PROCUREMENT
AUDIT AND
CERTIFICATION

WORKERS COMPENSATION COMMISSION

AGENCY

OCTOBER 1, 1985 - MAY 31, 1988

DATE
September 27, 1988

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

Dear Rick:

Attached is the final 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 Commission three (3) years certification as outlined in the audit report.

Sincerely,

James J. Forth, Jr.
Assistant Division Director

Attachment
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August 29, 1988

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 South Carolina Workers' Compensation Commission for the period October 1, 1985 through May 31, 1988. 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 a recommendation for recertification above the $2,500.00 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
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 operation, shall verify 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.

On October 21, 1986, the Budget and Control Board certified the Workers' Compensation Commission granting them the authority to make procurements of goods and services up to $5,000 per purchase commitment for a period of two years. This audit was performed to determine if recertification should be recommended for goods and services.

Additionally, while on site, we received a written request from the Workers' Compensation Commission for certification to make procurements of consultant services up to $5,000.
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.

We reviewed a random sample of sixty (60) procurement transactions and a block sample of two hundred eleven (211) consecutive numbered vouchers for the period July 1, 1986 - May 31, 1988, for compliance testing and performed other audit 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 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. 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.
RESULTS OF EXAMINATION

The Office of Audit and Certification conducted an examination of the internal procurement operating procedures and policies and related manual of the South Carolina Workers' Compensation Commission. Our on-site review was conducted May 16-31, 1988 and was made under the authority as described in Section 11-35-1230(1) of the South Carolina Consolidated Procurement Code and Regulation 19-445.2020.

During this examination, we noted the following items that should be addressed by management.

I. Unauthorized Procurement

On March 11, 1988, the Commission opened responses to their request for proposals to provide consultant services to "develop RFP's and evaluate proposals." A contract for these consultant services was awarded for $4,970.

The award constitutes an unauthorized procurement as the Commission is not certified to make procurements of consultant services above $2,500.00. This is clearly stated in the Certification Recommendation section of our last audit report of the Commission. It reads, "No certification was requested in the areas of consultant services, information technology and construction."

Additionally, Section 11-35-1530 of the Consolidated Procurement Code states in part:

When the chief procurement officer or the head of a purchasing agency, determines in writing that the use
of competitive sealed bidding is either not practicable or not advantageous to the State, a contract may be entered into by competitive sealed proposals...

This required written determination was not prepared.

Since the procurement exceeded the Commission's authority, it must be submitted to the Materials Management Officer with a request for ratification in accordance with Regulation 19-445.2015. Future procurements of consultant services should be made in accordance with the Commission's procurement authority.

II. Procurement Made Without Competition

Voucher 0593 dated January 19, 1988 for $592.00 was payment for a procurement of all charges to prepare a brochure for three claims administration workshops. Competition was not solicited for these services.

Regulation 19-445.2100(B)(2) states in part "...for purchases from $500.01 to $1,499.99, solicitations of verbal or written quotes from a minimum of two qualified sources of supply, shall be made and documented."

We recommend that all non-exempt procurements be handled in accordance with the Consolidated Procurement Code.

Both of the procurements noted above were handled by someone outside the purchasing department. Delegation of procurement authority may need to be reviewed by the Commission.
III. Award Made to the Wrong Vendor

Purchase order number 25853 for $1,516.85 was a procurement of letterhead. The award was inadvertently made to the second low bidder when tax was considered in the low bidder's quotation.

The result was that the award was made incorrectly and the Commission agreed to pay $32.15 more than the low bid. Due to this error, the integrity of the competitive procurement process was compromised.

We recommend that the Commission take care in analyzing all future quotations and bids to ensure that they are comparable.
CERTIFICATION RECOMMENDATIONS

As enumerated in our transmittal letter, corrective action based on the recommendation 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-.210 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 three years as follows:

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<th>PROCUREMENT AREA</th>
<th>RECOMMENDED CERTIFICATION LIMIT</th>
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<td>I. Goods and Services</td>
<td>*$5,000 per purchase commitment</td>
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<td>II. Consultant Services</td>
<td>*$5,000 per purchase commitment</td>
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*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 information technology and construction.

James M. Stiles, PPB
Audit Supervisor

R. Voight Shealy, Manager
Audit and Certification
Mr. R. Voight Shealy, Manager  
Audit and Certification  
Division of General Services  
1201 Main Street, Suite 600  
Columbia, South Carolina 29201

Dear Voight:

This letter will acknowledge the audit report covering the procurement activity of the Workers' Compensation Commission for the period of October 1, 1985 - May 31, 1988. Of the more than 270 procurement transactions and vouchers that your office reviewed, only three items were reported for corrective action. An explanation and corrective action plan for each of the deficiencies is reported below:

I. Unauthorized Procurement

The action of this agency to contract for consultant services below the $5,000 limit by competitive sealed proposals was an error. This activity was supervised by an individual outside of our purchasing section who was not completely informed about the Commission's certification limitations. This individual is now aware of the procurement procedures, and in the future, will delegate the procurement responsibility to the Commission's purchasing professional. In order to correct this error, the Commission shall submit a request for ratification in accordance with Regulation 19-445.2015 to the Materials Management Officer.

II. Procurement Made Without Competition

The commission secured services in excess of $500 without obtaining either verbal or written quotes. As in the first instance, this activity was supervised by an individual unfamiliar with regulations controlling this process. That individual is now aware of the procedures which must be followed as stated Regulation 19-445.2100 (B) (2), and in the
III. Award Made to the Wrong Vender

In this instance, a purchase order was awarded to the second lowest bidder instead of the lowest bidder. This was a case in which the procurement officer inadvertently computed tax while considering what was later determined as the lowest bid. We consider this an isolated incident and the procurement professional will ensure that all future quotations and bids are comparable based on the information presented.

The Workers' Compensation Commission appreciates the fairness of the audit as conducted by the Office of Audit and Certification. By having these errors brought to our attention and having an opportunity to take corrective action, the Commission believes that it has learned from the experience and will not be subject to such deficiencies in the future.

Pursuant to Section 11-35-1210 of the Procurement Code, the Commission requests that it be certified for a period of three years up to a limit of $5,000 per purchase commitment in the areas of goods and services and consultant services.

Yours very truly,

Michael Grant LeFever
Executive Director

MGL/shb
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 response to our audit report of the Workers' Compensation Commission covering the period October 1, 1985 through May 31, 1988. Combined with observations made during our site visit, this review has satisfied the Office of Audit and Certification that the Commission is correcting the problem areas found and that internal controls over the procurement system are adequate.

We therefore, recommend that the certification limits for the Workers' Compensation Commission outlined in the audit report be granted for a period of three (3) years.

Sincerely,

[Signature]

R. Voight Shealy, Manager
Audit and Certification