



**South Carolina
Department of Corrections**

INDEPENDENT PROCUREMENT AUDIT REPORT

**for the Audit Period:
April 1, 2019, to March 31, 2022**

**Office of Audit & Certification
Division of Procurement Services
August 9, 2023**

TABLE OF CONTENTS

| | <u>Page</u> |
|------------------------------------|-------------|
| Abbreviations | 1 |
| Introduction..... | 2 |
| Scope..... | 4 |
| Summary of Results..... | 5 |
| Results of Audit..... | 7 |
| Certification Recommendation | 13 |

ABBREVIATIONS

| | |
|-----------|---|
| Code | – SC Consolidated Procurement Code and ensuing Regulations |
| COTS | – Commercially Available Off-the-Shelf |
| CPO | – Chief Procurement Officer |
| DPS | – Division of Procurement Services |
| PI Manual | – Manual for Planning and Execution of State Permanent Improvements |
| MBE | – Minority Business Enterprise |
| OCG | – Office of the Comptroller General |
| OSE | – Office of State Engineer |
| PCA | – Purchasing Card Administrator |
| P-Card | – Purchasing Card |
| PO | – Purchase Order |
| SFAA | – State Fiscal Accountability Authority |
| SMBCC | – Small and Minority Business Contracting and Certification |
| SPO | – Surplus Property Office |
| STL | – Single Transaction Limit |

INTRODUCTION

DPS audited South Carolina Department of Corrections' (SCDC) internal procurement operating policies and procedures, as outlined in their internal Procurement Operating Procedures Manual, under § 11-35-1230 of the Code and Regulations 19-445.2020.

The primary objective of our audit was to determine whether, in all material respects, the internal controls of SCDC's procurement system were adequate to ensure compliance with the Code.

The management of SCDC is responsible for the agency's compliance with the Code. Those responsibilities include the following:

- Identifying the agency's procurement activities and understanding and complying with the Code.
- Establishing and maintaining an effective organization structure and system of internal control over procurement activities that provide reasonable assurance that the agency administers its procurement programs in compliance with the Code.
- Establishing clear lines of authority and responsibility for making and approving procurements.
- Documenting the agency's system of internal control over its procurement activities in an internal procurement procedure manual.
- Taking corrective action when instances of noncompliance are identified, including corrective action for the findings of this audit.

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 audit of procurement policies and procedures, was conducted with professional care. However, because of the nature of audit testing, they would not necessarily disclose all weaknesses in the system.

INTRODUCTION

Our audit was also performed to determine if recertification under SC Code Ann. § 11-35-1210 is warranted.

On August 21, 2018 the SFAA granted SCDC the following procurement certifications:

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

The Agency requested increased procurement certification at the following limits.

| <u>PROCUREMENT AREA</u> | <u>REQUESTED CERTIFICATION \$ LIMITS</u> |
|---------------------------------------|--|
| Supplies and Services | 3,000,000 per commitment* |
| Food Products | 3,000,000 per commitment* |
| Information Technology | 200,000 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 |

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

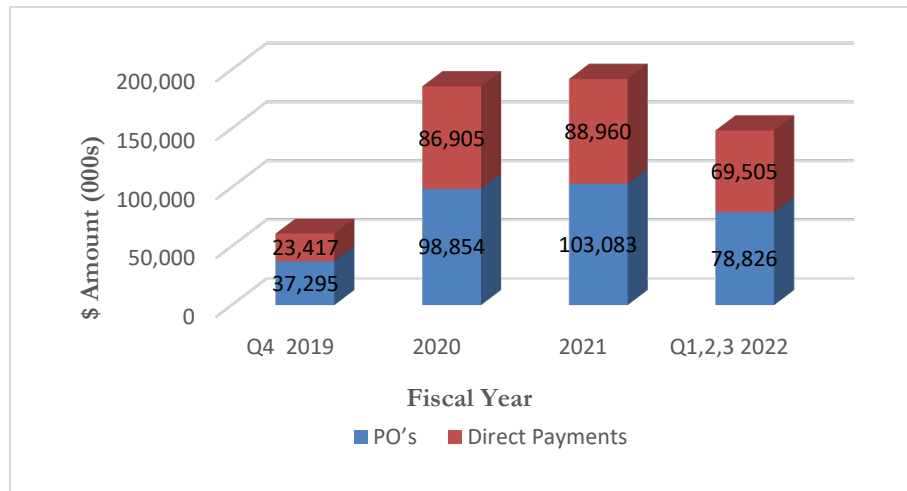
SCOPE

We conducted our audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. Our audit included testing, on a sample basis, evidence about SCDC’s compliance with the Code for the period April 1, 2019 through March 31, 2022, the audit period, and performing other procedures that we considered necessary in the circumstances. We believe the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

