

SOUTH CAROLINA STATE LIBRARY

PROCUREMENT AUDIT REPORT

APRIL 1, 2011 TO MARCH 31, 2014

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NOTE: The Library's responses to issues noted in this report have been inserted immediately following the items they refer to.

NIKKI R. HALEY, CHAIR
GOVERNOR

CURTIS M. LOFTIS, JR.
STATE TREASURER

RICHARD ECKSTROM, CPA
COMPTROLLER GENERAL



THE DIVISION OF PROCUREMENT SERVICES
DELBERT H. SINGLETON, JR.
DIVISION DIRECTOR
(803) 734-8018

JOHN ST. C. WHITE
MATERIALS MANAGEMENT OFFICE
(803) 737-0600
FAX: (803) 737-0639

HUGH K. LEATHERMAN, SR.
CHAIRMAN, SENATE FINANCE COMMITTEE

W. BRIAN WHITE
CHAIRMAN, HOUSE WAYS AND MEANS

August 12, 2015

Mr. John St. C. White
Interim Materials Management Officer
Division of Procurement Services
1201 Main Street, Suite 600
Columbia, South Carolina 29201

Dear John:

We have examined the procurement policies and procedures of the South Carolina State Library for the period April 1, 2011 through March 31, 2014. As part of our examination, we studied and evaluated the system of internal controls over procurement transactions to the extent we considered necessary.

The evaluation established a basis for reliance upon the system of internal controls to assure adherence to the Consolidated Procurement Code, State regulations and the State Library's procurement policy. Additionally, the evaluation determined 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 Library is responsible for establishing and maintaining a system of internal controls 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 of internal controls are to provide management with reasonable, but not absolute, assurance of the integrity of the procurement process, that affected assets are protected

against loss from unauthorized use or disposition and that transactions are executed in accordance with management's authorization and recorded properly.

Because of inherent limitations in any system of internal controls, 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 the degree of compliance with the procedures may deteriorate.

Our study and evaluation of the system of internal controls 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 needed 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 Consolidated Procurement Code and ensuing regulations.

Sincerely,

A handwritten signature in black ink, appearing to read "Robert J. Aycock, IV". The signature is stylized and cursive.

Robert J. Aycock, IV, Manager
Audit and Certification

INTRODUCTION

We conducted an examination of the internal procurement operating policies and procedures of the South Carolina State Library. We performed our review 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 internal controls of the procurement system were adequate and the procurement procedures, as outlined in the internal procurement policies and procedures manual were in compliance with the South Carolina Consolidated Procurement Code and ensuing regulations.

Additionally, our work was directed toward assisting the South Carolina State Library in promoting the underlying purposes and policies of the South Carolina Consolidated Procurement Code as outlined in Section 11-35-20, which include in part:

- (1) to provide increased economy in state procurement activities and to maximize to the fullest extent practicable the purchasing values of funds while ensuring that procurements are the most advantageous to the State and in compliance with the provisions of the Ethics Government Accountability and Campaign Reform Act;
- (2) to foster effective broad-based competition for public procurement within the free enterprise system;
- (3) to ensure the fair and equitable treatment of all persons who deal with the procurement system which will promote increased public confidence in the procedures followed in public procurement;
- (4) 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 Library, hereinafter referred to as the Library, 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 judgmental samples for the period April 1, 2011 through March 31, 2014 of procurement transactions for compliance testing and performed other audit procedures that we considered necessary to formulate this opinion. The scope of our audit included, but was not limited to, a review of the following:

- (1) Procurement transactions for the period April 1, 2011 through March 31, 2014 as follows:
 - a) Eight-teen payments each exceeding \$2,500 with exceptions noted in Section I, II and IV
 - b) A block sample of three hundred and sixty-nine payments against the use of order splitting and favored vendors with one exception noted in Section III
 - c) Procurement card purchases for the months of May 2013 and January 2014 with no exceptions
- (2) All sole source, emergency and trade-in sale procurements for the period April 1, 2011 through March 31, 2014 with no exceptions
- (3) Minority Business Plans and reports with the following activity reported to the Governor's Office of Small and Minority Business Assistance and an exception noted in Section VI

<u>Fiscal Year Ending</u>	<u>Goal</u>	<u>Actual</u>
FY10-11	\$12,799	\$ 1,102
FY11-12	\$ 0	\$16,270
FY12-13	\$ 0	\$ 4,766
FY13-14	\$ 0	\$12,922*

*Through March 31, 2014

- (4) Approval of the most recent Information Technology Plan with no exceptions
- (5) Internal procurement procedures manual with no exceptions
- (6) Surplus property disposition procedures with no exceptions
- (7) Ratification of unauthorized procurements with no exceptions
- (8) File documentation and evidence of competition with no exceptions
- (9) Other tests performed as deemed necessary with exceptions noted in Section V

SUMMARY OF FINDINGS

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RESULTS OF EXAMINATION

I. No Competition for Software Purchase

From April 1, 2011 through March 31, 2014, the Library paid \$512,454 for an open source integrated Library software system without soliciting competition or otherwise complying with the Procurement Code. The State Library along with county libraries formed a consortium called the South Carolina Library Evergreen Network Delivery System, otherwise known as SCLENDS. A proviso established authorization for the Library to accept funds for the consortium and purchase items related to specific consortium procurement agreements. The proviso states:

(LIB: SCLENDS) The State Library may accept money for the South Carolina Library Evergreen Network Delivery System (SCLENDS), a consortium providing patrons access to more library materials. The consortium shall allow South Carolina libraries the ability to share resources and provide a forum for sharing expertise in technical areas such as systems administration and cataloging. Funds received by the State Library for SCLENDS shall be placed in a special account and shall only be utilized to pay for items related to SCLENDS. Unexpended funds may be carried forward from the prior fiscal year into the current fiscal year and be used for the same purpose.¹

Nothing in the proviso exempts the Library from the Procurement Code. Section 11-35-40(2) of the South Carolina Consolidated Procurement Code, states in part, “This code applies to every procurement or expenditure of funds by this State under contract acting through a governmental body as herein defined irrespective of the source of the funds....”

