



STATE OF NORTH CAROLINA

SPECIAL REVIEW

**N.C. DEPARTMENT OF CORRECTION
OFFENDER POPULATION UNIFIED SYSTEM (OPUS)
and
CASHLESS CANTEEN PROJECTS**

JUNE 1995

**OFFICE OF THE STATE AUDITOR
RALPH CAMPBELL, JR.
STATE AUDITOR**

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June 15, 1995

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June 15, 1995

The Honorable James B. Hunt, Jr., Governor
Mr. Franklin Freeman, Secretary
North Carolina Department of Correction
Members of the General Assembly of North Carolina

Ladies and Gentlemen:

Pursuant to General Statute §147-64.6(c)(16), we have completed our special review into allegations concerning the Offender Population Unified System (OPUS) and Cashless Canteen Projects at the North Carolina Department of Correction. The results of our review, along with recommendations for corrective actions, are contained in this report. The Secretary of the Department of Correction has reviewed this report and his written response is included on Page 10 of this report.

We would like to express our appreciation to the management and staff of the North Carolina Department of Correction for their cooperation during this review.



Ralph Campbell, Jr.
State Auditor

INTRODUCTION

The Office of the State Auditor released a Performance Audit Report on the Department of Correction (DOC) in 1994. Concerns were noted regarding purchasing procedures used for the Division of Prison's Cashless Canteen Project. These concerns were forwarded to the Fraud, Waste, and Abuse section for further review. During this review, we received an additional allegation through the State Auditor's Hotline that DOC was misusing the State Information Processing Services (SIPS) convenience contract for the Offender Population Unified System (OPUS) Project.

We used the following procedures to conduct our special review:

1. Interviewed employees of DOC.
2. Interviewed individuals external to DOC.
3. Examined requisitions, purchase orders and invoices.
4. Examined contracts.
5. Examined other related documents.

This report represents the results of a special review conducted pursuant to G.S. §147-64.6(c)(16) rather than an annual financial audit. We did not conduct a financial audit of DOC. The Office of the State Auditor examines DOC's financial activities through its annual audit of the State's Comprehensive Annual Financial Report.

FINDINGS AND RECOMMENDATIONS

A. The Offender Population Unified System (OPUS) Project.

1. The North Carolina Department of Correction (DOC) Could Have, But Did Not, Use the State's Competitive Bidding Process for the Offender Population Unified System (OPUS) Project.

The manner in which DOC used the State Information Processing System (SIPS) convenience contract could be viewed as a method of bypassing the competitive bidding process. DOC allowed a vendor to essentially avoid competitive bidding and still receive a multi-million dollar contract. Ideally, under the convenience contract, an outside vendor provides supplemental technical assistance to agencies and departments for temporary periods. If, for various reasons, SIPS is unable to provide the needed services, a convenience contract vendor becomes necessary.

At the conclusion of the 1993 session of the North Carolina General Assembly, the legislators passed the Structured Sentencing Act. DOC determined that its existing computer system would be unable to provide support for the changes required by Structured Sentencing. In an effort to comply with the Structured Sentencing Act, DOC began searching for a replacement for its outdated computer system. In January 1994, DOC presented a request to the Information Resource Management Commission (IRMC) to replace its current inmate tracking system with the Offender Population Unified System (OPUS). The IRMC approved the concept of replacing the system, but was not involved in the decision as to the specific resources to be purchased for the project. Vendor A was hired to assist DOC's search efforts to find a new system. The justification given by DOC for hiring this particular vendor was that Vendor A was familiar with DOC's operation.

A system developed by another vendor, Vendor B, was found to be compatible with North Carolina's laws and policies. Vendor A was then hired under the SIPS

convenience contract to assist in implementing Vendor B's system. Time constraints and familiarity with DOC were given as justification for using Vendor A under the convenience contract. We question the decision by DOC to use Vendor A as a consultant to assist in finding a new system and then subsequently hiring this same consultant to implement the system without using the competitive bid process.