Total Expenditures

During the audit period, the agency made expenditures as follows:

| | \$ Amount (000s) | | | | Total |
|-------------------------|------------------|----------------|----------------|------------------|----------------|
| | Q4 FY2019 | FY2020 | FY2021 | Q1,2,3 FY2022 | |
| POs ¹ | 37,295 | 98,854 | 103,083 | 78,826 | 318,058 |
| Direct Pay ² | 23,417 | 86,905 | 88,960 | 69,505 | 268,787 |
| Total Spend | 60,712 | 185,759 | 192,043 | 148,331 | 586,845 |



¹ **POs** represents all expenditures made with a Purchase Order. These are required for most contract purchases by the terms of the contract and is the preferred procurement instrument when a government unit orders or procures supplies or services from a vendor.

² **Direct Pays** are made without purchase order based on the State Purchase Order Policy. These may occur with purchases of supplies or services that are exempt from the Code or for such things as payment for P-Card purchases or purchases less than \$2,500.

SUMMARY OF RESULTS

| | <u>Page</u> |
|---|-------------|
| I. <u>Supplies and Services</u> | 7 |
| Our testing of supplies & services did not identify any compliance issues. | |
| II. <u>Sole Source Procurements and Emergency Procurements</u> | |
| A. <u>Sole Source Procurements Not Reported</u> | 7 |
| SCDC did not report 48 sole source procurements to DPS. | |
| B. <u>Emergency Procurements Not Reported or Reported Late</u> | 7 |
| SCDC did not report 13 emergency procurements to DPS, and five procurements were reported late. | |
| III. <u>Construction</u> | 8 |
| Our testing of construction did not identify any compliance issues. | |
| IV. <u>P-Cards</u> | |
| <u>Program Administration</u> | |
| A. <u>Insufficient P-Card Manual</u> | 8 |
| SCDC’s internal P-Card Manual is outdated and does not address key elements of the State P-Card Policy. | |
| B. <u>Documented Training Program</u> | 9 |
| SCDC did not have a documented Level I training program for cardholders. | |
| C. <u>P-Card Liaison Roles Not Assigned</u> | 9 |
| SCDC did not assign P-Card liaisons to review transactions for compliance with the Code. | |
| D. <u>Written Designation of the PCA to DPS and the OCG</u> | 10 |
| SCDC did not provide written designation of the PCA to DPS and the OCG as required. | |
| <u>Transaction Testing</u> | |
| <u>Bank Statements Lacked Management and Cardholder Approval</u> | 11 |
| SCDC management did not sign fifteen of the activity statements and SCDC cardholders did not sign ten of the activity statements. | |
| V. <u>Unauthorized or Illegal Procurements</u> | 12 |
| Our testing of Unauthorized or Illegal Procurements did not identify any compliance issues. | |
| VI. <u>Surplus Property</u> | 12 |
| Our testing of surplus property did not identify any compliance issues. | |

SUMMARY OF RESULTS

VII. Assistance to Minority Business Enterprises (MBE)..... 12

SCDC submitted three annual utilization plans late.

Note: The Agency's responses to issues raised in this report have been inserted immediately following the recommendations in the body of the report.

RESULTS OF AUDIT

I. Supplies and Services

We audited expenditures exceeding \$10,000 made with POs and expenditures made without a PO to determine compliance with the Code.

Our review of procurements for the audit period did not identify any compliance issues.

