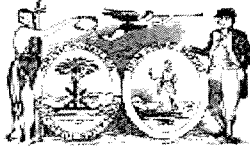


STATE OF SOUTH CAROLINA
State Budget and Control Board
PROCUREMENT SERVICES DIVISION

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GOVERNOR

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R. VOIGHT SHEALY
MATERIALS MANAGEMENT OFFICER

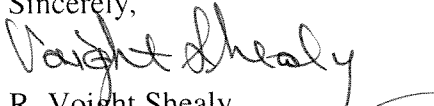
February 13, 2004

Mr. Delbert H. Singleton Jr.
Director
Procurement Services Division
6th Floor-Wade Hampton Building
Columbia, South Carolina 29201

Dear Delbert:

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 South Carolina Department of Labor, Licensing and Regulation a three-year certification as noted in the audit report.

Sincerely,


R. Voight Shealy
Materials Management Officer

/jl

**SOUTH CAROLINA DEPARTMENT OF LABOR, LICENSING AND
REGULATION**

PROCUREMENT AUDIT REPORT

JANUARY 1, 2001 – DECEMBER 31, 2003

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R. VOIGHT SHEALY
MATERIALS MANAGEMENT OFFICER

February 12, 2004

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, 2001 through December 31, 2003. 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 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 December 15, 2003 through January 22, 2004, 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 May 8, 2001, 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.

<u>PROCUREMENT AREAS</u>	<u>CERTIFICATION LIMITS</u>
Goods and Services	\$ 25,000 per commitment
Consultant Services	\$ 25,000 per commitment
Information Technology	\$ 25,000 per commitment

Our audit was performed primarily to determine if re-certification is warranted. Additionally, the Department requested to following increased certifications.

<u>PROCUREMENT AREAS</u>	<u>CERTIFICATION LIMITS</u>
Goods and Services	\$ 50,000 per commitment
Consultant Services	\$ 50,000 per commitment
Information Technology	\$ 50,000 per commitment

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 January 1, 2001 through December 31, 2003 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, 2001 through December 31, 2003
- (2) Procurement transactions for the period January 1, 2001 through December 31, 2003 as follows:
 - a) One hundred and one payments each exceeding \$1,500
 - b) Two hundred forty sequential purchase orders reviewed for order splitting and favored vendors
 - c) Three months of procurement card transactions
- (4) Minority Business Enterprise reports
- (5) Information technology plans for the audit period
- (6) Internal procurement procedures manual
- (7) File documentation and evidence of competition
- (8) Surplus property disposal procedures

RESULTS OF EXAMINATION

Preference Not Included in Solicitations

The Department did not provide the resident vendor preference information in its written solicitations for services. Section 11-35-1524 of the Code allows preferences for resident vendors and end products made, manufactured or grown in South Carolina or the United States. The preferences were provided for goods. However, bidders for services were not being allowed the opportunity of requesting the resident vendor preference.

We recommend the resident vendor preference in Section 11-35-1524 be included in the written solicitations for services.

Overpayments

Three payments exceeded the amounts listed on the purchase orders.

<u>PO</u>	<u>Voucher</u>	<u>Description</u>	<u>PO Amount</u>	<u>Amount Paid</u>	<u>Overpayment</u>
30238	9930	Legal services	\$110 per hour	\$120 per hour	\$ 73
30238	9930	Legal services	110 per hour	130 per hour	576
21829	4237	Well drilling	3,000	5,150	2,150
40434	3323	Propane	1,825	1,916	91

The change order policy requires a written change order from the Procurement Office when the amount exceeds 10% up to \$100. The overpayments on vouchers 9930 and 4237 were not supported with change orders. The Department mistakenly paid a late fee of \$91 on voucher 3323 even though the payment was timely.

We recommend the Department comply with its change order policy.

Procurement Card Transactions

The Department exceeded its \$500 dollar limit per item on the following procurement card purchases for repairs as the Fire Academy.

<u>Invoice</u>	<u>Date</u>	<u>Item</u>	<u>Amount</u>
25529	2/24/03	Compressor	\$702
25744	2/26/03	Compressor	702

<u>Invoice</u>	<u>Date</u>	<u>Item</u>	<u>Amount</u>
25745	2/26/03	Compressor	702
28059	4/04/03	Compressor	702

The Department's policy for the procurement card program limits a single procurement to an amount less than \$500.

We recommend the Department either comply with the approved policy for procurement card activity policy or amend its policy.

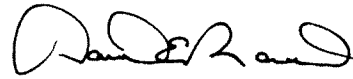
CERTIFICATION RECOMMENDATIONS

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 agency procurements for three years up to the limits as follows.

<u>PROCUREMENT AREAS</u>	<u>RECOMMENDED CERTIFICATION LIMITS</u>
Goods and Services	*\$50,000 per commitment
Consulting Services	*\$50,000 per commitment
Information Technology	*\$50,000 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



South Carolina Department of Labor, Licensing and Regulation

Mark Sanford
Governor
Adrienne Riggins Youmans
Director

Division Of Administration
110 Centerview Drive
Post Office Box 11329
Columbia, SC 29211-1329
(803) 896-4300
FAX: (803) 896-4310

February 12, 2004

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.

Resident Vendor Preference missing:

LLR has updated its bid package to include a place for a resident vendor preference.

Over Payment of PO's:

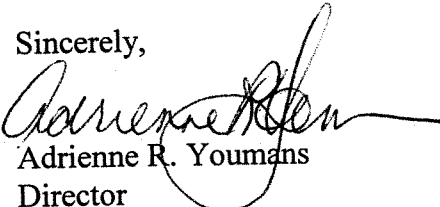
LLR purchase order, change order policies have been given to all personnel responsible for bill payment.

Procurement Card Policy :

LLR has contacted the individual and will remind all card holders of the line item limits.

I appreciate your assistance in this matter.

Sincerely,


Adrienne R. Youmans
Director

CC: William Leath

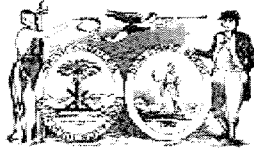
certification request

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R. VOIGHT SHEALY
MATERIALS MANAGEMENT OFFICER

February 13, 2004

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, 2001 – December 31, 2003. 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 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 a period of three years.

Sincerely,

A handwritten signature in black ink, appearing to read "Larry G. Sorrell".

Larry G. Sorrell, Manager
Audit and Certification

LGS/jl

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