

**SOUTH CAROLINA DEPARTMENT OF  
PROBATION, PAROLE AND PARDON SERVICES  
PROCUREMENT AUDIT REPORT  
APRIL 1, 2009 – MARCH 31, 2012**

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Note: The Department’s responses to issues noted in the report have been inserted immediately following the items they refer to and also attached at the end of this report.

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STATE TREASURER

RICHARD ECKSTROM, CPA  
COMPTROLLER GENERAL



SC BUDGET AND CONTROL BOARD

THE DIVISION OF PROCUREMENT SERVICES  
DELBERT H. SINGLETON, JR.  
DIVISION DIRECTOR  
(803) 734-2320

R. VOIGHT SHEALY  
MATERIALS MANAGEMENT OFFICER  
(803) 737-0600  
FAX (803) 737-0639

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COMMITTEE

W. BRIAN WHITE  
CHAIRMAN, HOUSE WAYS AND MEANS  
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EXECUTIVE DIRECTOR

April 19, 2013

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 Probation, Parole and Pardon Services for the period April 1, 2009 through March 31, 2012. 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 controls to assure adherence to the South Carolina Consolidated Procurement Code, State regulations, and the Agency's procurement policies. 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 Probation, Parole and Pardon Services is responsible for establishing and maintaining a system of internal controls over procurement

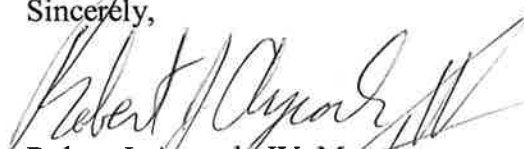
transactions. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of control procedures. The objectives of a system are to provide management with reasonable, but not absolute, assurance of the integrity of the procurement 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 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 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 Probation, Parole and Pardon Services 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". The signature is fluid and cursive, written over a light blue horizontal line.

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 Probation, Parole and Pardon Services. Our on-site review was performed May 15, 2012 through June 4, 2012 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.

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 policies and procedures manual were in compliance with the South Carolina Consolidated Procurement Code and ensuing regulations.

Additionally our work was directed toward assisting the South Carolina Department of Probation, Parole and Pardon Services in promoting the underlying purposes and policies of the South Carolina Consolidated Procurement Code as outlined in Section 11-35-20, which include in part:

- (1) to provide increased economy in state procurement activities and to maximize to the fullest extent practicable the purchasing values of funds while ensuring that procurements are the most advantageous to the State and in compliance with the provisions of the Ethics Government Accountability and Campaign Reform Act;
- (2) to foster effective broad-based competition for public procurement within the free enterprise system;
- (3) to ensure the fair and equitable treatment of all persons who deal with the procurement system which will promote increased public confidence in the procedures followed in public procurement;
- (4) to provide safeguards for the maintenance of a procurement system of quality and integrity with clearly defined rules for ethical behavior on the part of all persons engaged in the public procurement process.

## 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 Probation, Parole and Pardon Services, 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 November 1, 2009 through March 31, 2012 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, 2009 through March 31, 2012 with exceptions noted in Section I of the report.
- (2) Procurement transactions for the period November 1, 2009 through March 31, 2012 as follows:
  - a) Twenty-five payments each exceeding \$2,500 with exceptions noted in Section II.
  - b) Two direct expenditure vouchers each exceeding \$2,500 with exceptions noted in Section III of the report.
  - c) A block sample of six hundred fifteen purchase orders from fiscal year 2012 reviewed against the use of order splitting and favored vendors with no exceptions.
  - d) Procurement card purchases made during September, October and November, 2011 with exceptions noted in Section IV of the report.

- (3) Minority Business Enterprise Plans and reports with no exceptions. The following activity was reported to the Governor's Office of Small and Minority Business Assistance:

<u>Fiscal Year</u>	<u>Goal</u>	<u>Actual</u>
FY09-10	\$20,066	\$ 8,056
FY10-11	\$29,173	\$ 9,207
FY11-12	\$44,891	\$221,845

- (5) Approval of the most recent Information Technology Plan with no exceptions
- (6) Internal procurement procedures manual with no exceptions
- (7) Surplus property disposition procedures with no exceptions
- (8) Ratification of unauthorized procurements with no exceptions
- (9) File documentation and evidence of competition with no exceptions
- (10) Other tests performed as deemed necessary with no exceptions

## SUMMARY OF AUDIT FINDINGS

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## RESULTS OF EXAMINATION

### I. Sole Source and Emergency Procurements

We tested sole source and emergency procurements made pursuant to Sections 11-35-1560 (Sole Source Procurements) and 11-35-1570 (Emergency Procurements) to determine the appropriateness of the procurement actions and the accuracy of the quarterly reports submitted to the chief procurement officers required by Section 11-35-2440. We noted the following exceptions.