II. Sole Source Procurements and Emergency Procurements

Written determinations for all sole source and emergency procurements pursuant to SC Code Ann. § 11-35-1560 and § 11-35-1570 were evaluated to assess the appropriateness of the procurement actions and the accuracy of the quarterly reports required by § 11-35-2440. During the audit period SCDC reported 284 sole source procurements totaling approximately \$18M and 193 emergency procurements totaling approximately \$21M to DPS.

A. Sole Source Procurements Not Reported

SCDC failed to report 48 sole sources totaling approximately \$2.4M to DPS as required by SC Code Ann. § 11-35-2440.

B. Emergency Procurements Not Reported or Reported Late

SCDC failed to report 13 emergency procurements totaling approximately \$4.1M to DPS, as required by SC Code Ann. § 11-35-2440, and five emergency procurements, totaling approximately \$55K, were reported late.

Recommendation: We recommend SCDC develop and implement procedures, including management review and approval, to ensure complete, accurate, and timely quarterly reporting of both sole source and emergency procurements.

Agency Response

SCDC concurs with this finding. Twenty of the forty-eight Sole Sources that were not reported were processed under the incorrect Purchase Order type in SCEIS. This happened when the dollar limits changed in the SC Procurement Code in Regulations. SCDC is like many other agencies and has experienced a shortage of staff and high staff turnover within the Procurement Office during the COVID Pandemic and this audit period. Tracking items for quarterly reports is a manual process, it is often an overlooked requirement when a new employee is transitioning into their new position. SCDC will ensure that sole source and emergency procurements are accurately and timely reported by SC Code Ann. § 11-35-2440. The following changes were implemented on July 1, 2023. Once a purchase order is issued as a sole source or an emergency procurement, the purchase order will be reported within the online reporting database with all documents attached to the purchase order within

RESULTS OF AUDIT

SCEIS. In addition, original copies are stored in a locked file cabinet in Procurement's File Room that has been specifically designated for sole source and emergency procurements.

III. Construction

We tested construction, and architectural/engineer and related professional service contracts for compliance with the Code and the PI Manual and did not identify any compliance issues.

IV. P-Cards

SCDC had 150 P-Cards in use during the audit period and spent approximately \$10.1M across 25,075 transactions. Based on the volume of usage, there is increased risk that misuse, or abuse of P-Cards will not be prevented or detected without adequate management oversight.

Program Administration

We reviewed SCDC's P-Card Policy and Procedures for compliance with the State P-Card Policy and identified areas of non-compliance.

A. Insufficient P-Card Manual

We reviewed SCDC's internal P-Card Procedure Manual, dated June 2022, for compliance with State P-Card Policy and identified areas of non-compliance. The following key areas were omitted from SCDC's manual:

- 1) A requirement for documented Level I training program and a documented record and acknowledgement of training for employees with program responsibility.
- 2) A documented record retention policy.
- 3) A process to periodically assess accounts for inactivity and promptly closing accounts which are no longer needed.
- 4) A requirement for supervisors/approvers and cardholders to sign the monthly bank statements.
- 5) P-Card Administrator roles and responsibilities.
- 6) A procedure for obtaining agency head approval for STLs greater than \$2,500.

State P-Card Policy III (A) (1) lists key requirements agencies must include in their internal P-Card manuals.

RESULTS OF AUDIT

Recommendation: We recommend SCDC revise its internal P-Card Manual to document internal control procedures to ensure compliance with key requirements in the State P-Card Policy. Procurement Services' website has a P-Card Manual Checklist that may be of assistance in revising the manual.

Agency Response

SCDC has revised its P-Card Manual to address the missing provisions noted in the audit report. SCDC submitted the manual to Audit and Certification for approval on April 20, 2023.

B. Documented Training Program

SCDC did not have a documented Level I training program for P-Cardholders as required by Section III (A) (4) (a) of the State P-Card Policy.

Recommendation: We recommend SCDC develop and implement procedures requiring that all P-Card holders, supervisors/approvers, and liaisons be trained prior to being issued a P-Card and that the cardholder agreement include acknowledgement of that training. We further recommend the training program be documented and SCDC's internal P-Card Manual be revised to include this requirement.

