

SOUTH CAROLINA DEPARTMENT OF CORRECTIONS

PROCUREMENT AUDIT REPORT

JULY 1, 2009 – MARCH 31, 2010

TABLE OF CONTENTS

	<u>PAGE</u>
Transmittal Letter	1
Introduction.....	3
Scope.....	4
Results of Examination.....	6
Certification Recommendations	8
Follow-up Letter	9

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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May 4, 2010

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, 2009 through March 31, 2010. 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.

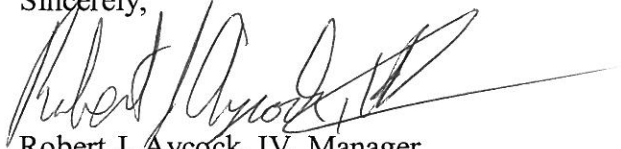
Because of inherent limitations in any system of internal control, errors or irregularities may occur and not be detected. Also, projection of any evaluation of the system to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or that the degree 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 long horizontal 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, hereinafter referred to as the Department. Our review was conducted April 12-20, 2010 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.

As a result of our 2009 examination which covered the period April 4, 2005 through June 30, 2008, the South Carolina Budget and Control Board suspended the Department's sole source authority for one year and reduced the Department's supplies and services certification from \$1,000,000 to \$500,000. We directed the current examination 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 to determine if sole source authority and recertification was warranted.

On June 29, 2009, the South Carolina Budget and Control Board suspended the Department's sole source authority for one year and authorized procurement certifications at the following levels.

<u>PROCUREMENT AREAS</u>	<u>CERTIFICATION LIMITS</u>
Supplies and Services	\$ 500,000 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 Department requested that its certification level for supplies and services be reinstated to \$1,000,000 and that all other areas remain at the current 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 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, 2009 through March 31, 2010 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 July 1, 2009 through March 31, 2010 with emphasis on all radio communication service, equipment, and supplies. Section I of the report describes the steps the Department implemented relating to communication procurements.
- (2) Procurement transactions for July 1, 2009 through March 31, 2010 as follows:
 - a) Forty-three payments each exceeding \$2,500 with two exceptions noted in Section II of the report.
 - b) A block sample of one hundred sequential purchase orders from fiscal year 2010 reviewed against the use of order splitting and favored vendors with no exceptions.
 - c) Procurement card purchases for November 2009 with no exceptions.
 - d) Current revenue generating contracts with no exceptions noted.
- (3) Two construction contracts and two professional service contracts for compliance with the Manual for Planning and Execution of State Permanent Improvements, Part II with no exceptions.

- (4) Minority Business Enterprise Plans and reports for the audit period with no exceptions. The chart below contains the Department's quarterly goals and actual activity reported to The Governor's Office of Small and Minority Business Assistance for the audit period.

<u>Fiscal Year</u>	<u>Goal</u>	<u>Actual</u>
FY09/10	\$471,948*	\$220,800*

*Amounts represent the period July 1, 2009 through March 31, 2010

- (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 with no exceptions.

RESULTS OF EXAMINATION

I. Sole Source, Emergency and Trade-in Sale Procurements

We tested sole source, emergency and trade-in sale procurements to determine the appropriateness of the procurement actions made and the accuracy of the quarterly reports submitted to the chief procurement officers.

As a result of findings noted during our 2009 examination in which radio communication equipment, repair, services and supplies were being inappropriately procured as sole sources, the department now procures new radio equipment, including repairs and supplies for that brand of equipment through a statewide term contract. However, the statewide term contract does not cover all brands of equipment owned by the Department. Therefore, the Department has been working with the Budget and Control Board's Division of State Information Technology (DSIT) to establish a contract to cover repairs and supplies for the remainder of its equipment. As a stop-gap measure, the Department has been obtaining repairs and supplies through emergency procurements with two vendors until the contract is established.

We recommend the Department and DSIT continue in their efforts to establish a contract for radio repair service and supplies for equipment brands not covered on statewide term contract. The establishment of this contract will help ensure the Department's communication needs are met in a timely manner and at a fair price.

II. Solicitations of Competition not Made

We noted downloaded catalog prices were used as competition for the purchase of thirty-two digital cameras (procurement card transaction dated 11/4/09 for \$3,423) and for twenty-two LCD televisions (procurement card transaction dated 11/5/09 for \$4,425). Section 11-35-1550 (2)(b)

of the South Carolina Consolidated Procurement Code requires solicitations of competition from a minimum of three qualified vendors for procurements from \$2,500 to \$10,000. Downloading of pricing from the internet with no direct contact with vendors does not meet the definition of a solicitation.

While searching the internet for prospective contractors is a valid initial approach, we recommend direct communication with vendors when soliciting quotes to obtain the best available pricing for the State.

DEPARTMENT RESPONSE

As a result, all Visa procurement cards have been locked down with a \$2,500.00 per transaction limit and employees have been counseled on the need for direct contact with vendors to confirm pricing.

MARK SANFORD, CHAIRMAN
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May 28, 2010

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 Corrections to our audit report for the period of July 1, 2009 to March 31, 2010. Also we have followed the Department's corrective action during and subsequent to our fieldwork. We are satisfied that the Department of Corrections 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 Corrections 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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