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 final State Library 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 information only.

Sincerely,

James J. Forth, Jr.

Attachment
SOUTH CAROLINA STATE LIBRARY
AUDIT REPORT

JULY 1, 1985 - FEBRUARY 19, 1988
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Mr. James J. Forth, Jr.
Assistant Division Director
Division of General Services
1201 Main Street, Suite 600
Columbia, South Carolina 29201

We have examined the procurement policies and procedures of
the South Carolina State Library for the period July 1, 1985
through February 19, 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 State Library 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 State Library 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 State Library 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 selected all procurement transactions which exceeded $500.00 for the period July 1, 1985 - February 19, 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;

SUMMARY OF AUDIT FINDINGS

Our audit of the procurement system for the South Carolina State Library (the Library) produced findings and recommendations in the following areas.

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

Eight procurements out of a sample of fifty-seven were made without evidence of competition.

II. Compliance - Sole Source Procurements

The Library did not prepare sole source determinations to justify these procurements. A written determination is required to support each sole source procurement. Additionally, most sole source procurements were not reported to the Division of General Services as required by Section 11-35-2440 of the Procurement Code.

III. Procurement Procedures

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

IV. Review of the Internal Procurement Procedures Manual

Our review of the Internal Procurement Procedures Manual revealed several areas that need to be added, changed or expanded.
RESULTS OF EXAMINATION

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

Our examination of procurement activity at the Library included a test of a sample of fifty-seven (57) transactions from the period July 1, 1985 through February 19, 1988. Eight of these procurements were made without evidence of competition.

<table>
<thead>
<tr>
<th>ITEM</th>
<th>VOUCHER</th>
<th>VOUCHER AMOUNT</th>
<th>ITEM/SERVICE DESCRIPTION</th>
</tr>
</thead>
<tbody>
<tr>
<td>(1)</td>
<td>342</td>
<td>$741.00</td>
<td>Office furniture</td>
</tr>
<tr>
<td>(2)</td>
<td>1421</td>
<td>618.03</td>
<td>Office furniture</td>
</tr>
<tr>
<td>(3)</td>
<td>201</td>
<td>767.34</td>
<td>Ink jet printer</td>
</tr>
<tr>
<td>(4)</td>
<td>14630</td>
<td>663.00</td>
<td>Computer glare screens</td>
</tr>
<tr>
<td>(5)</td>
<td>2005</td>
<td>564.70</td>
<td>Memory Chips</td>
</tr>
<tr>
<td>(6)</td>
<td>1182</td>
<td>1,672.44</td>
<td>Computer furniture</td>
</tr>
<tr>
<td>(7)</td>
<td>204</td>
<td>2,052.65</td>
<td>Library furniture</td>
</tr>
<tr>
<td>(8)</td>
<td>712</td>
<td>2,067.42</td>
<td>Plastic book bags</td>
</tr>
</tbody>
</table>

Regulation 19-445.2100, Subsection E, Item 2, which covers procurements from $500.01 to $1,499.99, requires "Solicitations of verbal or written quotes from a minimum of two qualified sources of supply." Items 1 through 5 above needed only documentation of two (2) telephone quotes to meet this requirement. However, this was not done.

Regulation 19-445.2100, Subsection B, Item 3, which covers procurements from $1,500.00 to $2,499.99 requires "Solicitation of written quotations from three qualified sources of supply shall be made and documented..." Items 6 through 8 above fall into this category.

The Library should comply with these regulations. If competition is solicited documentation should be maintained as evidence.
AGENCY RESPONSE

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

Items (1), (2), and (6) were all purchases from the same vendor. No competition was requested. Furniture was purchased to be compatible with existing furniture from the same vendor. The Procurement Office erroneously ordered this furniture without seeking additional quotes.

**Corrective Action.** All future purchases of equipment will be made in compliance with the Consolidated Procurement Code without regard to previous supplier.

