PROCUREMENT AUDIT AND CERTIFICATION

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DEPARTMENT OF LABOR,
LICENSING AND REGULATIONS

AGENCY

JANUARY 1, 1998 – DECEMBER 31, 2000

DATE
Dear George:

I have attached the South Carolina Department of Labor, Licensing and Regulations’ 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
JANUARY 1, 1998 - DECEMBER 31, 2000
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Mr. R. Voight Shealy  
Materials Management Officer  
Office of General Services  
1201 Main Street, Suite 600  
Columbia, South Carolina 29201

Dear Voight:

We have examined the procurement policies and procedures of the South Carolina Department of Labor, Licensing and Regulation for the period January 1, 1998 through December 31, 2000. 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, State regulations and the Department’s 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 costs of control procedures. The objectives of a system are to provide management with reasonable, but not absolute, 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, 1998 through December 31, 2000 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 January 1, 1998 through December 31, 2000
2. Procurement transactions from the period July 1, 1998 through December 31, 2000 as follows:
   a) Ninety-six payment transactions greater than $1,500 each reviewed for competition and compliance to the Code
   b) A block sample of five hundred numerical purchase orders reviewed for order splitting, favored vendors and competition
3. Surplus property procedures
4. Minority Business Enterprise Plan and reports
5. Information technology plans and approvals
6. Internal procurement procedures manual
7. 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 January 1, 1998 through December 31, 2000. Our on-site review was conducted February 20, 2001 through March 9, 2000 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.

On May 12, 1998, the Budget and Control Board granted the Department the following certification:

<table>
<thead>
<tr>
<th>PROCUREMENT AREAS</th>
<th>CERTIFICATION LIMITS</th>
</tr>
</thead>
<tbody>
<tr>
<td>Goods and Services</td>
<td>$25,000 per commitment</td>
</tr>
<tr>
<td>Consultant Services</td>
<td>$25,000 per commitment</td>
</tr>
<tr>
<td>Information Technology</td>
<td>$25,000 per commitment</td>
</tr>
</tbody>
</table>

Our audit was performed primarily to determine if recertification is warranted. Since our previous audit in 1998, the Department has maintained what we consider a professional and efficient procurement system. We did note the following items which should be addressed by management.

**Sole Source Reporting**

The Department over reported the total value of four sole source procurements.

<table>
<thead>
<tr>
<th>PO</th>
<th>Date</th>
<th>Description</th>
<th>Reported amount</th>
<th>Total expenditures</th>
</tr>
</thead>
<tbody>
<tr>
<td>990360</td>
<td>7/1/98</td>
<td>Tec Flame- smokeless gasoline</td>
<td>$125,000</td>
<td>$108,472</td>
</tr>
<tr>
<td>990505</td>
<td>7/2/98</td>
<td>Micro Blaze- bacteria eating foam</td>
<td>50,000</td>
<td>31,274</td>
</tr>
<tr>
<td>200375</td>
<td>7/1/99</td>
<td>Tec Flame- smokeless gasoline</td>
<td>125,000</td>
<td>46,445</td>
</tr>
<tr>
<td>200517</td>
<td>7/1/99</td>
<td>Micro Blaze- bacteria eating foam</td>
<td>50,000</td>
<td>35,060</td>
</tr>
</tbody>
</table>

The Department issued blanket sole source purchase orders to satisfy the annual fire fighting training material requirements. The purchase orders were issued in the first quarter of the fiscal year and reported to Materials Management Office as required. However, the amount reported was not totally expended. Since an amended report was never filed, the sole source totals for the two fiscal years were overstated by $128,749.
We recommend amended reports be filed for the fiscal years to reflect the actual expenditures. If the Department is going to report projected sole source expenditures at the beginning of the fiscal year, amended reports should be filed, if applicable, at the end of the fiscal year when the projected expenditures and actual expenditures have a material difference.

**Combining Requirements**

We noted two instances where like items should have been combined and competed based on the combined values. The Department procured two similar printing jobs for two offices and considered each procurement separately.

<table>
<thead>
<tr>
<th>PO</th>
<th>Amount</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>200823</td>
<td>$ 5,786</td>
<td>Renewal forms and pocket cards</td>
</tr>
<tr>
<td>200822</td>
<td>5,582</td>
<td>Renewal forms and pocket cards</td>
</tr>
<tr>
<td>Total</td>
<td>$11,368</td>
<td></td>
</tr>
</tbody>
</table>

The Department procured monitoring equipment and solicited competition based on the value of each type of pump.

<table>
<thead>
<tr>
<th>PO</th>
<th>Amount</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>200864</td>
<td>$ 5,282</td>
<td>Low flow sampling pumps with chargers</td>
</tr>
<tr>
<td>200863</td>
<td>7,801</td>
<td>High flow sampling pumps with chargers</td>
</tr>
<tr>
<td>Total</td>
<td>$13,083</td>
<td></td>
</tr>
</tbody>
</table>

The office that initiated the requisition specified name brand pumps. According to office personnel, the brands could not be bought from the same vendor. However, one of the vendors solicited provided quotes for each type of pump.

Section 11-35-1550(2)(d) of the Code requires that procurements between $10,000.01 and $25,000 have written solicitations of written quotes and be advertised. Since the combined total exceeded $10,000.01, a more formal quotation method was required.

We recommend the Department combine and compete like items.
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 AREAS</th>
<th>RECOMMEND CERTIFICATION LIMITS</th>
</tr>
</thead>
<tbody>
<tr>
<td>Goods and Services</td>
<td>*$25,000 per commitment</td>
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<td>Consultant Services</td>
<td>*$25,000 per commitment</td>
</tr>
<tr>
<td>Information Technology</td>
<td>*$25,000 per commitment</td>
</tr>
</tbody>
</table>

*The 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 12, 2001

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

Dear Mr. Sorrell:

We have reviewed your draft of the procurement audit for the Department of Labor, Licensing and Regulation for the period January 1, 1998 - January 1, 2000. Recommendations made by Audit & Certification are being implemented to insure compliance with all applicable provisions of the Consolidated Procurement Code.

Sincerely,

Deme B. Loftis
Deputy Director of Administration

cc: William W. Leath
May 12, 2001

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 Regulations to our audit report for the period of January 1, 1998 – December 31, 2000. Also we have followed the Department’s corrective action during and subsequent to our fieldwork. 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 South Carolina Department of Labor, Licensing and Regulations the certification limits noted in our report for a period of three years.

Sincerely,

Larry G. Sorrell, Manager  
Audit and Certification

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