into prior to the passage of the Procurement Code and are basically open-ended agreements with no specific term. Generally, the department will "rollover" these contracts from year to year without soliciting new proposals or bids.
As noted previously in III above, Section 17 of the 1983/84 Appropriations Act requires that contracts entered into prior to July 30, 1981 which are proposed to be renewed must be renewed in accordance with the Procurement Code.

This means the contracts must be supported by multi-term contract determinations and the contracts must have specific guidelines for establishing rate increases for subsequent years within the life of the agreement(s). This might be that fee increases will be based on the inflation rate or the consumer price index or that increases would be limited to 5%, 10% or some other agreed upon maximum. Fee increases cannot be left to the discretion of the vendor.

All contracts such as these must be resolicited at the end of each contract's current contract year. Otherwise, if appropriate, sole source determinations must be prepared for each contract upon renewal.

Additionally, we experienced difficulty in locating the contracts for these rental and lease agreements, even though, as stated earlier, the Purchasing Branch is designated as the office of record for all contracts. Contracts were located in Legal, Purchasing and Resource Information Management, some of which were duplicates, and few were adequately cross referenced so as to provide an audit trail.

The following recommendations should be implemented to correct the weaknesses we encountered in our review of Information Technology.
1. All renewals of annual leases, maintenance agreements and new equipment procurements must be processed in accordance with procedures as defined in the current Department of Corrections Procurement Policy and Procedure's Manual.

2. All documents pertaining to information technology procurements should be located in the Purchasing Branch as the office of record, with copies located in other sections as necessary for information.

3. To reduce paperwork and ensure proper verification of monthly billings we recommend the Department of Corrections implement one or both of the following options.
   
   a) Annual blanket purchase orders should be issued for each contract. These purchase orders should be in strict compliance with Code requirements, properly documented with contract/agreement numbers, equipment serial numbers, and duration of contract terms thus providing adequate internal control and audit trail.

   b) Multi-term determinations could be established within the provisions of the Code and regulations, eliminating the necessity for annual or monthly purchase orders.

Finally, we observed two additional information technology procurements handled as emergency purchases that were not in compliance with the Code. These are as follows:
The first transaction was for a Horizon VST Communication System for State Park. The second was a lease transaction for another Horizon VST system for Kirkland Correctional Institute. Neither transaction had the required approval of Information Technology Planning, Division of Information Resource Management, as required by State policy and further clarified by the state Information Technology Management officer in a memo dated April 24, 1984. The purchasing officer stated he was unaware of the required written approval by Information Resource Management prior to the procurement of Information Technology. In the future, all information technology procurements must have the appropriate approvals.

Better planning and scheduling of such acquisitions should eliminate these type emergency procurements. Based on a review of the information supporting these transactions, neither the Audit and Certification Section nor the Information Technology Management Officer consider these procurements to be justified as emergencies. These requests should have been forwarded to the Information Technology Management Office for procurement.

VI. Compliance - Construction & Related Professional Services

Our examination of a randomly selected sample of sixty transactions in the construction area revealed the following procurements which were not made in compliance with the Consolidated Procurement Code and regulations.
A. Competition not Documented

<table>
<thead>
<tr>
<th>P.O. #</th>
<th>Amount</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>B1-6918</td>
<td>$530.40</td>
<td>Trailer rental</td>
</tr>
<tr>
<td>S1-7846</td>
<td>701.49</td>
<td>Trailer rental</td>
</tr>
<tr>
<td>11039</td>
<td>753.48</td>
<td>Steep asphalt</td>
</tr>
<tr>
<td>14381</td>
<td>2,076.00</td>
<td>Valves</td>
</tr>
</tbody>
</table>

All procurements listed above lack evidence of competition.

Section 19-445.2100, Subsection B, Items 2 and 3, of the Regulations require solicitation of verbal or written quotes from two qualified sources of supply for procurements from $500.01 to $1,499.99 and solicitation of written quotations from three qualified sources of supply for procurements from $1,500.00 to $2,499.99. This was not done in these cases.

We insist that the proper number of quotes be solicited and documented prior to commitments being made.

