



**South Carolina  
Department of Juvenile Justice (DJJ)**

**INDEPENDENT PROCUREMENT AUDIT REPORT**

**For the Audit Period:  
April 1, 2015 to September 30, 2019**

**Office of Audit & Certification  
Division of Procurement Services  
February 28, 2020**

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## INTRODUCTION

We audited DJJ's internal procurement operating policies and procedures, as outlined in their Internal Procurement Operating Procedures Manual, under § 11-35-1230 (1) of the South Carolina Consolidated Procurement Code (Code) and Reg. 19-445.2020 of the ensuing regulations.

The primary objective of our audit was to determine whether, in all material respects, the internal controls of DJJ's procurement system were adequate to ensure compliance with the Code and ensuing regulations.

The management of DJJ is responsible for the agency's compliance with the Code. Those responsibilities include the following:

- Identifying the agency's procurement activities and understanding and complying with the Code
- Establishing and maintaining effective controls over procurement activities that provide reasonable assurance that the agency administers its procurement programs in compliance with the Code
- Evaluating and monitoring the agency's compliance with the Code
- Taking corrective action when instances of noncompliance are identified, including corrective action on audit findings in this audit

Because of inherent limitations in any system of internal controls, errors or irregularities may occur and not be detected. 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 review and evaluation of the system of internal control over procurement transactions, as well as our overall audit of procurement policies and procedures, was conducted with professional care. However, because of the nature of audit testing, they would not necessarily disclose all weaknesses in the system.

## INTRODUCTION

Our audit was also performed to determine if recertification under SC Code Ann. § 11-35-1210 is warranted.

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On November 7, 2016 the State Fiscal Accountability Authority granted DJJ the following procurement certifications:

<u>PROCUREMENT AREAS</u>	<u>CERTIFICATION LIMITS</u>
Supplies and Services	*\$ 500,000 per commitment
Construction Contract Award	\$ 100,000 per commitment
Construction Contract Change Order	\$ 25,000 per change order
Architect/Engineer Contract Amendment	\$ 5,000 per amendment

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

DJJ did not request any increases to its current certification levels during the audit.

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## SCOPE

We conducted our audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. Our audit included testing, on a sample basis, evidence about DJJ's compliance with the Code for the period April 1, 2015 through September 30, 2019<sup>1</sup>, the audit period, and performing other procedures that we considered necessary in the circumstances. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

The scope of our audit included, but was not limited to, a review of the following:

- (1) Internal procurement and purchasing card (P-Card) procedure manuals.
- (2) All available internal and external audit reports pertaining to procurement.
- (3) All sole source and emergency procurement justifications. DJJ reported the following sole source procurement activity to DPS:

<u>Fiscal Year</u>	<u>Count</u>	<u>\$ Amount</u>
Q4 - 2015	2	92,100
2016	28	369,227
2017	27	426,723
2018	24	389,693
2019	35	508,012
Q1 - 2020	4	107,500

- (4) Procurement transactions for the audit period as follows:
  - a) Twenty direct expense vouchers totaling \$1,219,745.
  - b) Seventy-one Purchase Orders (POs) totaling \$8,237,926.
  - c) A block sample of sequential expenditures over a two month period reviewed for order splitting and the use of favored vendors.
  - d) Twenty-five blanket purchase agreements reviewed totaling \$107,486.
  - e) Twenty-five P-Card transactions for the period March 1, 2019 through April 30, 2019.
- (5) Two construction contracts and three Architect/Engineer and Related Professional Service Contracts for compliance with the Manual for Planning and Execution of State Permanent Improvements, Part II.

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<sup>1</sup> The audit period spans significant revisions to the South Carolina Consolidated Procurement Code effective May 2019.

