

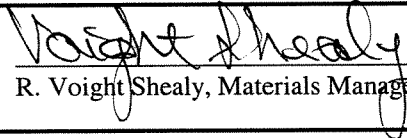
BUDGET AND CONTROL BOARD AGENDA ITEM WORKSHEET

Meeting scheduled for: **March 4, 2003**

Blue Agenda

1. Submitted by:

- (a) Agency: Procurement Services Division
- (b) Authorized Official Signature:


R. Voight Shealy, Materials Management Officer

2. Subject: Procurement Certification for South Carolina Department of Corrections

3. Summary Background Information:

In accordance with Section 11-35-1210 of the South Carolina Consolidated Procurement Code, the Procurement Services Division has audited the procurement system of the Department of Corrections and recommends its certification within the parameters described in the audit report for the following limits for a period of three years.

	<u>Current Certification Per Purchase Commitment</u>	<u>Certification Recommended Per Purchase Commitment</u>
I. Goods and Services	*\$ 100,000 Per Commitment	*\$ 200,000 Per Commitment
II. Consultant Services	*\$ 50,000 Per Commitment	*\$ 100,000 Per Commitment
II. Information Technology	*\$ 100,000 Per Commitment	*\$ 100,000 Per Commitment
IV. Construction Contract Award	\$ 50,000 Per Commitment	\$ 100,000 Per Commitment
V. Construction Contract Change Order	\$ 25,000 Per Change Order	\$ 100,000 Per Change Order
VI. Architect/Engineer Contract Amendment	\$ 10,000 Per Amendment	\$ 15,000 Per Amendment
VII. Food Services and Equipment Supplies	\$ 200,000 Per Commitment	\$ 200,000 Per Commitment
VIII. Food Products	\$ 1,500,000 Per Commitment	\$ 1,500,000 Per Commitment

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

4. What is Board asked to do?

Grant procurement certification for South Carolina Department of Corrections by approval of the Blue Agenda.

5. What is recommendation of Board division involved? Approve.

6. Recommendation of other office (as required)?

- (a) Authorized Signature: _____
- (b) Division/Agency Name: _____

7. List of supporting documents:

- (a) Section 11-35-1210 of the Consolidated Procurement Code

South Carolina Consolidated Procurement Code

Auditing and Fiscal Reporting

§ 11-35-1210. Certification

(1) Authority. The board may assign differential dollar limits below which governmental bodies may make direct procurements not under term

STATE OF SOUTH CAROLINA
State Budget and Control Board
PROCUREMENT SERVICES DIVISION

JIM HODGES, CHAIRMAN
GOVERNOR

GRADY L. PATTERSON, JR.
STATE TREASURER

JAMES A. LANDER
COMPTROLLER GENERAL



HUGH K. LEATHERMAN, SR.
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ROBERT W. HARRELL, JR.
CHAIRMAN, WAYS AND MEANS COMMITTEE

FRANK W. FUSCO
EXECUTIVE DIRECTOR

DELBERT H. SINGLETON, JR.
DIVISION DIRECTOR
(803) 734-2320

MATERIALS MANAGEMENT OFFICE
1201 MAIN STREET, SUITE 600
COLUMBIA, SOUTH CAROLINA 29201
(803) 737-0600
Fax (803) 737-0639

R. VOIGHT SHEALY
MATERIALS MANAGEMENT OFFICER

January 15, 2003

Mr. Delbert H. Singleton Jr.
Director
Procurement Services Division
6th Floor-Wade Hampton Building
Columbia, South Carolina 29201

Dear Delbert:

I have attached the South Carolina 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 South Carolina Department of Corrections a three-year certification as noted in the audit report.

Sincerely,

A handwritten signature in cursive script that reads "Voight Shealy".

R. Voight Shealy
Materials Management Officer

/jl

SOUTH CAROLINA DEPARTMENT OF CORRECTIONS

PROCUREMENT AUDIT REPORT

JULY 1, 1999 - JUNE 30, 2002

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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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R. VOIGHT SHEALY
MATERIALS MANAGEMENT OFFICER

September 23, 2002

Mr. R. Voight Shealy
Materials Management Officer
Procurement Services Division
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 Corrections for the period July 1, 1999 through June 30, 2002. 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 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 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 South Carolina Department of Corrections in compliance with the Consolidated Procurement Code and ensuing regulations.