B. Emergency Procurements without Competition

Procurements of fencing were made in order to meet an emergency of inmates escaping. A proper emergency determination was prepared and the fencing obtained on the following:

<table>
<thead>
<tr>
<th>P.O. #</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>15911</td>
<td>$5,185.51</td>
</tr>
<tr>
<td>15910</td>
<td>959.24</td>
</tr>
</tbody>
</table>

However, Section 19-445.2110, Subsection E, of the regulations requires that, "such competition as is practicable shall be obtained."
S. C. Department of Corrections procured the fencing from one vendor without obtaining competition. We recommend that the market be tested for competition on emergency procurements when time permits.

C. Emergency Determination Prepared for Non-emergency

Purchase order number 01-6196 in the amount of $6,470.10 was declared an emergency but did not meet the criteria of an emergency situation. This purchase of ready-mix concrete and concrete block was delivered in partial shipments over a five month period of time.

Section 19-445.2110, Subsection C states:

Emergency procurement shall be limited to those supplies, services, or construction items necessary to meet the emergency.

If indeed an emergency situation existed, the procurement should have been limited to the materials necessary to meet the immediate emergency and not materials to be used months later.

Further, declaring a procurement an emergency does not eliminate the requirement for competition. It merely, permits the use of simplified methods.

D. Purchase without Documented Justification

A periodic billing, number 81-9517, was issued to install two new pumps "to keep sewer plant in operation." The contractor that performed the work had an existing contract for wastewater improvements at that time but this procurement was not part of the original contract. The $6,740.00 expenditure should have
been submitted to the Materials Management Office for procurement or determined to be a sole source or emergency. No requisition was prepared and payment was made on the approval by the construction head.

The Procurement Code, regulation 19-445.2065, indicates that, "the additional quantity required should be treated as a new procurement." This was not done in this case.

Since this procurement exceeded the department's procurement authority it must be ratified by the Materials Management Officer. This should be requested immediately.

VII. Compliance - Division of Industries

Our examination included a review of the Division of Industries purchasing department, its policies and procedures and a sample of procurement transactions from fiscal year 1983/84. The procurement officer's primary function is to purchase the required raw materials for the twelve plants which the Department of Corrections operates. The purchase of raw materials is exempt from the Code, however, all other goods and services procured by the Division of Industries must be handled according to the Code. We found the following procurement transactions other than raw materials were not made in compliance with the Code.

<table>
<thead>
<tr>
<th>P.O. #</th>
<th>Amount</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>26200</td>
<td>$1,235.00</td>
<td>Repair parts for oven</td>
</tr>
<tr>
<td>23988</td>
<td>2,761.76</td>
<td>Parts &amp; Labor to repair van</td>
</tr>
<tr>
<td>31216</td>
<td>1,199.70</td>
<td>Repair parts for pump</td>
</tr>
<tr>
<td>28189</td>
<td>536.46</td>
<td>Parts for H.P.M. press</td>
</tr>
<tr>
<td>21058</td>
<td>1,907.89</td>
<td>Parts for H.P.M. press</td>
</tr>
<tr>
<td>25692</td>
<td>852.24</td>
<td>Parts for M-31 rollcoater</td>
</tr>
<tr>
<td>26051</td>
<td>2,412.00</td>
<td>Parts &amp; Labor for tag die</td>
</tr>
</tbody>
</table>
These procurements were made without regard to the competitive source selection process nor were they justified as sole source or emergency purchases.

Section 19-445.2100, Subsection B, Items 2 and 3, of the regulations require solicitation of verbal or written quotes from two sources of supply for purchases from $500.01 to $1,499.99 and solicitation of written quotations from three qualified sources of supply for purchases from $1,500.00 to $2,499.99.

Additionally, Section 19-445.2000, Subsection C, Item 1, of the regulations limits the procurement authority of the Department of Corrections, including Prison Industries, to $2,500.00, when not procuring exempted items, which these were not.

The first eleven transactions for repair and maintenance items were handled by the Division of Industries procurement officer. The source selection processes described in Section 11-35-1510 of the Code were not followed. The last four transactions for the work shoes were contracts negotiated directly with prison industries programs from two other states by the Director of Industries. These contracts are in direct violation with the above referenced sections of the Code and regulations.
We insist that all procurements made by the Division of Industries, with the exception of exempted items, be made in strict compliance with the Code and regulations. We remind the department that all non-exempt procurements above $2,500.00 must be handled by State Procurements.

