PROCUREMENT
AUDIT AND
CERTIFICATION

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SOUTH CAROLINA
DEPARTMENT OF CORRECTIONS

AGENCY

OCTOBER 1, 1988 - SEPTEMBER 30, 1990

DATE
February 19, 1991

Mr. Richard W. Kelly  
Director  
Division of General Services  
1201 Main Street, Suite 420  
Columbia, South Carolina 29201

Dear Rick:

I have attached the Department of Corrections 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 (3) year certification as outlined in the audit report.

Sincerely,

James J. Forth, Jr.  
Assistant Division Director

JJF/jjm

Attachment
SOUTH CAROLINA DEPARTMENT OF CORRECTIONS

PROCUREMENT AUDIT REPORT

OCTOBER 1, 1988 - SEPTEMBER 30, 1990
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Note: The Department of Corrections' responses for the items listed in this report have been inserted immediately following the exceptions they address.
STATE OF SOUTH CAROLINA
State Budget and Control Board
DIVISION OF GENERAL SERVICES

Mr. James J. Forth, Jr.
Assistant Division Director
Division of General Services
1201 Main Street, Suite 600
Columbia, South Carolina 29201

Dear Jim:

We have examined the procurement policies and procedures of the South Carolina Department of Corrections for the period October 1, 1988 through September 30, 1990. 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 Consolidated Procurement Code and State and internal 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 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 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 Department of Corrections in compliance with the South Carolina Consolidated Procurement Code and ensuing regulations.

R. Voight Shealy, Manager
Audit and Certification
INTRODUCTION

We conducted an examination of the internal procurement operating procedures and policies of the South Carolina Department of Corrections October 22 - November 30, 1990. We did so under authority described in Section 11-35-1230(1) of the South Carolina Consolidated Procurement Code and Section 19-445.2020 of the accompanying regulations.

Our 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.

Additionally our work was directed toward assisting the Department in promoting the underlying purposes and policies of the Code as outlined in Section 11-35-20, which include:

(1) to ensure the fair and equitable treatment of all persons who deal with the procurement system of this State

(2) to provide increased economy in state procurement activities and to maximize to the fullest extent practicable the purchasing values of funds of the State

(3) to provide safeguards for the maintenance of a procurement system of quality and integrity with clearly defined rules for ethical behavior on the part of all persons engaged in the public procurement process
BACKGROUND

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 Division 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 March 28, 1989, the Budget and Control Board granted the South Carolina Department of Corrections the following procurement certifications:

<table>
<thead>
<tr>
<th>Category</th>
<th>Certified Limit</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Goods and Services</td>
<td>$25,000 per purchase commitment</td>
</tr>
<tr>
<td>2. Construction Services</td>
<td>25,000 per purchase commitment</td>
</tr>
</tbody>
</table>

Since that certification expires March 28, 1991, this audit was performed primarily to determine if recertification is warranted. Additionally, the Department requested the following increased certification limits:

<table>
<thead>
<tr>
<th>Category</th>
<th>Requested Limit</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Goods and Services</td>
<td>$ 50,000 per purchase commitment</td>
</tr>
<tr>
<td>2. Construction Materials &amp; Equipment</td>
<td>$100,000 per purchase commitment</td>
</tr>
<tr>
<td>3. Consultant Services</td>
<td>$ 25,000 per purchase commitment</td>
</tr>
<tr>
<td>4. Construction</td>
<td>$ 25,000 per purchase commitment</td>
</tr>
</tbody>
</table>
SCOPE

We performed our examination in accordance with Generally Accepted Auditing Standards as they apply to compliance audits. It encompassed a detailed analysis of the internal procurement operating procedures of the South Carolina 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 up to the requested certification limits.

