

SOUTH CAROLINA DEPARTMENT OF JUVENILE JUSTICE

PROCUREMENT AUDIT REPORT

JULY 1, 2007 – DECEMBER 31, 2010

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NOTE: The Department’s responses to issues noted in this report have been inserted immediately following the items they refer to.

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August 31, 2011

Mr. R. Voight Shealy
Materials Management Officer
Division of Procurement Services
1201 Main Street, Suite 600
Columbia, South Carolina 29201

Dear Voight:

We have examined the procurement policies and procedures of the South Carolina Department of Juvenile Justice for the period July 1, 2007 through December 31, 2010. As part of our examination, we studied and evaluated the system of internal controls over procurement transactions to the extent we considered necessary.

The evaluation was used to establish a basis for reliance upon the system of internal controls to assure adherence to the Consolidated Procurement Code, State regulations, and the Department's 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 Juvenile Justice is responsible for establishing and maintaining a system of internal controls over procurement transactions. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of

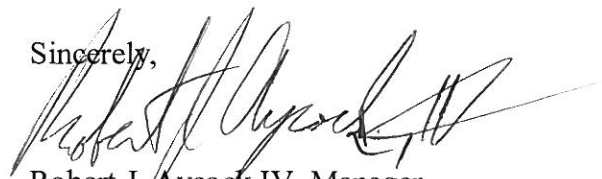
control procedures. The objectives of a system are to provide management with reasonable, but not absolute, assurance of the integrity of the procurement process, that affected assets are safeguarded against loss from unauthorized use or disposition and that transactions are executed in accordance with management's authorization and recorded properly.

Because of inherent limitations in any system of internal controls, 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 controls 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 that we believe need correction or improvement by the South Carolina Department of Juvenile Justice. Corrective action based on the recommendations described in these findings will, in all material respects, place the South Carolina Department of Juvenile Justice in compliance with the Consolidated Procurement Code and ensuing regulations.

Sincerely,



Robert J. Aycock IV, Manager
Audit and Certification

INTRODUCTION

We conducted an examination of the internal procurement operating policies and procedures of the South Carolina Department of Juvenile Justice. Our on-site review, conducted March 7 through April 15, 2011, was made under Section 11-35-1230(1) of the South Carolina Consolidated Procurement Code and Section 19-445.2020 of the accompanying regulations.

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.

On December 12, 2007, the State Budget and Control Board granted the South Carolina Department of Juvenile Justice the following procurement certifications:

<u>PROCUREMENT AREAS</u>	<u>RECOMMENDED CERTIFICATION LIMITS</u>
Supplies	\$ 250,000 per commitment
Services	\$ 100,000 per commitment
Construction Change Order	\$ 25,000 per change order
Architect/Engineer Contract Amendment	\$ 5,000 per amendment

The South Carolina Department of Juvenile Justice requested to remain at the current certification levels. Our audit was performed primarily to determine if recertification was 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 South Carolina 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 a judgmental sample for the period July 1, 2007 through June 30, 2010, 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 July 1, 2007 through December 31, 2010, with exceptions noted in Section I of the report
- (2) Procurement transactions for the period July 1, 2007 through June 30, 2010 as follows:
 - a) One hundred payments exceeding \$2,500 each with no exceptions
 - b) Two hundred fifty numerical purchase orders reviewed against the use of order splitting and favored vendors with no exceptions
 - c) Twenty additional competitive procurements reviewed for compliance with the requirements of the Code with no exceptions
- (3) File documentation with no exceptions

- (4) Minority Business Enterprise plans and reports for the audit period with no exceptions noted, and the following activity reported to the Governor's Office of Small and Minority Business Assistance:

<u>Fiscal Year</u>	<u>Goal</u>	<u>Actual</u>
2007-2008	\$ 238,001	\$ 617,014 ¹
2008-2009	\$ 232,758	\$ 258,495
2009-2010	\$ 166,243	\$ 159,001

- (5) Ratification files of unauthorized procurements with no exceptions
- (6) Approval of most recent Information Technology Plan with no exceptions
- (7) Internal procurement procedures manuals with no exceptions
- (8) Surplus property disposal procedures with one exception noted in Section II of the report

¹ The amount of actual dollars for the 4th quarter of FY0708 is not included in this total.

SUMMARY OF AUDIT FINDINGS

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I. <u>Sole Source Procurements</u>	
A. <u>Justification for Sole Source Not Current</u>	7
One sole source procurement was supported by a justification that was not current to the fiscal year of the actual contract.	
B. <u>Cost or Pricing Data Not Provided</u>	7
Sole source procurements with values greater than five hundred thousand dollars did not have contractor certified cost or pricing data.	
C. <u>Non-Compliance with Drug-Free Workplace Act</u>	8
Sole source procurements with values greater than fifty thousand dollars were entered into without certifications of a drug-free workplace by the contractors.	
II. <u>Surplus Property Management Deficiencies</u>	8
Surplus turn-in documents have not been submitted to the State Surplus Office in a timely manner, thereby causing an excessive amount of unusable surplus property at DJJ.	