Further, since the four procurements of workshoes and the procurement of parts and labor to repair the van (P.O. Number 23988) each exceeded the Department of Correction's procurement authority they must be formally ratified in accordance with Section 19-445.2015, Subsection A, of the regulations. The Commissioner must prepare written determinations on each procurement stating the facts and circumstances surrounding the acts, what corrective action is being taken to prevent reoccurrence, action taken against the individuals committing the acts and documentation that the prices paid were fair and reasonable. The determinations for the procurements up to $25,000.00 should be forwarded to the Division of General Services' Materials Management Officer with a request for ratification. The determinations for the procurements greater that $25,000.00 should be forwarded directly to the Director of the Division of General Services with a request for ratification.

VIII. Minority Business Enterprise Utilization Plan

S. C. Department of Correction's Minority Business Enterprise Utilization Plan for fiscal year 1983-84 has not received approval from the Small and Minority Business Assistance
Office (SMBAO). We recommend that S. C. Department of Corrections contact the SMBAO to work out differences concerning the 1984-85 plan in order to affect compliance with the Procurement Code.

IX. General Transaction Control

A. Discounts Lost

Our testing of sample transactions revealed that the accounts payable department failed to take allowable cash discounts for timely payment of invoices as authorized by the invoice terms and/or state contracts. The invoice terms entitled the department to 2% discounts when payments were made within thirty days.

<table>
<thead>
<tr>
<th>P.O. #</th>
<th>Voucher #</th>
<th>Discount Lost</th>
</tr>
</thead>
<tbody>
<tr>
<td>01-8435</td>
<td>27019</td>
<td>$130.75</td>
</tr>
<tr>
<td>17776</td>
<td>17832</td>
<td>74.53</td>
</tr>
<tr>
<td>36027</td>
<td>3422</td>
<td>202.11</td>
</tr>
</tbody>
</table>

Section 11-35-20(F) of the Code states as one of its purposes:

To provide increased economy in state procurements and to maximize to the fullest extent practicable the purchasing values of the funds of the State.

Because of a failure to note the discount terms on the invoices or state purchase orders for timely payment, the department expended state funds in an unnecessary manner by way of discounts lost.
We recommend the invoice review process be reevaluated to improve the handling and control of disbursements. One beneficial method of controlling the invoice review process involves the use of a checklist stamp on invoices. This would provide evidence of performance by requiring the initials of the employee performing the procedure. The checklist should contain the functions to be performed in order to satisfy the needs of the department as well as the requirements of good internal control.

B. Discounts Taken in Amounts Less Than Authorized

In our examination of invoices paid by accounts payable, we found two instances where discounts taken were less than the amounts authorized. The Department of Corrections has a computerized system in which letters and numbers are keyed into a terminal and the computer calculates the discount. Both transactions appeared to be entered correctly but the computed discount amount was wrong. This problem appears to be in the software programming. The exceptions are as follows:

<table>
<thead>
<tr>
<th>P.O. #</th>
<th>Invoice #</th>
<th>Amount of Discount Allowed</th>
<th>Discount Taken</th>
</tr>
</thead>
<tbody>
<tr>
<td>35953</td>
<td>766175</td>
<td>$34.90</td>
<td>$32.53</td>
</tr>
<tr>
<td>92481</td>
<td>32739</td>
<td>16.08</td>
<td>14.41</td>
</tr>
</tbody>
</table>

This problem appeared to be isolated with both exceptions occurring when multiple payments were made against a purchase order. However, it is important that the maximum discount allowed be taken by the department.
We recommend that a study be made of the software package to determine the cause of incorrect discounts.

C. Payments for Partial Receipts

Purchase order number G9-18888 was issued for one "lot" of doors, door frames, and hardware in the amount of $33,548.00. The door frames were shipped by the vendor for which the Department of Corrections was invoiced $12,279.28. This was paid by accounts payable.

However, the computer system for receiving does not allow for partial receipts against a "lot" purchase order. In checking the screen for receipts, accounts payable found that the entire purchase order was shown as received and was prepared to pay the total amount of the purchase order had it been billed.

Receipt of material must match what was actually received in order to guard against overpayment. We recommend that the software be modified to include a means for indicating partial receipt of materials.