**SCOPE**

- (6) Minority Business Enterprise (MBE) utilization plans and reports. DJJ reported the following activity to the Division of Small and Minority Business Contracting and Certification (SMBCC):

<u>Fiscal Year</u>	<u>\$ Goal</u>	<u>\$ Actual</u>
Q4 - 2015	19,005	42,394
2016	126,483	187,265
2017	120,627	357,858
2018	296,514	876,996
2019	238,691	409,593
Q1 - 2020	230,276	119,504

- (7) Information Technology acquisitions under IT Plans.
- (8) Surplus property dispositions, and approval of trade-ins in excess of \$5,000.
- (9) Disposition of unauthorized procurements. DJJ reported the following unauthorized procurement activity to the Division of Procurement Services:

<u>Fiscal Year</u>	<u>Count</u>	<u>\$ Amount</u>
Q4 - 2015	-	-0-
2016	7	16,797
2017	4	11,753
2018	2	9,002
2019	-	-0-
Q1 - 2020	2	10,982

**SUMMARY OF FINDINGS**

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**Note:** DJJ’s responses to the findings in this report have been inserted at the end of each recommendation.

## **RESULTS OF AUDIT**

### **I. Supplies and Services**

Our audit of supplies and services transactions identified the following issues:

#### **Educational Materials Acquired Without Competition**

One procurement for educational materials for approximately \$19,800 was made without adequate competition or public notice in SCBO. One quote was obtained on June 26, 2017, and then two additional quotes were requested from two more vendors on July 12, 2017. The tabulation was completed with "no response" for two vendors, and a PO issued to the original vendor on July 14, 2017. Sufficient time was not provided for the additional vendors to respond.

Per SC Code Ann. § 11-35-1550, (2) Purchases over ten thousand dollars up to fifty thousand dollars:

Written solicitation of written quotes, bids, or proposals must be made for a small purchase over ten thousand dollars but not in excess of fifty thousand dollars. The procurement must be advertised at least once in the South Carolina Business Opportunities publication or through a means of central electronic advertising as approved by the designated board office. A copy of the written solicitation and written quotes must be attached to the purchase requisition. The award must be made to the lowest responsive and responsible source or, when a request for proposal process is used, the highest ranking offeror.

**Recommendation:** We recommend that DJJ develop and implement procedures to ensure that all procurements solicit the appropriate level of competition as required by the Code.

#### **Agency Response**

With regards to the exception noted, DJJ understands that the procurement should have been properly competed in compliance with the SC Consolidated Procurement Code. DJJ will ensure that procurements solicit the appropriate level of competition as required by the SC Consolidated Procurement Code.

### **II. P-Cards**

#### **A. Bank Statements Lacked Management Approval**

Five bank statements had not been signed by management. Per State P-Card Policy Section III(B)(5)(e), "the appropriate supervisor/approving official must review all documents and sign the cardholder activity statements signifying review and approval for payment. This responsibility cannot be delegated to another person."

DJJ's Purchasing Card Manual, revised October 2017, lists several specific Purchasing Manager Responsibilities, but does not require the Manager to sign the cardholder activity statement.



## **RESULTS OF AUDIT**

**Recommendation:** We recommend that DJJ review and revise its P-Card Manual to ensure that it is consistent with the State P-Card Policy, revised September 26, 2019, and make the necessary revisions to ensure compliance with the State Manual.

### **Agency Response**

With regards to the exceptions noted, DJJ understands that statements must be signed by both the cardholder and their manager/approving official. DJJ's Procurement Card Administrator reviews all P-Card Statements to verify they've been reviewed and signed by both the cardholder and their manager/approving official. Additionally, DJJ's P-Card manual is being reviewed and revised to ensure compliance with the State P-Card Manual. Revisions to the manual will be completed by November 20, 2020.

### **B. Span of Control for P-Card Oversight was Not Manageable**

The P-Card Administrator (PCA) was assigned responsibility to reconcile and review all 41 P-Card statements. Effective oversight over P-Card utilization is better accomplished when the reviewer is responsible for a manageable number of P-Card transactions considering the number of cardholders and typical number of transactions by each cardholder under review. However, there were no liaisons assigned to the P-Card program. Additionally, the review and reconciliation of the P-Card statements by the PCA was not documented. Reviews should be documented, signed, and dated to ensure effective reviews are consistently performed.

Per the State P-Card Policy Section III(A)(1)(c), DJJ must:

Designate the following administrative positions as needed and ensure coordination among the positions: (ii) Department Liaison: an employee in each department who is responsible for reviewing transactions of individual Cardholders to make sure the transactions are legitimate public expenditures, are classified properly and comply with this policy.