#### A. Inappropriate Sole Source Procurements

In reviewing all sole source procurements for the period April 1, 2009 through March 31, 2012, we identified one vendor that had been awarded a large number of inappropriate information technology related sole source procurements for an on-going project related to an Offender Information System (OIS). Seeking the genesis of these sole source procurements, it was necessary to expand our sole source review period back as far as October 31, 2005 identifying more related sole source procurements to this vendor as follows:

<u>PO</u>	<u>PO Date</u>	<u>PO Amount</u>	<u>PO Balance Brought Forward<sup>1</sup></u>	<u>Description</u>
24641	10/31/05	\$3,000,000		Parole Information Center (PIC) Design and Development Phase of the Application Development of OIS
624641	07/24/06		\$1,710,145	FY2006 PO balance brought forward
26123	11/02/06	2,000,000		PIC Design and Development Phase of the Application Development of OIS
724641	07/24/07		131,741	FY2007 PO balance brought forward
726123	07/24/07		1,605,790	FY2007 Balance brought forward for PIC Design and Development Phase
27435	10/16/07	10,000		Service-Project Management

<sup>1</sup> PO balance brought forward represents new purchase orders issued with the remaining balances of closed out purchase orders from the previous fiscal year. The balances brought forward were not new procurements but were incorrectly reflected that way in the quarterly sole source reports from the Department. To help identify the POs with balances brought forward, a six digit PO number was used with the last five numbers of the new PO being the same as the original PO and the first number representing the fiscal year it was issued.

<u>PO</u>	<u>PO Date</u>	<u>PO Amount</u>	<u>PO Balance Brought Forward</u>	<u>Description</u>
27655	01/25/08	300,000		Design/Development/Implement Sex Offender Accountability and Protection of Minors Act
28210	08/05/08	300,000		Service Agreement
28215	08/06/08	274,366		Service Agreement
824641	07/24/08		292,699	Service Agreement
826123	07/24/08		147,787	Service Agreement
827655	07/24/08		246,213	Service Agreement
28609	06/11/09	45,000		Ongoing support for implementation of existing business user requested system updates, knowledge transfer and maintenance support for the agency's Net applications to include Offender Management System (OMS), PIC, and Ignition Interlock Device (IID) From: 6/11/09 – 6/30/09
28677-03	07/02/09	137,532		Provision for ongoing support from vendor for implementation of existing business user required system updates, knowledge transfer, and maintenance support for agencies Net application to include OMS, PIC and IID. Valid: 7/1/09 – 6/30/09
924641	07/24/09		248,746	Service (no documentation)
927655-01	07/24/09		27,218	FY 2008 balance brought forward into fiscal year
4600057590	09/07/10	150,000		Provides edits and upgrades to existing iFrames and Net Framework as required to meet new legislation
4600088175	03/25/11	100,000		Administrative Supervision Support. Programming/Configuration. Time and Material for Project Management

<u>PO</u>	<u>PO Date</u>	<u>PO Amount</u>	<u>PO Balance Brought Forward</u>	<u>Description</u>
4600095350	05/09/11	200,000		Continuation of Software Design/Support
4600116637	08/25/11	250,000		RMS Support – Provide Software/Support and Integration
TOTAL:		\$6,766,898		

All of the work identified in the schedule above should have been performed through a competitive solicitation. The documentation supporting the first purchase order, purchase order 24641, for the Design and Development of the OIS states in part, “The continuation of this project will also insure continuity of business knowledge involved in the original project in these very extensive systems with full documentation of all aspects to allow for great flexibility and knowledge retention going forward while keeping us from having to re-invent the wheel.” Before the purchase order was issued, the company had been performing work for the Department through a competed State term contract for temporary information technology services for State agencies. The company was not a sole source at the time it competed for and won the State term contract. Nor was it a sole source at the time the original purchase order for \$3,000,000 was issued. The fact that some work had already been performed did not justify a sole source procurement.

Also, the Department provided no supporting documentation for purchase order 924641 dated July 24, 2009 in the amount of \$248,746 for service. We have no better description of what was procured on this purchase order than service.

In addition to those information technology related procurements noted above to a single vendor, the following procurements were also determined to be inappropriate sole sources.

<u>PO</u>	<u>PO Date</u>	<u>Description</u>	<u>PO Amount</u>
27711-01	02/05/08	3-Year Maintenance Agreement for Polycom Viewstation	\$ 9,580
28652	07/02/09	Annual Maintenance-B/W Digital Copier	2,732
28650	07/02/09	Lease-Postage Equipment	35,845
28691-01	07/06/09	Software Subscription, License Upgrades, Phone/E-mail	93,094
927495	07/24/09	Copier – Cost per Copy	168,460
4600047383	07/22/10	Annual Maintenance-B/W Digital Copier	2,810
4600047486	07/22/10	Maintenance and Support-Triumfant Resolution	5,024
4600088506	03/29/11	Maintenance and Support-Triumfant Resolution	5,529
4600111611	08/02/11	Maintenance Renewal-40KW Power Backup in Server	3,719

The view station maintenance agreement on purchase order 27711-01 was available on a State term contract and not with the vendor sole sourced. Purchase order 28652 for copier maintenance was originally procured on July 3, 2003 through a State term contract. The installing vendor provided the copier maintenance since that award. However, at the time when this copier maintenance was procured as a sole source in July 2009, other vendors were available that could have provided maintenance on this copier. The leased postage equipment sole sourced on purchase order 28650 could have been provided by others. The Department was unable to provide the written determination authorizing this transaction as a sole source. On purchase order 28691-01, the sole sourced vendor notified the Department of it having a direct purchasing relationship that would help the Department achieve its required outcomes and financial requirements. Competition should have been solicited to prove the claim. On purchase order 927495 to lease a digital copier system, the sole source

determination stated the awarded vendor was the only one that would buyout the lease for the existing equipment with a cost savings of \$4,777 per year. Additionally, the justification identified numerous features available on this new equipment. Sole source procurements cannot be based on cost. Competition should have been solicited. The copier maintenance procured on purchase order 4600047383 was not a sole source procurement when this maintenance was procured. This copier was originally purchased on July 3, 2003 through a State term contract. Other vendors were available that could have provided this maintenance. The written determination justifying purchase orders 4600047486 and 4600088506 as sole sources, both to the same vendor, claimed the vendor was the only entity registered and approved to sell this product to the state of South Carolina. We determined other vendors could have provided maintenance services for this product to the Department. The same situation applies to purchase order 4600111611 in that other vendors could have provided maintenance services on the power back-up equipment.

