PROCUREMENT
AUDIT AND
CERTIFICATION

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SOUTH CAROLINA DEPARTMENT OF
LABOR, LICENSING AND REGULATION
AGENCY
APRIL 1, 1995 - DECEMBER 31, 1997
DATE
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,

R. Voight Shealy  
Materials Management Officer
SOUTH CAROLINA
DEPARTMENT OF LABOR, LICENSING AND REGULATION
PROCUREMENT AUDIT REPORT
APRIL 1, 1995 - DECEMBER 31, 1997
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Dear Voight:

We have examined the procurement policies and procedures of the South Carolina Department of Labor, Licensing and Regulation for the period April 1, 1995 through December 31, 1997. 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 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 Consolidated Procurement Code and ensuing regulations.

Sincerely,

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 July 1, 1995 through December 31, 1997 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 sale procurements for the period April 1, 1995 through December 31, 1997
2. Procurement transactions from the period July 1, 1995 through December 31, 1997 as follows:
   a) Ninety-six judgmentally selected procurement and payment transactions exceeding $1,500
   b) Five written solicitations of written quotations from FY 97
   c) A block sample of five hundred numerical purchase orders reviewed for order splitting and favored vendors
3. Surplus property disposition procedures
4. Minority Business Enterprise Plan and reports
5. Information technology plans and approvals for fiscal years 96 to 98
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 South Carolina Department of Labor, Licensing and Regulation (hereinafter referred to as the Department) for the period April 1, 1995 through December 31, 1997.

Our on-site review was conducted January 19, 1998 through February 2, 1998 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 October 24, 1998. Current Department certification limits are as follows and no increase in certification was requested.

<table>
<thead>
<tr>
<th>CATEGORY</th>
<th>LIMIT</th>
</tr>
</thead>
<tbody>
<tr>
<td>Goods and Services</td>
<td>$25,000 per commitment</td>
</tr>
<tr>
<td>Consultants Services</td>
<td>$25,000 per commitment</td>
</tr>
<tr>
<td>Information Technology</td>
<td>$25,000 per commitment</td>
</tr>
</tbody>
</table>

Since our previous audit in May of 1995, 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.

INAPPROPRIATE SOLE SOURCES

We noted the following six sole source procurements that we believe were inappropriate.

<table>
<thead>
<tr>
<th>Item</th>
<th>PO</th>
<th>DATE</th>
<th>DESCRIPTION</th>
<th>AMOUNT</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>971530</td>
<td>06/06/97</td>
<td>Miscellaneous modular furniture</td>
<td>$120,916</td>
</tr>
<tr>
<td>2</td>
<td>980014</td>
<td>07/16/97</td>
<td>Miscellaneous modular furniture</td>
<td>1,847</td>
</tr>
<tr>
<td>3</td>
<td>980015</td>
<td>07/16/97</td>
<td>Miscellaneous modular furniture</td>
<td>1,252</td>
</tr>
<tr>
<td>4</td>
<td>980746</td>
<td>09/22/97</td>
<td>Miscellaneous modular furniture</td>
<td>2,653</td>
</tr>
<tr>
<td>5</td>
<td>980748</td>
<td>09/23/97</td>
<td>Miscellaneous modular furniture</td>
<td>41,189</td>
</tr>
<tr>
<td>6</td>
<td>980797</td>
<td>10/08/97</td>
<td>Miscellaneous modular furniture</td>
<td>2,086</td>
</tr>
</tbody>
</table>

The Department's initial purchase for this type modular furniture was bid by the Materials
Management Office in 1995. When the Department moved to the Koger Office Park in January of 1997, additional compatible modular furniture was required.

Regulation 19-445.2105(B) states “Sole source procurement is not permissible unless there is only a single source.” Dealers in North and South Carolina can bid this furniture.

We recommend that procurements which do not meet the definition of a sole source be competed in accordance with the Code and regulations and the Department discontinue using sole source procurements where competition is available. The Department should contact the Materials Management Office about establishing an agency contract for their continuing modular furniture requirements.