D. Accountability of Office Supplies

The Department of Corrections maintains an inventory of high-use office supply items for departmental convenience. We could not do an inventory turnover test to check efficiency and effectiveness of inventory management because a perpetual inventory system is not kept. Further, we could not determine the total dollar inventory on hand during our visit because no physical end of the year inventory was taken to determine stock on hand balances. When stock shipments are received they are verified to be complete and the items placed in the bins.
However, there is no documented record of stock on hand except for a copy of the purchase order being on file. Furthermore, when items are shipped to departments, the only record is a copy of the office supply internal requisition that is kept on file.

Prudent supply management techniques must be applied and continually monitored to ensure that supply stockrooms are operated efficiently and effectively. To be able to do this an accurate record of stock on hand must be kept.

Since the office supply stockroom is relatively small, the supply manager feels he can reorder effectively by the "visual" method. Although he does a quarterly inventory, these balances are not transferred to stock inventory cards.

We were told that an effort is being made to implement an automated control system. Since all items already have an eleven digit commodity code established, putting these items on line should be routine.

We recommend the department assess the need for the supply area. If it is determined to be necessary the following actions should be taken to improve overall efficiency, effectiveness and accountability of the office supply stockroom.

1. Priority should be given to implementing an automated inventory control system.

2. A manual cardex system should be implemented to maintain accountability for supplies until automated.

3. When the stock items are put on a perpetual inventory, minimum reorder points should be established. The reorder points should be based on a past usage for twelve months and systematically reviewed.
X. Internal Audit

We found that there has been insufficient involvement in review and audit of the procurement process by the departments' Internal Audit Department.

A complete internal audit program includes a periodic review of the system of requisitioning, placing of purchase orders, receiving, etc. to determine that procurement procedures are sound and are being adhered to by user departments. The program must also include a review of the procurement process for compliance with the Consolidated Procurement Code and regulations, as well as other applicable laws and regulations.

Historically, due to time limitations, internal audit departments have been forced to concentrate their efforts in the financial area, which precluded compliance and operational programs.

This leaves a gap in the administrative control over the procurement function because this area goes without review except by external audit organizations. Although these are effective, they cannot provide the type of ongoing control necessary in an area where such large sums of money are expended.

The Institute of Internal Auditors' publication entitled Standards for the Professional Practice of Internal Auditing states, "The scope of Internal Audit should encompass the examination and evaluation of the adequacy and effectiveness of the organization's system of internal control and the quality of performance in carrying out assigned responsibilities." We feel
this expands the role of internal auditors into the area of compliance, management and operational reviews of all areas and functions of an organization.

We recommend that internal audit programs be developed to test the procurement process for adequacy of internal control, compliance with the Consolidated Procurement Code, adherence to department procedures and overall effectiveness. This program should include but not be limited to periodic review of procurements at all dollar levels.

XI. Property Management

Our examination and testing of transactions and procedures in the area of property management at S. C. Department of Corrections revealed some weaknesses in the overall effectiveness of their accountability program. We found the transactions to be accurately recorded in the system, however accountability by department personnel seemed to be lacking. An inventory is to be conducted yearly by those charged with safeguarding the assets of the State. We found this to be incomplete with some departments not inventorying their items and submitting their reports.

An accounting of vehicles by property decal was fruitless. Not a single decal or engraved property number could be found on more than twenty vehicles checked. We now understand that progress is being made in putting the decals on the vehicles.

A visit to Wateree Farm to check decals on farm equipment produced only seventy-five percent with the numbers painted on
the equipment. We also found equipment which had been cannibalized and was being carried in an active status. The Department of Corrections must properly classify its equipment to project current values. We viewed workers putting decal numbers on unmarked equipment toward the end of our audit visit.

Prudent property management requires an accurate accounting of all property receipts, transfers, and disposals, so as to reflect accurate data for fixed asset accounting and to ensure that the assets of the State of South Carolina are effectively safeguarded.

We recommend that more effective inventory control techniques be developed. Cooperation and the importance of this function should be stressed.

