PROCUREMENT AUDIT AND CERTIFICATION

DEPARTMENT OF LABOR
AGENCY
JULY 1, 1985 - DECEMBER 31, 1987
DATE
August 10, 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 South Carolina Department of Labor audit report and recommendations made by the Office of Audit and Certification. I concur and recommend the Budget and Control Board grant the Department two (2) years certification as outlined in the audit report.

Sincerely,

James J. Forth, Jr.

Attachment
SOUTH CAROLINA DEPARTMENT OF LABOR

AUDIT REPORT

JULY 1, 1985 - DECEMBER 31, 1987
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August 10, 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 Department of Labor for the period July 1, 1985 through December 31, 1987. 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 Department 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 Department of Labor 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 Department of Labor in compliance with the South Carolina Consolidated Procurement Code and ensuing regulations.

R. Voight Shealy
R. Voight Shealy, Manager
Audit and Certification
SCOPE

Our examination encompassed a detailed analysis of the internal procurement operating procedures of the South Carolina Department of Labor 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.

The Office of Audit and Certification of the Division of General Services reviewed a random sample of one hundred and twenty procurement transactions for the period July 1, 1985 - December 31, 1987, 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) inventory and disposition of surplus property;
RESULTS OF EXAMINATION

The Office of Audit and Certification performed an examination of the internal procurement operating procedures and policies and related manual of the South Carolina Department of Labor for the period July 1, 1985 through December 31, 1987.

Our on-site review was conducted January 5-29, 1988, and was made under the authority as described in Section 11-35-1230(1) of the South Carolina Consolidated Procurement Code. The Department of Labor has requested procurement certification in the area of goods and services up to $10,000.00 per commitment. Our audit produced the following exceptions which should be addressed by management. We reviewed all of the Department's procurements for this period.

I. Compliance - Goods and Services

A. Procurement Exceptions - $500.01 - $1,499.99

The following procurements were made without competition:

<table>
<thead>
<tr>
<th>ITEM</th>
<th>PO#</th>
<th>PO AMOUNT</th>
<th>DESCRIPTION</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>34527</td>
<td>$1,362.00</td>
<td>Voltage regulator</td>
</tr>
<tr>
<td>2</td>
<td>34626</td>
<td>600.00</td>
<td>Secretarial chairs</td>
</tr>
<tr>
<td>3</td>
<td>60793</td>
<td>895.00</td>
<td>Gas analysis equip-</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>ment</td>
</tr>
<tr>
<td>4</td>
<td>21106</td>
<td>618.45</td>
<td>Office equipment</td>
</tr>
<tr>
<td>5</td>
<td>93770</td>
<td>819.42</td>
<td>Business forms</td>
</tr>
<tr>
<td>6</td>
<td>61198</td>
<td>772.00</td>
<td>Printing services</td>
</tr>
<tr>
<td>7</td>
<td>034461</td>
<td>1,204.60</td>
<td>Secretarial chairs</td>
</tr>
</tbody>
</table>
Regulation 19-445.2100, Subsection B, Item 2, which covers procurements from $500.01 to $1,499.00, requires "solicitations of verbal or written quotes from a minimum of two qualified sources of supply" for each transaction.

We recommend that all future procurements in this dollar range either be supported by evidence of competition or, if appropriate, sole source or emergency procurement determinations.

B. Procurement Exceptions - $1,500.00 - $2,499.99

<table>
<thead>
<tr>
<th>ITEM</th>
<th>PO#</th>
<th>PO AMOUNT</th>
<th>DESCRIPTION</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>34531</td>
<td>$2,200.00</td>
<td>Computer radiation shields</td>
</tr>
<tr>
<td>2</td>
<td>21275</td>
<td>2,012.50</td>
<td>Tube holders</td>
</tr>
</tbody>
</table>

The above procurements were made solely on the basis of telephone quotes. Regulation 19-445.2100, Subsection B, Item 3, states in part "for purchases from $1,500.00 to $2,499.00, solicitation of written quotations from three qualified sources of supply shall be made and documented... Such documentation shall be attached to the purchase requisition." (Emphasis added)

The Department does not have an informal quotation form. We recommend the purchasing office initiate such a form to insure procurements in this dollar range are supported by written quotations.
C. **Equipment Repairs**

The following purchase orders for repair of audio dosimeters, sound level motors and sound level calibrators were made without evidence of competition:

<table>
<thead>
<tr>
<th>PO#</th>
<th>AMOUNT</th>
</tr>
</thead>
<tbody>
<tr>
<td>880035</td>
<td>$1,010.00</td>
</tr>
<tr>
<td>880511</td>
<td>990.00</td>
</tr>
<tr>
<td>43099</td>
<td>1,320.00</td>
</tr>
</tbody>
</table>

Competition should be solicited on equipment repairs if possible. If not, a sole source determination may be applicable.

D. **Inter-Agency Agreement**

The Department currently has a contract with the Department of Health and Environmental Control for laboratory services for the Occupational Safety and Health Act (OSHA) program. The contract was neither competed nor reviewed and approved by the Division of General Services.

All inter-agency contracts must either be procured in accordance with the Procurement Code or submitted to the Division of General Services for review and possible exemption. This process requires submission of the proposed contract with a cost justification to the Materials Management Officer in advance of the commitment being made.

