PROCUREMENT AUDIT AND CERTIFICATION
February 19, 1987

Mr. Richard W. Kelly
Division Director
Division of General Services
300 Gervais Street
Columbia, South Carolina  29201

Dear Rick:

Attached is the final South Carolina Employment Security Commission audit report and recommendations made by the Office of Audit and Certification. Since no certification request above the $2,500 allowed by law was requested, and no action is necessary by the Budget and Control Board, I recommend that this report be presented to Dr. Coles for his information.

Sincerely,

William J. Clement
Assistant Division Director

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July 30, 1986

Mr. William J. Clement
Assistant Division Director
Division of General Services
300 Gervais Street
Columbia, South Carolina  29201

We have examined the procurement policies and procedures of the South Carolina Employment Security Commission for the period July 30, 1981 through March 31, 1986. As 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 internal 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 Employment Security 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 Employment Security Commission in compliance with the South Carolina Consolidated Procurement Code and ensuing regulations.

R. Voight Shealy, Manager
Audit and Certification

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INTRODUCTION

The Office of Audit and Certification conducted an examination of the internal procurement operating procedures and policies and related manual of the South Carolina Employment Security Commission.

Our on-site review was conducted May 8, 1986 through June 5, 1986 and was made under the authority as described in Section 11-35-1230(1) of the South Carolina Consolidated Procurement Code and Section 19-445.2020 of the accompanying regulations.

The examination was directed principally to determine whether, in all material respects, the procurement system's internal controls were adequate and the procurement procedures, as outlined in the Internal Procurement Operating Procedures Manual, were in compliance with the South Carolina Consolidated Procurement Code and its ensuing regulations.

Additionally, our work was directed toward assisting the agency in promoting the underlying purposes and policies of the Code as outlined in Section 11-35-20, which include:

(1) to ensure the fair and equitable treatment of all persons who deal with the procurement system of this State;

(2) to provide increased economy in state procurement activities and to maximize to the fullest extent practicable the purchasing values of funds of the State;
(3) to provide safeguards for the maintenance of a procurement system of quality and integrity with clearly defined rules for ethical behavior on the part of all persons engaged in the public procurement process.
SCOPE

Our examination encompassed a detailed analysis of the internal procurement operating procedures of the South Carolina Employment Security Commission 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 Audit and Certification team of the Division of General Services selected a block sample from the period January 1, 1984 through January 31, 1985 and a random statistical sample of transactions from the period of October 1, 1984 through December 31, 1985 for compliance testing and performed other auditing 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 register;
(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;
(10) economy and efficiency of the procurement process;
and
(11) approval of Minority Business Enterprise Plan.
SUMMARY OF AUDIT FINDINGS

Our audit of the procurement system at the South Carolina Employment Security Commission produced findings and recommendations in the following areas:

I. Compliance - Sole Source and Emergency Procurements
   A. Sole Source Procurements
      We noted two sole source procurements that were handled incorrectly.
   B. Emergency Procurements
      The emergency procurement process has not been used properly by the Commission.

II. Compliance - Good and Services
    Five procurements were not made in compliance with the Consolidated Procurement Code and/or internal policy.

III. Compliance - Information Technology
    Two information technology procurements were handled incorrectly.
IV. Review of Internal Procurement

Procedures Manual

Our review of the Commission's procurement procedures manual indicated areas that needed to be added, changed or expanded.
RESULTS OF EXAMINATION

I. COMPLIANCE - SOLE SOURCE AND EMERGENCY PROCUREMENTS

Interim reviews of sole source and emergency procurements were performed June 24, 1983 and March 5, 1985. The results can be seen at appendixes A and B. Since this had been accomplished previously, we examined the quarterly reports of sole source and emergency procurements and trade-in sales and all available supporting documents for the period January 1, 1985 - March 31, 1986. The purpose of this examination was to determine the appropriateness of the procurement actions taken and the accuracy of the reports submitted to the Division of General Services, as required by Section 11-35-2440 of the Consolidated Procurement Code.

