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**South Carolina  
Division of General Services**

# PROCUREMENT AUDIT AND CERTIFICATION

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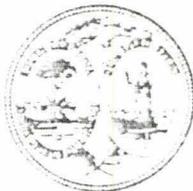
**S. C. WORKERS' COMPENSATION COMMISSION**  
**AGENCY**

SEPTEMBER 23, 1986

**DATE**

STATE OF SOUTH CAROLINA  
**BUDGET AND CONTROL BOARD**

DIVISION OF GENERAL SERVICES  
300 GERVAIS STREET  
COLUMBIA, SOUTH CAROLINA 29201  
(803) 737-2150



WILLIAM J. CLEMENT  
ASSISTANT DIVISION DIRECTOR

September 23, 1986

Mr. Richard W. Kelly  
Division Director  
Division of General Services  
300 Gervais Street  
Columbia, South Carolina 29201

Dear Rick:

Attached is the final South Carolina Workers' Compensation Commission audit report and recommendations made by the Office of Audit and Certification. I concur and recommend the Budget and Control Board grant the Workers' Compensation Commission two years certification as outlined in the audit report.

Sincerely,

A handwritten signature in dark ink, appearing to read "WJ. CLEMENT".

William J. Clement  
Assistant Division Director

Attachment

RICHARD W. RILEY, CHAIRMAN  
GOVERNOR

GRADY L. PATTERSON, JR.  
STATE TREASURER

EARLE E. MORRIS, JR.  
COMPTROLLER GENERAL

REMBERT C. DENNIS  
CHAIRMAN,  
SENATE FINANCE COMMITTEE

TOM G. MANGUM  
CHAIRMAN,  
HOUSE WAYS AND MEANS COMMITTEE

JESSE A. COLES, JR., Ph.D.  
EXECUTIVE DIRECTOR

SOUTH CAROLINA WORKERS' COMPENSATION COMMISSION  
AUDIT REPORT

September 8, 1986

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EXECUTIVE DIRECTOR

September 8, 1986

William J. Clement  
Assistant Division Director  
Division of General Services  
300 Gervais Street  
Columbia, South Carolina 29201

We have examined the procurement policies and procedures of the South Carolina Workers' Compensation Commission for the period July 31, 1981 through September 30, 1985. As part of our examination, we made a study and evaluation of the system of internal control over procurement transactions to the extent we considered necessary.

The purpose of such evaluation was to establish a basis for reliance upon the system of internal control to assure adherence to the Consolidated Procurement Code and State and internal procurement policy. Additionally, the evaluation was used in determining the nature, timing and extent of other auditing procedures that were necessary for developing a recommendation for certification above the \$2,500 limit.

The administration of the South Carolina Workers' Compensation Commission is responsible for establishing and maintaining a system of internal control over procurement transactions. In

fulfilling this responsibility, estimates and judgements 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 are 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 due professional care. They would not, however, because of the nature of audit testing, necessarily disclose all weaknesses in the system.

The examination did, however, disclose conditions enumerated in this report which we believe to be subject to correction or improvement.

Corrective action based on the recommendations described in these findings will in all material respects place the South Carolina Workers' Compensation Commission in compliance with the South Carolina Consolidated Procurement Code and ensuing regulations.



R. Voight Shealy, Manager  
Audit and Certification

## INTRODUCTION

The Office of Audit and Certification conducted an examination of the internal procurement operating procedures and policies of the South Carolina Workers' Compensation Commission.

Our on-site review was conducted September 24, 1985, through October 23, 1985, and was made under the authority as described in 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 procurement system's internal controls were adequate and the procurement procedures were in compliance with the South Carolina Consolidated Procurement Code and its ensuing regulations.

Additionally, our work was directed toward assisting the Commission in promoting the underlying purposes and policies of the Code as outlined in Section 11-35-20, which include:

- (1) to ensure the fair and equitable treatment of all persons who deal with the procurement system of this State;
- (2) to provide increased economy in State procurement activities and to maximize to the fullest extent practicable the purchase values of funds of the State; and

- (3) 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.

