PROCUREMENT AUDIT AND CERTIFICATION
May 8, 1990

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

Dear Rick:

I have attached the procurement audit report of the Office of the State Treasurer as prepared by the Office of Audit and Certification. I recommend that the report be submitted to the Budget and Control Board for information.

Sincerely,

JAMES J. FORTH, JR.
Assistant Division Director

/ jlf
Attachment
SOUTH CAROLINA STATE TREASURER'S OFFICE
PROCUREMENT AUDIT REPORT

JULY 1, 1987 - MARCH 31, 1989
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May 3, 1990

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 Treasurer's Office for the period July 1, 1987 - March 31, 1989. 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 Treasurer's Office 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 State Treasurer's Office 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 State Treasurer's Office 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 which exceeded $500.00 for the period July 1, 1987 - March 31, 1989, 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) disposition of surplus property;
RESULTS OF EXAMINATION

The Office of Audit and Certification performed an examination of the internal procurement operating procedures and policies of the State Treasurer's Office for the period July 1, 1987 through March 31, 1989.

Our on-site review was conducted May 1-3, 1989, and was made under the authority as described in Section 11-35-1230(1) of the South Carolina Consolidated Procurement Code. Over the audit period, the State Treasurer's Office maintained what we consider to be an efficient procurement system. We did note, however, the below listed items which should be addressed by management.

I. Compliance - General

We reviewed all procurement transactions processed by the State Treasurer's Office during our audit period and noted the following two exceptions.

Voucher number 3008 for $2,452 was the annual payment for Fidelity Bond Insurance covering the employees of the State Treasurer's Office. 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..." However, this was not done.

Additionally, voucher number 1003 for $890.38 was payment for office supplies purchased from a local vendor. 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."
The State Treasurer’s Office should comply with these regulations and solicit competition accordingly.

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, 1987 - March 31, 1989. For this period the State Treasurer’s Office reported five sole source procurements and no emergency procurements.

However, the following procurements which the State Treasurer’s Office indicated were sole sources were neither supported by written determinations nor reported to the Division of General Services.

We have reviewed each of these procurements and believe that they would have been appropriate as sole sources except for voucher 1160 below which would have been appropriate as an emergency.

<table>
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<tr>
<th>Item</th>
<th>Voucher</th>
<th>Amount</th>
<th>Description</th>
</tr>
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<tbody>
<tr>
<td>(1)</td>
<td>3126</td>
<td>1,572.90</td>
<td>Checkwrite typewriters</td>
</tr>
<tr>
<td>(2)</td>
<td>0067</td>
<td>1,693.00</td>
<td>Microfilm reader printer maintenance</td>
</tr>
<tr>
<td>(3)</td>
<td>0018</td>
<td>1,321.48</td>
<td>Vault maintenance</td>
</tr>
<tr>
<td>(4)</td>
<td>0462</td>
<td>1,250.00</td>
<td>Training</td>
</tr>
<tr>
<td>(5)</td>
<td>0894</td>
<td>1,675.00</td>
<td>Burst maintenance</td>
</tr>
<tr>
<td>(6)</td>
<td>1160</td>
<td>915.60</td>
<td>Toner cartridges</td>
</tr>
</tbody>
</table>

All seven 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, services, or construction item. (emphasis added)

We recommend that future sole source and emergency procurements be supported by the appropriate determinations to justify the actions taken.

III. Internal Procurement Procedures Manual

The State Treasurer's Office has on file with the Materials Management Office a statement of intent dated July 14, 1983, 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.

As with some other smaller agencies, the statement of intent was acceptable in lieu of a formal procedures manual at the inception of the Procurement Code. This document allowed these agencies additional time to prepare a more comprehensive manual. As a result of our recent audit of the State Treasurer's Office 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 provided during the audit.
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 State Treasurer's Office in compliance with the South Carolina Consolidated Procurement Code and ensuing regulations.

In accordance with Code Section 11-35-1230(1) the State Treasurer's Office should take this corrective action prior to September 30, 1989. Subject to this corrective action and because additional certification was not requested, we recommend that the State Treasurer's Office 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.

R. Voight Shealy, Manager
Audit and Certification
Mr. R. Voight Shealy  
Manager, Audit and Certification  
State Budget and Control Board  
Division of General Services  
1201 Main Street, Suite 600  
Columbia, South Carolina 29201  

Dear Mr. Shealy:

We have reviewed the final draft of the procurement audit report and authorize its release. The State Treasurer's Office initiated the necessary action to implement your recommendations.

Thank you for your cooperation in this matter.

With kindest regards, I am

Very truly yours,

Grady L. Patterson, Jr.  
State Treasurer

GLPJr:rhr

CC: Paige Parsons
May 3, 1990

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

Dear Jim:

The Office of Audit and Certification has followed up on each item raised in the procurement audit report of the Office of the State Treasurer. Most recently, we have approved the Internal Procurement Procedures.

We are satisfied that corrective action has been accomplished and recommend that the Office of the State Treasurer be allowed to continue procuring all goods and services, consulting services, construction and information technology up to the basic level of $2,500 authorized by the Consolidated Procurement Code.

Sincerely,

R. Voight Shealy, Manager
Audit and Certification

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