A. Sole Source Procurements

The Commission had relatively few sole source transactions during this period. Most of these were proper but we noted two sole source procurements that should have been competitively bid. They were purchase order 13554 totalling $9,639.38 for furnishing the South Carolina Occupational Information System (SCOIS) user manuals, "18 almanac" ads and reprinting the SCOIS brochure and purchase order 14864 totalling $7,080.00 for producing the SCOIS annual report and updating the SCOIS user manual.
Further, both transactions are unauthorized procurements since commitments were made by user departments before purchase orders were prepared and sole source determinations were approved by the Executive Director. Section 1000.2 of the Commission's Internal Procurement Manual states "the purchasing department... is responsible for the procurement of all items of equipment and goods and services for this agency." Additionally, Section 11-35-1560 requires that sole source procurements be approved by personnel with requisite authority which, for the Commission, is the Executive Director. Approval must be obtained before commitments are made to vendors.

Future procurements of this nature should be competitively bid through State Procurements since they exceed the Commission's certification limit. Since the two transactions listed above are unauthorized procurements they must be ratified by the Materials Management Officer in accordance with Section 19-445.2015, Subsection A, of the regulations.

AGENCY RESPONSE

A review of the unauthorized procurements in this category, as identified on the audit report, was conducted and a determination made that the user party did negotiate contracts for the referenced procurements without utilizing the procurement methodology as outlined in the S. C. Consolidated Procurement Code or this Agency's Internal Procurement Manual. The personnel responsible for negotiating these contracts were not aware of the rules and regulations that must be followed when purchasing items for this Agency.

Corrective Action

This Agency has implemented a procurement procedure that will identify the process that must be followed when items are to be purchased for which this Agency will be responsible for payment. All employees will be advised of this procedure.
The Agency will request ratification of these procurements from the Materials Management Officer.

B. Emergency Procurements

The emergency procurement methodology provided in Section 11-35-1570 of the Procurement Code has not been used properly by the Commission. This is evident in the following areas.

During the past five quarters, the Commission's emergency procurements totalled $194,965. Of this, twenty-one procurements totalling $186,255 were for forms, envelopes and checks. Poor planning and insufficient lead time caused the Commission to resort to crisis management in the procurement and restocking of these supplies.

Emergency procurements are intended to be used for unforeseen events which make it impossible for an agency to function. Poor planning may initiate an occasional emergency procurement but it certainly does not justify normal operations.

Other questionable emergency procurements are:

<table>
<thead>
<tr>
<th>P.O. Number</th>
<th>Amount</th>
<th>Item Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>14106</td>
<td>$1,618.00</td>
<td>Dust rags and squeezes</td>
</tr>
<tr>
<td>13930</td>
<td>$4,730.00</td>
<td>Moving services to relocate supply room and print shop</td>
</tr>
<tr>
<td>14611</td>
<td>$7,634.00</td>
<td>Terminal cable and connectors</td>
</tr>
<tr>
<td>14633</td>
<td>$25,990.00</td>
<td>Labor and equipment to update local office cable installations</td>
</tr>
<tr>
<td>14980</td>
<td>$3,934.00</td>
<td>Printed posters</td>
</tr>
<tr>
<td>15115</td>
<td>$4,775.00</td>
<td>Ball point pens</td>
</tr>
</tbody>
</table>
Again, these transactions appear to have resulted from poor planning, insufficient lead time and inadequate inventory management.

Finally, voucher number 8505535 resulted from an emergency procurement of a consultant that was justified as a "short term need." In reality, the contract extended into a multi-year contract in excess of $25,000 annually. Section 19-445.2110, Subsection C, of the regulations states, "Emergency procurement shall be limited to those supplies, services or construction items necessary to meet the emergency."

In conclusion, we cannot overstate our concern over the Commission's misuse of emergency procurements. The Commission should take immediate action to:

1. inform departments of procurement leadtime requirements;
2. identify problem departments and take appropriate action to curtail their emergency procurement requests; and,
3. improve central supply inventory management.

AGENCY RESPONSE

A review was conducted of the emergency procurements initiated by this Agency during the period covered by the audit. As we discussed during the exit conference, a number of unusual circumstances occurred that prompted our actions. We realize that the items and cost involved do offer reason for concern from the audit viewpoint, but at no time did we utilize the emergency procurement procedure to by-pass normal procedures for our convenience but rather to insure that supplies would be available on demand.

Corrective Action

This Agency is in the process of developing and implementing a multi-year contract for all continuous forms and related printed materials. We feel that this will prevent the reoccurrence of the situation that we were placed in recently.
We are also informing personnel of the time required to order and receive items so that they might react accordingly.

II. COMPLIANCE – GOODS AND SERVICES

Our examination of goods and services procurement transactions revealed five that were not made in accordance with the Consolidated Procurement Code and internal procurement policy.