Agency Response

SCDC Cardholders go through a one-on-one training with SCDC Procurement Division stating what the P-Card can and cannot be used for. All SCDC P-Cards have an STL of \$2,500 per transaction except for the P-Cards that are issued to the Buyer's in the Procurement Division. The Buyer's STL is \$10,000 per transaction. The threshold for no competition is discussed with each P-Card holder even though their STL is \$2,500 and the PowerPoint presentation is reviewed with the P-Card holder. Once training is completed the SCDC employee signs for their P-Card and then SCDC Procurement Division gives the P-Card to the individual along with a copy of the PowerPoint presentation that has been reviewed. SCDC does not call the P-Card training Level I or Level II training, but SCDC does provide one-on-one training for each P-Card holder. On February 7, 2023, SCDC Division of Procurement developed a PowerPoint presentation that is reviewed with each individual when the P-Card is picked up and signed for. The PowerPoint presentation was also submitted to the Office of Audit and Certification. SCDC will add a signature line and date acknowledging training has been completed on our form.

C. P-Card Liaisons Roles Not Assigned

SCDC did not assign P-Card liaisons to review transactions for compliance with the Procurement Code as required by Part III (C) of the State P-Card Policy.

RESULTS OF AUDIT

Recommendation: We recommend SCDC assign liaisons in accordance with State P-Card Policy. We further recommend that SCDC update its internal P-Card Manual to include documented monthly reviews by liaisons. Accepted practice is to use a checklist to document and ensure an effective review of each purchase.

Agency Response

SCDC has designated P-Card Liaisons that review P-Card transactions monthly within the following Divisions:

- Ike Gray is the P-Card Liaison for Division of Transportation.
- Brittany Mangum is the P-Card Liaison for SCDC Division of Facilities Management, Ms. Mangum is responsible for monitoring all P-Cards assigned for the Division of Facilities Management. Ms. Mangum is a full time FTE employee who works 37.5 hours per week and her sole responsibility is to monitor the P-Card located within Facilities Management.
- Ruthie Bishop is the P-Card Liaison for the Division of Procurement Services.
- Rick Doran is the P-Card Liaison for the SCDC Division of Agriculture.
- Shannon Martin is the P-Card Liaison for Division of Security.
- Wanda Hawkins is the P-Card Liaison for Food Services, and Division of Operations.
- Lisa Marcum is the P-Card Liaison for the P-Cards located in the following Division: Inspector General's Office, Division of Technology, General Counsel, Prison Industries, Medical Services, and Division of Program and Services.

D. Written Designation of the PCA to DPS and the OCG

SCDC had not provided written designation of the PCA to the DPS P-Card Coordinator and the OCG, as required by State P-Card Policy III (A) (1) (d) but did inform DPS of its designated PCA in April 2023 after this audit.

Recommendation: We recommend SCDC provide written designation of their PCA to the OCG and update their internal P-Card Manual to include this reporting requirement.

Agency Response

SCDC Procurement Director is a P-Card Administrator that is responsible for issuing the P-Cards. SCDC Division Director of Budget and Finance, Scott Ludlum and Lisa Marcum in the Division of Budget and Finance are the P-Card Administrators that are responsible for reviewing monthly transactions. SCDC notified the DPS new P-Card Coordinator via email on April 25, 2023. This information has been on file with the previous DPS P-Card Administrator (Stacey Gregg) OCG Office (Audra Kimpson) for several years as SCDC P-Card Mr. Ludlum became SCDC Division Director of

RESULTS OF AUDIT

Budget and Finance in May 2023. The list has recently been revised and notification has been e-mailed to both DPS and OCG Office.

P-Card Transaction Testing

We performed tests of P-Card transactions to ensure compliance with State and agency P-Card policies and procedures. Transaction testing identified an area of non-compliance which was not identified by the PCA or supervisors/approvers during the monthly review and reconciliation of cardholder statements.

Bank Statements Lacked Management and Cardholder Approval

SCDC P-Card supervisors failed to sign 15 activity statements of the 25 tested. Six of the 15 activity statements were signed after the statements were paid. Two of the six activity statements were signed after the audit began. State P-Card Policy III (B) (8) requires management to sign all activity statements.