XII. Review of the Procurement Procedure Manual

A review was made of the Internal Policy and Procedures Manual to determine if it was in compliance with the Consolidated Procurement Code. We found it to be essentially complete in that it sets forth the procedures for user departments to follow in acquiring goods and services. However, our review indicated that the following areas need to be addressed or expanded with regard to the actual procedures under which the procurement offices operate.

A. Include in the manual:

1. A list of ethical standards to be subscribed to.
2. An organizational chart depicting all areas of procurement including delegated purchasing authority.

3. A requisition flow chart outlining the procedures for goods & services, consultant, construction, and information technology.

4. An Information Technology Plan and Minority Business Plan need to be included or their location referenced.

5. Receiving and warehousing procedures need to be included or their location referenced.

6. Property control and/or fixed asset system procedures should be referenced or included in this manual.

B. Include in the Appendix:

1. A list of exempted commodities as promulgated by the Budget and Control Board.

2. Examples of the purchase order, requisition, quotation forms and any other forms used by the Purchasing Branch.

3. Real property and equipment lease forms.

C. Include in the manual general policy statements in regard to the following:

1. Vendor complaints

2. Professional development

3. Legal, audit, accounting, services

4. Advance notification of needs

5. Official file of determinations and findings

6. Change order procedures
XIII. Print Shop Analysis

Equipment and Man-Hour Utilization Analysis

Standards for evaluating equipment and man-hour utilization in agency printing facilities were established by the Materials Management Office of the Division of General Services. The basis of this analysis is predicated upon production records kept in the printing environment. The records should address specifically the number of impressions reproduced on each piece of equipment. An impression is defined as a sheet of paper, irrespective of sheet size) passing through the equipment one time. The purpose of this analysis is to help Print Shop managers evaluate equipment and personnel requirements, establish goals for equipment operators and provide information relative to production standards being established in all state printing facilities. An underlying benefit of this analysis is providing the Print Shop manager information necessary to compare equipment and man-hour utilization in his operation against others in the State.

A minimum standard for use levels has been developed by allowing three and one-half (3 1/2) hours of each seven and one-half (7 1/2) hour working day to be used for job setup time, cleanup time, routine maintenance, breaks and miscellaneous down time. The number of hours equipment is available for operation annually is the same number of hours an operator would be on the job.
However, in the Department of Corrections' printing facility many unique situations exist relative to the number of working days available and established production standards. For example, this facility has a state employee as a Print Shop manager, but is entirely staffed by inmates. As a result, when the Print Shop manager utilizes annual or sick leave the facility is closed and not in production. Another factor to consider is the inordinate amount of time spent training equipment operators which decreases productivity. The high rate of turnover experienced in this facility makes it necessary for the Print Shop manager to devote much of his time monitoring the job assignments of each operator, making adjustments on the equipment, correcting problems caused by inexperience, and acting as an on the job instructor.

<table>
<thead>
<tr>
<th>Hours</th>
</tr>
</thead>
<tbody>
<tr>
<td>37 1/2 hours straight time per week times 52 weeks = 1,950</td>
</tr>
<tr>
<td>Less: 15 days annual leave = 112.5</td>
</tr>
<tr>
<td>15 days sick leave = 112.5</td>
</tr>
<tr>
<td>11 holidays = 82.5</td>
</tr>
<tr>
<td>307.5</td>
</tr>
</tbody>
</table>

1950 hours available minus 307.5 hours = 1642.5 hours

1642.5 hours divided by 7.5 hours = 219 days

Utilizing the production standards mentioned, 100% utilization would equal four hours per day. The number of working days per month based on 219 days divided by 12 equals 18.25 days.
As a result of the unique circumstances this facility has to operate under, the number of impressions scheduled will fluctuate and might suggest a reduction in the standard used for each piece of equipment available in the future. However, in evaluating this facility the number of impressions produced are adequate to justify assigning the normal production standards at this time.

Based on an analysis of materials produced from July 1, 1983 through June 30, 1984 the production standards for each piece of duplicating equipment will be 4,333 impressions per hour. The production records made available for this period of time indicate the following:

**Estimated Volume For Entire Fiscal Year**

A. AM 1850 annual volume - 4,258,863 impressions.
   
   Average monthly volume - 4,258,863 divided by 12 = 354,905 impressions.

B. AB Dick 1600 annual volume - 2,041,601 impressions.
   
   Average monthly volume - 2,041,601 divided by 12 = 170,133 impressions.