**Recommendation:** We recommend DJJ assign liaisons a number of cardholders they can effectively review during month-end close considering the volume and size of cardholder transactions, in accordance with State policy. The PCA should sign the bank statements in order to verify that the receipts and the bank statement have been properly reviewed. The PCA should maintain a cardholder list and review it on a periodic basis, to ensure there is a proper separation of duties, a manageable span of control, and that no liaisons review their own card.

### **Agency Response**

DJJ will designate Department Liaisons within each division of the agency to review cardholder transactions for compliance with DJJ and State P-Card policy.

## **RESULTS OF AUDIT**

### **C. Independent Audit of Procurement Cards Not Performed**

DJJ had not performed Independent audits of purchasing card activity as required. Per the State P-Card Policy, Section III(A)(1)(a)(ix), DJJ must “Create a provision for audit or other independent review of all areas of program administration and transactions at least annually.”

**Recommendation:** We recommend that DJJ develop and implement procedures to ensure independent audits of the P-Card program are conducted, at least annually, to include program administration and transaction testing. We further recommend that these audits be performed by individuals not associated with the P-Card program.

### **Agency Response**

DJJ will develop and implement independent audit procedures in compliance with the State P-Card Policy.

### **D. P-Card Training Program Not Documented**

The agency had no documented training program for Level I and Level II P-Cardholders. Regarding Level I training (initial training of prospective cardholders), Section III (A)(4) of the State P-Card Policy states "Develop a mandatory Agency-specific training program for all prospective Cardholders and supervisors/approving officials prior to issuance of the P-Card." Additionally, the Manual requires Level II training, also referred to as “Procurement Official” training, for those making purchases exceeding the no competition threshold.

**Recommendation:** We recommend that DJJ ensure adequate training is provided to cardholders and supervisors/approving officials providing oversight responsibilities. The training course should be documented and completion dates recorded in the cardholder's file.

### **Agency Response**

Although P-Card policies and procedures are reviewed with all cardholders prior to issuance of cards, DJJ acknowledges that a more formal training program is needed in order to comply with the State P-Card Policy. A mandatory, agency-specific training program will be developed and implemented. DJJ currently has no plans to allow P-Card use for purchases exceeding the "no competition" threshold, so training will be limited to Level I P-Cardholders per the State Policy.

### **E. Inactive P-Cards Not Cancelled**

There were five P-Cards that had not been used in over one year, and five additional cards that had never been used. Per State P-Card Policy Section IIIA(1)(a)(xi), DJJ must “Monitor Cardholder accounts for inactivity and promptly close accounts and cards that are no longer needed.”

## **RESULTS OF AUDIT**

**Recommendation:** We recommend closing all unused P-Card accounts, and developing and implementing procedures to require monitoring and timely closing of inactive cards as required by the State P-Card Policy.

### **Agency Response**

DJJ will develop procedures for monitoring and closing inactive P-Cards. These procedures will be included in the revised DJJ P-Card manual, which will be completed by November 20, 2020.

### **III. Sole Source Procurements**

#### **A. Sole Source Procurements Not Reported or Reported Late**

DJJ did not report seven sole source procurements totaling \$78,316 to MMO, and reported nine sole source procurements totaling \$242,665 late. The late procurements ranged from 43 to 349 days overdue. SC Code Ann. § 11-35-2440 requires that governmental bodies submit quarterly, a record listing of all contracts made pursuant to § 11-35-1560 to the Chief Procurement Officers.

**Recommendation:** We recommend that DJJ develop a documented process, to include management review and approval, to ensure that an accurate and complete list of all sole source procurements is reported quarterly in a timely manner.

### **Agency Response**

With regards to the exceptions noted, DJJ understands that sole source procurements must be reported quarterly to SFAA-DPS. It is of note that all of these exceptions were for procurements processed prior to the current Administrator of Procurement assuming procurement management responsibilities at DJJ in September of 2018. Since that time, procedures have been put in place to ensure all sole source procurements are reviewed, approved, and reported in a timely manner.