SCDC cardholders failed to sign ten activity statements of the 25 tested. All ten of these activity statements were signed after the statements were paid. State P-Card Policy III (D) (4) requires that cardholders sign all activity statements. Signing the statements indicates review and approval for payment. Not signing or signing after the statements are paid is a material control weakness.

SCDC internal audit had conducted reviews of the agency's P-Card program and issued reports around the time our audit period began. That audit also identified control weaknesses where cardholders and supervisors had not signed the activity statements. SCDC internal audit recommended corrective action plans to ensure adequate review and approval of activity statements as required.

Recommendation: We recommend both SCDC management and cardholders sign the P-Card activity statements as required by State P-Card Policy, and that SCDC update its P-Card procedures manual to require management and cardholders sign all bank statements prior to payment. Additionally, the monthly PCA review should verify that statements are being signed as required.

Agency Response

SCDC Concur and is requiring all Bank Statements to be signed and sent to Financial Accounting which falls under the SCDC Division Director of Budget and Finance. Budget is responsible for the reconciliation of the P-Card Statements. This process consists of sending an excel spreadsheet out to every cardholder for review. SCDC utilizes the excel spreadsheet because all cardholders do not receive a monthly statement. Once spreadsheets are reviewed and reconciled the cardholder is

RESULTS OF AUDIT

required to return their monthly activity statement and excel spreadsheet signed by P-Card holder and management to Financial Accounting.

V. Unauthorized or Illegal Procurements

We tested unauthorized or illegal procurements to determine compliance with the Code and Regulations.

All reported unauthorized or illegal procurements were properly resolved.

VI. Surplus Property

We tested asset disposals to determine compliance with the Code and State policies and procedures and did not identify any compliance issues.

VII. Assistance to Minority Business Enterprises (MBE)

We requested copies of the agency's annual MBE utilization plans and quarterly progress reports to assess compliance with the Code.

SCDC did not submit three annual MBE utilization plans in a timely manner as required by SC Code Ann. § 11-35-5240.

Recommendation: We recommend SCDC develop and implement procedures, including management review, for submitting Annual Utilization Plans and Quarterly Progress reports to the SMBCC as required by SC Code Ann. § 11-35-5240 and SCDC's internal procurement procedures manual.

Agency Response

SCDC is like many other agencies and has experienced a shortage of staff and high staff turnover within the Procurement Office during the COVID Pandemic and this audit period. Tracking items for quarterly reports is a manual process, it is often an overlooked requirement when a new employee is transitioning into their new position. SCDC will ensure that the Annual Utilization Plans and Quarterly Reports are reported in timely manner and/or contact the Office of Small and Minority Business to request an extension as required by SC Code Ann. § 11-35-5240.

CERTIFICATION RECOMMENDATION

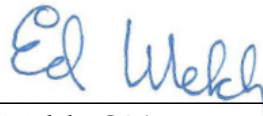
We believe corrective action based on the recommendations in this report will make SCDC's internal procurement operations consistent with the South Carolina Consolidated Procurement Code and ensuing regulations.

We recommend SCDC cancel 20% of its P-Cards within 30 days of receipt of this report for a period of one year and immediately assign a P-Card Administrator and notify DPS of the assignment.

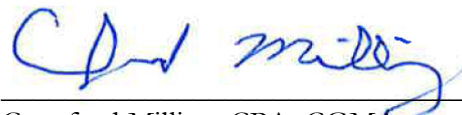
As provided in SC Code Ann. § 11-35-1210, we recommend the South Carolina Department of Correction's authority to make direct agency procurements be increased to the following limits for three years:

| <u>PROCUREMENT AREAS</u> | <u>RECOMMENDED CERTIFICATION \$ LIMITS</u> |
|--|--|
| Supplies and Services ¹ | 3,000,000 per commitment* |
| Supplies and Services via Competitive Sealed Proposal | 1,000,000 per commitment* |
| Food Products | 3,000,000 per commitment* |
| Information Technology ² | 200,000 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 |

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



Ed Welch, CPA
Audit Manager, Audit & Certification



Crawford Milling, CPA, CGMA
Director, Audit & Certification

¹ Supplies & Services including non-IT consulting services via all source selection methods except Competitive Sealed Proposal

² Information Technology includes consulting services for any aspect of information technology, systems, and networks.