<table>
<thead>
<tr>
<th>Voucher/P.O. Number</th>
<th>Amount</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. 8511148</td>
<td>$525.00</td>
<td>Disassemble and reassemble panels</td>
</tr>
<tr>
<td>2. 8511410</td>
<td>$1,486.00</td>
<td>Paper screen printed banners</td>
</tr>
<tr>
<td>3. 8511351</td>
<td>$967.00</td>
<td>Terminal stand</td>
</tr>
<tr>
<td>4. PO14232</td>
<td>$1,283.00</td>
<td>Furniture</td>
</tr>
<tr>
<td>5. PO14233</td>
<td>$1,377.00</td>
<td>Furniture</td>
</tr>
</tbody>
</table>

Items one, two and three are unauthorized procurements that were made without competition and without purchase orders being issued. Accounting accepted and paid the invoices despite the lack of authorizations.

As indicated in report point I.A., the Commission's purchasing procedures state that procurements must be made by the Purchasing Department. Since this was not done, the transactions must be ratified by the Executive Director in accordance with Section 19-445.2015 of the regulations.

Items four and five were consecutively numbered purchase orders for the same office for the same type items to be procured.
from the same vendor on the same date. When combined, as they should have been, the total procurement amount is $2,660.00, which exceeds the Commission's authority. Further, the total purchase amount requires solicitation of three formal sealed bids rather than the two phone quotes received.

The Commission failed to adhere to Section 19-445.2100, Subsection A, of the regulations, which states in part "... procurement requirements shall not be artificially divided by governmental bodies so as to constitute a small purchase..."

Since the total value of these procurements exceeds the Commission's certification limit they must be ratified by the Materials Management Officer in accordance with Section 19-445.2015 of the regulations. In the future, orders that are clearly made at the same time should be consolidated. Lower prices may result.

**AGENCY RESPONSE**

A review was conducted of the five (5) items identified in the audit report as not being in compliance with the Consolidated Procurement Code and internal procurement policy. The situation for the first three (3) was that of personnel again not being knowledgeable of the procedures that are involved with the purchase of items for use by this Agency. Items four (4) and five (5) were the result of poor judgement on the part of the buyer involved in trying to satisfy a situation that occurred at that time.

**Corrective Action**

The implementation of the purchase procedures aforementioned will assist in eliminating the situation identified with items one (1) through three (3). A request for ratification of the procurement by this Agency's Executive Director is forthcoming.

A more intensive training program is being utilized to better train the authorized personnel involved in the purchase of goods and service for our Agency. This training program will include...
the guidelines of the S. C. Consolidated Procurement Code. A request for ratification by the Materials Management Officer is forthcoming.

III. COMPLIANCE - INFORMATION TECHNOLOGY

The Commission failed to competitively bid a procurement of a computer tape drive subsystem, choosing rather to sole source the system as "the most cost efficient method of upgrading or replacing the agency's tape subsystem." The cost of the new equipment was $131,000, less trade-in allowance of $103,000 for the old equipment, leaving a net acquisition cost of $31,280 including taxes and freight.

While this may have been a cost effective means of upgrading the system, it is not justifiable as a sole source. According to the Information Technology Management Officer, this system should have been bid through his office.

Further, the Commission failed to obtain the Budget and Control Board's approval for the trade-in of this equipment. Regulation 19-445.2150, Subsection E, states in part, "...when the trade-in value exceeds five hundred dollars ($500.00), the governmental body shall refer the matter to the Materials Management Officer for disposition. When the trade-in value exceeds $25,000.00 the Materials Management Officer shall refer the matter to the (Budget and Control) Board for determination."

In the future, the agency must ensure that all trade-in's greater than $500.00 have the appropriate approval and are reported to the Division of General Services.
To supplement the agreement above, the Commission contracted with the same vendor for maintenance of the equipment purchased therein. However, maintenance is not mentioned on the purchase order or the sole source determination. Additionally, the Commission was not able to locate a contract supporting the maintenance agreement. Payments for this service exceed $53,000 annually.

The Procurement Code requires that such contracts either be procured through a competitive solicitation or, if appropriate, supported by a sole source determination. Neither action was taken, thus the procurement of maintenance was not made in compliance with the Code.

