



SOUTH CAROLINA DEPARTMENT OF CORRECTIONS

PROCUREMENT AUDIT REPORT

OCTOBER 1, 2013 – MARCH 31, 2017

**Office of Audit & Certification
Division of Procurement Services
June 14, 2018**

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July 2, 2018

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

Re: South Carolina Department of Corrections (SCDC)
Procurement Examination
Transmittal Letter

John:

We have examined the internal procurement policies and procedures of SCDC for the period October 1, 2013 through March 31, 2017 to determine whether, in all material respects, the internal controls of SCDC's procurement system were adequate to ensure compliance with the South Carolina Consolidated Procurement Code and ensuing regulations.

The examination disclosed conditions enumerated in the report which we believe need correction or improvement. Corrective action based on the recommendations described in these findings, will in all material respects, place SCDC in compliance with the South Carolina Consolidated Procurement Code and ensuing regulations.

Sincerely,

A handwritten signature in blue ink that reads "D. Crawford Milling".

D. Crawford Milling, CPA, CGMA
Acting Director
Audit and Certification

INTRODUCTION

We conducted an examination of SCDC's internal procurement operating policies and procedures, as outlined in their Internal Procurement Operating Procedures Manual, under §11-35-1230(1) of the South Carolina Consolidated Procurement Code and Reg. 19-445.2020 of the accompanying regulations.

The primary objective of our examination was to determine whether, in all material respects, the internal controls of SCDC's procurement system were adequate to ensure compliance with the South Carolina Consolidated Procurement Code and ensuing regulations.

The management of SCDC 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 internal control relate to (1) financial reporting, (2) operations, and (3) compliance. Safeguarding of assets is a subset of these objectives. Management designs internal control to provide reasonable assurance that unauthorized acquisition, use, or disposition of assets will be prevented or timely detected and corrected.

Because of inherent limitations in any system of internal controls, errors or irregularities may occur and not be detected. 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 review 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.

Our examination was also performed to determine if recertification under §11-35-1210 is warranted.

INTRODUCTION

On March 18, 2015, the Budget and Control Board re-certified SCDC's procurement authority as follows:

<u>PROCUREMENT AREAS</u>	<u>CERTIFICATION LIMITS</u>
Supplies and Services	\$ 1,000,000 per commitment
Food Products	\$ 1,500,000 per commitment
Information Technology	\$ 100,000 per commitment
Consultant Services	\$ 100,000 per commitment
Construction Contract Award	\$ 100,000 per commitment
Construction Contract Change Order	\$ 100,000 per change order
Architect/Engineering Contract Amendment	\$ 50,000 per amendment

SCDC requested to remain at its current certification levels.

SCOPE

We conducted our examination to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. Our examination included testing, on a sample basis, evidence about SCDC's compliance with the South Carolina Consolidated Procurement Code, for the period October 1, 2013 through March 31, 2017, and performing other procedures that we considered necessary in the circumstances. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

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 October 1, 2013 through March 31, 2017, with no exceptions
- (2) Procurement transactions for October 1, 2013 through March 31, 2017 as follows:
 - a) One hundred and nineteen payments, each exceeding \$2500, with exceptions noted in Sections I and II of the report
 - b) Twenty direct expenditure vouchers, each exceeding \$2500, with no exceptions
 - c) A block sample of 300 purchase orders issued between September 19, 2016 and March 20, 2017 were reviewed for the use of splitting orders or favoring vendors with no exceptions
 - d) Procurement card purchases for January, February and March, 2017, with no exceptions
 - e) Current revenue generating contracts with no exceptions
- (3) Five Construction Contracts, five Architect/Engineer and Related Professional Service Contracts, and five Architect/Engineer Indefinite Delivery Contracts (including payments) for compliance with the Manual for Planning and Execution of State Permanent Improvements, Part II. No construction IDCs were issued. SCDC utilizes inmate labor and skills to perform 'Construction IDC' related projects. No exceptions were noted.