BACKGROUND

Section 11-35-1210 of the South Carolina Consolidated Procurement Code states:

The Budget and Control Board may assign differential dollar limits below which individual governmental bodies may make direct procurements not under term contracts. The Division of General Services shall review the respective governmental body's internal procurement operations, shall certify in writing that it is consistent with the provisions of this code and the ensuing regulations, and recommend to the board those dollar limits for the respective governmental body's procurement not under term contract.

Our audit was performed primarily to determine if certification is warranted for this requested increased limit:

<u>Category</u>	<u>Requested Limit</u>
1. Goods and Services	\$5,000.00

## SCOPE

Our examination encompassed a detailed analysis of the internal procurement operating procedures of the South Carolina Workers' Compensation Commission to the extent we deemed necessary to formulate an opinion on the adequacy of the system to properly handle procurement transactions up to the requested certification limits.

The Office of Audit and Certification of the Division of General Services reviewed one hundred percent (100%) of the procurement transactions, which totaled two hundred fifty-four (254), for Fiscal Year 1984-85 for compliance testing and performed other auditing procedures that we considered necessary in the circumstances to formulate this opinion. As specified in the Consolidated Procurement Code and related regulations, our review of the system included, but was not limited to, the following areas:

- (1) adherence to provisions of the South Carolina Consolidated Procurement Code and accompanying regulations;
- (2) procurement staff and training;
- (3) adequate audit trails and purchase order register;
- (4) evidences of competition;
- (5) small purchase provisions and purchase order confirmations;
- (6) emergency and sole source procurements;
- (7) source selections;

- (8) file documentation of procurements;
- (9) adherence to State term contracts;
- (10) inventory and disposition of surplus property;
- (11) economy and efficiency of the procurement process;  
and
- (12) approval of Minority Business Enterprise Plan.

SUMMARY OF AUDIT FINDINGS

Our audit of the procurement system at the South Carolina Workers' Compensation Commission produced findings and recommendations in the following areas:

	<u>PAGE</u>
I. <u>Compliance - Goods and Services and Information Technology</u>	11
Our examination of transactions in the areas of goods and services and information technology determined that in five (5) instances procurements were not made in compliance with the Consolidated Procurement Code and regulations.	
II. <u>Honesty Bond Policy Procurement</u>	12
A three-year honesty bond policy totaling \$2,256.00 should have had three (3) written quotations. Competition was solicited based on the amount of the annual premium, not the total three-year purchase commitment.	
III. <u>Minority Business Enterprise Utilization Plan</u>	13
The South Carolina Workers' Compensation Commission's Minority Business Utilization Plan has not been approved by the Office of Small and	

Minority Business Assistance, as required by Section 11-35-5240 of the Procurement Code.

IV. Professional Development 14

Professional development of the procurement officer needs to be a goal of the Commission.

V. Procurement Procedures Manual 16

Due to the small size of the agency, the Commission was not required previously to prepare a comprehensive procurement procedures manual. A smaller document was accepted. However, in order for this Office to recommend procurement certification, a complete manual must be prepared and implemented.

RESULTS OF EXAMINATION

I. COMPLIANCE - GOODS AND SERVICES AND INFORMATION TECHNOLOGY

Our examination consisted of a one hundred percent (100%) review of the Commission's two hundred fifty-four (254) procurement transactions processed during Fiscal Year 1984-85. The sample included procurements of goods and services, consultants and information technology. The Commission had no construction-related expenditures during this period.

Most transactions were handled properly. However, we did note five (5) transactions that were not made in compliance with the Procurement Code.

The following three (3) transactions had no documented competition or sole source justification:

	<u>Requisition No.</u>	<u>Amount</u>	<u>Type Goods/Services</u>
(1)	48302	\$925.00	Maintenance Agreement on a copier
(2)	82764	\$1,008.00	Maintenance Agreement on a copier
(3)	36704	\$1,495.00	Hard Drive for Computer System

Since the following procurements were made at the same time and are related, they should have been combined and sent through State Procurements for purchase.

