PROCUREMENT
AUDIT AND
CERTIFICATION

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WORKERS' COMPENSATION COMMISSION
AGENCY
JULY 1, 1988 - DECEMBER 31, 1989
DATE
May 1, 1990

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

Dear Rick:

I have attached the 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 a three (3) year certification as outlined in the audit report.

Sincerely,

James J. Forth, Jr.  
Assistant Division Director

/jlj

Attachment
SOUTH CAROLINA WORKERS' COMPENSATION COMMISSION
AUDIT REPORT

JULY 1, 1988 - DECEMBER 31, 1989
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May 1, 1990

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 July 1, 1988 through December 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 Commission 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 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 Workers’ Compensation Commission 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 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 one hundred eighty-eight (188) consecutively numbered vouchers from the period July 1, 1988 - December 31, 1989, 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
(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 February 1-16, 1990 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 areas that should be addressed by management.

I. Sole Source Approvals Untimely

We noted six information technology maintenance and consultant contracts that were effective prior to their sole source approvals by the Executive Director. It is the intent of the Procurement Code that all approvals of sole source contracts be made prior to entering into such contracts.

If these contracts are subject to extension, they should be set up in a tickler file; thus alerting the Commission at least 30 days prior to the expiration of the old contract. This should allow sufficient time for sole source determinations to be reviewed and approved by the appropriate authority.

II. Cash Discounts

We noted four instances where the Finance Department neglected to take allowable cash discounts authorized by the vendor invoices.
The discounts available totaled $122.00. However, because the Finance Department did not review the payment terms, the Commission expended funds unnecessarily by way of discounts lost.

III. Receipt of Goods not Documented

We noted four instances where there was no indication of receipt of goods or services in the voucher package. These transactions were as follows:

<table>
<thead>
<tr>
<th>Voucher #</th>
<th>PO#</th>
<th>Amount</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>0032</td>
<td>59690</td>
<td>$ 643.19</td>
<td>Audio tapes</td>
</tr>
<tr>
<td>0330</td>
<td>59862</td>
<td>877.55</td>
<td>Audio tapes</td>
</tr>
<tr>
<td>0648</td>
<td>90260</td>
<td>653.60</td>
<td>Audio tapes</td>
</tr>
<tr>
<td>0035</td>
<td>59713</td>
<td>1,020.00</td>
<td>Printer toner</td>
</tr>
</tbody>
</table>

Internal controls require an indication of receipt of goods. This is usually done through a written receiving report or a receiving signature on the packing slip or invoice. The Commission does use this process but neglected to do so in these instances. However, payments were still made.

We recommend that a written receiving signature or receiving report be completed to support all expenditures.
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 State Consolidated Procurement Code and ensuing regulations.

The Commission should complete corrective action by April 30, 1990. We will perform a follow-up review to verify this.

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 three (3) years as follows:

<table>
<thead>
<tr>
<th>Procurement Areas</th>
<th>Recommended Certification Limits</th>
</tr>
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<tbody>
<tr>
<td>I. Goods and Services</td>
<td>*$5,000 per purchase commitment</td>
</tr>
<tr>
<td>II. Consultant Services</td>
<td>*$5,000 per purchase commitment</td>
</tr>
</tbody>
</table>

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

Certification was not requested in the areas of information technology and construction.

James M. Stiles, PPB Audit Manager
R. Voight Shealy, Manager Audit and Certification
Dear Voight:

Thank you for furnishing us with a copy of the draft procurement audit report for July 1, 1988 - December 31, 1989. After reviewing the report with my staff, I do not believe that an exit conference will be necessary. Jim Stiles was very helpful in discussing our noted deficiencies with us, and we are pleased to offer the following response to the findings.

I. Sole Source Approvals Untimely

The information technology maintenance and consultant contracts noted in the audit were from vendors with a continuing sole source relationship with the Commission. In the future, the procurement officer will use a suspense file to keep track of all sole source renewal or expiration dates. This process will assure that the sole source determinations will be reviewed at least thirty days prior to the expiration date. This should allow sufficient time for sole source determinations to be reviewed and approved by the Executive Director.

II. Cash Discounts

The Commission regrets that it overlooked an opportunity to claim discounts in the amount of $122. Our intention and obligation is to take advantage of all cash discounts. The Finance Department will review the payment terms more closely in order to take advantage of any future cash discounts.
III. Receipt of Goods Not Documented

The Commission's procurement policy states that upon the receipt of all items ordered the procurement officer, or another designated person, shall insure that the order is correct and shall sign and date the packing slip for the items delivered. In addition, the finance officer shall process vouchers only after the voucher package is complete. Your audit revealed, however, that the receipts were inadvertently not completed on four occasions. Our efforts to consistently enforce our policy will be redoubled in the future to insure that there is a receipt for all goods or services in the voucher package.

We appreciate very much the courtesy and professionalism extended by you and Jim Stiles during the period of the audit. During the next period of certification, we will do all that we can to meet the requirements of the South Carolina Consolidated Procurement Code.

Yours very truly,

Michael Grant LeFever
Executive Director

MGL/ac

CC: Rosetta Johnson
    Foster Yarborough
    Margaret Sanders
May 1, 1990

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 of July 1, 1988 - December 31, 1989. Combined with observations made during our site visit, this review has satisfied the Office of Audit and Certification that the Commission has corrected 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,

R. Voight Shealy, Manager
Audit and Certification

/jlj