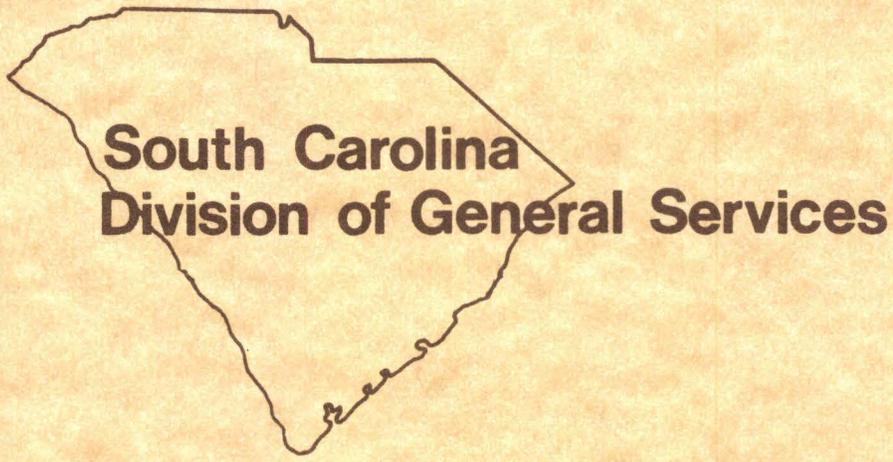


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PROCUREMENT AUDIT AND CERTIFICATION

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STATE WORKERS' COMPENSATION FUND

AGENCY

JULY 1, 1986 - MARCH 31, 1989

DATE

STATE OF SOUTH CAROLINA
State Budget and Control Board
DIVISION OF GENERAL SERVICES



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ROBERT N. McLELLAN
CHAIRMAN, WAYS AND MEANS COMMITTEE

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

January 3, 1989

Mr. Richard W. Kelly
Director
Division of General Services
1201 Main Street, Suite 400
Columbia, South Carolina 29201

Dear Rick:

Attached is the final State Workers' Compensation Fund audit report and recommendations made by the Office of Audit and Certification. Since no certification above the \$2,500.00 limit allowed by law was requested, and no action is necessary by the Budget and Control Board, I recommend that this report be presented to them for their information.

Sincerely,

A handwritten signature in black ink, appearing to read "James J. Forth, Jr." with a stylized flourish at the end.

James J. Forth, Jr.
Assistant Division Director

/j1j

Attachment

STATE WORKERS' COMPENSATION FUND

AUDIT REPORT

JULY 1, 1986 - MARCH 31, 1989

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CHAIRMAN, WAYS AND MEANS COMMITTEE

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

December 7, 1989

Mr. James J. Forth, Jr.
Assistant Division Director
Division of General Services
1201 Main Street, Suite 600
Columbia, South Carolina 29201

We have examined the procurement policies and procedures of the State Workers' Compensation Fund for the period July 1, 1986 through March 31, 1989. As a 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 an opinion on the adequacy, efficiency and effectiveness of the procurement system.

The administration of the State Workers' Compensation Fund is responsible for establishing and maintaining a system of internal control over procurement transactions. In fulfilling

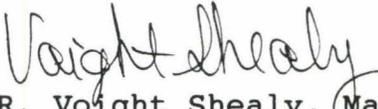
this responsibility, estimates and judgements by management are required to assess the expected benefits and related costs of control procedures. The objectives of a system are to provide management with reasonable, but not absolute, assurance of the integrity of the procurement process, that affected 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 State Workers' Compensation Fund in compliance with the South Carolina Consolidated Procurement Code and ensuing regulations.


R. Voight Shealy, Manager
Audit and Certification

SCOPE

Our examination encompassed a detailed analysis of the internal procurement operating procedures of the State Workers' Compensation Fund and the 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 forty random samples of expenditure transactions which exceeded \$500.00 each from the voucher records for the period July 1, 1986 - March 31, 1989, for compliance testing and performed other audit procedures that we considered necessary in the circumstances to formulate this opinion. Our review of the system included, but was not limited to, the following areas:

- (1) adherence to applicable laws, regulations and internal policy;
- (2) procurement staff and training;
- (3) adequate audit trails and purchase order registers;
- (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) disposition of surplus property;
- (10) approval of the Minority Business Enterprise Plan.

SUMMARY OF AUDIT FINDINGS

Our audit of the procurement system for the State Workers' Compensation Fund (the Fund) produced findings and recommendations in the following areas:

	<u>PAGE</u>
I. <u>Compliance - Goods and Services, Consultants and Information Technology</u>	6
Four procurements out of a sample of forty (40) were made without evidence of competition.	
II. <u>Procurement Procedures</u>	7
Our observation of procurement procedures and internal controls resulted in several recommendations for improvement.	
III. <u>Procurement Training</u>	8
The exceptions noted in this report indicate a need for training personnel in procurement and the Consolidated Procurement Code.	

