

SOUTH CAROLINA DEPARTMENT OF LABOR, LICENSING

AND REGULATION

PROCUREMENT AUDIT REPORT

JANUARY 1, 2004 – DECEMBER 31, 2006

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STATE OF SOUTH CAROLINA
State Budget and Control Board
PROCUREMENT SERVICES DIVISION

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R. VOIGHT SHEALY
MATERIALS MANAGEMENT OFFICER

April 5, 2007

Mr. R. Voight Shealy
Materials Management Officer
Office of Procurement 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, 2004 through December 31, 2006. 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, State regulations and the procurement policy of the Department. 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 Department of Labor, Licensing and Regulation 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, 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 two 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 Department of Labor, Licensing and Regulation in compliance with the Consolidated Procurement Code and ensuing regulations.

Sincerely,



Larry G. Sorrell, Manager
Audit and Certification

INTRODUCTION

We conducted an examination of the internal procurement operating policies and procedures of the South Carolina Department of Labor, Licensing and Regulation. Our review was conducted February 7, 2007 through March 3, 2007 was made under Section 11-35-1230(1) of the South Carolina Consolidated Procurement Code and Section 19-445.2020 of the accompanying regulations.

On November 9, 2004 the State Budget and Control Board granted the South Carolina Department of Labor, Licensing and Regulation, hereinafter referred to as the Department, the following procurement certifications.

PROCUREMENT AREAS

CERTIFICATION LIMITS

Goods and Services

\$ 100,000 per commitment

Consultant Services

\$ 100,000 per commitment

Our audit was performed primarily to determine if re-certification is warranted. The Department requested to remain at the current level of certifications.

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 Department 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 samples for the period July 1, 2005 through December 31, 2006 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, 2004 through December 31, 2006
- (2) Procurement transactions for the period July 1, 2005 through December 31, 2006 as follows:
 - a) Ninety-eight payments each exceeding \$1,500
 - b) Two hundred forty two sequential purchase orders reviewed for order splitting and favored vendors
 - c) Procurement card transactions for June, July, and August of 2006
- (3) Minority Business Enterprise Plans and reports for the audit period
- (4) Information technology plans for the audit period
- (5) Internal procurement procedures manual
- (6) File documentation and evidence of competition
- (7) Surplus property disposal procedures

RESULTS OF EXAMINATION

Purchase Orders Not Reconcilable to Invoices

The following purchase orders could not be reconciled to the invoices.

<u>PO</u>	<u>Description</u>	<u>Invoice</u>	<u>Invoice Amount</u>
60198	Court reporting service	06-190	\$ 2,483
60198	Court reporting service	06-189	475
60244	Propane gas	114170	11,419
60244	Propane gas	114170	11,419
60244	Propane gas	119596	10,775
60244	Propane gas	136621	12,473
60244	Propane gas	136622	12,475

The purchase order for the court reporting service did not show a billing rate. Based on the purchase order and the amounts invoiced, we could not determine if the rate paid was correct. The purchase order for propane gas referenced the second year of a five year contract with a price \$.0875 per gallon. The invoices from the vendor listed the total price per gallon and did not identify the contract price of \$.0875 per gallon.

We recommend the Department reconcile purchase orders and invoice and adequately document any discrepancies prior to payment.

Blanket Purchase Agreements

The internal control limits established by the Department for blanket purchase agreements included a maximum per transaction limit stated on the purchase order. We noted the following transactions that exceeded the limit.

<u>PO</u>	<u>Voucher</u>	<u>Limit</u>	<u>Purchase</u>
070105	2797	\$ 500	\$2,693
070105	2797	500	859
060164	10123	750	867

Since each transaction exceeded the established limit, the transactions were unauthorized as defined in Regulation 19-445.2015.

We recommend the Department comply with its policy for blanket purchase agreements. The Department must submit a ratification request for the unauthorized procurements to the Director or her designee in accordance with Regulation 19-445.2015.

CERTIFICATION RECOMMENDATIONS

As enumerated in transmittal letter, corrective action based on the recommendations described in this report, will in all materials respects place the South Carolina Department of Labor, Licensing and Regulation in compliance with the South Carolina 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 South Carolina Department of Labor, Licensing and Regulation be recertified to make direct procurements for three years up to the limits as follows.

PROCUREMENT AREAS

RECOMMENDED CERTIFICATION LIMITS

Goods and Services

*\$100,000 per commitment

Consultant Services

*\$100,000 per commitment

*Total annual purchase commitment whether single year or multi-term contracts are used.



David E Rawl, CPPB
Senior Auditor



Larry G. Sorrell, Manager
Audit and Certification



Mark Sanford
Governor

Adrienne Riggins Youmans
Director

South Carolina
Department of Labor, Licensing and Regulation

Division Of Administration



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April 24, 2007

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, 2004 – December 31, 2006. Recommendations made by Audit and Certification are being implemented to insure compliance with all applicable provisions of the Consolidated Procurement Code.

Thank You,

Adrienne R. Youmans
Director

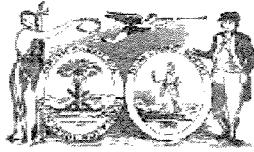
Cc: Shannon Hicks

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MATERIALS MANAGEMENT OFFICER

April 27, 2007

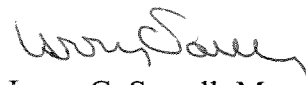
Mr. R. Voight Shealy
Materials Management Officer
Materials Management Office
1201 Main Street, Suite 600
Columbia, South Carolina 29201

Dear Voight:

We have reviewed the response from the South Carolina Department of Labor, Licensing and Regulation to our audit report for the period of January 1, 2004 to December 31, 2006. Also we have followed the Department's corrective action during and subsequent to our fieldwork. We are satisfied that the South Carolina Department of Labor, Licensing and Regulation have 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 a period of three years.

Sincerely,


Larry G. Sorrell, Manager
Audit and Certification

LGS/gs

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