PROCUREMENT
AUDIT AND
CERTIFICATION

SOUTH CAROLINA DEPARTMENT
OF JUVENILE JUSTICE

AGENCY
JANUARY 1, 1993 - DECEMBER 31, 1995

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

Dear Helen:

I have attached the South Carolina Department of Juvenile Justice’s procurement audit report and recommendations made by the Office of Audit and Certification. I concur and recommend the Budget and Control Board grant the Department of a three year certification as noted in the audit report.

Sincerely,

Raymond L. Grant
Materials Management Officer

RLG/tl
DEPARTMENT OF JUVENILE JUSTICE
PROCUREMENT AUDIT REPORT

JANUARY 1, 1993 - DECEMBER 31, 1995
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**NOTE:** The Department’s response to issues noted in the report have been inserted immediately following the issues they refer to.
Mr. Raymond L. Grant  
Materials Management Officer  
Office of General Services  
1201 Main Street, Suite 600  
Columbia, South Carolina 29201

Dear Ray:

We have examined the procurement policies and procedures of the South Carolina Department of Juvenile Justice for the period January 1, 1993 through December 31, 1995. 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 Department procurement policy. Additionally, the evaluation was used in determining the nature, timing and extent of other auditing procedures necessary for developing an opinion on the adequacy, efficiency and effectiveness of the procurement system.

The administration of the Department of Juvenile Justice is responsible for establishing and maintaining a system of internal control over procurement transactions. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of control procedures. The objectives of a system are to provide management with reasonable, but not absolute, assurance of the integrity of the procurement
process, that affected assets are safeguarded against loss from unauthorized use or disposition and that transactions are executed in accordance with management's authorization and are recorded properly.

Because of inherent limitations in any system of internal control, errors or irregularities may occur and not be detected. Also, projection of any evaluation of the system to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or that the degree of compliance with the procedures may deteriorate.

Our study and evaluation of the system of internal control over procurement transactions, as well as our overall examination of procurement policies and procedures, were conducted with professional care. However, because of the nature of audit testing, they would not necessarily disclose all weaknesses in the system.

The examination did, however, disclose conditions enumerated in this report which we believe need correction or improvement.

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

Larry G. Sorrell, Manager
Audit and Certification
INTRODUCTION

We conducted an examination of the internal procurement operating policies and procedures of the Department of Juvenile Justice. Our on-site review was conducted January 25 through February 2, 1995, and was made under Section 11-35-1230(1) of the South Carolina Consolidated Procurement Code and Section 19-445.2020 of the accompanying regulations.

Section 11-35-1210 of the South Carolina Consolidated Procurement Code states:

The (Budget and Control) Board may assign differential dollar limits below which individual governmental bodies may make direct procurements not under term contracts. The 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 August 26, 1993, the Budget and Control Board granted the Department the following procurement certification. These limits will expire on August 26, 1996:

<table>
<thead>
<tr>
<th>Category</th>
<th>Limit</th>
</tr>
</thead>
<tbody>
<tr>
<td>Goods and Services</td>
<td>$50,000 per commitment</td>
</tr>
<tr>
<td>Information Technology in accordance with the approved Information Technology Plan</td>
<td>$50,000 per commitment</td>
</tr>
<tr>
<td>Consultant Services</td>
<td>$50,000 per commitment</td>
</tr>
<tr>
<td>Construction Services</td>
<td>$25,000 per commitment</td>
</tr>
</tbody>
</table>

Our audit was performed primarily to determine if recertification is warranted.
SCOPE

We conducted our examination in accordance with Generally Accepted Auditing Standards as they apply to compliance audits. Our examination encompassed a detailed analysis of the internal procurement operating procedures of the Department of Juvenile Justice and its related policies and procedures manual to the extent we deemed necessary to formulate an opinion on the adequacy of the system to properly handle procurement transactions.

We selected judgmental samples for the period July 1, 1993 through December 31, 1995 of procurement transactions for compliance testing and performed other audit procedures that we considered necessary to formulate this opinion. Specifically, the scope of our audit included, but was not limited to, a review of the following:

1. All sole source, emergency and trade-in sale procurements for the period January 1, 1993 through December 31, 1995

2. Procurement transactions for the period July 1, 1993 through December 31, 1995 as follows:
   a) One hundred forty-six payments, each exceeding $1,500
   b) A block sample of two hundred fifty numerically sequential purchase orders
   c) Additional sample of 16 sealed bids

3. Three professional service contracts and five construction contracts for compliance with the Manual for Planning and Execution of State Permanent Improvements

4. Minority Business Enterprise Plans and reports for the audit period

5. Information Technology Plans and approvals

6. Internal procurement procedures manual

7. Surplus property procedures

8. Procurement file documentation
SUMMARY OF AUDIT FINDINGS

Our audit of the procurement system of the Department of Juvenile Justice, hereinafter referred to as the Department, produced findings and recommendations as follows:

I. Unauthorized Sole Source Procurement

We noted one sole source that was not approved until after services were started.