	<u>Requisition No.</u>	<u>Amount</u>	<u>Item</u>
(1)	04785	\$2,375.75	Paper Perforator
(2)	04786	\$1,979.67	Paper Shredder

The procurement officer obtained three (3) informal written quotations on each of these items. The purchases were viewed by the Commission as separate procurements when they should have been combined in one sealed bid as the total procurement was greater than \$2,500.00.

We remind the procurement officer that maintenance agreements are covered by the Procurement Code and must be bid competitively or, if appropriate, sole sourced. Further, when making a procurement of goods and services, the buyer must take into consideration the total dollar procurement when determining the source selection process as outlined in Section 11-35-1510 of the Code.

AGENCY RESPONSE

Concur - These areas of procurements have been corrected.

---

II. HONESTY BOND POLICY PROCUREMENT

The Commission failed to solicit the required number of bids on the fidelity bond contract. On August 1, 1985, the Commission entered into a three-year blanket bond contract for \$752.00 per year. Two (2) bids were obtained for this procurement. However, three (3) written quotations should have been solicited as the total cost of the contract is \$2,256.00.

It is the Materials Management Officer's written opinion that:

When determining the value of a contract for the purpose of defining certification or purchasing limits and proper source selection, the governmental body must consider the potential or total value of the contract over the entire length of the contract period. Annual value of the contract is irrelevant when the contract period is for more than one year or has a renewal option.

Furthermore, to enter into a contract for a period of more than one (1) year (multi-term) it must be determined in writing that the contract will serve the best interest of the State. This requirement was not met.

In establishing future multi-term contracts, the requirements in Section 11-35-2030 of the Code must be met. Also, the total cost of a multi-term contract must be considered for the source selection process and the application of certification limits.

#### AGENCY RESPONSE

Concur - Three (3) written quotes will be solicited on the new honesty bond.

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### III. MINORITY BUSINESS ENTERPRISE UTILIZATION PLAN

At the time of the audit, the Commission had not submitted a Fiscal Year 1985-86 Minority Business Enterprise (MBE)

Utilization Plan to the Office of Small and Minority Business Assistance for approval. In the past year, the Commission transferred responsibility for submitting the plan.

The purchasing officer has now taken over this responsibility. This should help to insure timely submission of this plan and the required quarterly reports in the future.

The Commission should contact the Minority Business office to work toward approval of an accepted MBE Plan in order to affect compliance with the Code. Approval of the Plan is required for certification.

#### AGENCY RESPONSE

Concur - Minority Business Plan has now been approved.

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#### IV. PROFESSIONAL DEVELOPMENT

Personnel training is one of the most critical factors in the successful operation of a procurement system. We found that professional development of the purchasing officer has been overlooked as a goal of the Commission.

The procurement officer has been in this position more than a year without any formal purchasing training. His past experience does not include any previous governmental purchasing experience or training.

Per Section 11-35-20(k) of the Procurement Code, one of its primary purposes and policies is "to train procurement officials

in the techniques and methods of public procurements." To help accomplish this, the Research and Training Section of the Division of General Services was established.

We are aware of budgetary restrictions placed on State governmental agencies. Many times in a small agency, professional development of the staff is not budgeted as it is one of the first items cut during lean years. Since the Commission is requesting certification above \$2,500.00 for the first time, we find it imperative that the buyer receive training in governmental purchasing.

We recommend the Commission implement a program promoting professional development of procurement personnel through the following:

- (1) Include a policy statement on professional development goals in the Internal Procurement Operating Procedures Manual.
- (2) Budget available funds for procurement training such as the basic, intermediate, and advanced purchasing seminars given by the National Institute of Governmental Purchasing. As a minimum, the General Public Purchasing (Basic) course should be taken.
- (3) Promote the attainment of professional certification of the purchasing staff such as Professional Public Buyer (PPB) or Certified Public Purchasing Officer (CPPO). These certifications are a part of the Universal Certification Requirements for Public Procurement Personnel developed by the National Institute of Governmental Purchasing (NIGP) and the National Association of State Purchasing Officials (NASPO).