Total volume for entire fiscal year - 8,890,543 impressions.
Equipment Utilization

8,890,543 impressions divided by 219 days = 40,596 impressions. 40,596 impressions divided by 4,333 impressions = 9.37 hours. 9.37 hours divided by 12 hours (representing 100% utilization for three pieces of equipment) = 78%.

Equipment Utilization - 78%.

Estimated Man-hour Utilization

8,890,543 impressions divided by 219 days = 40,596 impressions. 40,596 impressions divided by three employees = 13,532 impressions per employee.

13,532 impressions divided by 4,333 impressions = 3.12 hours. 3.12 hours divided by 4 hours (representing 100% man-hour utilization for each employee) = 78%.

Estimated Man-hour Utilization - 78%.

100% Equipment Utilization would generate - 11,387,124 impressions.

Annual Impressions Produced - 8,890,543 impressions.

100% Man-hour Utilization - 2,628 hours.

Actual Man-hour Utilization - 2,050 hours.
Efficiency Rating

A. Equipment Utilization - 78%
B. Man-hour Utilization - 78%

A plus B = 156, divided by 2 = 78

Efficiency Rating - 78%.
CONCLUSION

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

In accordance with Code Section 11-35-1230(1) the Commission should take this corrective action prior to March 31, 1985 the end of the next subsequent quarter.

The major procurement area that requires corrective action is the use and justification of emergency procurements. We realize the department has emergency situations but, in our opinion, this procurement method has been misused as noted in points II B, III, V, VI B and VI C of this report.

Subject to this corrective action and because additional certification was not requested, we recommend that the S. C. Department of 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.

Marshall B. Williams, Jr.
Audit Manager

Voight Shealy
Director, Audit and Certification

-42-
Dr. Hubert M. Clements  
Deputy Commissioner for Administration  
South Carolina Department of Corrections  
4444 Broad River Road  
Columbia, South Carolina 29210  

SUBJECT: Review of Sole Source and Emergency Procurement Justifications and Trade-in Sales Reports  

Dear Dr. Clements:  

On March 30 and 31, 1983, we examined your agency's quarterly reports of sole source and emergency procurements and trade-in sales and all available supporting documents for the period July 30, 1981 - December 31, 1982. This review was conducted for the purpose of determining the appropriateness of the procurement actions taken and the accuracy of the reports submitted to the Division of General Services in accordance with Section 11-35-2440 of the Consolidated Procurement Code. We found the majority of these transactions to be proper and accurately reported, but we did encounter the following problems:

<table>
<thead>
<tr>
<th>P.O.#</th>
<th>AMOUNT</th>
<th>EXCEPTION</th>
</tr>
</thead>
<tbody>
<tr>
<td>04457</td>
<td>$ 693.44</td>
<td>This procurement was for parts and repair to a harrow. The justification was weak in stating &quot;only source available in area for home harrow parts.&quot; Either State Procurements should have been contacted for other possible vendors or this should have been justified as an emergency, if time was of the essence.</td>
</tr>
<tr>
<td>04636</td>
<td>$ 5,821.28</td>
<td>This procurement was for replacement parts for six grain bins. Justification stated &quot;only vendor willing to cooperate with farm in locating parts.&quot; This should have been</td>
</tr>
</tbody>
</table>

June 24, 1983
sent through State Procurements and this vendor's name included on the bidder list.

11574 $ 1,063.61
The purchase order for a heater coil was justified as "only known source for equipment in area." Other Carrier dealers should have been contacted and prices solicited from them for the part.

05761 $ 300.00
05870 $ 385.00
These procurements were for small purchases and should not have been reported.

05763 $ 5,051.62
This procurement for books and magazine services is exempt and should not have been reported.

03815 $ 1,131.00
05788 $ 602.20
The justification for the procurement of these boiler chemicals read in part "We've found this procedure yields the best results. The material and test solution will be used by other institutions." This is a weak justification. A term contract for the agency's usage should be established for such a need. The Department of Mental Health should be contacted to see how they established a similar contract.

07334 $ 3,495.25
07422 $ 598.35
12632 $ 983.75
These procurements for copyrighted books, programs, manuals, tests and pre-recorded cassettes are exempted items and should not have been reported.