II. Emergency Procurement Lacked Competition

One emergency procurement for HVAC system lacked informal competition.

III. Invoice Not Reconciled to Contract

One payment could not be reconciled to the original contract.

IV. Bid Tabulation Not Signed Nor Witnessed

Several of the sealed bid tabulation sheets were not signed nor witnessed at the time of bid opening.

V. No official Change Order Policy

The Department has no official change order policy for amendments to purchase orders.

VI. Surplus Property

The Department has not reported surplus property in a timely manner as required by the Code.

VII. Internal Procurement Procedures Manual

Changes and/or additions need to be made to the Department’s Internal Procurement Procedures Manual.
RESULTS OF EXAMINATION

I. Unauthorized Sole Source Procurement

The Department purchased a maintenance agreement on purchase order 2754 for $2,221 as a sole source. The agreement began 11/15/94 but the sole source was not signed and authorized until 1/3/95. The Code requires that sole sources may be used when "...the chief procurement officer, the head of a purchasing agency, or a designee of either officer, above the level of the procurement officer, determines in writing that there is only one source for the required supply, service, or construction item." Since the Code is specific about who may authorize this transaction, the approval must be received prior to services being rendered. As a result, this sole source is unauthorized. We recommend the Department request ratification in accordance with Regulation 19-445.2015.

Department Response

We concur. The Director of DJJ has since ratified this unauthorized procurement. This was an isolated incident in which there was some confusion as to who was responsible for this unauthorized procurement. In the future, all unauthorized procurements will be ratified prior to payment.

II. Emergency Procurement Lacked Competition

We noted the following emergency procurement that lacked appropriate competition.

<table>
<thead>
<tr>
<th>PO</th>
<th>Date</th>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>3140</td>
<td>06/03/94</td>
<td>HVAC System</td>
<td>$21,574</td>
</tr>
</tbody>
</table>

The requirement to furnish and install a new HVAC System was known on June 1, 1994. A purchase order was issued two days later for a turn key job for the new system. Informal quotes should have been requested during this time.

Section 11-35-1570 of the Code states in part, "emergency procurements shall be made with as much competition as practicable." We believe the Department had enough time to solicit a verbal quotations on the above procurement.

We recommend the Department examine emergency procurement requests more closely and seek competition when time allows.
Department Response

We concur. Personnel involved in this situation have been notified and will make every effort to seek as much competition as time allows. In the future, the Procurement Office will coordinate more closely with the Department’s Support Services Section, which is responsible for the agency’s physical maintenance.

III. Invoice Not Reconciled to Contract

The Department paid for grant writing services for $11,000 on purchase order 3842. The services were procured through the Materials Management Office on request for proposal 500669. Based on the original proposal, the invoice should indicate actual hours worked for each employee and the hourly rate for this employee. The proposal also allowed for negotiations for specific projects if more cost efficient. The vendor did an estimate based on number of days for the Department for this project. However, we cannot compare the estimate to the prices in the proposal to determine cost efficiency.

We recommend the Department review invoices more carefully to ensure that payments are in accordance with the hourly contract bid award.

Department Response

We concur. This invoice has been brought to the attention of the Accounts Payable Section with an explanation of the correct way to handle similar invoices.

IV. Bid Tabulations Not Signed Nor Witnessed

Several of the sealed bid tabulation sheets were not signed nor witnessed at the time of bid opening. Section 11-35-1520 (6) of the Code states in part, “Bids shall be opened publicly in the presence of one or more witnesses at the time and place designated.... The amount of each bid... with the name of each bidder, shall be tabulated. The tabulation shall be open to public inspection at that time.” All sealed bids should have a tabulation sheet prepared and filed in the bid package. Each tabulation sheet should be signed by the purchasing agent opening the bid and witnessed by the assistant who participated in the bid opening.

Department Response

We concur. A signature line for both the Department’s purchasing officer and witness have been added to our bid tabulation sheet to rectify this oversight.
V. No Official Change Order Policy

The department does not have an official change order document for purchase orders that need to be increased or decreased. Currently, the Department’s purchasing officers do a handwritten change to a purchase order and initial it. The revised purchase order is returned to Accounting for payment. The following are examples of pen and ink changes made to purchase orders.

