

SOUTH CAROLINA DEPARTMENT OF CORRECTIONS

PROCUREMENT AUDIT REPORT

APRIL 1, 2010 – SEPTEMBER 30, 2013

TABLE OF CONTENTS

	<u>PAGE</u>
Transmittal Letter.....	1
Introduction.....	3
Scope.....	4
Summary of Audit Findings.....	6
Results of Examination.....	7
Certification Recommendations.....	10
Follow-up Letter	11

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

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January 21, 2015

Mr. John St. C. White
Interim Materials Management Officer
Division of Procurement Services
1201 Main Street, Suite 600
Columbia, South Carolina 29201

Dear John:

We have examined the procurement policies and procedures of the South Carolina Department of Corrections for the period April 1, 2010 through September 30, 2013. 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 used to establish a basis for reliance upon the system of internal control to assure adherence to the South Carolina 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 Corrections 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 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.

Sincerely,

A handwritten signature in black ink, appearing to read "Robert J. Aycock, IV", with a stylized flourish extending to the right.

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 Corrections. Our review was conducted 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 internal controls of the procurement system 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 ensuing regulations.

On June 30, 2010, the Budget and Control Board granted the Department of Corrections the following procurement certifications:

<u>PROCUREMENT AREAS</u>	<u>CERTIFICATION LIMITS</u>
Goods and Services	\$1,000,000 per commitment
Food Products	\$1,500,000 per commitment
Information Technology	\$ 100,000 per commitment
Consultant Services	\$ 100,000 per commitment
Construction Contract	\$ 100,000 per commitment
Construction Contract Change Order	\$ 100,000 per change order
Architect/Engineer Contract Amendment	\$ 15,000 per amendment

Our audit was performed primarily to determine if recertification is warranted. The South Carolina Department of Corrections requested to remain at its current certification levels.

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 Corrections, hereinafter referred to as the Department, 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 October 1, 2010 through September 30, 2013 of procurement transactions for compliance testing and performed other audit procedures that we considered necessary to formulate this opinion. 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 April 1, 2010 through September 30, 2013 with exceptions noted in Section IV of the report
- (2) Procurement transactions for October 1, 2010 through September 30, 2013 as follows:
 - a) One hundred and fifteen payments each exceeding \$2,500 with exceptions noted in Section I of the report
 - b) A block sample of three hundred purchase orders issued between May 7, 2012 and July 16, 2012 were reviewed against the use of order splitting and favored vendors with no exceptions
 - c) Procurement card purchases for March, April and May 2013 with exceptions noted in Section III of the report
 - d) Current revenue generating contracts with no exceptions
- (3) Six Construction Contracts, one Architect/Engineer and Related Professional Service Contract, and four delivery orders issued against two Architect/Engineer Indefinite Delivery contracts (IDC) for compliance with the Manual for Planning and Execution of State Permanent Improvements, Part II. No construction IDCs were issued. No exceptions were noted.

- (4) Minority Business Enterprise Plans and reports with the following activity reported to the Governor's Office of Small and Minority Business Assistance:

<u>Fiscal Year Ending</u>	<u>Goal</u>	<u>Actual</u>
FY10-11	\$483,215	\$187,226
FY11-12	\$387,069	\$337,062
FY12-13	\$331,215	\$300,094

- (5) Approval of the most recent Information Technology Plan with no exceptions
- (6) Internal procurement procedures manual with no exceptions
- (7) Surplus property disposal procedures with no exceptions
- (8) File documentation and evidence of competition
- (9) Other tests as deemed necessary with exceptions noted in Section II of the report

SUMMARY OF AUDIT FINDINGS

	<u>PAGE</u>
I. <u>Contract Not Properly Awarded</u>	7
One contract was not awarded according to the solicitation award criteria.	
II. <u>Circumvented Internal Controls</u>	7
We noted two purchases made under Blanket Purchase Agreements where internal controls were circumvented by exceeding the maximum amount allowed per charge.	
III. <u>Unpaid Sales/Use Tax on Procurement Card Transactions</u>	8
We saw no evidence that sales or use tax was paid on twenty-eight procurement card transactions.	
IV. <u>Sole Source Procurement Authorizations Not Dated</u>	9
Three written sole source determinations were not dated meaning we could not determine when the sole source procurements were authorized.	

RESULTS OF EXAMINATION

I. Contract Not Properly Awarded

The Department issued solicitation 5400002518 for barber supplies. The award criteria stated the award would be made “by individual line item” and to the “lowest responsible and responsive bidder.” The solicitation listed ten items for which all received multiple offers. The Department made one award to the lowest overall bidder in an amount of \$95,358.00 as opposed to individual line item as stated in the solicitation. Had the contract been awarded as stated in the solicitation, three vendors would have received awards with a savings of \$21,468.00

The South Carolina Procurement Code, section 11-35-1520(6) states, “The invitation for bids must set forth the evaluation criteria to be used. Criteria must not be used in bid evaluations that are not in the invitation for bids.” The Department failed to award a contract according to the award criteria stated in the solicitation. As a result, the Department overpaid for the supplies.

We recommend compliance with 11-35-1520(6) to ensure all contracts awarded in the future are based on the award criteria stated in the solicitation.