04409 $ 1,250.00
04061 $ 1,250.00
These procurements were for chlorine tablets for the treatment plant with a justification reading only known source for these chlorine tablets used in our treatment plant. This is highly unlikely and similar to the boiler chemicals above; a term contract should be established for these tablets.

01481 $ 1,579.86
This procurement for penta concentrate should not have been reported, as competition was obtained prior to purchase.

11847 $ 5,024.60
This procurement for milk replacer and hog and sow feed is exempt and should not have been reported.
This purchase order for herbicides reported as sole source but justified "due to urgent need" should have been considered an emergency and competition obtained.

**II. EMERGENCY PROCUREMENTS**

<table>
<thead>
<tr>
<th>P.O.#</th>
<th>AMOUNT</th>
<th>EXCEPTION</th>
</tr>
</thead>
<tbody>
<tr>
<td>02277</td>
<td>$14,214.72</td>
<td>The justification for these procurements is very weak stating only &quot;Health and Security&quot;. No reason was given as to why this was an emergency situation. These procurements should have been made through State Procurements. The justification was signed by an accountant, not an authorized signer.</td>
</tr>
<tr>
<td>03817</td>
<td>$5,323.70</td>
<td>Procurement officials should have entertained a second phone quote for these pest control services. This would have eliminated the emergency determination and finding requirement. The determination and finding was signed after the fact anyway by 40 days.</td>
</tr>
<tr>
<td>28311</td>
<td>$525.00</td>
<td>This procurement determination was signed by an accountant, an unauthorized signer.</td>
</tr>
<tr>
<td>05266</td>
<td>$20,383.00</td>
<td>This procurement for medical equipment and supplies was not supported by any justification on file. There was only a note on the purchase order as an emergency and signed by an accountant.</td>
</tr>
<tr>
<td>05310</td>
<td>$5,091.88</td>
<td>There is no authorized justification on file for this procurement of conduit. Poor planning probably led to an emergency situation. Further, phone competition should have been solicited after the emergency was declared.</td>
</tr>
<tr>
<td>09454</td>
<td>$2,511.60</td>
<td>These emergency procurements of 24 different items including weapons, ammo, and other security equipment and supplies resulted from poor prior planning and scheduling of acquisitions. This procurement should have been made through State Procurements.</td>
</tr>
</tbody>
</table>
Dr. Hubert M. Clements  
June 24, 1983  
Page 4

<table>
<thead>
<tr>
<th>Code</th>
<th>Amount</th>
<th>Comment</th>
</tr>
</thead>
<tbody>
<tr>
<td>04248</td>
<td>$1,825.90</td>
<td>This purchase for boots, fatiques, caps, belts, etc. should have had at least phone quotes obtained on these items.</td>
</tr>
<tr>
<td>11718</td>
<td>$476.11</td>
<td>This was a small purchase and should not have been reported.</td>
</tr>
<tr>
<td>01495</td>
<td>$6,518.79</td>
<td>These procurements for fertilizer, spreading of fertilizer and ammoniated nitrogen were justified only by the statement &quot;To replant flooded crops.&quot; Competition should have been sought on these transactions.</td>
</tr>
<tr>
<td>01496</td>
<td>$921.00</td>
<td></td>
</tr>
<tr>
<td>01497</td>
<td>$1,060.00</td>
<td></td>
</tr>
<tr>
<td>06936</td>
<td>$1,022.47</td>
<td>This purchase for parts for silage cutter was justified by &quot;to harvest silage before moisture level becomes too low for silage.&quot; This is a weak justification and competitive prices should have been obtained on the parts.</td>
</tr>
<tr>
<td>6965</td>
<td>$590.33</td>
<td>Quotations were obtained on this purchase and the transaction should not have been reported.</td>
</tr>
<tr>
<td>7034</td>
<td>$602.28</td>
<td>This procurement for hydraulic and motor was justified by a meaningless statement &quot;to use during hot summer months.&quot; Price quotes should have been obtained on this open line commodity. The purchasing director memoed the farm to this effect.</td>
</tr>
<tr>
<td>14659</td>
<td>$291.12</td>
<td>These procurements were for small purchases and should not have been reported.</td>
</tr>
<tr>
<td>17175</td>
<td>$290.00</td>
<td></td>
</tr>
<tr>
<td>13186</td>
<td>$1,660.00</td>
<td>The first two purchases were for soybean meal (feed) and the third item was for hay feed. These items are exempt and should not have been reported.</td>
</tr>
<tr>
<td>16316</td>
<td>$1,636.00</td>
<td></td>
</tr>
<tr>
<td>16745</td>
<td>$717.45</td>
<td></td>
</tr>
<tr>
<td>7120</td>
<td>$1,305.00</td>
<td>Quotations were obtained for the procurement of these herbicides; therefore, this transaction should not have been reported.</td>
</tr>
<tr>
<td>12178</td>
<td>$860.00</td>
<td>This procurement for bleachers gave a poor justification. This should have been handled as a regular purchase with competition being obtained.</td>
</tr>
</tbody>
</table>
This procurement of fertilizer for fall planting of grain crops was caused by poor planning and scheduling.

