PROCUREMENT AUDIT AND CERTIFICATION
Mr. Richard W. Kelly  
Division Director  
Division of General Services  
1201 Main Street, Suite 400  
Columbia, South Carolina  29201  

Dear Rick:  

Attached is the Department of Archives and History audit report and recommendations made by the Office of Audit and Certification. Since no certification above the $2,500.00 allowed by law was requested, and no action is necessary by the Budget and Control Board, I recommend that this report be presented to them for their information.

Sincerely,

James J. Forth, Jr.  
Assistant Division Director  

Attachment
SOUTH CAROLINA DEPARTMENT OF ARCHIVES AND HISTORY

AUDIT REPORT

JULY 1, 1986 - MAY 31, 1988
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We have examined the procurement policies and procedures of the South Carolina Department of Archives and History for the period July 1, 1986 through May 31, 1988. As a 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 Department of Archives and History 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 South Carolina Department of Archives and History in compliance with the South Carolina Consolidated Procurement Code and ensuing regulations.

R. Voight Shealy, Manager
Audit and Certification
SCOPe

Our examination encompassed a detailed analysis of the internal procurement operating procedures of the South Carolina Department of Archives and History 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.

We reviewed all procurement transactions for the period July 1, 1986 - May 31, 1988, for compliance testing and performed other audit procedures that we considered necessary in the circumstances to formulate this opinion. Our review of the system included, but was not limited to, the following areas:

(1) adherence to applicable laws, regulations and internal policy;

(2) procurement staff and training;

(3) adequate audit trails and purchase order registers;

(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) Minority Business Enterprise Plan.
SUMMARY OF AUDIT FINDINGS

Our audit of the procurement system for the South Carolina Department of Archives and History (the Department) produced findings and recommendations in the following areas.

I. Compliance - Goods and Services, Consultants, and Information Technology

Nine procurements out of a sample of sixty were made without evidence of competition.

II. Unauthorized Procurements

The Department made two procurements which exceeded their certification level.

III. Compliance - Sole Source Procurements and Trade-in Sales

A. Inappropriate Sole Source Procurements

Two procurements were made inappropriately as sole sources.

B. Approval Not Obtained for Trade-in Sales

The Department made two trade-in sales totaling more than $500.00 without the required approval of the Materials Management Office.

IV. Minority Business Enterprise Utilization Plan

The Department does not have an approved Minority Business Enterprise Utilization Plan for
fiscal year 1987/88. The Department failed to file the required quarterly reports for fiscal year 1987/88.

V. Internal Procurement Procedures Manual

Section 11-35-540(3) of the Consolidated Procurement Code required that each governmental body prepare an internal procurement operating procedures manual. As was the case with many of the smaller agencies, the Department was allowed to simply submit a statement of intent. We recommend that a full procurement procedures manual be developed to better outline the Department's current procurement system.

VI. Procurement Procedures

Our observation of procurement procedures and internal controls resulted in several recommendations for improvement.
RESULTS OF EXAMINATION

I. Compliance - Goods and Services, Consultants and Information Technology

Our examination of procurement activity at the Department included a test of a sample of sixty (60) transactions from the period July 1, 1986 through May 30, 1988. Nine of these procurements were not supported by evidence of competition or by a sole source or emergency determination.

<table>
<thead>
<tr>
<th>Item</th>
<th>Voucher/P.O.</th>
<th>Amount</th>
<th>Item/Service Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>(1)</td>
<td>0579</td>
<td>1,054.88</td>
<td>Microfilm supplies</td>
</tr>
<tr>
<td>(2)</td>
<td>0870</td>
<td>950.25</td>
<td>Furniture</td>
</tr>
<tr>
<td>(3)</td>
<td>0920</td>
<td>573.83</td>
<td>Picture framing</td>
</tr>
<tr>
<td>(4)</td>
<td>1254</td>
<td>947.35</td>
<td>Picture framing</td>
</tr>
<tr>
<td>(5)</td>
<td>1158</td>
<td>1,161.50</td>
<td>Microfilm reels</td>
</tr>
<tr>
<td>(6)</td>
<td>151</td>
<td>1,156.28</td>
<td>Airline tickets</td>
</tr>
<tr>
<td>(7)</td>
<td>0452</td>
<td>786.40</td>
<td>Chemical supplies</td>
</tr>
<tr>
<td>(8)</td>
<td>1302</td>
<td>544.95</td>
<td>Microfilm supplies</td>
</tr>
<tr>
<td>(9)</td>
<td>58</td>
<td>945.00</td>
<td>Shredder maintenance</td>
</tr>
</tbody>
</table>