UNAUTHORIZED PROCUREMENT

We noted one procurement that was unauthorized as the services were rendered to the Department prior to the Procurement Officer’s approval. Purchase order 971003 for $3,234 dated December 9, 1996 was issued for consultant services furnished to the Fire Academy on November 1-3, 1996. The internal procurement procedures manual, page 6 under Procurement Authority, states “Procurement authority has been invested upon the Procurement Officer and Agents to administer this Department’s procurement procedures.” Therefore, the service is unauthorized since the commitment was made prior to being authorized.

A ratification request for the unauthorized procurement, per Regulation 19-445.2015, must be prepared and submitted to the Director since the dollar amount was within the Department’s certification limit.

CREDIT CHECK SERVICES SHOULD BE BID OUT

Voucher 5882 dated December 18, 1997 for $2,676 was a payment on two invoices for credit check services for the Real Estate Commission. Other sections that use credit check services are the Real Estate Appraisers Board and the Residential Builders Commission. Usually each invoice for these services is for less than $1,500 and no competition is sought. However, since these sections are all part of the same agency and the need for these services is predictable, a contract should be established for these services through competitive bidding.
We recommend the Procurement Office monitor like services required by the different Commissions and Boards and establish agency contracts as appropriate.

DUPLICATE INVOICE PAID

The Accounts Payable Department paid duplicate invoices on voucher 10511 dated April 23, 1997 for printing services. The over payment was $5,262. Purchase order 971263 authorized the printing of certificates, curriculum guides, story books and workbooks. The vendor made partial shipments and invoiced accordingly. However, two line items were invoiced twice and paid on this voucher.

We recommend the Accounts Payable Department match the purchase order to the invoice prior to payment. Any discrepancies between the two documents should be routed to the Procurement Office for resolution prior to payment. Furthermore, we recommend the Department request a refund or credit for the over charge of $5,262.

EXEMPTED REAL PROPERTY LEASE NOT REPORTED

The Department failed to report a real property lease with an annual value less than $10,000 to the Office of General Services. Commercial leases which commit less than $10,000 in a single fiscal year are not subject to the lease procurement approval process. However, agencies must report all leases to the Office of General Services by copy of the executed lease document.

We recommend the Department report the Florence Fire Academy lease to the Office of General Services.
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 Consolidated Procurement Code and ensuing regulations.

Under the authority described in section 11-35-1210 of the Procurement Code, subject to this corrective action, we will recommend the Department be recertified to make direct agency procurements for three years up to the limits as follows:

<table>
<thead>
<tr>
<th>PROCUREMENT AREA</th>
<th>RECOMMEND CERTIFICATION LEVELS</th>
</tr>
</thead>
<tbody>
<tr>
<td>Goods and Services</td>
<td>*$25,000</td>
</tr>
<tr>
<td>Consultants Services</td>
<td>*$25,000</td>
</tr>
<tr>
<td>Information Technology</td>
<td>*$25,000</td>
</tr>
</tbody>
</table>

*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
April 20, 1998

Larry G. Sorrell
Audit and Certification
Material Management Office
1201 Main St., Suite 600
Columbia, SC 29201

Dear Mr. Sorrell:

The Department of Labor, Licensing and Regulation’s response to your recent audit is as follows.

**Inappropriate Sole Source determinations:**

**Unauthorized Procurement:**

**Credit Check Services should be bid out:**

**Duplicate Invoice paid:**

**Exempted Real Property lease not reported:**

I appreciate your assistance in this matter.

Sincerely,

Lewis F. Gossett
Director

Audit and Certification
Material Management Office
1201 Main St., Suite 600
Columbia, SC 29201
Mr. R. Voight Shealy  
Materials Management Officer  
Materials Management Office  
1201 Main Street, Suite 600  
Columbia, South Carolina 29201

Dear Voight:

We have reviewed the response from the South Carolina Department of Labor, Licensing and Regulation to our audit report for the audit period of April 1, 1995 - December 31, 1997. Also we have followed the Department’s corrective 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 period of three years.

Sincerely,

Larry G. Sorrell, Manager  
Audit and Certification

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