We selected systematic samples for the period October 1, 1988 - September 30, 1990, of procurement transactions for compliance testing and performed other audit procedures that we considered necessary 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) All sole source and emergency procurements and trade-in sales for the period October 1, 1988 through June 30, 1990

(2) Property management and fixed asset procedures

(3) Purchase transactions for the period October 1, 1988 through September 30, 1990

   a) Three hundred forty-seven procurement transactions, each exceeding $500 from the following areas:
      1) Goods and Services - 60
      2) Consultants - 103
      3) Information Technology - 60
      4) Construction - 124

   b) A block sample of four hundred purchases from Prison Industries

(4) Minority Business Enterprise Plan and reports
(5) Procurement staff and training
(6) Procurement procedures
(7) Information Technology Plan
(8) Permanent Improvement Projects
SUMMARY OF AUDIT FINDINGS

Our audit of the South Carolina Department of Corrections, hereinafter referred to as SCDC, produced findings and recommendations in the following areas:

I. Sole Source, Emergency and Trade-ins
   A. Inappropriate Sole Sources
      Three procurements were not adequately justified as sole sources.
   B. Incorrect Justification Attached
      One determination did not support the procurement.
   C. Trade-ins Approvals
      SCDC failed to get the required approval for a trade-in.

II. Compliance - General
   A. Procurements Lack Minimum Competition
      Five procurements were not supported by the required competition.
   B. Exemptions Misapplied
      Two exemptions were applied incorrectly.
   C. Procurement Split
      One procurement was divided to circumvent the Code.
D. Payment Controls
Unquoted freight charges that were inappropriately added to an invoice and paid by SCDC resulted in the successful vendor not being the low bidder.

III. Compliance - Construction
Construction material was purchased without soliciting the required number of bids.

IV. Compliance - Information Technology
Three procurements exceeded SCDC's certification.
Also, one procurement had no competition.

V. Compliance - Consultants
Three solicitations exceeded SCDC's certification.
RESULTS OF EXAMINATION

I. Sole Source, Emergency and Trade-ins

A. Inappropriate Sole Sources

The following procurements were inappropriate as sole sources:

<table>
<thead>
<tr>
<th>PO#</th>
<th>Amount</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>01-0038028</td>
<td>$18,500.00</td>
<td>truck mounted crane</td>
</tr>
<tr>
<td>H-097931</td>
<td>1,676.70</td>
<td>envelopes</td>
</tr>
<tr>
<td>Various</td>
<td>55,342.25</td>
<td>degreaser</td>
</tr>
</tbody>
</table>

SCDC has misapplied the sole source definition. These procurements are not one-of-a-kind and competition is available.

We recommend the Department only sole source those items or services where there is only one source.

DEPARTMENT RESPONSE

1. 01-0038028, Truck Mounted Crane, $18,500.

Future procurements for used equipment, such as the crane, will be considered "Situational" sole sources or will be formally bid.

2. H-097931, Envelopes, $1,676.70.

Future procurements for envelopes or like items where we desire the same design or pattern, we will submit to the vendor a sample of the desired item for a bid price.

3. Various purchase orders, Degreaser, $55,342.25.

Our Construction, Engineering and Maintenance Division has agreed to request a bid for degreasers to be tested against the degreaser we are currently using. This test will be documented as to the results of each degreaser submitted. The degreaser by test which proves to be the best will be accepted by the S.C. Department of Corrections (SCDC) and a contract to purchase will be requested.
B. Incorrect Justification Attached

The Department reported as sole source the renewal of rental agreements for postage meters. However, the sole source determinations were for maintenance agreements (H-120400 $468.00; H-120485 $468.00; H-120486 $732.00; H-120487 $480.00; H-120489 $468.00; H-120491 $696.00; H-120494 $468.00).

We recommend that more care be exercised to ensure that the item procured is covered by the attached determination.

DEPARTMENT RESPONSE

Our data processing system picks up the total purchase price on each purchase order and we combined sole source items for maintenance and non-sole source rental agreements. Future procurements will be separated. Procurement staff has been cautioned to ensure correct supporting documents are attached to the purchase order.