Since the contract exceeded the Department's procurement authority, it is an unauthorized procurement. A request for ratification should be prepared by the executive director and
submitted to the Materials Management Officer in accordance with Regulation 19-445.2015. All future inter-agency agreements should be submitted to the Materials Management Officer for review prior to completion of the agreement.

E. Other Noted Exceptions

1. Purchase order 34498 for computer furniture for $548.10 included a $78.25 freight charge. Freight must be considered as part of the cost of an item. Therefore, competition should have been solicited on this procurement since it exceeded $500.00.

2. We noted several purchases that were made from state term contracts but the contract number was not reference on the purchase order. This should be done in all cases.

II. Compliance - Information Technology

We noted three information technology maintenance contracts which were not supported by solicitations of competition or, if appropriate, sole source determinations. These were on purchase orders 34348, 60968 and 880164. We remind the Department that unless a maintenance agreement is included in the original purchase contract, yearly maintenance agreements must be procured in accordance with the Procurement Code.

III. Review of the Procurement Procedures Manual

As part of our examination, we reviewed the Purchasing Policies and Procedures Manual. In order for certification to be recommended, the manual must be significantly expanded to address the following topics:
A. Competitive sealed bids greater than $2,500.00 to include:

1. Bidders List
2. Receipt and Safeguarding of Bids
3. Unidentified Bids
4. Bid Opening Procedures
5. Postponement of Bid Opening
6. Disclosure of Bid Information
7. Bid Acceptance and Evaluation
8. Rejection of Bids
9. Alternate Bids
10. Nonresponsible Bids
11. Tie Bids
12. Instate Bidders Performance
13. Unsigned Bids
14. Award

B. Term Contracts

C. Blanket Purchase Agreements (if applicable)

D. Sole Source Procurements

E. Emergency Procurements

F. Legal Services

G. Auditing Services

H. Art Procurements

I. Unauthorized Procurement Procedures

J. Conflict of Interest

K. Personal Purchases

L. Specification Considerations

M. Retention of Procurement Records

N. Amendment to Purchase Order

O. Include an "official charge order" form

P. Professional and Consultant Ordering Procedures

Q. Information Technology Ordering Procedures

R. Minority Business Enterprise (MBE) Plan

S. Receiving Procedures
IV. Conclusion

The South Carolina Department of Labor has had three different procurement buyers in the last two years. The majority of the exceptions noted herein were from procurement actions made by previous officials. We believe stability has returned to the purchasing office since the Accounting Manager and the Director of Administrative Operations are taking an active role in the procurement process now. We believe that the problems noted above in the report will be corrected under the renewed interest in the procurement process by top management.
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 Department of Labor in compliance with the South Carolina Consolidated Procurement Code and ensuing regulations.

In order to determine that corrective action has been taken, we will perform a follow-up audit prior to May 27, 1988. If, at that time, we determine that corrective action has been taken we will recommend that the Department of Labor be certified to make direct agency procurements for a period of two (2) years up to the following limit:

<table>
<thead>
<tr>
<th>PROCUREMENT AREAS</th>
<th>RECOMMENDED CERTIFICATION LIMITS</th>
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<tbody>
<tr>
<td>Goods and Services</td>
<td>$10,000 * per purchase commitment</td>
</tr>
</tbody>
</table>

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

James M. Stiles, FPB
Audit Supervisor

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

Dear Mr. Shealy:

This letter is written in response to your audit report covering procurement for the period July 1, 1985 - December 31, 1987. The following improvements/corrections in our procedures are listed below:

1. An informal quote sheet for purchases from $500.01 - $1,499.99 has been printed on the reverse side of the in-house requisition form. These documents will be attached to the Purchase Order.

A formal quote sheet for purchases from $1,500.00 - $2,499.99 is currently being printed. In the interim we are requiring vendors to submit written quotes on their letterhead.

2. Sole source forms are now being used for equipment repairs done by the original manufacturer. Whenever possible, bids from responsible vendors will be solicited for repairs not covered by term contracts.

3. Exemptions/ratification have been approved and received for all Interagency contracts. See copies of letters attached.

4. Our procurement procedure's manual is in the process of being updated and will be amended to include all procedures for procurement greater than $2,500.00. This manual will be completed no later than July 1, 1988.

We concur with the conclusion of the audit report that stability has returned to the procurement office. We think that our current procedures and knowledge now warrant your approval of our request to raise our procurement limit to $10,000.

Respectfully requested,

Margaret Reynolds  
Manager, Administrative Operations
August 10, 1988

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 returned to the South Carolina Department of Labor to determine the progress made toward implementing the recommendations in our audit report covering the period July 1, 1985 - December 31, 1987. During this visit, we followed up on each recommendation made in the audit report through inquiry, observation and limited testing.

We observed that the Department has made substantial progress toward correcting the problem areas found and improving the internal controls over the procurement system. With the changes made, the system's internal controls should be adequate to ensure that procurements are handled in compliance with the Consolidated Procurement Code and ensuing regulations.

We therefore, recommend that the certification limits for the Department of Labor outlined in the audit report be granted for a period of two (2) years.

Sincerely,

R. Voight Shealy, Manager
Audit and Certification