Procurement Audit and Certification
July 2, 1993

Mr. Richard W. Kelly  
Director  
Division of General Services  
1201 Main Street, Suite 420  
Columbia, South Carolina 29201  

Dear Rick:

I have attached the procurement audit of the South Carolina Workers' Compensation Commission as prepared 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,

Helen T. Zeigler  
Deputy Division Director  

HTZ/jlj  
Attachment
SOUTH CAROLINA WORKERS' COMPENSATION COMMISSION

PROCUREMENT AUDIT REPORT

JANUARY 1, 1990 - DECEMBER 31, 1992
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July 1, 1993

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

Dear Helen:

We have examined the procurement policies and procedures of the South Carolina Workers' Compensation Commission for the period January 1, 1990 - December 31, 1992. 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 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 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 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 which 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 Workers' Compensation Commission in compliance with the South Carolina Consolidated Procurement Code and ensuing regulations.

R. Voight Shealy, CFE, 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 Workers' Compensation Commission 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 judgemental samples for the period July 1, 1990 through December 31, 1992, of procurement transactions for compliance testing and performed other audit procedures that we considered necessary 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. All sole source and emergency procurements and trade-in sales for the period January 1, 1990 - December 31, 1992
2. Property management and fixed asset procedures
3. Purchase transactions for the period July 1, 1990 - December 31, 1992
   a) Forty-nine payments each exceeding $500
   b) Block sample of one hundred sequential purchase orders for two months of activity
4. Minority Business Enterprise Plan and quarterly reports
5. Procurement staff and training
6. Procurement procedures
7. Information Technology Plan
RESULTS OF EXAMINATION

We conducted an examination of the internal procurement operating policies and procedures of the South Carolina Workers' Compensation Commission for the period January 1, 1990 through December 31, 1992. Our on-site review was conducted March 1-10, 1992, and was made under authority as described in Section 11-35-1230(1) of the South Carolina Consolidated Procurement Code and Regulation 19-445.2020.

Most recently, on June 27, 1990, the Budget and Control Board granted the South Carolina Department of Labor the following procurement certification:

<table>
<thead>
<tr>
<th>Category</th>
<th>Requested Limit</th>
</tr>
</thead>
<tbody>
<tr>
<td>Goods and Services</td>
<td>$5,000 per commitment</td>
</tr>
<tr>
<td>Consultant Services</td>
<td>$5,000 per commitment</td>
</tr>
</tbody>
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Since that certification expires June 27, 1993, this audit was performed primarily to determine if recertification is warranted.

While the Commission has maintained a professional and efficient procurement system since our last audit, we did note the following items which should be addressed by management.

I. **Unauthorized Changes**

The Materials Management Office solicited sealed bids for the printing of the Commission's "Schedule for Fees for Physicians and Surgeons".

State purchase order number P000002005 for $12,000.00 was issued for this service. The Commission received and paid two
invoices. The total of these two invoices was $20,343.23. Of this amount, $12,000 was the original contract price, $3,450.00 were changes that were allowed in the contract, $968.73 was sales tax, and $3,924.50 were changes that were not allowed in the contract.

Page 4, item 16 of the South Carolina Government Printing Services Manual dated February 1, 1990 requires that any alterations be approved by the person responsible for the procurement prior to the work being done.

Since this service was procured by the Materials Management Office, the approval of that buyer was needed prior to these changes. Since his approval was not obtained, these charges are unauthorized.

Accordingly, we recommend that the Commission submit these changes to the Materials Management Officer for ratification. We also recommend that the Commission cease making changes to contracts without prior approval.

II. Errors in Tabulation

The Commission solicited written quotations for thirteen lots of printed forms on purchase requisition 90646. When the quotes were recorded on the tabulation, sales tax was included in one of the quotes resulting in $2,534.64 being shown instead of $2,413.94. The other quotes did not have sales tax added.

However, due to an ambiguity in one of the other quotes, the Commission did not include a $390 charge for artwork. This oversight resulted in $2,111.00 instead of $2,501.00 being recorded on the tabulation.
As a result of these errors, the procurement was awarded to the apparent low quote who actually gave the highest quote. These errors were not discovered by the Commission until the invoice of $2,702.05 was received by which time the work had been performed. This invoice was paid on DV 565 dated 1/8/91.

Accordingly, we recommend that the Commission exercise caution when preparing tabulation sheets and any ambiguities in quotes be resolved prior to award.
CONCLUSION

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 Workers' Compensation Commission in compliance with the State's Consolidated Procurement Code and ensuing regulations.

During the audit, the Commission decided that its procurement activity did not warrant a request for recertification. We concur. This conclusion is not driven by our concern for the audit results addressed in this report, but rather a decision that recertification in this case is unnecessary.

Melissa Rae Thurstin
Compliance Analyst

R. Voight Shealy, CFE, Manager
Audit and Certification
State of South Carolina

Workers' Compensation Commission

June 2, 1993

R. Voight Shealy, Manager
Audit and Certification
Materials Management Office
1201 Main Street, Suite 600
Columbia, South Carolina 29201

Dear Voight:

Thank you for the opportunity to respond to the recent procurement audit report conducted by your office for the period January 1, 1990 to December 31, 1992. We are very pleased with the overall positive findings of your report as it generally validates the success of our program.

With respect to the two minor findings that your office reported, the Commission has taken immediate steps to make sure that the shortcomings are not repeated. With respect to unauthorized changes in State purchase order number P000002005, the Commission will submit the changes to the Materials Management Office for ratification. In addition, the Commission is instructing all managers to coordinate and have approved all activities related to purchasing with our Administrative Services Director prior to authorizing any changes with a selected vendor.

The error in tabulation which resulted in the Commission paying more than the lowest bid for forms purchased on DV565 was simply a human error whose root cause probably stems to the fact that our Administrative Services Director has been required to take on additional duties because of a reduction in force caused by recent budget reductions. Mr. Yarborough is aware of the importance of accuracy, and he will be more diligent with tabulating and recording quotes in the future.
Please let me call to your attention that on page 5 under Results of Examination your report referred to the South Carolina Department of Labor. This reference needs to be corrected to reflect the Workers' Compensation Commission.

I want to thank you and Ms. Thurston for the very professional manner in which this audit was conducted. As we discussed, the agency is not seeking recertification because it is a privilege that we rarely have had an opportunity to use. In addition, there may be certain legislative changes which would expand each agency's authority in the area of procurement.

Thank you for your assistance and this opportunity to comment on the results of our audit report.

Yours very truly,

Michael Grant LeFever
Executive Director

MGL/ac

CC: R. Walter Hundley, Chairman
    Foster Yarborough
July 1, 1993

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

Dear Helen:

We have reviewed the response to our audit report of the South Carolina Workers’ Compensation Commission covering the period January 1, 1990 - December 31, 1992. Combined with observations made during our site visit and documentation submitted by the Commission, this review has satisfied us that the Commission has corrected the problem areas found and that internal controls over the procurement system are adequate.

Since the Commission has not requested recertification, we recommend that the Commission be allowed to procure all goods and services, consultants, information technology and construction up to the basic level of $2,500.00 authorized by the Consolidated Procurement Code.

Sincerely,

R. Voight Shealy, Manager
Audit and Certification

RVS/jj