Section 11-35-1560 authorizes the use of sole source procurements when the agency head, chief procurement officer, or a designee of either officer above the level of the procurement officer, determines in writing for the proposed sole source that there is only one source for the required supply, service, information technology, or construction item, and no other will be suitable or acceptable to meet the need. Paragraph (C) of this statute states, "A violation of these regulations by a purchasing agency, upon recommendation of the designated board office with approval of the majority of the Budget and Control Board, must result in the temporary suspension, not to exceed one year, of the violating governmental body's ability to procure supplies, services, information technology, or construction items pursuant to this section."

Given the seriousness of the sole source issues, we recommend the Budget and Control Board suspend sole source authority for one year, the maximum time allowed by statute. In the future, procurements of this nature must be competed.

## Department Response

Out of the twenty-one sole sources examined, twelve of the procurements were to the same vendor responsible for the re-engineering project for the department's Offender Management System (OMS). The Procurement Staff employed during this audit period consulted with the Chief Information Officer (CIO) for guidance and received approval of the initial procurement of this project. The department followed the Procurement Code guidelines based on the knowledge of the staff, approval by the CIO and department director. Quarterly reports were submitted for all sole source procurements as required by Section 11-35-2440. At no point during the six year period (October 2005 – August 2011) was the department notified that the procurements were deemed inappropriate.

As we move forward with corrective actions, the department would like to meet with the CIO and the State Procurement Services Division to determine the best course of action to eliminate any further inappropriate sole source procurements.

### B. Inappropriate Emergency Procurements

Purchase order 4600128129 dated November 24, 2011 for the continued leasing of electronic monitoring equipment for \$45,000 was processed as an emergency based on the fact that the Request for Proposal (RFP) process was not initiated in a timely manner. The RFP should have been initiated early enough to avoid having to declare an emergency.

Section 11-35-1570 of the South Carolina Consolidated Procurement Code allows the head of a purchasing agency or a designee to make emergency procurements only when there exists an immediate threat to the public health, welfare, critical economy and efficiency, or safety. This emergency occurred due to the Department's failure to initiate the solicitation process in a timely manner.

We recommend the Department allocate an adequate amount of time for processing future RFP solicitations and also adhere to the statute for emergency procurements.

On another emergency procurement, the Department did not provide the written determination authorizing purchase order 4600144006 dated January 18, 2012 for \$15,000. The emergency was initiated for water extraction at the Spartanburg Restitution Center. Section 11-35-1570 of the South

Carolina Consolidated Procurement Code requires the written determination to establish the basis for the proposed emergency and provides authorization to enter into the contract.

We recommend the Department comply with the South Carolina Consolidated Procurement Code regarding emergency procurements by preparing written determinations to establish the basis for the proposed emergency and authorization to enter into the contract.

#### Department Response

We concur with this finding. Corrective action has been taken to ensure that the RFP process is initiated timely to avoid the use of Emergency Procurements for this purpose. Additionally, the department will ensure that all emergency procurements are supported by a written determination authorizing the procurement as an emergency.

## II. No Competition

### A. At-Risk Youth Outreach Services Not Competitively Bid/ Computer Tablets Not Used for Intended Purposes

The Department loaned twenty (20) Lenovo Think-Pad Tablets to a local organization through a Memorandum of Understanding (MOU) to provide at-risk youth a faith-based program. These tablets, which were five years old at the time of the MOU, are state-owned and included in the Department's inventory system.

Through the MOU, the Department acquired outreach services for troubled youth from the local organization. In consideration for the services provided by the local organization, the Department loaned out state-owned equipment for the local organization's use and agreed to maintain that equipment for the life of the MOU. The Department completed this exchange without regard for the Consolidated Procurement Code.

The MOU obligates the Department, in part, to: (1) provide the use of State owned equipment at no cost to the local organization, (2) provide technical assistance for set-up and initial start-up of the computer lab and, (3) provide hardware support and replace malfunctioning hardware. Under the MOU, at a minimum, expenditures by the Department would be necessary to third parties (Department

personnel) for personal services to setup and maintain the equipment thereby triggering the application of the Procurement Code. Included also would be the fair market value for the use of the equipment.