Item (3), (4), and (5) were for computer supplies. The staff member who coordinated our computer activities at the time of these purchases always checked catalogs and local vendors for the best price possible. Unfortunately, he did not provide documentation to indicate that these were the best prices. No requests for documentation were requested by the Procurement Officer.

**Corrective Action.** When catalog prices are used for computer items (or any other commodities) copies of advertisements for both prices will be attached to the purchase order. These purchases required two oral quotes.

Item (7) involved purchases from a library supply house. Two vendors were considered using catalog prices. Documentation was available, but three written quotes were required due to dollar level of this purchase.

**Corrective Action.** In the future written quotes will be requested from library supply houses when more than $1,500 is involved. If between $500 - $1,500 pages from two catalogs will be attached to the purchase order to indicate competition was sought.

Item (8) should have been reported as an emergency procurement. This item was for the purchase of zippered book bags to mail large print books to readers using our Department of the Blind and Physically Handicapped. This vendor had previously supplied this item. When this library automated, circulation of materials increased at an unprecedented rate. Therefore a need existed for book bags immediately. This vendor was selected because the die was already set up with our address, etc.

**Corrective Action.** In the future all emergency procurements will be properly identified and reported.
II. Compliance - Sole Source Procurements

We examined all sole source and emergency procurements, the supporting documents and the quarterly reports of this activity for the period July 1, 1985 - December 31, 1987. This task was complicated by the fact that the Library did not prepare sole source determinations to support these procurements.

Specifically, the following procurements which the Library indicated were sole sources were neither supported by written determinations nor reported to the Division of General Services.

<table>
<thead>
<tr>
<th>ITEM</th>
<th>VOUCHER</th>
<th>AMOUNT</th>
<th>DESCRIPTION</th>
</tr>
</thead>
<tbody>
<tr>
<td>(1)</td>
<td>902</td>
<td>864.47</td>
<td>Film cleaning fluid</td>
</tr>
<tr>
<td>(2)</td>
<td>2315</td>
<td>1,600.00</td>
<td>Software</td>
</tr>
<tr>
<td>(3)</td>
<td>2403</td>
<td>1,265.70</td>
<td>Equipment repair</td>
</tr>
<tr>
<td>(4)</td>
<td>1569</td>
<td>668.54</td>
<td>Paper bags</td>
</tr>
</tbody>
</table>

Additionally, six sole source procurements were reported to the Division of General Services but were not supported by written determinations.

All ten procurements are violations of Section 11-35-1560 of the Consolidated Procurement Code which states:

A contract may be awarded for a supply, service, or construction item without competition when, under regulations promulgated by the board, the chief procurement officer, the head of a purchasing agency, or a designee of either officer, above the level of the procurement officer, determines in writing that there is only one source for the required supply, service, or construction item. (Emphasis added)
The first four procurements listed above are also violations of Section 11-35-2440 of the Procurement Code which states:

Any governmental body as defined in Section 11-35-310(18) shall submit quarterly a record listing all contracts made under Section 11-35-1560 (Sole Source Procurement) or Section 11-35-1570 (Emergency Procurement) to the chief procurement officers.

The Library should take action immediately to comply with these requirements of the Procurement Code. Sole source is permissible only if an authorized official prepares in advance a written determination which appropriately justifies a procurement as such.

AGENCY RESPONSE

II. Compliance - Sole Source Procurements

Item (4) was for mailing bags used to mail books to other libraries on interlibrary loan. The vendor for this item has traditionally been the only company who could provide this particular type bag. Therefore we continued to use this particular vendor.

Corrective Action. When the need exists to purchase additional bags we will investigate other companies.

The other items were legitimate sole source items but documentation to that effect was not available.

Corrective Action. All requests for sole source purchases will be carefully monitored. If justified, written determinations will be prepared and quarterly reports submitted to the Division of General Services.
III. Procurement Procedures

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

1) **Audit Stamp:** An audit stamp should be used in the processing of vouchers to indicate cancellation of invoices and payment approval. Seven vouchers lacked cancellation/payment approvals.

