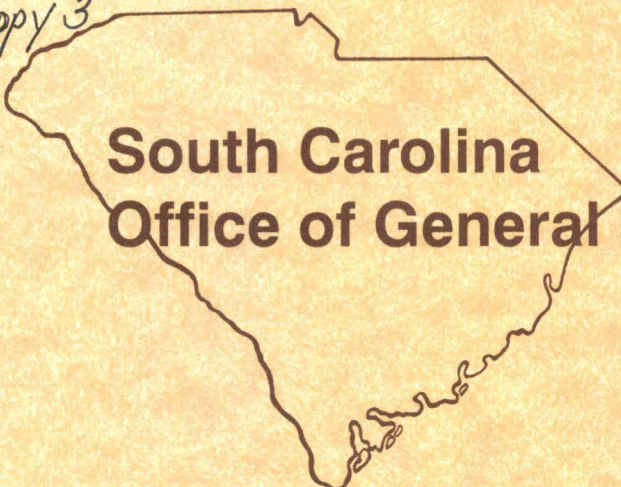


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PROCUREMENT AUDIT AND CERTIFICATION

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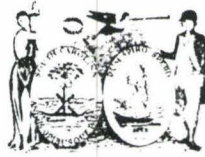
**SOUTH CAROLINA STATE MUSEUM
COMMISSION**

AGENCY

JULY 1, 1995 - MARCH 31, 1997

DATE

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State Budget and Control Board
OFFICE OF GENERAL SERVICES



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MATERIALS MANAGEMENT OFFICE
1201 MAIN STREET, SUITE 600
COLUMBIA, SOUTH CAROLINA 29201
(803) 737-0600
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VOIGHT SHEALY
ASSISTANT DIRECTOR

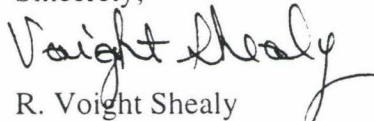
November 19, 1997

Ms. Helen T. Zeigler, Director
Office of General Services
1201 Main Street, Suite 420
Columbia, South Carolina 29201

Dear Helen:

I have attached the procurement audit report for South Carolina State Museum Commission. Since we are not recommending any certification above the basic \$5,000 allowed by the Code, no action is required by the Budget and Control Board. Therefore, I recommend the report be presented to the Budget and Control Board as information.

Sincerely,


R. Voight Shealy
Materials Management Officer

/tl

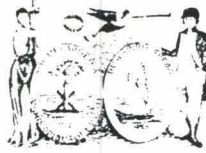
SOUTH CAROLINA STATE MUSEUM COMMISSION
PROCUREMENT AUDIT REPORT
JULY 1, 1995 - MARCH 31, 1997

TABLE OF CONTENTS

	<u>PAGE</u>
Transmittal Letter	1
Introduction	3
Scope	4
Summary of Audit Findings	5
Results of Examination	6
Conclusion.....	10
Follow-up Letter.....	11

NOTE: The Commission's response to issues noted in the report have been inserted immediately following the issues they refer to.

STATE OF SOUTH CAROLINA
State Budget and Control Board
OFFICE OF GENERAL SERVICES



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VOIGHT SHEALY
ASSISTANT DIRECTOR

July 8, 1997

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

Dear Voight:

We have examined the procurement policies and procedures of the South Carolina State Museum Commission for the period July 1, 1995 through March 31, 1997. 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 and State procurement policy. 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 State Museum Commission 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 State Museum Commission 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 State Museum Commission. Our on-site review was conducted March 24, through April 1, 1997 and was made under Section 11-35-1230(1) of the South Carolina Consolidated Procurement Code and Section 19-445.2020 of the accompanying regulations.

The examination was directed principally to determine whether, in all material respects, the procurement system's internal controls were adequate and the procurement procedures were in compliance with the South Carolina Consolidated Procurement Code and its ensuing regulations.

Additionally, our work was directed toward assisting the Commission in promoting the underlying purposes and policies of the Code as outlined in Section 11-35-20, which include:

- (1) to ensure the fair and equitable treatment of all persons who deal with the procurement system of this State
- (2) to provide increased economy in state procurement activities and to maximize to the fullest extent practicable the purchasing values of funds of the State
- (3) to provide safeguards for the maintenance of a procurement system of quality and integrity with clearly defined rules for ethical behavior on the part of all persons engaged in the public procurement process

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 South Carolina State Museum Commission 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 systematically selected a samples from the period July 1, 1995 through March 31, 1997 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 July 1, 1995 through March 31, 1997
- (2) Procurement transactions for the period July 1, 1995 through March 31, 1997 as follows:
 - a) Thirty two payments greater than \$1,500
 - b) Block sample of approximately three hundred ninety six purchase orders
- (3) Minority Business Enterprise reports for the audit period
- (4) Internal procurement procedures manual
- (5) Surplus property procedures
- (6) Real property lease agreement approvals

SUMMARY OF AUDIT FINDINGS

Our audit of the procurement system of the South Carolina State Museum Commission, hereinafter referred to as the Commission, produced findings and recommendations as follows.