The following procurements were for "feed" and as an exempted item should not have been reported:

<table>
<thead>
<tr>
<th>P.O.#</th>
<th>AMOUNT</th>
</tr>
</thead>
<tbody>
<tr>
<td>14719</td>
<td>$1,569.51</td>
</tr>
<tr>
<td>14724</td>
<td>1,395.90</td>
</tr>
<tr>
<td>14740</td>
<td>1,396.04</td>
</tr>
<tr>
<td>14750</td>
<td>1,359.09</td>
</tr>
<tr>
<td>14758</td>
<td>1,365.42</td>
</tr>
<tr>
<td>14772</td>
<td>1,336.08</td>
</tr>
<tr>
<td>14782</td>
<td>1,285.43</td>
</tr>
<tr>
<td>14858</td>
<td>884.85</td>
</tr>
</tbody>
</table>

A number of sole source and emergency procurements were transacted in one quarter, but not reported to the Materials Management Office until the following quarter.

Regulation 19-445.2105 states in part:

"Sole source procurement is not permissible unless there is only a single supplier.

In cases of reasonable doubt, competition should be solicited. Any request by a governmental body that a procurement be restricted to one potential contractor shall be accompanied by an explanation as to why no other will be suitable or acceptable to meet the need."

This has been interpreted by the Materials Management Office as follows:

"The terminology 'only one source' is intended to mean one manufacturer or unique service provider distributing through one distributor channel. If a firm specification for a product or service is requested due to a unique circumstance or need
only satisfied by the procurement of that specific product/service and there is more than one source of distribution, the procurement is not sole source. Bids should be forwarded to all known distributors to achieve the lowest possible price for the particular service or product."

Emergency procurements should only be made for those unforeseen complications created by machine malfunction, nature disaster or fire loss, which create an immediate and serious need for supplies, services or construction that cannot be met through normal procurement methods and the lack of which would seriously threaten:

(1) the function of state government;
(2) the preservation or protection of property; or
(3) the health and safety of any person.

Due to the lack of sufficient understanding of sole source and emergency procurements and the documentation required, many justifications as noted above were weak and non-convincing and some totally absent. Furthermore, due to reporting small purchases, exempted items, and transactions where competition was obtained, the sole source and emergency quarterly reports have been overstated by the following amounts:

Sole Source: $9,830.22
Emergency: $25,147.14

We request that your procurement section review these exceptions and make a more concerted effort to test the market when there is any question concerning the availability of competition. If none can be found, then the sole source or emergency justification should clearly state the circumstances.
The Audit and Certification staff is available at your convenience to discuss the above matters or any other procurement related topic if there are any questions.

Sincerely,

Robert W. Wilkes, Jr., CPA
Director, Audit and Certification

RWWJr:rms
CC: Frank Barker
Mr. Richard W. Kelly  
Director of Agency Certification and Engineering Management  
300 Gervais Street  
Columbia, South Carolina 29201

Dear Rick:

We have returned to the South Carolina Department of Corrections to determine the progress made toward implementing the recommendations in our audit report covering the period July 31, 1981 through June 30, 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 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 insure that procurements are handled in compliance with the Consolidated Procurement Code and ensuing regulations.

Additional certification was not requested, therefore we recommend that the Department of 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,

R. Voight Shealy  
Director of Audit and Certification