The Code reads in part, “This code applies to every procurement or expenditure of funds by this State under contract acting through a governmental body as herein defined irrespective of the source of the funds...” [11-35-40(2)] Nothing in the Code requires that a payment be made directly to the party with whom the state has an agreement to trigger the application of the Procurement Code, hence the words “procurement or expenditure.” The Procurement Review Panel used a similar analysis in Re: Protest of Wometco Food Services, Inc., No. 1991-14 (Procurement Review Panel, dated Sept. 2, 1991)<sup>2</sup>. In that case, the Panel considered an arrangement where a vendor provided student dining services pursuant to a contract with Tri-County Technical College. The agreement there did not obligate the College to pay anything directly to the vendor. It did, however, require the College to furnish services like utilities and pest control—services which the College necessarily paid third parties to provide. The Panel concluded these payments were sufficient to bring the agreement within the purview of the Procurement Code.

Additionally, there was no evidence to confirm these tablets were being utilized within the organization’s outreach resource lab for learning and technical training to youthful offenders as agreed upon in the MOU. Responses to our inquiries about the use of the tablets during a physical inventory we conducted suggested their use being more community oriented and available to all individuals within the community to gain knowledge and confidence in the use of computers. Further, certain deliverables under the MOU were required of the local organization such as periodic reports, monthly log contacts, database of participants and an annual summary of the program’s progress. We found no evidence that the deliverables have been met.

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<sup>2</sup> The Procurement Review Panel decision in Re: Protest of Wometco Food Services, Inc. is available on the web at <http://procurement.sc.gov/PS/legal/decisions/91-14.pdf>.



We recommend that outreach services involving the use of State owned equipment be competitively bid in the future and the Department monitor the MOU deliverables to ensure the equipment is being used for agreed upon purposes. A solicitation would have allowed other organizations throughout the State interested in providing such a program to compete for the agreement.

#### Department Response

In 2009 the Department contacted State Surplus for guidance related to donating state assets and was advised that we were unauthorized to donate any items. Therefore the previous administration decided to allow the agency computers to be loaned to a non-profit organization. The five year old agency computers were placed in a community resources building at the organization as a pilot program for the purpose of job training. A Memorandum of Understanding (MOU) was initiated and signed by both parties clarifying that the computers remained State property and would be available for use by our youthful offenders who were seeking employment. The agency believed the MOU would serve as a contract and would be satisfactory.

The department plans to terminate the MOU with the organization and will surplus the twenty laptops computers.

#### B. No Proof of Competition

The Department inappropriately utilized an exemption for the renewal of software license agreements. For the exemption to apply, the original procurement of software must have been competitively bid. The Department provided no such evidence for the following software license agreements.

<u>PO #</u>	<u>PO Date</u>	<u>Description</u>	<u>PO Amount</u>
4600064737	10/18/10	SABAR Maintenance	\$ 4,600
4600050524	08/04/10	GWAVA Maintenance	\$ 3,200
4600109417	07/25/11	RIM License and Maintenance	\$ 4,649
4600047155	07/22/10	DSRAZOR Maintenance	\$ 7,788
4600047153	07/22/10	Maintenance Renewal	\$11,513

The Board authorized an exemption to the Procurement Code for software license renewals that states, "License agreements for computer software after such software has been competitively bid as required by the Procurement Code"<sup>3</sup>. To qualify for the exemption, the Department must maintain documentation supporting that the software was originally competed in accordance with the Procurement Code.

We recommend that the Department only utilize the software license exemption for software that has been competitively bid.

#### Department Response

We concur with this finding. Corrective action has been taken to ensure that the Department only utilizes the software license exemption for software that has been competitively bid.

### III. No Proof of Competition on Direct Expenditure Vouchers

We tested payments made through the direct expenditure voucher (DEV) system as part of our statistical sample. The DEV process allows for procurements to by-pass the purchase order system thereby circumventing certain internal controls inherent in the South Carolina Enterprise Information System (SCEIS). Therefore, agency policies typically restrict the types of transactions allowed by the DEV process. The Department's policy found in its Internal Procurement Procedures Manual states:

#### Direct Payments (DEVs)

The following items are processed through direct payments:

- 1) Telecommunication services, 2) Utilities, 3) Restitution payments and 4) Refunds.

In the event a purchase order was not created, a direct payment must be approved by the Division Director.

Our testing noted two cases where the Department paid vendor invoices through DEVs with no evidence that competition was solicited.

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<sup>3</sup> The chief procurement officer published clarification regarding the application of the software license exemption through Procurement Policy Statement No. 2008-1. The policy statement is available on the web at: [http://procurement.sc.gov/webfiles/MMO\\_POL\\_GD/Exemption\\_78\\_Clarification.pdf](http://procurement.sc.gov/webfiles/MMO_POL_GD/Exemption_78_Clarification.pdf)

<u>Description</u>	<u>Doc. #</u>	<u>Fiscal Year</u>	<u>Clearing #</u>	<u>Clearing Date</u>	<u>Amount</u>
DP Supplies	3000127725	2009	3400132725	06/30/09	\$ 7,781
General Repairs	3000211464	2010	3400214412	08/13/09	10,437

Section 11-35-1550 (2) of the South Carolina Consolidated Procurement Code requires solicitations of written quotes from a minimum of three qualified sources of supply for small purchases over two thousand five hundred dollars but not in excess of ten thousand dollars. For small purchases over ten thousand dollars but not in excess of fifty thousand dollars, written solicitation of written quotes, bids, or proposals must be made and the procurement advertised at least once in the South Carolina Business Opportunities.

We recommend the Department comply with the competitive requirements of the Code. Purchase orders should be used whenever possible utilizing the internal controls inherent in SCEIS.

