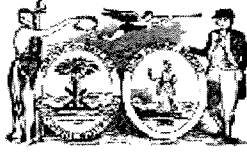


STATE OF SOUTH CAROLINA  
*State Budget and Control Board*  
PROCUREMENT SERVICES DIVISION

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GOVERNOR

GRADY L. PATTERSON, JR.  
STATE TREASURER

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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

November 23, 2005

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

Dear Delbert:

I have attached the Department's 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, 2002 - MARCH 31, 2005**

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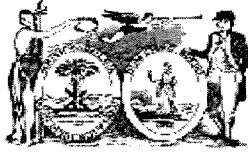
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Fax (803) 737-0639

R. VOIGHT SHEALY  
MATERIALS MANAGEMENT OFFICER

October 28, 2005

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, 2002 through March 31, 2005. 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 those 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 needs 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 South Carolina 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 review was conducted June 2, 2005 through July 5, 2005 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 Operating Procedures Manual, were in compliance with the South Carolina Consolidated Procurement Code and ensuing regulations.

On March 3, 2005 the Budget and Control Board increased the procurement certifications for the Department of Corrections as follows:

<u>PROCUREMENT AREAS</u>	<u>RECOMMENDED CERTIFICATION LIMITS</u>
Goods and Services	\$ 1,000,000 per commitment
Food Service Equipment and Supplies	\$ 200,000 per commitment
Food Products	\$ 1,500,000 per commitment
Information Technology	\$ 100,000 per commitment
Consultant Services	\$ 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

Our audit was performed primarily to determine if re-certification is warranted. The certification for food service equipment and supplies is included in the certification of \$1,000,000 for goods and services.

## 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 and its related policies and procedures manual to the extent we deemed necessary to formulate an opinion on the adequacy of the system to properly handle procurement transactions.

We selected a judgmental sample for the period July 1, 2002 through March 31, 2005 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, 2002 through March 31, 2005
- (2) Procurement transactions for the period July 1, 2002 through March 31, 2005 as follows:
  - a) Ninety-seven payments each exceeding \$1,500
  - b) A block sample of eight hundred purchase orders to test for use of favored vendors and splitting of orders
  - c) An additional sample of ten formal bids
  - d) One formal revenue generating contract
  - e) Procurement card transactions for the months January, February, and March of 2005
- (3) Three construction contracts and three professional service contracts for compliance with the Manual for Planning and Execution of State Permanent Improvements
- (4) Minority Business Enterprise Plan approvals and reports
- (5) Approval of the most recent Information Technology Plan
- (6) Internal procurement procedures manual
- (7) Surplus property disposal procedures
- (8) Blanket purchase agreements
- (9) File documentation and evidence of competition

## RESULTS OF EXAMINATION

### Noncompliant Procurements

Two procurements lacked compliance to the Code.

<u>PO</u>	<u>Date</u>	<u>Description of Item/Service</u>	<u>Amount</u>
300103799	09/30/02	Air compressor 30 horse power	\$11,224
300123134	11/26/03	Road repairs and paving	20,000

The solicitation for the air compressor was not publicly advertised in the South Carolina Business Opportunities as required by Section 11-35-1550 (d) and the informal written quotes did not contain the preferences as defined in Section 11-35-1524. The procurement for the road repairs was not supported by evidence of competition, sole source or an emergency justification nor was the procurement exempt.

We recommend the Department comply with the competitive requirements of the Code for these types of items.

### Unauthorized Freight Payments

We noted the following unauthorized freight payments on the solicitation 615-354306-5/22/02-G.

<u>PO</u>	<u>Date</u>	<u>Description</u>	<u>Freight</u>
300099011	07/02/02	Folders	\$ 312.32
300116535	07/02/03	Folders	406.51
300133338	01/01/04	Folders	<u>191.37</u>
		Total	<u>\$ 910.20</u>

The freight terms on purchase orders 300099011 and 300116535 were for shipments “FOB destination.” The freight terms on purchase order 300133338 were incorrectly noted on the purchase order as “FOB Ship prepay and add.” The solicitation required the bidder to include freight in the bid price and the contract was awarded on that basis.

