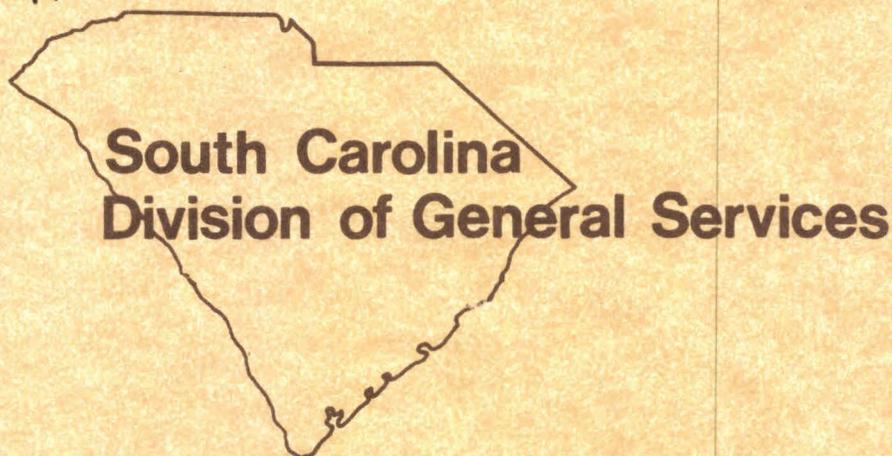


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PROCUREMENT AUDIT AND CERTIFICATION

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SOUTH CAROLINA DEPARTMENT
LABOR, LICENSING AND REGULATION

AGENCY

JANUARY 1, 1993 - MARCH 31, 1995

DATE

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



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MATERIALS MANAGEMENT OFFICE
1201 MAIN STREET, SUITE 600
COLUMBIA, SOUTH CAROLINA 29201
(803) 737-0600
Fax (803) 737-0639

RAYMOND L. GRANT
ASSISTANT DIRECTOR

September 22, 1995

Ms. Helen T. Zeigler, Director
Office of General Services
1201 Main Street, Suite 420
Columbia, South Carolina 29201

Dear Helen:

I have attached the South Carolina Department of Labor, Licensing and Regulation's procurement audit report and recommendations made by the Office of Audit and Certification. I concur and recommend the Budget and Control Board grant the Department a three year certification as noted in the audit report.

Sincerely,

A handwritten signature in cursive script that reads "Ray L. Grant".

Ray L. Grant

Materials Management Officer

SOUTH CAROLINA

DEPARTMENT OF LABOR, LICENSING AND REGULATION

PROCUREMENT AUDIT REPORT

JANUARY 1, 1993 - MARCH 31, 1995

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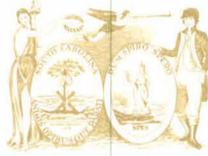
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STATE OF SOUTH CAROLINA
State Budget and Control Board
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RAYMOND L. GRANT
ASSISTANT DIRECTOR

September 5, 1995

Mr. Ray L. Grant
Materials Management Officer
Office of General Services
1201 Main Street, Suite 600
Columbia, South Carolina 29201

Dear Ray:

We have examined the procurement policies and procedures of the South Carolina Department of Labor, Licensing and Regulation for the period January 1, 1993 through March 31, 1995. As part of our examination, we studied and evaluated the system of internal control over procurement transactions to the extent we considered necessary.

The evaluation was to establish a basis for reliance upon the system of internal control to ensure adherence to the Consolidated Procurement Code and Department procurement policy. Additionally, the evaluation was used in determining the nature, timing and extent of other auditing procedures necessary for developing an opinion on the adequacy, efficiency and effectiveness of the procurement system.

The administration of the Department is responsible for establishing and maintaining a system of internal control 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 a system are to provide management with reasonable, but not absolute, assurances of the integrity of the procurement process, that affected

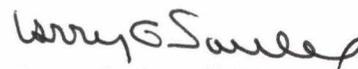
assets are safeguarded against loss from unauthorized use or disposition and that transactions are executed in accordance with management's authorization and are recorded properly.