<table>
<thead>
<tr>
<th>PO</th>
<th>Original Amount (PO)</th>
<th>Revised Amount (Paid)</th>
<th>Difference</th>
</tr>
</thead>
<tbody>
<tr>
<td>3379</td>
<td>$7,447.20</td>
<td>$7,999.01</td>
<td>$551.81</td>
</tr>
<tr>
<td>1799</td>
<td>4,557.00</td>
<td>4,673.55</td>
<td>116.55</td>
</tr>
<tr>
<td>4195</td>
<td>6,347.25</td>
<td>7,386.75</td>
<td>1,039.50</td>
</tr>
<tr>
<td>4407</td>
<td>4,541.57</td>
<td>6,141.77</td>
<td>1,600.20</td>
</tr>
</tbody>
</table>

We did not find any purchasing officers initials approving the increase on the payment for purchase order 3379.

We recommend a formal change order procedure be inserted in the Department’s internal procurement procedures manual. For example, any change to a purchase order less than $100 may be approved by a buyer’s handwritten initials. From $100 and greater or whatever limit the Department chooses, a formal written change order document should be issued and placed in the voucher file.

**Department Response**

We concur. As recommended, we have added a formal change order policy to cover increases and decreases in the agency’s Procurement Procedures Manual.

VI. Surplus Property

During our review of surplus property, we noted that surplus has not been reported to State Surplus Property since December 1994. The Department has an excessive amount of surplus stored in their warehouse. Regulation 19-445.2150 requires that surplus be reported within 180 days of becoming surplus.

We recommend the Department prepare a turn-in document for surplus in the warehouse and review procedures to ensure future compliance with the Code.
Department Response

We concur. Agency Surplus Property Personnel have reported all surplus property. All surplus property was screened March 4, 1996 and picked up by SCDC and Surplus Property the following week. In the future, personnel will report surplus within 180 days as required in the Consolidated Procurement Code.

VII. Internal Procurement Procedures Manual

The following changes or additions need to be made to the Department’s internal procurement procedures manual.

1. Term contract definition needs to include “If a governmental body is offered goods and services at a price that is at least ten percent less than the term contract price for the same goods or services, it may purchase from the vendor offering the lower price after first offering the vendor holding the term contract the option to meet the lower price. If the vendor holding the term contract meets the lower price, then the governmental body must purchase from the contract vendor.”

2. Regulation 19-445.2150 no longer allows individuals to be pecuniarily liable if the price is not fair and reasonable. This statement needs to be removed from the Department’s manual.

3. The current trade-in approval section in the manual needs to be changed to “Governmental bodies may trade in personal property, whose original unit purchase price did not exceed $5,000, the trade in value of which must be applied to the purchase of new items. When the original unit purchase price exceeds $5,000, the governmental body shall refer the matter to the Materials Management Officer, the ITMO, or the designee of either, for disposition.”

4. The Department needs to add a reference to the Minority Business Quarterly reports as required by the Code.

- The following areas need to be added to the Department’s manual:
  - Exemptions
  - Protest Procedures
  - Change Order Policy as noted previously
  - Multi-term Contracts
  - Drug-Free Workplace Act

Department Response

We concur. All recommended changes or additions for inclusion by the auditors have been made to the agency’s internal Procurement Procedures Manual.
CERTIFICATION RECOMMENDATIONS

As enumerated in our transmittal letter, corrective action based on the recommendations described in this report, we believe, will in all material respects place the South Carolina Department of Juvenile Justice in compliance with the South Carolina Consolidated Procurement Code.

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

<table>
<thead>
<tr>
<th>PROCUREMENT AREA</th>
<th>RECOMMENDED CERTIFICATION LIMIT</th>
</tr>
</thead>
<tbody>
<tr>
<td>Goods and Services</td>
<td>$50,000 per commitment</td>
</tr>
<tr>
<td>Information Technology in accordance</td>
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<tr>
<td>with the approved Information Technology Plan</td>
<td></td>
</tr>
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<td>Consultant Services</td>
<td>$50,000 per commitment</td>
</tr>
<tr>
<td>Construction Services</td>
<td>$25,000 per commitment</td>
</tr>
</tbody>
</table>

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

James M. Stiles, CPPB
Audit Manager

Larry G. Sarrell, Manager
Audit and Certification
Mr. Raymond L. Grant
Materials Management Officer
Materials Management Office
1201 Main Street, Suite 600
Columbia, South Carolina 29201

Dear Ray:

We have reviewed the response from the South Carolina Department of Juvenile Justice to our audit report January 1, 1993 - December 31, 1995. Also we have followed the Department's corrective action during and subsequent to our field work. We are satisfied that the Department has corrected the problem areas and the internal controls over the procurement system are adequate.

Therefore, we recommend the Budget and Control Board grant the South Carolina Department of Juvenile Justice the certification limits noted in our report for period of three years.

Sincerely,

Larry G. Sorrell, Manager
Audit and Certification

LGS/11

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