Vendor A's estimated billable hours to implement this system under the convenience contract raised concerns within SIPS. Vendor A estimated 7,680 hours would be used for the implementation phase, while the projected costs would be \$921,600. To date, \$725,160 has been paid to Vendor A under the convenience contract. Although he approved it, the convenience contract administrator expressed concerns over usage of the SIPS convenience contract in this manner for Vendor A. In a memo dated January 14, 1994, he wrote, "it is my opinion that although this request is within the legal boundaries of the SIPS Convenience Contract it pushes the intended purpose of it. Usage of this magnitude should be considered as RFP material." (RFP as used here is an abbreviation for Request For Proposals.)

After the convenience contract expired, DOC then requested a waiver of competitive bidding for OPUS. Since Vendor A was thoroughly familiar with the OPUS project, DOC expressed a desire not to switch vendors in midstream. The Division of Purchasing and Contract granted permission to DOC to sole source the OPUS project to Vendor A. We question this process of using the convenience contract to bring a vendor in on a project and then using familiarity under this convenience contract as justification for sole sourcing. The

competitive bidding process had effectively been eliminated from the outset of the project.

Recommendation

We recommend that the Department of Correction use the competitive bidding process when it is in the best interest of the State to do so. We also recommend that DOC use the convenience contract only for supplemental technical assistance for temporary periods when a service is not available within state government.

2. The North Carolina Department of Correction Has Paid Vendor A \$1,464,774 for Services Without a Signed Contract.

We were provided with an unsigned contract that stated Vendor A was to have “overall project management and administration of the implementation of the Offender Population Unified System (OPUS); N.C. Re-write Design and Programming; Data Conversion; Training; and Technical Support Teams.” To date, we have not been provided with a signed formal contract between Vendor A and the North Carolina Department of Correction. Yet, Vendor A has billed DOC for, and has been paid \$1,464,774 through January 1995. This amount does not include the \$725,160 paid to Vendor A under the convenience contract. We question paying this large amount of money (\$1,464,774) and granting overall project management responsibility without a signed contract.

Recommendation

We recommend that DOC have a signed contract, especially for a project of this magnitude and importance. This contract should stipulate the responsibilities of all parties involved.

B. The Cashless Canteen Project

1. The North Carolina Department of Correction Has Paid Vendor C \$104,325 for Services Without A Contract.

DOC received approval in February 1994 from State Purchase and Contract to sole source with Vendor C to provide the software, training, and help-desk support for the Cashless Canteen Project for the Lumberton, Foothills, and Western Youth Correctional Institutions. The software installations and employee training were completed for these three units in May and June 1994. We determined that DOC has paid Vendor C \$104,325 for these services without the existence of a signed contract specifying the requirements of both parties involved.

Recommendation

We recommend that DOC management require a formal contract before entering into agreements with vendors.

2. The North Carolina Department of Correction Has Not Determined Whether There Are Less Costly Methods of Acquiring the Cashless Canteen Software.

DOC retained Vendor C to install the Cashless Canteen software at seven prison locations since 1992 at a cost of \$165,625. This is an average in excess of \$23,000 per location. The Cashless Canteen system was previously installed at one location as a pilot project in 1991. As of February 1995, 86 prison facilities do not have the software. There is no evidence that DOC estimated the total cost for this project prior to acquiring the software. Also lacking is evidence of the costs of any potential alternative approaches to the Cashless Canteen software.

DOC has been purchasing the software on a prison by prison basis. As far as we can determine, DOC has not projected whether cost savings would be realized if DOC negotiated an agreement to purchase and install the software for the system as a whole. We determined that the cost of this software to DOC has remained over \$23,000 per installation even though it appears Vendor C has not incurred any additional research and design cost since the first installation.

DOC needs to identify the most cost effective method of continuing with this project. That may be acquiring a license to use the software throughout the system, rather than purchasing the system on a unit-by-unit basis as has been done in the past. In any event, DOC should be able to clearly explain and justify its approach.