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 professional care. However, because of the nature of audit testing, they would not necessarily disclose all weaknesses in the system.

The examination did, however, disclose conditions enumerated in this report that we believe need correction or improvement.

Corrective action based on the recommendations described in these findings will in all material respects place the South Carolina Department of Labor, Licensing and Regulation in compliance with the South Carolina Consolidated Procurement Code and ensuing regulations.


Larry G. Sorrell, Manager
Audit and Certification

SCOPE

We conducted our examination in accordance with Generally Accepted Auditing Standards as they apply to compliance audits. Our examination encompassed a detailed analysis of the internal procurement operating procedures of the South Carolina Department of Labor, Licensing and Regulation and its 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 a judgmental sample for the period January 1, 1993 through March 31, 1995 of procurement transactions for compliance testing and performed other audit procedures that we considered necessary to formulate this opinion. Specifically, the scope of our audit included, but was not limited to, a review of the following:

- (1) All sole source, emergency and trade-in sales procurements for the period January 1, 1993 through March 31, 1995
- (2) Procurement transactions for the period January 1, 1993 through March 31, 1995 as follows:
 - a) One hundred and six judgmental selected procurement transactions
 - b) All sealed bids for the period January 1, 1993 through June 30, 1993
 - c) A block sample of five hundred seventy -five numerical purchase orders from the audit period, reviewed for order splitting and favored vendors
- (3) Surplus property disposition procedures
- (4) Minority Business Enterprise Plan and reports for the audit period
- (5) Information Technology Plans and approvals for fiscal years 93/94 and 94/95
- (6) Internal procurement procedures manual review
- (7) Real Property Management Office approvals of leases
- (8) File documentation and evidence of competition

RESULTS OF EXAMINATION

The Office of Audit and Certification performed an examination of the internal procurement operating policies and procedures and related manual of the Department for the period January 1, 1993 through March 31, 1995.

Our on-site review was conducted May 15 through June 9, 1995 and was made under the authority as described in Section 11-35-1230(1) of the South Carolina Consolidated Procurement Code. The audit was performed primarily because the three year certification granted the Department by the Budget and Control Board is to expire February 25, 1996. Additionally, the Department requested increased certification to the limits as follows:

Goods and Services	\$25,000
Consultant Services	\$25,000
Information Technology	\$25,000

Since our previous audit in December 1992, the Department has maintained what we consider to be a professional, efficient procurement system. We did note, however, the following points that should be addressed by management.

UNAUTHORIZED PROCUREMENT

The Department obtained three verbal quotes for security guard services and issued purchase order 950338 on July 26, 1994 for \$7.95 per hour. As of May 1, 1995, total payments for the services were \$22,577.01. The Code requires that for solicitations greater than \$10,000 but less than \$25,000, request for quotations be solicited from a minimum of five sources and advertised in the South Carolina Business Opportunities publication. The Department did not comply with the Code on the procurement. The procurement was unauthorized, as defined in Regulation 19-445.2015, as the total value exceeded the Department's certification of \$10,000.

We recommend the Department consider the total potential of a contract awarded by hourly rates in determining compliance to the Code and Regulation. The Department must request ratification of the unauthorized procurement from the Materials Management Officer pursuant to Regulation 19-445.2015.

PURCHASE WITHOUT COMPETITION

Purchase order 942667 for \$2,480.63 was issued for a computer consultant on June 25, 1994. The Code required solicitation of verbal or written quotes from a minimum of three sources. The Department did not seek competition on this procurement.

We recommend the Department comply with the competitive requirements of the Code or, if applicable, declare a sole source or emergency on future procurements for this type services.