No contract for maintenance could be found, therefore we could not determine the duration of the agreement. Since the Procurement Code limits all contracts to five years we must assume that the total contract amount might be $265,000. This vastly exceeds the Commission's procurement authority of $2,500 since the sole source determination does not address maintenance.

The Commission should do the following to support this agreement:

1. Contact the vendor in an attempt to obtain a copy of the contract, if there is one. If there is a contract, maintenance services must either be competitively bid or, if appropriate, a sole source determination must be prepared to continue maintenance beyond the current contract year. If there is no con-
tract, maintenance services must either be competitively bid or, if appropriate, a sole source determination must be prepared now.

(2) Seek ratification of this unauthorized procurement from the Director of the Division of General Services, in accordance with Section 19-445.2015 of the regulations.

AGENCY RESPONSE

A review was conducted of the situation involving the procurement of the tape drive subsystem and the related maintenance agreement identified in the audit report. Again our findings indicated that the personnel responsible for this transaction were not knowledgeable of the guidelines established in this Agency's internal procurement manual or the S. C. Consolidated Procurement Code.

Corrective Action

The implementation of the purchasing procedures and the adherence of these procedures by all members of this Agency should prevent the reoccurrence of the situation mentioned above.

A request has been made for a copy of the maintenance contract presently in effect and we will insure that the renewal of this contract will be in compliance with the S. C. Consolidated Procurement Code. A request for ratification of this procurement is forthcoming.

IV. REVIEW OF INTERNAL PROCUREMENT PROCEDURES MANUAL

As a part of our examination, we reviewed the Commission's Internal Procurement Procedures Manual. The manual, overall is good; however, we did note the following areas that need to be added, changed or expanded.
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<th>Section</th>
<th>Page</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>1001.3</td>
<td>2</td>
<td>Update exempted commodities list</td>
</tr>
<tr>
<td>2000.1</td>
<td>8, 9</td>
<td>Delete this section on Fiscal Accountability Act reporting as it is no longer applicable</td>
</tr>
<tr>
<td>Attachment</td>
<td>C</td>
<td>Update purchase order form - change 4% sales tax back to 5% and add appropriate signature block</td>
</tr>
</tbody>
</table>

Additions

Other procurement areas which need to be addressed in the manual are:

1. Confirmation orders
2. Accounting, audit and legal services
3. Expenditure of federal funds
4. Professional development
5. Conflict of interest
6. Advance notification of needs policy
7. Supply/warehouse ordering procedures
8. Include or reference property control and/or fixed asset system procedures
9. County field office procurement procedures
Although property management does not come under the Purchasing Department, the Commission should develop formal written procedures for the additions, deletions, or transfer of personal property within the agency. Written procedures should also be developed for the disposal of surplus items and trade-in sales.

AGENCY RESPONSE

Plans are already underway to update this Agency's Internal Procurement Manual to include the information provided in the audit report, as well as other areas of interest to this Agency.
CONCLUSION

As enumerated in our transmittal letter, corrective action based on the recommendations described in the findings in the body of this report, we believe will in all material respects place the South Carolina Employment Security Commission in compliance with the South Carolina Consolidated Procurement Code and ensuing regulations.

The major area where corrective action is needed is in the use of emergency procurements. The Office of Audit and Certification will perform a follow-up review by December 31, 1986 to determine the Commission's progress toward correcting each deficiency noted herein with particular attention to emergency procurements.

Subject to this corrective action and because additional certification was not requested, we recommend that the Employment Security Commission be allowed to continue procuring all goods and services, construction, information technology and consulting services up to the basic level as outlined in the Procurement Code.

James M. Stiles, PPB
Audit Manager

R. Voight Shealy, Manager
Audit and Certification
February 19, 1987

Mr. William J. Clement  
Assistant Division Director  
Division of General Services  
300 Gervais Street  
Columbia, South Carolina 29201

Dear Bill:

We have returned to the South Carolina Employment Security Commission to determine the progress made toward implementing the recommendations in our audit report covering the period July 30, 1981 through March 31, 1986. During this visit, we followed up on each recommendation made in the audit report through inquiry, observation and limited testing.

We observed that the commission 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.

Additional certification was not requested, therefore we recommend that the Employment Security Commission be allowed to continue procuring all goods and services, construction, information technology and consulting services up to the basic level as outlined in the Consolidated Procurement Code regulations.

Sincerely,

R. Voight Shealy, Manager  
Audit and Certification