Sincerely,



Larry G. Sorrell, 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 on-site review was conducted July 9, 2002 through August 7, 2002 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

Our audit was performed primarily to determine if recertification is warranted. Additionally, the Department requested the following increased certifications.

<u>PROCUREMENT AREAS</u>	<u>CERTIFICATION LIMITS</u>
Goods and Services	\$ 200,000 per commitment
Consultant Services	\$ 100,000 per commitment
Information Technology	\$ 100,000 per commitment
Construction Contract Award	\$ 100,000 per commitment
Construction Contract Change Order	\$ 100,000 per change order
Architect/Engineer Contract Amendment	\$ 15,000 per amendment
Food Services and Equipment Supplies	\$ 200,000 per commitment
Food Products	\$ 1,500,000 per commitment

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 July 1, 1999 through June 30, 2002 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, 1999 through June 30, 2002
- (2) Procurement transactions for July 1, 1999 through June 30, 2002 as follows:
 - a) One hundred twenty-two procurements each exceeding \$1,500
 - b) Five hundred numerical purchase orders from FY 02 reviewed for order splitting and favored vendors
 - c) Twenty blanket purchase order files
- (3) Nine construction contracts and nine professional service contracts for compliance with the Manual for Planning and Execution of State Permanent Improvements
- (4) Minority Business Enterprise Plans and reports
- (5) Information technology plans
- (6) Internal procurement procedures manual
- (7) Surplus property disposal procedures
- (8) File documentation and evidence of competition

RESULTS OF EXAMINATION

Internal Procurement Procedures Manual

The internal procurement procedures manual is still in the process of being updated to reflect the changes to the Code and regulations. This action was prompted from an audit exception addressed by the Internal Auditor at the Department in 1999 and was addressed in our prior audit of the Department. The Department provided an updated manual for our review at the formal exit on February 14, 2000 for the prior audit. The updated manual was submitted to the appropriate personnel of the Department on three occasions since February 14, 2000. However, the updated manual has not been approved.

We recommend the appropriate personnel of the Department review, update, and approve the manual. The approved manual must be submitted to the Material Management Office for review per Regulation 19-445-2005. Without an updated manual, the Materials Management Office can not recommend recertification.

DEPARTMENT RESPONSE

The Procurement Policy Section ADM12.01 has been submitted to our Policy Development Division with the recommended changes. The approved changes will be submitted to your office for your approval.

Missing Documents

The Department could not locate the vouchers and supporting documentation on eight procurements. Without the documentation, we could not determine compliance with the Code, regulations, and internal operating procedures.

We recommend the Department maintain an adequate voucher payment files to avoid lack of supporting payment history.

DEPARTMENT RESPONSE

A system of better accountability will be established to control the documents which are in our central financial files.

Award Statement Items

The Department did not comply with intent to award requirements for two solicitations.

<u>Item</u>	<u>Solicitation Number</u>	<u>Amount</u>	<u>Description</u>
1	850-347883-11/8/00-G	\$95,680	Thermal blankets

<u>Item</u>	<u>Solicitation Number</u>	<u>Amount</u>	<u>Description</u>
2	670-269472-4/18/02-G	\$74,625	Irrigation equipment & supplies

The solicitation for item 1 was a multi-term solicitation for a maximum of two years. The Department issued an award statement for \$47,840 rather than an intent to award statement for \$95,680. An intent to award statement was issued for item 2 but was posted for fifteen days rather than sixteen days as required by the Code. Additionally, the Department mailed the successful bidder the intent to award statement but did not mail the statement to each vendor that responded to the solicitation as required by Section 11-35-1520(10) of the Code for item 2.

We recommend the Department comply with the provisions that apply to award statements.

DEPARTMENT RESPONSE

Posting of intent to award and award statement will be in compliance with Section 11-35-1520(10) when the contract has a total or potential value in excess of \$50,000. All bidders responding to the solicitation will be mailed the intent to award, except when only one response is received.