Department Response

SCDC concurs with the finding the Department failed to award a contract according to the award criteria as stated in the solicitation. The Procurement Director has discussed with the Procurement Staff the importance of reviewing solicitation’s award criteria before issuing an award.

II. Circumvented Internal Controls

We noted two purchases made under Blanket Purchase Agreements (BPA) where internal controls were circumvented by exceeding the maximum amount allowed per charge. A BPA is a simplified method of filling repetitive needs for small quantities of miscellaneous supplies or services by establishing charge accounts. To control these charge accounts, Regulation 19-445.2100 establishes minimum internal control requirements, one of which requires an agency to set a maximum amount per charge. The first instance where the internal control was circumvented

occurred on BPA 4500019789 issued for dental supplies. The maximum amount per charge was set at \$2,500. However, an individual charge was made against this BPA in the amount of \$4,626 on May 18, 2012. Further, section 11-35-1550(b) of the Code requires solicitation of written quotes from a minimum of three qualified sources for procurements with a total potential value between \$2500.01 and \$10,000.00. No competition was solicited.

The second instance occurred on BPA 4600088097 issued for equipment maintenance. An individual charge was made against this BPA in the amount of \$3,609 on June 24, 2011 exceeding the maximum charge limit of \$2,500. No competition was solicited.

We recommend the Accounts Payable Department enforce the BPA internal control requirements in Regulation 19-445.2100. Invoices that exceed the BPA limits should be forwarded to the Procurement Department to determine whether the invoices should be paid.

Department Response

SCDC concurs with this finding. SCDC Procurement Department was unaware of payments being processed against Blanket Purchase Orders over the maximum call limit of \$2,500.00 as stated on the Blanket Purchase Agreement attached to the Purchase Order. If Purchasing had been notified of the invoices exceeding the \$2,500.00 call limit Purchasing would have processed these invoices as "Unauthorized Purchases" resulting with a letter of ratification.

III. Unpaid Sales/Use Tax on Procurement Card Transactions

Our review of procurement card transactions for March, April, and May 2013 identified twenty-eight transactions totaling \$18,975 in which no evidence of sales or use tax was paid to the South Carolina Department of Revenue.

Section III(B)(5)(b) of the South Carolina State P-Card Policy and Procedures Manual states that supervisor responsibilities include the review of all documentation to ensure state sales and use taxes are applied if necessary. The Department's Purchasing Card Manual on Page 6 requires the departmental liaison to identify transactions which require the submission of use tax to the South Carolina Department of Revenue.

We recommend the Department review procurement card transactions to ensure the proper application and submission of sales and use taxes.

Department Response

SCDC concurs with this finding. Pcard holders were not aware vendors were not charging sales tax for purchases made on their Pcard. This was brought to the attention of Pcard holders in March 2014 and since then ALL Pcard holders are required to submit the use tax forms to SCDC Accounting Department for processing on a monthly basis.

IV. Sole Source Procurement Authorizations Not Dated

We reviewed sole source and emergency procurements reported by the Department to determine compliance with the South Carolina Procurement Code and Regulations and the accuracy of the reports. In our review we noted three written sole source determinations that were not dated meaning we could not determine when the sole source procurements were authorized.

<u>PO #</u>	<u>Date</u>	<u>Description</u>	<u>Amount</u>
4600277770	08/09/13	Scanner Maintenance	\$12,000
4600284181	08/29/13	Repairs	\$13,173
4600284021	08/29/13	Maintenance	\$28,700

Regulation 19-445.2105 (C) states, “The determination must be authorized prior to contract execution.”

We recommend the Department ensure all written sole source determinations are properly authorized and approved in advance of the commitments. To maintain the audit trail, the documents must be dated when they are authorized.

Department Response

SCDC concurs with this finding and will ensure all sole source documents are signed and dated prior to the purchase orders being processed in order to comply with Regulation 19-445.2015(C).


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 Corrections in compliance with the Consolidated Procurement Code.

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 Corrections be re-certified to make direct agency procurements for three years, up to the following limits:

<u>PROCUREMENT AREAS</u>	<u>CERTIFICATION LIMITS</u>
Supplies and Services	*\$1,000,000 per commitment
Food Products	*\$1,500,000 per commitment
Information Technology	*\$ 100,000 per commitment
Consultant Services	*\$ 100,000 per commitment
Construction Contract	*\$ 100,000 per commitment
Construction Contract Change Order	\$ 100,000 per change order
Architect/Engineer Contract Amendment	\$ 15,000 per amendment

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


J. Lane Warren, CFE, CBM
Audit Manager


Robert J. Aycock IV, Manager
Audit and Certification

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MARCIA S. ADAMS
EXECUTIVE DIRECTOR

February 17, 2015

Mr. John St. C. White
Interim Materials Management Officer
Division of Procurement Services
1201 Main Street, Suite 600
Columbia, South Carolina 29201

Dear John:

We have reviewed the response from the Department of Corrections to our audit report for the period of April 1, 2010 through September 30, 2013. In our opinion, the Department of Corrections complies with the South Carolina Consolidated Procurement Code, State regulations, and the Department's procurement policies and procedures in all material respects and the internal procurement operating procedures are adequate to properly handle procurement transactions. Therefore, we recommend the Budget and Control Board grant the Department of Corrections the certification limits noted in our report for a period of three years.

Sincerely,

Robert J. Aycock, IV, Manager
Audit and Certification

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