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

3) **Receiving Procedure:** The Library should implement a standard receiving procedure and/or develop a receiving document which would be used as a permanent record in the voucher packages. We noted four (4) vouchers where receipt of goods or services was not noted.

4) **Telephone Quotation:** The Library should develop a telephone quotation form or use the one available on the back of the state requisition.

5) **Catalogs:** The Library uses catalog prices when making competitive procurements. When this is done, a copy of the catalog page should be included as a supporting document.

6) **Price Changes:** A requisition/purchase order should never be changed to reflect the prices shown on the invoices. If a disparity occurs between the vendor invoice and the purchasing document it should be resolved with the reason for the difference documented in writing and attached to the voucher package.
7) **Price Confirmation:** All quotations received by departments and forwarded to purchasing should be confirmed unless the vendor has submitted a written proposal. This will help to eliminate price changes.

8) **Inter-agency Contracts:** A contract with another state agency may be exempted from the Procurement Code with advance approval from Materials Management. These must be submitted to him on a case by case basis.

### AGENCY RESPONSE

#### III. Procurement Procedures

1. **Audit stamp.** An audit stamp has been developed and is being used.

2. **Term contract.** State term contract numbers are now being listed on all appropriate purchase orders.

3. **Receiving procedure.** A standard receiving procedure has been developed. This will be discussed with all department heads to ensure that everyone get the message.

4. **Telephone quotations.** We are now using the form on the reverse of the state requisition form.

5. **Catalogs.** As previously mentioned copies of catalog pages will be included as supporting documentation when appropriate.

6. **Price changes.** A price change form has been developed to be used when the actual price differs from the requisition/purchase order price. This will be attached to the invoice package.

7. **Price confirmation.** The Procurement Officer will verify low bid prices when only one or two quotes are required. We agree that this will help eliminate price changes. It could also be beneficial if the Procurement Officer knows of another vendor who might be able to quote a lower price.
8. Interagency Contracts. This information has been noted.

IV. Review of the Internal Procurement Procedures Manual

Our review of the current Internal Procurement Procedures Manual at the Library revealed the following areas which need to be added, changed or expanded:

1) **Exemptions**: A list of current exemptions should be included as an appendix.

2) **Quarterly Reports**: Include a statement referencing the requirement to submit quarterly reports of sole source and emergency procurements.

3) **Written Determinations**: Address the use of the sole source and emergency procurement methodology, the requirement for written determinations to support these procurements, and approval authority for sole source.

4) **Receiving Procedures**: Address the agency procedures for receiving supplies and materials. Address specifically which document is to be used as a receiving report.

5) **State Procurements**: Delete all references to "Central State Purchasing" and "Emergency Regulations" and substitute State Procurements and the Regulations.

6) **Unauthorized Procurements**: Define unauthorized procurements and address the procedures for ratification of unauthorized procurements as stated in Regulation 19-445.2015.

7) **Property Control**: State the procedures for fixed asset accountability, and disposal of surplus items.
8) **Small Purchase Procedures**: Address the competitive requirements of small purchases as stated in Regulation 19-445.2100.

9) **Multi-term**: Define the requirements for using multi-term contracts and the written determinations which must support these contracts as stated in Regulation 19-445.2135.

**AGENCY RESPONSE**

IV. **Review of the Internal Procurement Procedures Manual.**

The Internal Procurement Procedures Manual has been completely revised. A draft copy has been sent to Jeff Widdowson for his comments. After receiving such, his comments will be incorporated. Each department head will receive a copy. Work sessions are planned with staff to review our policies.
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 State Library in compliance with the South Carolina Consolidated Procurement Code and ensuing regulations.

In accordance with Code Section 11-35-1230(1) the Library should take this corrective action prior to June 30, 1988. Subject to this corrective action and because additional certification was not requested, we recommend that the State Library 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
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 State Library to determine the progress made toward implementing the recommendations in our audit report covering the period July 1, 1985 - February 19, 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 State Library 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 Library 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,

R. Voight Shealy, Manager
Audit and Certification