Recommendation

We recommend that DOC identify, and then implement, the most cost effective method of installing the Cashless Canteen project.

3. Internal Control Weaknesses Exist in Approval For Payments of Invoices.

During our review, we also examined invoices submitted by Vendor C to DOC for providing help-desk services. We determined that internal control weaknesses exist in the approval for payment of these invoices. DOC staff members who actually receive the help-desk services do not review the invoices to ensure their accuracy. One example noted during our review involves an invoice from Vendor C to Pender Correctional Institution dated June 1, 1993. Vendor C invoiced DOC and was paid \$850 for an employee's travel time and mileage from Leesburg, Florida to Burgaw, North Carolina to provide on-site help-desk services. The

invoice reflects that it was approved by DOC. However, during our interview with DOC employees, no one remembered approving this invoice. We also noted that Vendor C does not provide DOC with any supporting documentation for expenses invoiced for telephone tolls in connection with help-desk services provided.

Recommendation

We recommend that DOC management develop procedures to strengthen controls over payment of invoices from vendors to ensure that the department is only paying for services received. Staff should review all paid invoices on this project and if any were billed and paid without the proper approval, the funds should be recovered from the vendor.

June 5, 1995

The Honorable Ralph Campbell, Jr.
State Auditor
300 N. Salisbury Street
Raleigh, NC 27603

Dear State Auditor Campbell:

We appreciate the opportunity to respond to your audit concerning the Offender Population Unified System (OPUS) and Cashless Canteen projects. Both of these efforts are important to more safely and efficiently manage the increasing number of inmates coming under our control.

The Offender Population Unified System (OPUS)

Background

OPUS replaces the Department's 25-year old computer system. This aging system has until recently assisted in the day-to-day management of over 26,500 inmates and over 105,000 probationers and parolees. It includes over 20 different sets of sentencing laws. It is written in several different programming languages, including some for which programmers are becoming quite scarce. Although this replacement had been contemplated for a number of years, the 1993 Session of the General Assembly steeply increased the urgency of the situation. The 1993 Session passed the Structured Sentencing Act, a major revision to the State's criminal sentencing laws, on July 24, 1993, the last day of the Session. The starting date of Structured Sentencing was to be January 1, 1995 (The 1994 Special Session on Crime later accelerated this even earlier to October 1, 1994.). Further, the General Assembly funded over 8,000 new prison beds, which, when completed, will increase by 50% the number of inmates in prison. Our computer staff looked at the tremendous scope of the changes in the law, and the number of additional prisoners, probationers, and parolees, and warned us that they could not reliably modify the old computer system to this extent and assure that it would continue to operate. As a result, the Department quickly pulled together an effort to look at writing or importing a new system. Because the most likely approach to meet the time

requirements would be to

bring in and modify a system running in another state, we felt it imperative to conduct a rapid, nationwide search. We conducted this search, polling all other states, and looking in detail at systems in Washington, New York, Tennessee, and Florida. In November, 1993, we ultimately concluded that the State of Florida system offered the best functionality, and our best hope of having a complete, comprehensive system in place by January, 1995. Our timetable at that point allowed just over 13 months; systems this large and complex are usually multi-year projects. We acted quickly to assemble a team that included our staff, the firm that developed the Florida system, and additional programming and analysis help from whatever sources were available to us properly but immediately. Our approach to quickly assembling this team is essentially the subject of your audit.

With regard to Finding A.1: The North Carolina Department of Correction (DOC) Could Have, But Did Not, Use the State's Competitive Bidding Process for the Offender Population Unified System (OPUS) Project.

We are supporters of the competitive bidding process: we know the law generally requires it, and we believe it generally offers the best approach to buying goods and services. However, the law also recognizes that, in the best interest of the State, there are cases where necessity or a pressing need dictates quick action. We believed then that this was such a case. We think that the complexity of the project as it has evolved; the rapidly increasing prison, probation, and parole probation; the fact that major parts of the project are only now coming on-line; the fact that the Structured Sentencing implementation date was further advanced to October 1, 1994; and the fact that we followed the law, bear out the wisdom of our decision.