C. Trade-in Approval

SCDC traded-in property with a value in excess of $500 on one occasion without the written approval of the Materials Management Office. Regulation 19-445.2150 requires that all governmental bodies refer all trade-ins of more than $500 to the Materials Management Office for review and approval.

A water screen was traded in on purchase order number H-095031 in the amount of $2,000. Since this trade-in was not approved, it is unauthorized.

Section 19-445.2150(I) requires that the Commissioner request ratification from the Materials Management Officer.

We recommend that SCDC request ratification for the improper disposal of state property. In the future, trade-in approvals should be requested in advance.
DEPARTMENT RESPONSE

Ratification of trade-in on PO #H-095031 has been requested. Trade-in report has been amended. Procurement officers have been instructed as to approvals for trade-ins must be approved by the Materials Management Office (MMO) in advance of issuance of a purchase order.

II. Compliance - General

A. Procurements Lack Minimum Competition Requirements

SCDC failed to solicit the required number of quotations for the following small purchases:

<table>
<thead>
<tr>
<th>PO#</th>
<th>Amount</th>
<th>Quotations Obtained</th>
<th>Quotations Required</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>H-092241</td>
<td>$1,692.05</td>
<td>1 verbal</td>
<td>3 written</td>
<td>tires</td>
</tr>
<tr>
<td>H-116128</td>
<td>2,130.00</td>
<td>2 verbal</td>
<td>3 written</td>
<td>floor buffers</td>
</tr>
<tr>
<td>01-66209</td>
<td>1,268.00</td>
<td>1 verbal</td>
<td>2 verbal</td>
<td>consultant</td>
</tr>
<tr>
<td>01-66213</td>
<td>1,178.00</td>
<td>1 verbal</td>
<td>2 verbal</td>
<td>consultant</td>
</tr>
<tr>
<td>01-72429</td>
<td>888.00</td>
<td>1 verbal</td>
<td>2 verbal</td>
<td>ribbons</td>
</tr>
</tbody>
</table>

Regulation 19-445.2100 (B) requires solicitations of verbal or written quotes from a minimum of two qualified sources of supply for purchases from $500.01 to $1,499.99. The same regulation requires solicitation of written quotations from three qualified sources of supply for purchases from $1,500.00 to $2,499.99.

We recommend that the Department comply with the competition requirements of the Code and regulations.

DEPARTMENT RESPONSE

1. H-092241, Tires, $1,692.05.

Purchases as part of a blanket purchase agreement (BPA). Procurement officer has been instructed on any BPA line item that exceeds $500.01 competition will be required on that line item.
2. H-116128, Floor Buffers, $2,130.
   Only two quotes were obtained where three written quotes are required. The procurement officer was reminded that procurements over $1,500 - $2,499.99 required three written quotes.

3. Purchase orders 01-66209, $1,268 and 01-66213, $1,178, Consultants
   Only one verbal quote was received where two are required. Procurement officer has been counselled to adhere to the Procurement Code.

B. Exemptions Misapplied

SCDC procured computer processing service (01-076388 $3,792.00) and hygiene products (01-67891 $5,400.00) as exempt from competitive bidding.

The Department has misapplied the exemptions meaning the procurements are in violation of the Code.

We recommend that SCDC exercise more caution to ensure compliance with the Code.

DEPARTMENT RESPONSE

1. Purchase order #01-076388, ECG Service, $3,792.
   A determination has been made with Computed that the electronic transmittal and reading of the ECG reports can only be done by their services and is part of the agreement No. 41 Lease purchase staffed by CSP. A sole source will be approved for future service.