LIKE SERVICES FOR COMMISSIONS AND BOARDS NOT COMBINED AND BID

Purchase order 942187 was issued June 9, 1994 for \$2,469.88 for services for credit checks ending April 1994 for the Appraisers Board, the Real Estate Commission, and the Manufactured Housing Board. Each invoice for the above Boards and Commission was for less than \$1500 and no competition was sought. However, since these are all now part of the same state agency , then a contract should have been established and these services competitively bid.

We recommend the Purchasing Department monitor like services required by the different Commissions and Boards and establish agency contracts for these type services as appropriate.

INCREASED INVOICE AMOUNTS PAID WITHOUT PURCHASING APPROVAL

The accounts payable department made payments on two procurements without the approval of the purchasing office. Purchase order 940967 was issued for 100 flags at \$25 each. The invoice included an additional charge of \$105 for 3 color renditions. Purchase order 950610 was issued for 600 binders at \$3.45 each. The invoice was for 616, an increase of 16 binders. The internal procurement procedures require an amendment from the purchasing office when the overage exceeds \$10.

We recommend the Department adhere to the established procedures on discrepancies between the purchase order and invoice.

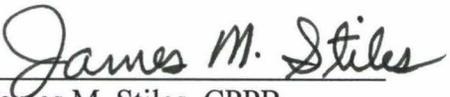
CERTIFICATION RECOMMENDATIONS

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 Labor, Licensing and Regulation in compliance with the South Carolina Consolidated Procurement Code and ensuing regulations. Corrective action should be accomplished by September 29, 1995.

Under the authority described in section 11-35-1210 of the Procurement Code, subject to this corrective action, we recommend recertification for three years at the levels below:

<u>PROCUREMENT AREA</u>	<u>RECOMMEND CERTIFICATION LEVELS</u>
1. Goods and Services	\$25,000*
2. Consultant Services	\$25,000*
3. Information Technology in accordance with the approved Information Technology Plan	\$25,000*

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



James M. Stiles, CPPB
Audit Manager



Larry G. Sorrell, Manager
Audit and Certification



LLR

SOUTH CAROLINA DEPARTMENT OF LABOR, LICENSING & REGULATION

David M. Beasley
Governor
Lewis F. Gossett
Director

DIVISION OF ADMINISTRATION
3600 Forest Drive
Post Office Box 11329
Columbia, SC 29211-1329
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FAX: (803) 734-4291

September 18, 1995

Mr. Larry Sorrell, Manager
Audit and Certification
1201 Main Street, Suite 600
Columbia, South Carolina 29201

Dear Mr. Sorrell:

In reference to your audit of Labor, Licensing and Regulation for January 1, 1993- March 31, 1995, we agree with your findings. We have put in place new procedures and controls to correct deficiencies noted in your findings. We appreciate the courteous and professional manner in which this audit was conducted.

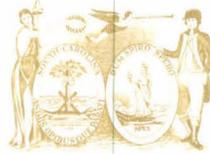
With your concurrence, we would like our request for certification limit increases be presented to the Budget and Control Board at their next meeting. Please let us know if there is any additional information needed to satisfy this request.

Sincerely,

A handwritten signature in cursive script that reads "George Röpp".

George Röpp
Deputy Director, Administration

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



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RAYMOND L. GRANT
ASSISTANT DIRECTOR

September 21, 1995

Mr. Ray L. Grant
Materials Management Officer
1201 Main Street, Suite 600
Columbia, South Carolina 29201

Dear Ray:

We have reviewed the South Carolina Department of Labor, Licensing and Regulation's response to our audit report for January 1, 1993 - March 31, 1995. Also, we have followed the Department's correction action during and subsequent to our field work. We are satisfied that the Department has corrected the problem areas and the internal controls over the procurement system are adequate.

Therefore, we recommend the Budget and Control Board grant the South Carolina Department of Labor, Licensing and Regulation the certification limits noted in our report for a period of three years.

Sincerely,

Larry G. Sorrell, Manager
Audit and Certification

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