As we assembled our team in November, 1993, we realized that even with the combination of our own staff and the Florida vendor who wrote the original code, we would not have adequate resources to complete the project quickly and successfully. Critical skills that we lacked were large-scale project management, relational database skills, and sheer manpower to staff this large a project. With 13 months remaining, and a project that should properly take much longer than that, we knew that the development and execution of a traditional request for proposals would consume between four and six months, thus adding that much time to completing the project. We then looked at other legal and appropriate methods to quickly, but properly, procure these vital resources.

SIPS has available to state agencies a contract for "Stand-By Application Development Support" for projects, commonly known as the "SIPS Convenience Contract". The Contract had been competitively bid. Vendors responded to personnel requirements for one or multiple positions, including full systems development teams. There are no size stipulations in the Contract, and it specifically refers to teams of people being hired. Vendor A, as noted in your finding, had been selected to be on the Contract as the result of a competitive procurement and met the requirements we needed. Further, key Vendor

A

staff members were familiar with the Department, having just assisted us in implementation of the Statewide Accounting System, under a separate competitive procurement conducted by the State Controller. This meant that they would be able to get off to an even quicker start. Finally, Vendor A had experience in successfully implementing inmate management systems in other states.

To be sure that this was appropriate, we asked for help to find the best contracting mechanism possible. We asked for, and received, an approval from the SIPS Convenience Contract administrator; you note this approval in your finding. We also obtained approval from State Purchase and Contract. We briefed the IRM staff and the IRMC on our approach and the composition of our team, and received their approval to proceed.

As an additional note, Vendor A was not involved in the decision to replace the existing system; that decision was made within the Department. Vendor A did provide assistance during the search for a new system, but that help was limited to providing the computer tools and methods to help our staff conduct the search.

State Purchase and Contract directed that the Department should cease to use the SIPS Convenience Contract after its renewal date of May 27, 1994, but that they would consider a request for a directed procurement to Vendor A at that time to maintain the integrity and momentum of the project. Such a request was furnished to State Purchase and Contract, and was subsequently approved by them. The relationship with Vendor A has continued at the same original rates and under the same original terms, and under the same rates and terms that were competitively bid for the SIPS Convenience Contract.

With regard to Finding A.2: The North Carolina Department of Correction Has Paid Vendor A \$1,464,774 for Services Without a Signed Contract.

State Purchase and Contract required a separate contract to continue with Vendor A after May 27, 1994. They provided final approval for this in December, 1994. Since that time, the Department prepared and circulated a contract for review by Vendor A and all required approvers within the Department. The contract has now been signed by Vendor A and the Department.

In the interim, we have used as a working agreement a letter proposal from Vendor A. This proposal contains a description of tasks to be performed and a cost for that effort. The proposal is one of the documents used by State Purchase and Contract to approve the use of Vendor A. The rates and terms of the proposal are identical to those of the competitively bid SIPS Convenience Contract. Vendor A provides a monthly invoice including a report that tracks cumulative billings against the original proposal. Vendor A has remained within the cost of the original proposal.

Department rules generally call for a signed contract prior to any payments to a vendor. In this case, Vendor A continued to work in good faith, and on the strength of Vendor A's adherence to their written proposal, mutually agreeable terms, and the State Purchase and Contract approval in December 1994, some payments were made. After the audit report pointed this out, we have held subsequent payments in abeyance until the contract is finalized.