2. Purchase order #01-67891, Hygiene Products, $5,400.
   Our understanding when we purchased from another agency's warehouse stock for which competition had been received in accordance with the Procurement Code it was the same as buying from the Highway Department Warehouse. This misinterpretation has been explained by your staff. Future requirements will be bid within our certification and should we desire to buy from another agency, we will obtain approval from MMO utilizing MMO form #136.
C. Procurement Split

The Department purchased 58 cubic yards of concrete on August 21, 1990 and another 58 yards on August 22, 1990 for a total procurement of $4,988.00. (H-123250 $2,494.00 and H-123310 $2,494.00).

Section 11-35-1550 of the Code states that purchases shall not be artificially divided by governmental bodies so as to constitute a small purchase.

The Department artificially divided the purchase to circumvent the Code.

We recommend that the purchasing department review requisitions more carefully to ensure compliance with the Code.

DEPARTMENT RESPONSE

Purchase Order #H-123250, $2,494 and H-123310, $2,494 for Concrete.

These were intentionally artificially divided to circumvent the Procurement Code. The requisitioner has been counselled and reprimanded for this action. The approving procurement officer has been apprised of this transaction and cautioned to be watchful for future actions of this nature.

D. Payment Controls

A vendor invoiced and SCDC paid shipping and handling charges of $50.00 to purchase order number 01-69309 for $1,163.00. However, the delivery tickets indicate that the material was picked up by SCDC from the vendor. Shipping and handling charges should not have been paid. Furthermore, with the addition of freight charges, the vendor that was awarded the purchase order was not the lowest bidder responding to the solicitation.
We recommend that SCDC exercise more care in approving changes to purchase orders.

DEPARTMENT RESPONSE

Purchase order #01-69309, $1,163, Tarkett Tile.

Purchase orders are not to be changed except with the approval of the issuing procurement officer. The payment of the $50 freight charge was done without authorization of the issuing procurement officer. This error by Accounts Payable has been brought to their attention. Accounts Payable will not pay for any invoiced item unless it is on the purchase order. All changes to a purchase order will be documented utilizing SCDC 20-31, Purchase Order Change Form.

III. Compliance - Construction

SCDC procured construction material without soliciting the required number of bids. Both procurements required a minimum of ten solicitations. However, SCDC solicited two and eight bids respectively. (H-100302 $22,063.78; 01-73912 $24,887.00)

Procurement thought that requirements were waived if advertisements were placed in South Carolina Business Opportunities, which they did. This is the correct procedure when purchases are made for contractor services. However, the above listed procurements were for construction material and procured under the Department's goods and services certification, which requires solicitations of bids from a minimum of ten responsible and responsive vendors for procurements of $10,000 or more.

We recommend that SCDC ensure that the solicitation requirements of the Code are adhered to.

DEPARTMENT RESPONSE

Failed to solicit 10 qualified vendors, PO's H-100302 and 01-00073912. Purchase order H-100302, mailed to 5 vendors and through advertisement in the S.C. Business Opportunities Magazine.
(SCBO), 4 more solicitations were requested. Received 3 bids from vendors in response to Bid #670-11538-05/02/89-D. Purchase order #01-00073912, mailed to 8 known vendors and through advertisement in SCBO, 1 additional solicitation was requested. Received 4 bids from vendors in response to Bid #155-58854-06/02/89-D.

Corrective action has been taken to ensure the proper number of qualified vendors are solicited according to the dollar value of the bid/procurement.

IV. Compliance - Information Technology

SCDC made three procurements for information technology equipment which exceeded their certification.

<table>
<thead>
<tr>
<th>PO#</th>
<th>Amount</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>01-083532</td>
<td>$14,985.40</td>
<td>printer</td>
</tr>
<tr>
<td>01-086098</td>
<td>7,824.00</td>
<td>printers</td>
</tr>
<tr>
<td>H-100637</td>
<td>3,890.00</td>
<td>camera</td>
</tr>
</tbody>
</table>

Additionally, SCDC made the $7,824.00 procurement of printers without competition. We cannot understand how a procurement of this size was made without competition.