#### Department Response

We concur with this finding. Corrective action has been taken to ensure that the Department complies with the competitive requirements of the Code. Additionally, purchase orders will be used whenever possible utilizing the internal controls in SCEIS.

#### IV. Procurement Cards

##### A. Unauthorized Use of Blocked MCC

The State of South Carolina has in place a procurement card program under which agencies are authorized to pay for certain transactions using the procurement card. Under a significant internal control feature of the procurement card program, the Office of the Comptroller General blocks certain types of transactions identified by Merchant Category Codes (MCCs) from use by state agencies. The Office of the Comptroller General identified two procurement card transactions using blocked MCCs. The Department made procurement card purchases on October 10, 2012 for \$772.00 and \$700.00

using blocked MCC 8999 (Professional Services Not Elsewhere Classified) without first obtaining written authorization from the Office of the Comptroller General (OCG) to unblock the MCC.

The State's procurement card policy requires Group A agencies, which includes the Department, to direct requests to unblock MCCs in writing to the OCG. Research performed by the OCG revealed the Department's procurement card administrator contacted the bank to unblock MCC 8999 prior to approval by the OCG. The OCG contacted the Agency Director at the Department in a memo dated October 25, 2012 informing her of this matter.

Section II(C)(5) of the South Carolina Purchasing Card Policy and Procedures Manual, states in part, "If a Group A Agency P-Card Administrator desires to have specific MCCs for specific cards unblocked for a stated purpose and time frame, the Agency may request written authorization from the OCG to unblock the MCCs for use by that Agency. An Agency may not remove a block on any P-Card without written authorization from the OCG. The Agency requests to unblock MCCs shall be directed to the OCG. The OCG shall consider all requests, but may decline such requests based on its assessment of the needs and the best interests of the State." Neither the Department nor the bank followed established procedures for unblocking this MCC.

We recommend the Department comply with the South Carolina Purchasing Card Policy and Procedures Manual and not unblock MCCs without obtaining prior written approval from the Office of the Comptroller General.

#### Department Response

We concur with this finding. Corrective action has been taken. The P-Card Administrator's cards were suspended for one (1) month as a result of this action.

B. No Procurement Card Training Being Performed

The Department has not implemented a procurement card training program for its cardholders and managers as required in the Department's Purchasing Card Program Cardholder Manual and in the State Procurement Card Policy and Procedures Manual. Such training helps ensure compliance with established policy and procedure guidelines.

We recommend the Department implement a procurement card training program for its cardholders and managers.

Department Response

We concur with this finding. Corrective action has been taken. Due to several staffing changes during this time, the training component was not followed as stated in policy. The department's procurement card training component is being re-instated.

C. No Internal Audits Being Performed

No internal audits are currently being performed within the procurement card program as required in the Department's Purchasing Card Program Cardholder Manual and in the State Procurement Card Policy and Procedures Manual.

We recommend the Department implement internal audits of the procurement card program.

Department Response

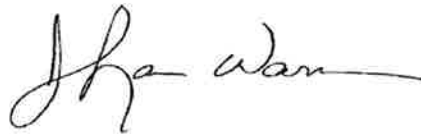
We concur with this finding. The Department's Office of Internal Audit will start performing audits at least annually using a random sample size of procurement card purchases to ensure fraudulent activity is not occurring.

## CONCLUSION

We must state our concern over the findings in this audit report regarding inappropriate sole source procurements. Section 11-35-1560 (C) provides, "A violation of these regulations by a purchasing agency, upon recommendation of the designated board office with approval of the majority of the Budget and Control Board, must result in the temporary suspension, not to exceed one year, of the violating governmental body's ability to procure supplies, services, information technology, or construction items pursuant to this section." The exceptions in this particular area are so severe, we recommend the Budget and Control Board suspend sole source authority for one year, the maximum time period allowed by statute.


Regarding its competitive procurement actions, corrective action based on the recommendations described in this report, we believe, will in all material respects place the South Carolina Department of Probation, Parole, and Pardon in compliance with the South Carolina Consolidated Procurement Code.

Provided the Department completes the corrective action identified herein, with the exception of sole source procurements, we recommend the Department be allowed to continue to procure all goods and services, construction, information technology, and consultant services up to the basic level of \$50,000 as outlined in the South Carolina Consolidated Procurement Code. Our office will perform a follow-up examination reporting back to the Board within one year.



---

J. Lane Warren, CFE, CBM  
Audit Manager



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Robert J. Aycock, IV, Manager  
Audit and Certification

NIKKI R. HALEY, CHAIR  
GOVERNOR

CURTIS M. LOFTIS, JR.  
STATE TREASURER

RICHARD ECKSTROM, CPA  
COMPTROLLER GENERAL



SC BUDGET AND CONTROL BOARD

THE DIVISION OF PROCUREMENT SERVICES  
DELBERT H. SINGLETON, JR.  
DIVISION DIRECTOR  
(803) 734-2320

R. VOIGHT SHEALY  
MATERIALS MANAGEMENT OFFICER  
(803) 737-0600  
FAX (803) 737-0639

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EXECUTIVE DIRECTOR

July 29, 2013

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

Dear Voight:

We have reviewed the response from the Department of Probation, Parole and Pardon Services to our audit report for the period of April 1, 2009 through March 31, 2012. We have followed-up on Probation, Parole and Pardon Services' corrective action during and subsequent to our fieldwork. Additionally, our office will perform a follow-up examination reporting back to the Board within one year.