The Cashless Canteen Project

Background

The Cashless Canteen Program began as Departmental study committee in late 1989. The objectives of the program were to remove currency from the unit to reduce gambling and violence, help positively identify inmates, manage the movement of trust fund monies, and maintain canteen inventories at proper levels. The system is currently installed at eight units: Pender, Foothills, Western, Polk, Nash, Brown Creek, Columbus, and Lumberton; it will be installed at a ninth unit, Marion, early this month. The system is a PC based point-of-sale system. It works from an individual inmate ID card that has both picture and magnetic-strip information. The system has met or exceeded the stated objectives at the installed units. It has been intensely reviewed by the Department's Internal Audit staff as a standard part of their Change-of-Command audits; the system operation continues to receive good audit comments.

With regard to Finding B.1: The North Carolina Department of Correction Has Paid Vendor C \$104,325 for Services Without a Contract.

All transactions between Vendor C and the Department have been pursuant to properly executed purchase orders, which the Department believes constitute contracts under the Uniform Commercial Code. The properly executed purchase orders have specified the terms for Vendor C's provision of hardware, training programs and materials, and help desk support. All performance by Vendor C has been in compliance with the terms of a properly executed purchase order. All payments by the Department to Vendor C have been pursuant to the terms of a properly executed purchase order.

As the Department gained experience, it was determined that a more formalized contract for help desk support was needed due to its more open-ended nature. We have completed such an agreement and have been in the process of including a finalized version with the purchase order. At the present time, in light of the recommendation, the Department is developing a comprehensive contract that will be used to cover all transactions for future cashless canteen installations.

With regard to Finding B.2: The North Carolina Department of Correction Has Not Determined Whether There Are Less Costly Methods of Acquiring the Cashless Canteen Software.

Although all current installations have been completed by a single vendor, our purchasing specifications with that vendor have been modified with each installation as we gained experience. For example, we initially specified a turn-key installation which included vendor-provided hardware; we now provide a standard hardware complement purchased from the statewide contract, and supply that equipment to the vendor to install. We also have modified our specifications for support to more clearly spell out the scope of effort. We are now planning to perform training in-house. Each of these modifications has been done to reduce the cost of implementing the system at a unit.

When we began the Cashless Canteen program, we were not aware of existing vendors available to do this type of work. Since that time, more vendors have entered the field. Consequently, we have recently issued a Request for Information (RFI) to sample the marketplace and determine if the features and cost of our current system are keeping pace with the industry standard. We received replies from six vendors and are currently evaluating those replies.

With the completion of the installation at the new Marion unit the first week of June, our existing purchase orders with Vendor C will be complete other than on-going help desk support agreements. We anticipate issuing a competitive request for proposals (RFP) prior to installing future units. This RFP will include a retrofit requirement for existing units so that we maintain a standard configuration across the system. In doing this, we will be cautious to maintain an open specification that will not favor a particular vendor. We also understand that future cashless canteen installations are extensions of the State Accounting System, and will involve our Controller's Office in specifications and selection.

With regard to Finding B.3: Internal Control Weaknesses Exist in Approval For Payments of Invoices.

Our fiscal policies and procedures for receipting of services and goods and the approval procedures require that invoices be delivered directly to local units. These local authorities then review and approve that the invoiced services were both requested and received. As an additional check, the Division of Prisons Central Office also reviews each invoice to monitor how services are being used. The Department has also undertaken a review of previous invoices to assure that prior payments have been appropriate.

Conclusion

We appreciate your review of these two important programs. Both are part of our overall effort to keep more offenders in prison longer, and manage those offenders more efficiently. On our OPUS offender management system, we believe we acted swiftly but correctly to a major new sentencing law and the rapid increase in inmates. On our Cashless Canteen Program, we believe we have learned a great deal while providing very effective cash removal and inmate identification at units; we now are prepared to bring that experience to a competitive procurement process that will address the Cashless Canteen system in the entire 94-unit prison system.

Sincerely,

A handwritten signature in black ink that reads "Franklin Freeman". The signature is written in a cursive style with some stylized flourishes.

Franklin Freeman

As required for disclosure by G. S. §143-170.1, 250 copies of this public document were printed at a cost of \$80.00, or .32¢ per copy.