We recommend the Finance Department not pay additional freight charges unless they are authorized on the purchase orders. Any discrepancies of freight charges should be routed to the



Procurement Office for resolution before payment. The Procurement Office needs to accurately identify the freight terms on purchase orders. We also recommend the Department determine whether the overpayment of \$910.20 should be recovered from the vendor.

**CERTIFICATION RECOMMENDATIONS**

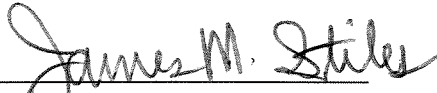
As enumerated in our transmittal letter, corrective action based on the recommendations described in this report, we believe, will in all material respects place the South Carolina Department of Corrections in compliance with the Consolidated Procurement Code.

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 limits as follows:

<u>PROCUREMENT AREAS</u>	<u>RECOMMENDED CERTIFICATION LIMITS</u>
Goods and Services (A)	*\$ 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 commitment
Architect/Engineer Contract Amendment	\$ 15,000 per amendment

(A) The certification for goods and services includes food service equipment and supplies.

\*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



November 21, 2005

Mr. Larry Sorrell, Manager  
Audit and Certification  
Materials Management Office  
1201 Main Street, Suite 600  
Columbia, SC 29201

Subject: Procurement Audit Report for July 1, 2002 – March 31, 2005

Dear Larry,

We concur with the audit findings and are adopting new procedures to eliminate these findings.

Non Compliance Procurements

Purchase Order Number 300103799 dated 9/30/02 for an Air Compressor 30 hp in the amount of \$11,224.00. We will advertise in SCBO all procurements over \$10,001.00. A request to advertise in SCBO will be in the bid file as well as a copy of the advertisement.

Purchase Order Number 300123134 dated 11/26/03 for road repairs and paving in the amount of \$20,000.00. This amount was paid to a Prison Industry Enhancement Certification Program vendor who contracted with a paving company to repair and pave an interior road at Ridgeland Correctional Institution. The \$20,000.00 was half of the cost to pave and repair the road. Future projects of a shared nature will be bid in accordance with 11-35-1550.

Unauthorized Freight Payments Bid 615-354306-5/22/02-G

<u>Purchase Order #</u>	<u>Date</u>	<u>Description</u>	<u>Freight</u>
300099011	7/2/02	Folders	\$312.32
300116535	7/2/03	Folders	\$406.51
300133338	1/1/04	Folders	\$191.37
		Total	\$910.20

The incorrect freight code was entered on the purchase orders. We have received a credit memo from the vendor to cover the overpayment of freight. Additional training of our requisitioners and procurement officers is being done to enhance our performance in the use of freight codes. Our Finance Department will only pay according to our purchase order freight code.

We are respectfully requesting to maintain our current level of certification as follows:

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

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

It is always a pleasure to have a member of your staff work with us to help improve our accountability. Jim Stiles has done a tremendous job performing this Audit and pointed out ways to improve our performance especially recovering the overcharge on freight of \$910.20. If you have any questions or need additional information please contact me at 896-1952.

Sincerely,



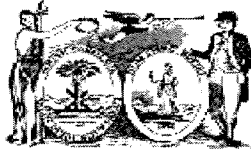
Don Lemmons  
Director of Procurement

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R. VOIGHT SHEALY  
MATERIALS MANAGEMENT OFFICER

November 23, 2005

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 South Carolina Department of Corrections to our audit report for the period of July 1, 2002 – March 31, 2005. Also we have followed the Department's corrective action during and subsequent to our fieldwork. We are satisfied that the South Carolina 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 South Carolina Department of Corrections the certification limits noted in our report for a period of three years.

Sincerely,

Handwritten signature of Larry G. Sorrell in cursive.

Larry G. Sorrell, Manager  
Audit and Certification

LGS/jl

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