Sincerely,

Robert J. Aycock, IV, Manager  
Audit and Certification

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**State of South Carolina**  
**Department of Probation, Parole and Pardon Services**

**NIKKI R. HALEY**  
Governor



**KELA E. THOMAS**  
Director

2221 DEVINE STREET, SUITE 600  
POST OFFICE BOX 50666  
COLUMBIA, SOUTH CAROLINA 29250  
Telephone: (803) 734-9220  
Facsimile: (803) 734-9440  
[www.dppps.sc.gov/](http://www.dppps.sc.gov/)

May 31, 2013

**Mr. R. Voight Shealy**  
Materials Management Officer  
Procurement Services Division  
1201 Main Street, Ste. 600  
Columbia, SC 29201

Dear Mr. Shealy:

Thank you for the opportunity to respond to the Procurement Audit Report for the period of April 1, 2009 – March 31, 2012. Unfortunately we have several findings included in the report. The department has not had a Procurement Audit in over 10 years and the staff employed during the review period examined are no longer employed with the department.

In response to the major finding related to the 21 sole sources examined, 12 of the procurements were to the same vendor responsible for the re-engineering project for the department's Offender Management System (OMS). The department operated a system that was written in an outdated language for over 20 years. In 2005 the Offender Information System had a major failure which forced us to utilize the SMART Person contract to repair the problems. This led to the decision to re-write the Offender Information System. The Offender Management System (OMS) is the department's primary source for tracking the offenders we manage (i.e. Type of offense, length of time on supervision, victims of the crime and financial obligations such as restitution payments due).



The department sought guidance from the Chief Information Officer (CIO) during the initial process and as a result we have this massive sole source finding seven years later. The department relies heavily on OMS and as mandates such as the Omnibus Crime Reduction and Sentencing Reform Act of 2010 are implemented, the system is constantly updated to meet the requirements of the law. As we move forward with corrective actions, the department would like to meet with the CIO and your office to determine the best course of action to eliminate any further inappropriate sole source procurements.

In addition, the department has taken corrective action on all of the findings included in this report. This audit has been an excellent training tool for the new Procurement Manager and Procurement staff. We will continue to consult with the Procurement Services Division and the Procurement Code to ensure that all procurements are processed appropriately.

Sincerely,

A handwritten signature in blue ink that reads "Cheryl Mack Thompson". The signature is written in a cursive style with a large initial "C".

Cheryl Mack Thompson  
Assistant Deputy Director for Administration

# **SC Department of Probation, Parole and Pardon Services Procurement Audit Report Response to Audit Findings**

## **I. Sole Source and Emergency Procurements**

### **A. Inappropriate Sole Source Procurements**

**Out of the twenty-one sole sources examined, twelve of the procurements were to the same vendor responsible for the re-engineering project for the department's Offender Management System (OMS). The Procurement Staff employed during this audit period consulted with the Chief Information Officer (CIO) for guidance and received approval of the initial procurement of this project. The department followed the Procurement Code guidelines based on the knowledge of the staff, approval by the CIO and department director. Quarterly reports were submitted for all sole source procurements as required by Section 11-35-2440. At no point during the six year period (October 2005 – August 2011) was the department notified that the procurements were deemed inappropriate.**

**As we move forward with corrective actions, the department would like to meet with the CIO and the State Procurement Services Division to determine the best course of action to eliminate any further inappropriate sole source procurements.**

### **B. Inappropriate Emergency Procurements**

**We concur with this finding. Corrective action has been taken to ensure that the RFP process is initiated timely to avoid the use of Emergency Procurements for this purpose. Additionally, the department will ensure that all emergency procurements are supported by a written determination authorizing the procurement as an emergency.**

## **II. No Competition**

### **A. At-Risk Youth Outreach Services Not competitively Bid/Computer Tablets Not Used for Intended Purposes**

**In 2009 the Department contacted State Surplus for guidance related to donating state assets and was advised that we were unauthorized to donate any items. Therefore the previous administration decided to allow the agency computers to be loaned to a non-profit organization. The five year old agency computers were placed in a community resources building at the organization as a pilot program for the purpose of job training. A Memorandum of Understanding (MOU) was initiated and signed by both parties clarifying that the computers remained State property and would be**

**available for use by our youthful offenders who were seeking employment. The agency believed the MOU would serve as a contract and would be satisfactory.**

**The department plans to terminate the MOU with the organization and will surplus the twenty laptops computers.**

**B. No Proof of Competition**

**We concur with this finding. Corrective action has been taken to ensure that the Department only utilizes the software license exemption for software that has been competitively bid.**

**III. No Proof of Competition on Direct Expenditure Vouchers**

**We concur with this finding. Corrective action has been taken to ensure that the Department complies with the competitive requirements of the Code. Additionally, purchase orders will be used whenever possible utilizing the internal controls in SCEIS.**

**IV. Procurement Cards**

**A. Unauthorized Use of Blocked MCC**

**We concur with this finding. Corrective action has been taken. The P-Card Administrator's cards were suspended for one (1) month as a result of this action.**