Regulation 19-445.2100, Subsection E, Item 2 which covers procurements from $500.01 to $1,499.99 requires "Solicitation of verbal or written quotes from a minimum of two qualified sources of supply." Items 1 through 9 above needed only documentation of two (2) telephone quotes to meet this requirement. However, this was not done.

The Department should comply with these regulations. When competition is solicited documentation must be maintained as evidence. When a solicitation is anticipated to result in an award exceeding the agency certification limit it must be forwarded to State Procurements for disposition.
II. Unauthorized Procurements

The Department made the following two procurements which exceeded their certification level.

<table>
<thead>
<tr>
<th>Item</th>
<th>Purchase Order</th>
<th>Amount</th>
<th>Service Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>(1)</td>
<td>1232</td>
<td>$5,268.00</td>
<td>Newsletter printing</td>
</tr>
<tr>
<td>(2)</td>
<td>1962</td>
<td>6,000.00</td>
<td>Newsletter printing</td>
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</tbody>
</table>

The Department's procurement limit is $2,500.00, meaning these transactions are unauthorized procurements. As such, the Department Director must request ratification of this procurement from the State Materials Management Officer. In accordance with Regulation 19-445.2015, the request must specify the facts and circumstances surrounding the act, what corrective action is being taken to prevent recurrence, action taken against the individual committing the act, and documentation that the price is fair and reasonable.

III. Compliance - Sole Source Procurements and Trade-in Sales

We examined all sole source and emergency procurements, the supporting documents and the quarterly reports of this activity for the period July 1, 1985 through March 31, 1988, for the purpose of determining the appropriateness of the procurement actions taken and the accuracy of the reports submitted to the Division of General Services. We found the majority of these transactions to be appropriate, however, we noted the following exceptions.
A. Inappropriate Sole Source Procurements

The following procurements were inadequately justified to be an appropriate sole source based on the written determination and finding.

<table>
<thead>
<tr>
<th>P.O.</th>
<th>Amount</th>
<th>Quarter</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>0182</td>
<td>$5,950.00</td>
<td>9/86</td>
<td>Camera</td>
</tr>
<tr>
<td>680</td>
<td>26,911.50</td>
<td>12/85</td>
<td>Rotary camera</td>
</tr>
</tbody>
</table>

The basis of a sole source determination should adequately explain why an item is one of a kind and the reason for restricting the procurement to one vendor. Always, in cases of reasonable doubt, competition should be solicited.

B. Approval Not Obtained for a Trade-in Sale

The Department made two separate procurements of new equipment using older items as a credit towards the purchase price. Both items had a trade-in value which exceeded $500.00. Regulation 19-445.2150, Subsection E, states in part, "...when the trade-in value exceeds five hundred dollars ($500.00), the governmental body should refer the matter to the Materials Management Officer for disposition." In the future the Department must ensure that all trade-in's greater than $500.00 have the appropriate advance approvals.

IV. Minority Business Enterprise Utilization Plan

The Department does not have an approved Minority Business Enterprise Utilization Plan (MBE) for fiscal year 1987/88. Additionally, the required quarterly reports of minority business activity for the current fiscal year have not been submitted to
the Small and Minority Business Assistance Office. Section 11-35-5240(2) of the Procurement Code requires that all governmental bodies covered by the Code obtain approval of MBE plans from the Office of Small and Minority Business Assistance of the Governor's Office (SMBAO). Additionally, the Code requires that progress reports shall be submitted to the SMBAO not later than ten days after the end of each fiscal quarter.

We recommend that the Department immediately file with the Governor's Office an MBE plan for this current fiscal year and the 1988/89 year. Also, the quarterly reports should be filed as soon as possible.