The Department has no certification above the $2,500.00 basic amount granted all agencies in information technology. As these procurements exceeded $2,500.00 and were not sent to the Information Technology Management Office, they are unauthorized.

We recommend that the Department submit a request to the Materials Management Officer for ratification in accordance with Regulation 19-445.2015.

DEPARTMENT RESPONSE

Three unauthorized procurements were made on PO's 01-083532, 01-086098 and H-100637. Procurements were unauthorized because our certification was only $2,500. Ratification of these procurements has been requested from MMO. Procurement officer that purchased the printer on PO #01-086098 for $7,824 without
competition has been counselled. The procurement officer's only defense was the printer was part of a large purchase where there were exempt items and the omission of competition on this item was an oversight.

V. Compliance - Consultants

SCDC has solicited "requests for proposals" for teaching consultants for the Training Academy without certification.

<table>
<thead>
<tr>
<th>Solicitation#</th>
<th>Potential Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>792-57017-05/02/90-R</td>
<td>$10,000.00</td>
</tr>
<tr>
<td>792-57016-05/02/90-R</td>
<td>21,500.00</td>
</tr>
<tr>
<td>792-57015-05/02/90-R</td>
<td>19,300.00</td>
</tr>
</tbody>
</table>

The Department has no certification to solicit consultants above the $2,500.00 limit granted all state agencies.

SCDC identified a problem for hiring teaching consultants for the Training Academy. The procurement office requested assistance from Audit and Certification and State Procurement to help resolve this problem. It was decided that requests for proposals should be solicited for these services. However, due to misunderstanding, SCDC proceeded with these procurements without the authority to procure consultants above $2,500.00.

We reviewed the solicitations and found them to meet the guidelines of the Procurement Code. Since SCDC has demonstrated the ability to procure these services, we suggest that they request certification for consultant services.

SCDC must request ratification for the above procurements in accordance with Regulation 19-445.2015.
DEPARTMENT RESPONSE

Three unauthorized solicitations were made for teaching consultants because our certification for consultants is only $2,500. It was our understanding teachers/instructors were covered under our goods and services certification of $25,000. During the audit your staff informed us that teachers/instructors should be classified as consultants. Ratification of our actions has been requested from MMO.
CERTIFICATION RECOMMENDATION

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 Department of Corrections in compliance with the South Carolina Consolidated Procurement Code.

The Department should complete this corrective action by February 28, 1991. We will perform a follow-up review to determine if this has been done.

Under the authority described in Section 11-35-1210 of the Procurement Code, subject to this corrective action, we recommend the South Carolina Department of Corrections be recertified to make direct agency procurements for three (3) years up to the limits as follows:

<table>
<thead>
<tr>
<th>Procurement Areas</th>
<th>Requested Certification Limits</th>
</tr>
</thead>
<tbody>
<tr>
<td>Goods and Services</td>
<td>*$ 50,000 per purchase commitment</td>
</tr>
<tr>
<td>Construction Materials and Equipment</td>
<td>*$100,000 per purchase commitment</td>
</tr>
<tr>
<td>Consultant Services</td>
<td>*$ 25,000 per purchase commitment</td>
</tr>
<tr>
<td>Construction Services</td>
<td>*$ 25,000 per purchase commitment</td>
</tr>
</tbody>
</table>

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

\[Signature\]
R. Voight Shealy, Manager
Audit and Certification
February 15, 1991

Mr. James J. Forth, Jr.
Assistant Division Director
Division of General Services
1201 Main Street, Suite 600
Columbia, South Carolina 29201

Dear Jim:

We have reviewed the Department of Corrections' response to this audit report. Combined with observations made during our site visit and subsequent discussions with Department officials, this review has satisfied us that the Department has corrected the problem areas noted in the report.

We, therefore, recommend that the Budget and Control Board grant the Department of Corrections the certification limits outlined in the audit report for a period of three (3) years.

Sincerely,

R. Voight Shealy, Manager
Audit and Certification

RVS/jjm