RESULTS OF EXAMINATION

I. Sole Source Procurements

Our review of sole source, emergency, and trade-in sale procurements identified the following issues.

A. Justification for Sole Source Not Current

Purchase order 280 was issued on July 20, 2007, in the amount of \$4,870 for a security system service agreement. A sole source justification dated July 1, 2006, was on file as support documentation for the purchase. Regulation 19-445.2105 requires a written determination to be authorized prior to contract execution. In this instance, the determination was authorized a full year prior to the contract, which has the appearance that it was not intended to be used for the contract in question.

We recommend the Department authorize sole source determinations immediately prior to issuance of purchase orders or execution of sole source contracts.

DEPARTMENT RESPONSE

SCDJJ concurs with this finding concerning one sole source justification not being current and has discussed with staff the importance of using current documentation with regard to sole sources when processing these types of purchase orders.

B. Cost or Pricing Data Not Provided

The Department did not obtain contractor certifications of cost or pricing data on sole source procurements with values greater than five hundred thousand.

Section 11-35-1830 of the Consolidated Procurement Code requires a contractor to submit cost or pricing data and certify that, to the best of his knowledge and belief, the cost or pricing data submitted is accurate, complete, and current as of a mutually determined specified date prior to the date of the pricing of any contract pursuant to sole source procurement authority as provided in Section 11-35-1560. Implementing regulation 19-445.2120, which became effective in May 2007, set the price floor for sole source contracts at five hundred thousand dollars.

We recommend the Department obtain contractors' cost or pricing data certifications when entering into sole source contracts that exceed five hundred thousand dollars as required by the Code.

DEPARTMENT RESPONSE

SCDJJ concurs with this finding. The SCDJJ Procurement Director was unaware of this requirement prior to this audit. The sole source procurements cited in this finding are now under state contract. While the agency does not anticipate any additional sole sources of this nature in the future; compliance with this section of the Consolidated Procurement Code will be ensured in the event such purchases do arise.

C. Non-Compliance with Drug-Free Workplace Act

The Department did not obtain certifications from its contractors stating they maintained a Drug-Free Workplace prior to award of contracts for sole source procurements greater than \$50,000.

Section 44-107-30 of the Drug-Free Workplace Act requires a written certification from contractors on any contract of \$50,000 or more stating that the contractor will provide a drug-free workplace. Sole source procurements are subject to this law.

We recommend that the Department obtain signed drug-free workplace certifications from contractors on all future sole source procurements of \$50,000 or more as required by the Act.

DEPARTMENT RESPONSE

SCDJJ concurs with this finding. The majority of these transactions were with State Solicitors Offices as prescribed in Proviso 53.8 of the Appropriations Act. Since these transactions were governed by proviso, staff was unaware these forms were required. SCDJJ has collected these forms from the Solicitors Offices and all other vendors that fall under this requirement for the current fiscal year. Staff has reviewed the Statute and is aware of the need to be in compliance.

II. Surplus Property Management Deficiencies

The warehouse facility that contains surplus property was cluttered and poorly organized. Surplus turn-in documents have not been submitted to the State Surplus Management Office in a timely manner, thereby causing an excessive amount of unusable surplus property at DJJ. The most recent Turn-In Documents were issued May 5, 2008, for general surplus items, and on May 14, 2009, for vehicles.

Regulation 19-445.2150(B)(1) requires property to be reported to the State Surplus Property Management Office within 180 days of the property becoming surplus. The Department has not complied with this regulation.

We recommend the Department process turn-in documents for surplus property and relocate or dispose of this property on a timely basis, as required by the Code and Regulations.

DEPARTMENT RESPONSE

SCDJJ concurs with this finding. The Physical Plant Director and the Surplus Property Manager have both been briefed on this finding. They have taken steps to clean up the backlog of items that fell into this report. The Surplus Property Manager is now submitting quarterly reports to the State Surplus Property Management Office and is copying the Procurement Director on those reports.

CERTIFICATION RECOMMENDATIONS

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

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

<u>PROCUREMENT AREAS</u>	<u>RECOMMENDED CERTIFICATION LIMITS</u>
Supplies	* \$ 250,000 per commitment
Services	* \$ 100,000 per commitment
Construction 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.



Mac Stiles
Senior Auditor



Robert J. Aycock IV, Manager
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MARCIA S. ADAMS
EXECUTIVE DIRECTOR

October 14, 2011

Mr. R. Voight Shealy
Materials Management Officer
Materials Management Office
1201 Main Street, Suite 600
Columbia, South Carolina 29201

Dear Voight:

We have reviewed the response from the Department of Juvenile Justice to our audit report for the period of July 1, 2007 to December 31, 2010. Also we have followed the Department's corrective action during and subsequent to our fieldwork. We are satisfied that the Department of Juvenile Justice 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 Department of Juvenile Justice the certification limits noted in our report for a period of three years.

Sincerely,

Robert J. Aycock, IV, Manager
Audit and Certification

RJA/gs

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