	<u>PAGE</u>
I. <u>Sole Source, Emergency and Trade-In Sales</u>	6
The Commission has failed to prepare determinations for sole source and emergency procurements. As a result the Commission has not reported sole source and emergency procurements as well as trade-in sales activity.	
II. <u>General Procurement Activity</u>	
A. <u>No Competition</u>	6
Seven procurements lacked evidence of competition, sole source or emergency determinations.	
B. <u>Unauthorized Procurements</u>	7
The Commission exceeded its \$5,000 procurement authority on two procurements.	
C. <u>Payments Made Without Verification of Items Being Received</u>	7
Payments were made without completed receiving reports.	
D. <u>Change Orders on Purchase Orders</u>	8
The Commission does not have a formal change order policy.	
E. <u>Procurement Procedures Manual</u>	8
The Commission needs to update its internal procurement procedures manual.	
F. <u>Term Contract Numbers Not Referenced</u>	9
Purchases made from term contracts did not reference the term contract numbers.	
G. <u>Minority Business Enterprises Reports</u>	9
The Commission has not prepared the quarterly progress reports regarding Minority Business Enterprises.	

RESULTS OF EXAMINATION

I. Sole Source, Emergency and Trade-In Procurements

The Commission has not prepared determinations to support sole source and emergency procurements. Sections 11-35-1560 and 11-35-1570 of the Code require a written determination be prepared for procurements that are sole sources or emergencies. The Commission has only prepared the quarterly reports for these types of procurements plus trade-in sales twice for the period from July 1, 1995 to March 31, 1997. Section 11-35-2440 of the Code requires the quarterly reporting of sole source and emergency procurements. Section 11-35-3830 of the Code requires the quarterly reporting of trade-in sales.

We recommend the Commission prepare the written determinations on sole source and emergency procurements. The Commission must submit each quarter a report of sole source and emergency procurements as well as trade in sales to the Materials Management Office. If no activity occurred during the quarter, a report is still required showing no activity.

COMMISSION RESPONSE

The Museum will prepare written determinations on sole source, emergency procurements, and trade-in sales. Also, the Museum will submit a quarterly report of sole source and emergency procurements as well as trade-in sales to the Materials Management Office.

II. General Procurement Activity

A. No Competition

We noted seven procurements that were not supported by competition, sole source or emergency determinations.

<u>Item</u>	<u>Voucher</u>	<u>Description</u>	<u>Date</u>	<u>Amount</u>
1	2364	Shelving	06/28/96	\$2,220
2	842	Printing	11/16/95	2,005
3	206	Consultant	08/25/95	2,555
4	208	Printing	08/25/95	1,590
5	1358	Storage boxes	12/11/96	2380
6	1112	Printing	11/15/96	2,138
7	1050	Tools	11/04/96	1,704

A misunderstanding by the Commission's staff resulted in the above exceptions. The Commission obtained competition only on individual line items when cost exceeded \$1,500. When determining the appropriate level of competition, the total potential value of the purchase should be considered, not the individual line items. Section 11-35-1550 of the Code lists the methods of source selection for procurements less than \$5,000.

We recommend the Commission comply with the competition requirements based on the total value of the procurement.

COMMISSION RESPONSE

With both the implementation and enforcement of the proposed procurement manual, the Museum will comply with competition requirements based on total value of the procurement.

B. Unauthorized Procurements

The Commission exceeded its procurement authority of \$5,000 on the following two procurements.

<u>Item</u>	<u>Voucher</u>	<u>Date</u>	<u>Description</u>	<u>Amount</u>
1	808	10/18/96	Furniture	\$2,062
	902	10/25/96	Furniture	<u>6,182</u>
				<u>\$8,244</u>
2	310	09/11/95	Shelving	\$13,486

Regulation 19-445.2015 defines an unauthorized procurement as an act obligating the State in a contract by any person without the requisite authority to do so by appointment or delegation. Since each procurement exceeded the Commission's authority these procurements are unauthorized. A ratification request must be submitted by the Commissioner to the Materials Management Office as required by Regulation 19-445.2015(3).