RESULTS OF EXAMINATION

I. Compliance - Goods and Services, Consultants and Information Technology

Our examination of procurement activity at the Fund included a test of forty (40) randomly selected transactions from the period July 1, 1986 through March 31, 1989. Four of these procurements were not supported by evidence of competition, or by sole source or emergency determinations.

<u>Item</u>	<u>Voucher</u>	<u>Voucher Amount</u>	<u>Item/Service Description</u>
1	59	\$ 666.52	Filing cabinets
2	380	656.15	File folders
3	862	1,176.00	Cameras, film
4	671	1,885.76	Computer supplies

Regulation 19-445.2100, Subsection E, Item 2, which covers procurements from \$500.01 to \$1,499.99 requires "Solicitation of verbal or written quotes from a minimum of two qualified sources of supply." Items 1 through 3 above needed only documentation of two (2) telephone quotes to meet this requirement. However, this was not done.

Regulation 19-445.2100, Subsection B, Item 3, which covers procurements from \$1,500.00 to \$2,499.99 requires "Solicitation of written quotations from three qualified sources of supply shall be made and documented..." Item 4 above fell into this category.

We recommend that the competitive requirements of the Code be adhered to for all procurements that are not exempt or are not supported by sole source or emergency determinations.

FUND RESPONSE

We concur with your audit findings and have implemented procedures to ensure compliance with your recommendations. The competitive requirements of the Procurement Code will be met on all procurements that are not exempt or are not supported by sole source or emergency determinations.

II. Procurement Procedures

During our audit, we noted several procedural weaknesses which resulted in the following recommendations for improvement.

1. Term Contract: Procurements made from state term contracts should be documented on the purchase order by referencing the contract numbers. Care should be taken not to confuse a state term contract number with a sealed bid number.
2. Exempt Items: Procurements of exempt items should be noted as such on the requisition.
3. Telephone Quotations: The Fund should develop a standardized telephone quotations form to use to document evidence of competition. The state requisition has a form on the reverse side.
4. Written Quotations: Procurement transactions between \$1,500.00 and \$2,499.99 must be supported by written quotations. When phone quotes are received, the purchasing officer must follow up to ensure a written quote is obtained from the successful low bidder. In the future, the invoice should not be paid until the requested quotation is received in writing.

FUND RESPONSE

We concur with your audit findings and have implemented procedures to ensure compliance with your recommendations. Term contract numbers are being documented on the purchase order;

procurement exempt items are being noted on the requisitions; telephone quote forms are being used to document evidence of competition and written quotations on procurements between \$1,500.00 and \$2,499.99 are being obtained.

III. Procurement Training

The exceptions noted in this report indicate a need for training of Commission personnel in procurement and the requirements of the South Carolina Consolidated Procurement Code. As a possibility, the Research and Training Section of the Division of Human Resource Management conducts such training courses.

We recommend that the Commission seriously consider seeking training in procurement and in the Consolidated Procurement Code.

FUND RESPONSE

We concur with your audit finding and will comply with your recommendation. Training for State Fund personnel in procurement and requirements of the S.C. Consolidated Procurement Code is scheduled to begin in January, 1990 with a series of four seminars to be conducted by Human Resource Management, Research and Training.

CONCLUSION

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

In accordance with Code Section 11-35-1230(1) the Fund should take this corrective action prior to October 31, 1989. This office will perform a follow-up review to verify this action. Subject to this corrective action and because additional certification was not requested, we recommend that the Fund be allowed to continue procuring all goods and services, information technology, consulting services and construction related professional services up to the basic level as outlined in the Consolidated Procurement Code.



R. Voight Shealy, Manager
Audit and Certification

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State Budget and Control Board
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CHAIRMAN, WAYS AND MEANS COMMITTEE

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

December 11, 1989

Mr. James J. Forth, Jr.
Assistant Division Director
Division of General Services
1201 Main Street, Suite 600
Columbia, South Carolina 29201

Dear Jim:

We have reviewed the South Carolina Workers' Compensation Fund's response to our audit report covering the period of July 1, 1986 - March 31, 1989. Additionally, we have met with officials of the Fund on several occasions to discuss the issues raised in the report and follow up on the exceptions. Through this process we have resolved many of the original audit exceptions and determined the Fund's progress toward elimination of the remaining issues shown herein.

We believe that the corrective action taken by the Fund should be adequate to ensure compliance with the Consolidated Procurement Code.

Additional certification was not requested. Therefore, I recommend that the Fund be allowed to continue procuring all goods and services, consulting services, construction and information technology up to the basic level of \$2,500 authorized in the Code.

Sincerely,

Handwritten signature of R. Voight Shealy in cursive.

R. Voight Shealy, Manager
Audit and Certification

/jlj

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