**Attachments A, B, C, D**

**B. No Procurement Card Training Being Performed**

**We concur with this finding. Corrective action has been taken. Due to several staffing changes during this time, the training component was not followed as stated in policy. The department's procurement card training component is being re-instated.**

**C. No Procurement Card Audits Being Performed**

**We concur with this finding. The Department's Office of Internal Audit will start performing audits at least annually using a random sample size of procurement card purchases to ensure fraudulent activity is not occurring.**

# **ATTACHMENTS**



State of South Carolina  
**Office of Comptroller General**

1200 Senate Street  
 305 Wade Hampton Office Building  
 Columbia, South Carolina 29201

Telephone: (803) 734-2121  
 Fax: (803) 734-1765  
 E-Mail: [cgoffice@cg.sc.gov](mailto:cgoffice@cg.sc.gov)

**RICHARD ECKSTROM, CPA**  
 COMPTROLLER GENERAL

**JAMES M. HOLLY**  
 CHIEF OF STAFF

MEMORANDUM

TO: Kela Thomas  
 Agency Director, SC Dept of Probation, Parol and Pardon Services

FROM: Tonia L. Morris, CPA  
 Assistant Comptroller General

SUBJECT: Purchasing Card Violation

DATE: October 25, 2012

One important internal control for preventing potential abuse of the Purchasing Card (P-Card) is the blocking of certain Merchant Category Codes (MCCs). This prevents purchases of certain types of goods and services by agencies. By blocking the MCC, any attempt to use the card to make a purchase at a blocked vendor will result in the card being declined. In accordance with the South Carolina Purchasing Card Policy and Procedures, all requests to unblock a MCC must receive prior approval from our office before making a purchase. Agencies have repeatedly been advised of this process.

On October 10, 2012, Ellicia Thompson made purchases for \$772.00 and \$700.00 using blocked MCC 8999 (PROFESSIONAL SERVICES-NOT ELSEWHERE CLASSIFIED). Our preliminary review of this violation revealed that Cheryl Thompson (P-Card Administrator) contacted Bank of America at the direction of Ellicia Thompson (also a P-Card Administrator) to unblock MCC 8999. Since prior approval for these transactions was not obtained from our office, this is a violation of State's policy. This is a published, long-standing state policy that Purchase Card Administrators have no excuse not knowing and following.

Please determine if the purchases for \$772.00 and \$700.00 were for state purposes and inform us of any disciplinary action taken with respect to these employees. Please provide this information within five (5) business days of the date of this memo. After receipt of this information, our office will consider what additional action to take on this matter. Our office is considering other measures to address this serious violation, including suspension of all of your agency's purchasing cards. If you have any questions regarding this matter, please contact me at [tmorris@cg.sc.gov](mailto:tmorris@cg.sc.gov) or at 803-734-2347.

State of South Carolina  
Department of Probation, Parole and Pardon Services

**NIKKI R. HALEY**  
Governor



**KELA E. THOMAS**  
Director

2221 DEVINE STREET, SUITE 600  
POST OFFICE BOX 50666  
COLUMBIA, SOUTH CAROLINA 29250  
Telephone: (803) 734-9220  
Facsimile: (803) 734-9440  
[www.dppps.sc.gov/](http://www.dppps.sc.gov/)

October 26, 2012

Tonia L. Morris, CPA  
Director of Statewide Payroll/Accounts Payable  
Comptroller General's Office  
1200 Senate Street  
Wade Hampton Building, Room 305  
Columbia, SC 29201

Dear Ms. Morris,

The South Carolina Department of Probation, Parole and Pardon (SCDPPPS), understands the seriousness of the violation stated. We are aware that use of the State Purchasing Card is a privilege, not a right. This is the first violation of the State P-Card that the agency has received since inception of the program. The agency currently has 104 State P-Cards that are closely monitored by the Fiscal Management Section.

Ms. Cheryl Mack-Thompson (P-Card Administrator) violated state policy by not obtaining approval from the Office of Comptroller General to unblock Merchant Category Code 8999 (Professional Services-Not Elsewhere Classified). She should have been abreast of all updates and changes made by OCG pertaining to the P-Card as the Administrator. During the time Ms. Mack-Thompson was assigned this responsibility, the agency had two other staff who primarily handled the P-Card functions and she served as the backup administrator. Unfortunately, the procurement staff members who routinely handled the P-Card functions are no longer employed with the agency. Ms. Ellicia Thompson (P-Card Administrator) was in the process of being trained when she became the sole procurement staff person. In January, 2012, Ms. Mack-Thompson become more involved in the Procurement section to assist Ms. Thompson get up to

speed with the day-to-day operations of this area. An additional procurement staff person was hired in July 2012 to assist with the workload.

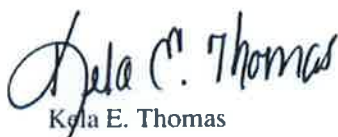
The purchases made on October 10, 2012 were for lanyards and badge holders to be worn by staff with their agency issued ID cards to gain access to the secured areas throughout the Central Office Building. Additional lanyards were also ordered as promotional items for the agency.

Ms. Mack-Thompson and Ms. Thompson have been counseled regarding the seriousness of this violation. Ms. Mack-Thompson received a written and Ms. Thompson received an oral warning along with corrective actions to be taken. If further violations occur, additional disciplinary action will be taken.