V. Internal Procurement Procedures Manual

The Department has on file with the Materials Management Office a statement of intent dated December 21, 1981, to comply with the requirements of the Procurement Code Section 11-35-540(3) which requires the development of an Internal Procurement Operating Procedures Manual.

The statement of intent was acceptable in lieu of a formal procedures manual at the inception of the Procurement Code. This document allowed small agencies additional time to prepare a more comprehensive manual. As a result of our recent audit of the Department's procurement activity we have determined that a procedures manual should be developed outlining the current procurement system.

This manual should incorporate the most current internal procedures and follow the recommended outline which we have
submitted to the Department during the time the audit was performed.

IV. **Procurement Procedures**

During our audit, we noted several procedural weaknesses which resulted in the following recommendations for improvement.

1) **Receiving Procedures:** The Department should implement a standard receiving procedure and/or develop a receiving document which would be used as a permanent record in the voucher package. We noted twelve (12) vouchers where receipt of goods or services were not noted.

2) **Term Contract:** Procurements made from state term contracts should be documented on the purchase order by referencing the contract numbers.

3) **Audit Stamp:** An audit stamp should be used in the processing of vouchers to indicate cancellation of invoices and payment approval. The Department presently uses a stamp which indicates the invoice was received by accounts payable.

4) **Telephone Quotation:** The Department should develop a standardized telephone quotation form for use by all departments to document evidence of competition.

5) **Written Determinations:** Written determinations for sole source and emergency procurements should be referenced with the purchase order number and amount.
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 Department of Archives and History in compliance with the South Carolina Consolidated Procurement Code and ensuing regulations.

In accordance with Code Section 11-35-1230(1) the Department should take this corrective action prior to September 30, 1988. Subject to this corrective action and because additional certification was not requested, we recommend that the Department be allowed to continue procuring all goods and services, information technology and consulting services up to the basic level as outlined in the Procurement Code.

Jeff Widdowson  
Audit and Certification Analyst

Voight Shealy  
Manager  
Audit and Certification
September 19, 1988

Mr. R. Voight Shealy, Manager
Audit and Certification Division
Budget and Control Board
1201 Main Street, Suite 420
Columbia, SC 29201

Dear Mr. Shealy:

This letter is in response to the procurement audit covering the period of July 1, 1986, through May 31, 1988, and your letter of September 7, 1988.

I agree with the audit findings. We evidently have done some things right and some things wrong. The audit will enable us to become a more efficient organization in the future, and I appreciate this. The State and the Department will benefit as the suggestions are implemented. This procurement audit is the first for this Department since the Consolidated Procurement Code was passed and implemented for the State of South Carolina.

The following general comments can be matched with the numerical designations on the Summary of Audit Findings portion of the audit.

I. Staff has been instructed to monitor more closely the request for purchases to insure compliance with the code.

II. I have written to Rick Kelly requesting ratification of the two unauthorized procurement purchases listed in the audit.

III. Our staff has been instructed to document completely and justify sole source purchases. All trade-in sales will be monitored to insure compliance with the procurement code.

IV. We have completed and filed the Minority Business Enterprise Utilization Plan for Fiscal Year 1988/89.

V. I appreciate Jeff Widdowson providing us a copy of an Internal Procurement Procedures Manual. We are currently using it as a guide in compiling one for the Department.

VI. We have implemented the five recommendations listed in the audit. These recommendations will allow us to receive, track and document evidence of competition on the purchases made by the Department.
If you have any questions or need additional information, please let me know.

Sincerely,

George L. Vogt
Director

GLV/cbs

cc: William L. McDowell, Jr.
    Harold W. Perry
October 12, 1988

Mr. James J. Forth, Jr.
Assistant Division Director
Division of General Services
1201 Main Street, Suite 600
Columbia, South Carolina 29201

Dear Jim:

We have returned to the Department of Archives and History to determine the progress made toward implementing the recommendations in our audit report covering the period July 1, 1986 - May 31, 1988. During this visit, we followed up on each recommendation made in the audit report through inquiry, observation and limited testing.

We observed that the Department 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 Department 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.

Sincerely,

[Signature]

R. Voight Shealy, Manager
Audit and Certification