SCOPE

- (4) Minority Business Enterprise plans and reports with the following activity reported to the Division of Small and Minority Business Contracting and Certification:

<u>Fiscal Year Ending</u>	<u>Goal</u>	<u>Actual</u>
FY13-14	\$ 455,442	\$ 378,012
FY14-15	455,442	272,847
FY15-16	455,442	116,748
FY16-17	455,442	1,835,914 *

* FY16-17 - actual amount represents 1st, 2nd, and 3rd quarters only;
- increase in amount due to change in scoring status of existing vendor.

- (5) 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) Ratification of unauthorized procurements with no exceptions
- (9) Other tests as deemed necessary with no exceptions

SUMMARY OF FINDINGS

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We identified purchases made under two BPAs where internal controls were circumvented by exceeding the maximum amount allowed per call.	

RESULTS OF EXAMINATION

I. Internal Controls Circumvented on Blanket Purchase Agreements (BPAs)

BPAs are allowed under Reg. 19-445.2100 A. Authority: "Small purchases shall be made as provided under Section 11-35-1550..."

Per Reg.19-445.2100 B. (1), "A BPA is a simplified method of filling repetitive needs for small quantities of miscellaneous supplies, services, or information technology by establishing "charge accounts" with qualified sources of supply. BPAs are designed to reduce administrative costs in accomplishing small purchases by eliminating the need for issuing individual purchase documents."¹

Regulation 19-445.2100 B. (3) (c), states, "...that a list of names of individuals authorized to place calls under the agreement, identified by organizational component, and the dollar limitation per call for each individual shall be furnished to the supplier by the Procurement Officer."²

We found three instances where blanket purchase agreements contained a clause stating: "AUTHORIZED INDIVIDUALS TO PLACE CALLS - listed one named individual followed by 'or SCDC Designee'." (See Exhibit 1, p.11, items 8, 9, and 10) The use of generic terms for authorized buyers increases the risk that purchases may be made by unauthorized individuals.

One of the three had a call limit of \$10,000. Call limits greater than \$2500 exceed the no competition threshold.

¹ A BPA is a purchase order type intended to be used for small purchases under S.C. Code Ann. §11-35-1550. In a number of instances, SCDC Procurement used BPAs in SRM when they should have used another purchase order type. For example, we found seven BPAs that were for goods that were on contract and should have been blanket purchase orders (ZBLT) (See Exhibit 1 on p. 11). This complicated the analysis of whether SCDC complied with the small purchase rules. This also resulted in including unnecessary terms and conditions in the PO. POs for contract goods and services could be simplified by using the correct PO type and excluding such language.

Finally, our analysis of these purchase orders was further complicated by SCDC procurement staff's consistent failure to use SRM for Solicitations and Notice of Awards. For example, two POs, 4600350542 and 4600446684, referenced solicitation numbers as the contract number because SCDC composed Notice of Awards outside SRM. Composing Notice of Awards outside SRM bypasses established system controls and increases the risk of unauthorized solicitations, contracts or POs; use of language that is inconsistent between the award and the solicitation; and may create gaps in system documentation.

² SCDC Procurement had drafted its own language for BPAs and attached it to POs after drafting Blanket POs. This resulted in POs created by the system not being consistent with what was sent to the vendor, i.e., the BPA language sent to the vendor was only available in the system if it had been scanned into SRM. Not using established system procedures and functionality in the conduct of procurements increases the risk of unauthorized procurements by bypassing access controls, and complicates audit, monitoring and contract compliance procedures.

RESULTS OF EXAMINATION

We recommend SCDC Procurement develop and implement procedures to ensure compliance with Reg.19-445.2100, by establishing BPAs only for filling repetitive needs for small quantities of miscellaneous supplies, services, or information technology. BPA Terms and Conditions must identify individuals authorized to place calls and dollar limitations per call, by providing a list of specified individuals allowed to make calls or place orders, and limiting call amounts to \$2500 or less.