The State P-Card policy has been reviewed by Ms. Mack-Thompson and Ms. Thompson as well as the Budget and Control Website General Information- Procurement Services webpage section P-Card Policy and Procedure. Agency policy and procedures will be updated to include steps that must be taken when a MCC code is received. Ms. Mack-Thompson and Ms. Thompson are now aware that a P-Card Administrator may not remove a block on any P-Card without written authorization from the OCG. Ms. Thompson and the newly hired staff member attended the Bank of America P-Card Summit on October 16, 2012. Ms. Mack-Thompson and Ms. Thompson will also be required to attend additional P-Card training and will be required to stay abreast of all updates and changes to the State P-Card Policy by monitoring all procurement and OCG correspondence closely. Additionally, they will be responsible for updating the agency's policy and procedures as changes occur to the state policy.

Suspension of the agency's purchasing cards will be detrimental to the day-to-day operation of the agency. Please allow the agency to address this violation internally and rectify this situation. Corrected actions have been put into place and will be monitored closely.

Sincerely,

Handwritten signature of Kela E. Thomas in black ink.

Kela E. Thomas

Director



State of South Carolina  
**Office of Comptroller General**

1200 Senate Street  
305 Wade Hampton Office Building  
Columbia, South Carolina 29201

Telephone: (803) 734-2121  
Fax: (803) 734-1765  
E-Mail: [cgoffice@cg.sc.gov](mailto:cgoffice@cg.sc.gov)

**RICHARD ECKSTROM, CPA**  
COMPTROLLER GENERAL

**JAMES M. HOLLY**  
CHIEF OF STAFF

MEMORANDUM

**TO:** Kela Thomas  
Director, SC Dept. of Probation, Parole and Pardon Services

**FROM:** Tonia L. Morris, CPA  
Assistant Comptroller General

**SUBJECT:** Purchasing Card Violation

**DATE:** October 30, 2012

Thank you for your quick response to your agency's recent purchasing card (P-card) violation. Our office appreciates the actions your agency has taken in response to this serious matter. We request that both Ms. Cheryl Mack-Thompson's and Ms. Ellicia Thompson's P-cards be suspended for 30 days. The suspension should be from November 1 to November 30, 2012.

Your program administrator (Ms. Thompson) must create a suspension profile in WORKS (Bank of America's on-line P-card management system) and both cards should be moved to this profile during the 30 day suspension. Setting up the suspension profile settings should include setting the limit to \$5.00, checking the Use Standard MCC Groups box and setting each standard group to Prohibit (Cash, Travel & Entertainment, General Purchase, Vehicle/Fleet and Unusual). No other MCC Groups should be attached to the profile. On December 1, 2012, your program administrator can move the cards back to their original SC Group A profiles and they can begin using their cards again. If assistance is needed in creating the suspension profile, please contact the WORKS Technical Help Desk at 1-888-589-3473 Option 4.

If you have any questions regarding this matter, please contact me at [tmorris@cg.sc.gov](mailto:tmorris@cg.sc.gov) or at 803-734-2347.



State of South Carolina  
Department of Probation, Parole and Pardon Services

**NIKKI R. HALEY**  
Governor



**KELA E. THOMAS**  
Director

2221 DEVINE STREET, SUITE 600  
POST OFFICE BOX 50666  
COLUMBIA, SOUTH CAROLINA 29250  
Telephone: (803) 734-9220  
Facsimile: (803) 734-9440  
[www.dppps.sc.gov/](http://www.dppps.sc.gov/)

November 6, 2012

Tonia L. Morris, CPA  
Director of Statewide Payroll/Accounts Payable  
Comptroller General's Office  
1200 Senate Street  
Wade Hampton Building, Room 305  
Columbia, SC 29201

Dear Ms. Morris,

The purchasing cards assigned to Cheryl Mack-Thompson and Ellicia Thompson have been suspended and are scheduled to reactivate on Monday, December 3, 2012. The South Carolina Department of Probation, Parole and Pardon Services internal Purchasing Card Manual and policy and procedures are being updated to ensure an annual review of the State Purchasing Card policy is completed by the Purchasing Card Administrators and that additional steps are adopted to ensure that proper procedures are followed as it relates to unblocking a MCC code.

Thanks for your assistance with this matter. If additional is needed, please do not hesitate to contact me at (803) 734-9278.

Sincerely,

  
Kela E. Thomas  
Director

**From:** "Mike Spicer" <mspicer@cio.sc.gov>  
**To:** <jkenner@ppp.state.sc.us>  
**Date:** 3/22/2005 11:23:45 AM  
**Subject:** Applications Development

Judy,

Barbara Teusink and I talked to David O'Berry about the ongoing applications development project your agency has with TIBA. It is our understanding that TIBA has been engaged by this agency for some time and funds for this project will expire on June 30, 2005. Assuming this set of facts, since TIBA has been involved with the project for some time, and because they have knowledge about the project that can not be attained by another vendor quickly enough for the agency to avoid the loss of funds for the project, a sole source for the next phase of this project under §11-35-1560(1) seems appropriate.

ITMO anticipates having a state term contract for applications development in place within the next two months and that contract should be considered for any future procurements. If you would like to discuss this matter further, please let me know.

Michael B. Spicer  
Chief Procurement Officer  
Division of the State CIO  
4430 Broad River Road  
Columbia, SC 29210  
(803) 896-5225