#### **B. Non-Compliance with DFWA**

Our review of Sole Source procurements valued at greater than \$50,000 identified four procurements, totaling \$287,304, for which required DFWA Certifications were not obtained. Section 44-107-30 of the Drug-Free Workplace Act states, “No person, other than an individual, may receive a domestic grant or be awarded a domestic contract for the procurement of any goods, construction, or services for a stated or estimated value of fifty thousand dollars or more from any state agency unless the person has certified to the using agency that it will provide a drug-free workplace...” Sole source and emergency procurements are subject to this law.

## **RESULTS OF AUDIT**

**Recommendation:** We recommend DJJ revise its procedures to ensure that solicitations greater than \$50,000 require contractors to certify that they will provide a drug-free workplace as required by the Drug-Free Workplace Act, and verifying that such certifications are obtained prior to commencement of work under the contract.

### **Agency Response**

With regards to the exceptions noted, DJJ understands that DFWA certifications are required for procurements with an estimated value of \$50,000 or more. It is of note that all of these exceptions are for procurements processed prior to the current Administrator of Procurement assuming procurement management responsibilities at DJJ in September of 2018. Since that time, procedures have been put in place to ensure compliance with DFWA requirements.

#### **IV. Minority Business Enterprise (MBE) Plans**

##### **A. Annual MBE Utilization Plans Not Filed Timely**

DJJ did not file four of the five MBE utilization plans in a timely manner.

Per SC Code Ann. § 11-35-5240 (2), MBE utilization plans must be submitted to the SMBCC for approval no later than July 30<sup>th</sup>, annually.

### **Agency Response**

DJJ will ensure that future MBE Utilization Plans are submitted to SMBCC in a timely manner, per requirements of the Procurement Code.

##### **B. Quarterly Progress Reports Not Filed Timely or Not Filed**

DJJ failed to file one progress report and filed one late.

Per SC Code Ann. § 11-35-5240 (2), MBE Progress reports must be submitted to the SMBCC no later than thirty days after the end of each fiscal quarter.

**Recommendation:** We recommend that DJJ develop and implement procedures to comply with SC Code Ann. § 11-35-5240(2) by submitting annual utilization plans and quarterly progress reports to the SMBCC in a timely manner.

### **Agency Response**

It is of note that the exceptions noted took place prior to the current Administrator of Procurement assuming procurement management responsibilities at DJJ in September of 2018. Since that time, procedures have been put in place to ensure quarterly reports are submitted to SMBCC in a timely manner.

## **RESULTS OF AUDIT**

### **V. Blanket Purchase Agreements (BPAs)**

Four BPAs did not specify the required dollar limit per call.

Per Reg. 19-445.2100(B)(3)(c) requires each BPA to contain “A provision that a list of names of individuals authorized to place calls under the agreement, identified by organizational component, and the dollar limitation per call for each individual shall be furnished to the supplier by the procurement officer.”

**Recommendation:** We recommend DJJ develop and implement procedures to ensure compliance with Reg. 19-445.2100, when establishing BPAs. Terms and Conditions must identify individuals authorized to place calls and specify dollar limitations per call for each authorized individual.

#### **Agency Response**

With regards to the exceptions noted, DJJ understands that BPAs must contain the information required by Regulation 19-445.2100. For those BPAs under the "no competition" threshold noted in 11-35-1550 of the Procurement Code, DJJ wishes to continue noting that authorized individuals are authorized to place calls up to, but not to exceed the total value of the purchase order.

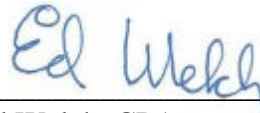
**CERTIFICATION RECOMMENDATION**

We believe corrective action based on the recommendations in this report will make the DJJ's internal procurement operations consistent with the South Carolina Consolidated Procurement Code and ensuing regulations.

As provided in SC Code Ann. § 11-35-1210, we recommend that the DJJ's procurement authority to make direct agency procurements be re-certified for three years up to the following limits:

<u>PROCUREMENT AREAS</u>	<u>RECOMMENDED CERTIFICATION LIMITS</u>
Supplies and Services <sup>2</sup>	*\$ 500,000 per commitment
Construction Contract Award	\$ 100,000 per commitment
Construction Contract Change Order	\$ 25,000 per change order
Architect/Engineer Contract Amendment	\$ 5,000 per amendment

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



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<sup>2</sup> Supplies and Services includes non-IT consulting services