SCDC Response: SCDC concurs and effective July 1, 2018, SCDC changed the language from one name and/or SCDC Designee on the Blanket Agreement to state authorized individuals that are able to place calls against Blanket Purchase Orders. All Blanket Purchase Orders and Blanket Agreements are sent to the Vendors.

II. BPA Call Limitation Exceeded (Repeat Finding - FY2014)

We noted purchases made under two BPAs where internal controls were circumvented by exceeding the maximum amount allowed per call. The CG's PO Policy, under SCEIS system characteristics of a Blanket PO, states: "State agencies must have internal policies in place for budgetary, financial, and procurement controls and are responsible for maintaining those controls."

1. **PO 4600502384** – Remodeling supplies; lamination and stains in the amount of \$10,000. Call Limit of \$2500. We found an invoice, dated 12/19/16, in the amount of \$2924.24.
2. **PO 4600499871** – Automotive parts in the amount of \$19,500. Call Limit of \$2500. We found an invoice, dated 9/8/16, in the amount of \$2851.10 plus tax.

We recommend SCDC Procurement collaborate with the Accounts Payable Department to develop procedures for notification and enforcement of the BPA call limits as required in Reg.19-445.2100. Invoices that exceed the BPA limits should be forwarded to the Procurement Department to determine whether the invoices should be paid.

SCDC Response: SCDC Concur:

PO 4600502384 - SCDC rectified the issue of PO 4600502384 for Alpine Sales that exceeds call limitation by communicating with Accounts Payable Supervisor to ensure that all new personnel has been trained properly, to look for the call limitation amount stated on the BPA.

RESULTS OF EXAMINATION

PO 4600499871 – SCDC rectified the issue of PO 4600499871 for Cummins Atlantic that exceed call limitation by communicating with Accounts Payable Supervisor to ensure that all new personnel has been trained properly, to look for the call limitation amount stated on the BPA.

CERTIFICATION RECOMMENDATION

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 §11-35-1210 of the Procurement Code, subject to this corrective action, we will recommend the South Carolina Department of Corrections be re-certified to make direct agency procurements for three years, up to the following limits:

<u>PROCUREMENT AREAS</u>	<u>CERTIFICATION LIMITS</u>
Supplies and Services	*\$ 1,000,000 per commitment
Food Products	*\$ 1,500,000 per commitment
Information Technology	*\$ 100,000 per commitment
Consultant Services	*\$ 100,000 per commitment
Construction Contract Award	*\$ 100,000 per commitment
Construction Contract Change Order	\$ 100,000 per change order
Architect/Engineer Contract Amendment	\$ 50,000 per amendment

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



J. Lane Warren, CFE, CBM
Audit Manager



D. Crawford Milling, CPA, CGMA
Acting Director
Audit and Certification

Exhibit 1

The following 10 POs were inappropriately set up as BPAs or demonstrated one or more variances from the characteristics of a BPA.

	PO Number	Product	PO Dollar Amount	Correct PO Type	Unlimited Call Amount	Authorized Caller "SCDC Designee"
1	4600350542	LP Gas	100,000	ZBLT	X	
2	4600505066	800MHz Radio Service	75,000	ZBLT	X	X
3	4600435543	Diesel	170,000	ZBLT	X	X
4	4600428341	Repairs to SCDC Radio System	350,000	ZBLT	X	X
5	4600499594	Tires	108,000	ZBLT	X	X
6	4600446684	Butane and Propane	62,315	ZBLT	X	X
7	4600361312	Red Dye Diesel	110,000	ZBLT	X	
8	4600499871	Automotive Parts	45,500	ZBPO		X
9	4600499702	Motor Oil	35,000	ZBPO	X ³	X
10	4600424187	Auto Parts	136,500	ZBPO		X
Total Counts					8	8

Per the OCG's PO Policy and SRM:

ZBLT – Blanket Purchase Order

ZBPO – Blanket Purchase Agreement

³ Call amount was \$10,000.