- (4) Promote participation in professional purchasing organizations such as the National Association of State Purchasing Officials (NASPO), the National Institute of Governmental Purchasing (NIGP), or the South Carolina Association of Governmental Purchasing Officers (SCAGPO).
- (5) Attend Procurement Code updates given by the Materials Management Office.
- (6) Pay particular attention to the Materials Management Office publication, "Facts and Figures."

AGENCY RESPONSE

Concur - Our Procurement Officer has completed the Basic Purchasing Course and is interested in going to other purchasing courses.

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V. PROCUREMENT PROCEDURES MANUAL

A requirement for certification is that the Commission have an approved Procurement Procedures Manual. These written procedures must be consistent with the Consolidated Procurement Code and its regulations.

The Manual should address the following areas:

(1) General Topics

- Procurement Authority
- Purpose Statement (Goals and Objectives)
- Determination of Compliance Statement with Code and regulations

- Ethical Standards

(2) General Procurement Policy Statements

- Restrictive Specifications
- Vendor Grievances
- Minority Business Policy
- Unauthorized Procurements
- Term Contract Usage
- Professional Development
- Conflict of Interest
- Authorized Signature Approval
- Approval Authority for Determinations (i.e., Sole Source and Emergency)

(3) Include the Exempted Commodities List

(4) Small Purchase Methods (number of quotations for specific dollar range)

- Telephone Quotations
- Informal Written Quotations
- Blanket Purchase Agreements (if applicable)

(5) Other Procurement Procedures to be Addressed

- Consultants
- Information Technology

- (6) Procedures for Reporting Quarterly Sole Source and  
Emergency Procurements and Trade-in Sales
- (7) Formal Changes to Purchase Orders and/or Contract  
Procedures
- (8) Pertinent "Exhibit" Appendix.

AGENCY RESPONSE

Concur - Procurement manual has been updated and approved.

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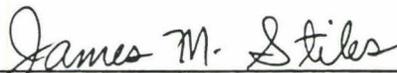
CERTIFICATION RECOMMENDATIONS

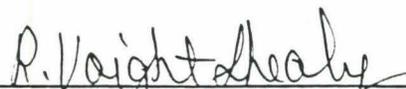
As enumerated in our transmittal letter, corrective action based on the recommendations described in the findings contained in the body of this report, we believe, will in all material respects place the South Carolina Workers' Compensation Commission in compliance with the South Carolina Consolidated Procurement Code and ensuing regulations.

Under the authority described in Section 11-35-1210 of the Procurement Code, subject to this corrective action, we recommend the South Carolina Workers' Compensation Commission be certified to make direct agency procurements for a period of two years as follows:

<u>PROCUREMENT AREA</u>	<u>RECOMMENDED CERTIFICATION LIMIT</u>
I. Goods and Services exclusive of printing equipment which must be approved by the Division of Information Resource Management.	*\$5,000 per purchase commitment
*This limit means the total potential purchase commitment to the State, whether single year or multi-year contracts are used.	

No certification was requested in the areas of consultant services, information technology and construction.

  
\_\_\_\_\_  
James M. Stiles, PPB  
Audit Supervisor

  
\_\_\_\_\_  
R. Voight Shealy, Manager  
Audit and Certification

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EXECUTIVE DIRECTOR

September 23, 1986

Mr. William J. Clement  
Assistant Division Director  
Division of General Services  
300 Gervais Street  
Columbia, South Carolina 29201

Dear Bill:

We have returned to the South Carolina Workers' Compensation Commission to determine the progress made toward implementing the recommendations in our audit report covering the period July 31, 1981 through September 30, 1985. During this visit, we followed up on each recommendation made in the audit report through inquiry, observation and limited testing.

We observed that the Commission has made substantial progress toward correcting the problem areas found and improving the internal controls over the procurement system. With the changes made, the system's internal controls should be adequate to ensure that procurements are handled in compliance with the Consolidated Procurement Code and ensuing regulations.

We therefore, recommend that the certification limits as outlined in the audit report, be granted for a period of two (2) years.

Sincerely,

A handwritten signature in cursive script that reads "R. Voight Shealy".

R. Voight Shealy, Manager  
Audit and Certification

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