Multi-Term Determination Not Prepared

The Department did not prepare a written multi-term determination on solicitation 675-35473-2/27/02-G for herbicides. The solicitation was for one year with an option to extend for four additional one-year periods.

We recommend the Department prepare written multi-term determinations, as applicable.

DEPARTMENT RESPONSE

Future multi-term contracts will be determined in writing and in accordance with Section 11-35-2030.

Unauthorized Sole Source Procurements

Four sole source procurements were unauthorized.

<u>Purchase Order</u>	<u>Description</u>	<u>Amount</u>
H300085331	Copier lease and maintenance	\$250,026
H300085329	Copier lease and maintenance	69,280
H300085330	Copier lease and maintenance	66,460
H300085328	Copier lease and maintenance	53,436

Sole source authority was delegated to the Deputy Director of Administration who did not

approve the four sole source procurements resulting in each being unauthorized as defined in Regulation 19-445.2015.

We recommend sole source procurements be approved by the proper authority. The Department must request ratification in accordance with Regulation 19-445.2015 for the unauthorized sole source procurements.

DEPARTMENT RESPONSE

A letter of ratification has been prepared and approved by the Deputy Director of Administration for the unauthorized signing for copier and maintenance by the Deputy Director of Program Services.

Sole Source Reporting Errors

We noted five sole source procurement reporting errors.

<u>Item</u>	<u>Purchase Order</u>	<u>Description</u>	<u>Amount</u>
1	O0300090740	Bed rental	\$35,528
2	H300071238	Security equipment	1,937
3	H300072217	Flooring	5,088
4	H300078339	Flooring	2,588
5	H300078412	Flooring	3,090

The Department did not report items 1 and 2. The flooring on items 3, 4 and 5 were term contract items and should not have been reported.

We recommend the Department file amended reports for the applicable quarters.

DEPARTMENT RESPONSE

Amended sole source reports for the appropriate quarters have been submitted.

Drug Free Workplace Certification Not Obtained

The Department obtained the drug free workplace certifications from several, but not all vendors that received contracts of \$50,000 or more for sole source and emergency procurements. Section 44-107-30 of the South Carolina Code of Laws requires a written certification on any contract of \$50,000 or more stating that the vendor provides a drug-free workplace. Sole source and emergency procurements are subject to this law.

We recommend the Department obtain the drug-free workplace certification on sole source and emergency contracts greater than \$50,000.

DEPARTMENT RESPONSE

We will obtain from vendors a drug-free workplace certification on all sole source and emergencies procurements exceeding \$50,000.

Overcharges and Payments

The Department issued purchase order H300083300 for waste disposal based on the responses to solicitation 910-347377-5/11/01-G. The purchase order did not provide the details for the separate charges for delivery, hauling, and dumping. Based on our review of the payments against the purchase order, the Department was overcharged \$340.

We recommend purchase orders provide sufficient detail to allow for reconciliation of invoices. The Department should request a refund of the \$340 overpayment.

DEPARTMENT RESPONSE

We have obtained a credit for the overcharges and undercharges pertaining to solicitation 910-347377-5/11/01-G and purchase order H300083300. We have adopted the contract management system developed by your office and all future contracts will have a contract monitor appointed.

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 Procurement Code.

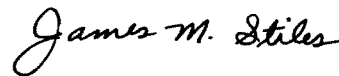
Under the authority described in Section 11-35-1210 of the Procurement Code, subject to this corrective action, we will recommend the South Carolina Department of Corrections be re-certified to make direct agency procurements for three years up to the following levels.

PROCUREMENT AREAS

CERTIFICATION LIMITS

Goods and Services	*\$ 200,000 per commitment
Consultant Services	*\$ 100,000 per commitment
Information Technology	*\$ 100,000 per commitment
Construction Contract Award	\$ 100,000 per commitment
Construction Contract Change Order	\$ 100,000 per change order
Architect/Engineer Contract Amendment	\$ 15,000 per amendment
Food Services and Equipment Supplies	*\$ 200,000 per commitment
Food Products	*\$1,500,000 per commitment

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



James M. Stiles, CPPB
Audit Manager



Larry G. Sorrell, Manager
Audit and Certification