COMMISSION RESPONSE

The Museum will follow all Materials Management Office's guidelines relating to procurements over \$5,000.

C. Payments Made Without Verification of Items Being Received

We noted a procedural weakness in that payments were made without a completed receiving report verifying receipt of items.

<u>Item</u>	<u>Voucher</u>	<u>Date</u>	<u>Description</u>	<u>Amount</u>
1	318	09/11/95	Computers	\$3,502
2	960	12/08/95	Software maintenance	4,769
3	1112	11/15/96	Printing	2,138
4	1799	02/04/97	Scanner	2,906
5	2206	03/14/97	Printers	1,989

We recommend the Commission evaluate the current method of payment without a proper receiving report and implement corrective action to insure receipt prior to payment.

COMMISSION RESPONSE

The Museum will verify receipt of goods by completing a receiving report before payment is issued.

D. Change Orders on Purchase Orders

The Commission does not have a formal change order policy thus resulting in payments that did not agree with the purchase order. We noted two examples in our sample.

<u>PO</u>	<u>Voucher</u>	<u>Date</u>	<u>Amount</u>
2968	310	09/11/95	\$13,486
9327	1799	02/04/97	2,906

On purchase order 2968, the Commission did not include the freight and installation charges of \$749. The Commission was invoiced for two items with a cost of \$682 that were not on purchase order 9327.

We recommend a change order policy be developed to insure items paid on the invoices agree with the purchase orders.

COMMISSION RESPONSE

The Museum will develop and implement a change order policy to insure items paid on invoices agree with purchase orders.

E. Procurement Procedures Manual

Regulation 19-445.2005 requires all governmental bodies develop an internal procurement procedures manual and forward to the Materials Management Officer for review and approval.

We recommend the Commission update its internal procurement procedures manual and submit it to the Materials Management Officer as required by Regulation 19-445.2005.

COMMISSION RESPONSE

The Museum will prepare, implement, and enforce a procurement manual for all departments to follow. Implementation of a procurement manual will greatly reduce if not eradicate the problems noted in the audit.

F. Term Contract Numbers Not Referenced

We noted several purchases bought from term contracts did not reference the contract numbers. To ensure the proper contract terms and conditions are met, term contract numbers should be referenced on all purchase orders when applicable.

COMMISSION RESPONSE

The Museum will reference contract numbers on all purchase orders when applicable.

G. Minority Business Enterprises Reports

The Commission has not prepared the quarterly progress reports of procurements made from firms certified by the Small and Minority Business Assistance Office. Section 11-35-5240 of the Code requires that progress reports be submitted no later than ten days after the end of each fiscal quarter.

We recommend the Commission begin submitting the progress reports each quarter to the Small and Minority Business Assistance Office as required.

COMMISSION RESPONSE

The Museum will submit quarterly progress reports to the Small and Minority Business Assistance Office as required.

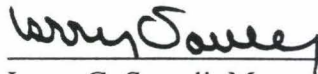
CONCLUSION

As enumerated in our transmittal letter, corrective action based on the recommendations described in this report, we believe, will in all material respects place the South Carolina State Museum Commission in compliance with the Procurement Code and ensuing regulations.

In order to determine that corrective action has been taken, we will perform a follow-up review prior to November 15, 1997. Subject to this corrective action and since the South Carolina State Museum Commission has not requested additional procurement certification, we will recommend the Commission be allowed to continue procuring goods and services, consultant services, construction services, and information technology up to the basic level of \$5,000 as allowed by the Consolidated Procurement Code and accompanying regulations.

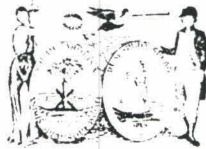


David E. Rawl, CPPB
Senior Auditor



Larry G. Sorrell, Manager
Audit and Certification

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VOIGHT SHEALY
ASSISTANT DIRECTOR

November 19, 1997

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

Dear Voight:

We have reviewed South Carolina State Museum Commission's response to our procurement audit report for July 1, 1995 - March 31, 1996. A follow-up review of procurement transactions from July 1, 1997 to October 31, 1997 was completed on November 14, 1997. We are satisfied that the Commission has corrected the problem areas and the internal controls over the procurement system are adequate.

Additional certification was not requested. Therefore, we recommend the Commission be allowed to continue procuring all goods and services, construction, information technology and consulting services up to the basic level of outlined in the Code.

Sincerely,

A handwritten signature in cursive script that reads 'Larry G. Sorrell'.

Larry G. Sorrell, Manager
Audit and Certification

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