We recommend the Library comply with section 11-35-40(2) of the Procurement Code when making procurements for SCLENDS.

Library Response

The South Carolina State Library is in receipt of the draft procurement audit provided by your office. We have reviewed the document and have responded accordingly to the findings. Our agency values the trust placed in us to abide by the consolidated procurement code and all policies and procedures that govern the procurement process. We have taken immediate corrective action on the findings noted and continue to review all policies and procedures for compliance. The South Carolina State Library is a participant in the SCLends Consortia group. SCLends runs an integrated library system which allows partner libraries to share resources, giving patrons in participating counties, access to over 3 million items and providing equality of access to resources and information for those most in need. Due diligence was made when

¹ The proviso has appeared annually since the 2009-2010 Appropriation Act. The proviso shown above specifically comes from Part 1B, section 27.5, H87-State Library, in the 2014-2015 Appropriation Act.

SCLends selected Equinox's open source software Evergreen. The Evergreen software is hosted by Equinox and could not be hosted by another vendor. All costs mentioned in the above, encompass the annual hosting fee, development fees for customization of the integrated library system, support, or enhanced content to the existing system. It would not be appropriate nor possible to procure these services from another source. Nor would it be reasonable to seek competitive bids yearly for an integrated library system, which is the system used by libraries to maintain their catalog of inventoried items and their record management system for patrons. Changing integrated library systems yearly would be cost prohibitive and would go against the need for the SCLends consortia group.

II. Contract Exceeded Agency Authority

The Library solicited proposals under the small purchase procedures for a web based software tool for collection and analysis of data for the statewide summer reading program. The awarded procurement totaled \$53,000 exceeding the Library's procurement authority of \$50,000 and required formal sealed bids. The Library considered this contract as two separate awards, the software awarded at \$48,600 and the training awarded at \$4,400. The specifications for the software included a requirement that the "Vendor is required to have multiple methods of training including webinar, in person, telephone assistance and computer chat. The company needs to have the ability to answer questions during the roll out period and offer onsite training during the implementation period."

We recommend the Library solicit competition based on the total potential contract award. Procurements above \$50,000 must be submitted to the Division of Procurement Services for processing.

Library Response

The South Carolina State Library understands the total potential contract exceeded the agencies buying authority due to the additional training that was added after purchase of the online tool. The Agency will review all contracts going forward for total potential value.

III. Artificially Divided Procurement

The Library sponsored a training conference held at the State Museum. The State Museum required catered food to be purchased from its vendor. The food, offered over three days and paid on separate documents each less than the competition threshold of \$2,500, amounted to \$5,419. No competition was solicited.

<u>Document</u>	<u>Description</u>	<u>Amount</u>
3002258489	Catering, collection development mini conference	\$ 998
3002258492	Catering, collection development mini conference	\$1,492
3002258493	Catering, collection development mini conference	\$1,649
3900107147	Catering, collection development mini conference	<u>\$1,280</u>
	Total	\$5,419

Section 11-35-1550(1) of the Procurement Code states in part, “procurement requirements must not be artificially divided by governmental bodies so as to constitute a small purchase....”

We recommend the Library not artificially divide its procurement requirements. Like procurements should be combined and the appropriate levels of competition solicited.

Library Response

The South Carolina State Library did not intend to artificially divide the procurements. The buyer considered them to each be separate contracts. This has been corrected and further issues of artificially dividing procurements will be avoided.

IV. Inadequate Competition

We identified two instances where the Library used downloaded catalog prices in lieu of making solicitations of competition.

<u>Document</u>	<u>Description</u>	<u>Amount</u>
3003303499	Promotional Items	\$4,685
3004386366	Chairs	\$3,289

Section 11-35-1550(1)(b) requires agencies to make solicitations of written quotes from a minimum of three qualified sources of supply for procurements over two thousand five hundred dollars to ten thousand dollars. Solicitation means to seek to obtain by persuasion, entreaty, or formal application, to petition persistently, importune, to petition for something desired. Downloading advertisements or copying pages from catalogs does not meet the definition of solicitation.

We recommend the Library make solicitations of competition from a minimum of three qualified sources of supply for procurements over two thousand five hundred dollars to ten thousand dollars.

Library Response

The South Carolina State Library has taken corrective measures and will solicit the appropriate quotes.

V. Violation of Purchase Order Policy

The Library authorized procurements in violation of the State’s policy on the use of purchase orders and direct expenditures vouchers. The Comptroller General’s Office issued a policy statement on the use of purchase orders and direct expenditures by agencies using the South Carolina Enterprise Information System (SCEIS) on June 11, 2013. The policy was developed in coordination with the Comptroller General’s Office, the Division of Procurement Services, and SCEIS with input from the affected agencies. The purpose of the policy was to standardize agency use of all purchasing or payment document types for all transactions processed for payment and to take advantage of the features of SCEIS that will result in enhanced agency and state financial controls and provide greater transparency. Additionally, with the implementation of this policy, the State will capture data to be used to develop Strategic Sourcing Plans. The following procurements were made in violation of this policy.

<u>Document</u>	<u>Description</u>	<u>Amount</u>
3004107817	Audio book insert	\$ 3,198
3004197239	Print management software	\$ 3,015
3004559979	Software	\$27,262
3004559974	Computers	\$23,531
3004386366	Chairs	\$ 3,288
3004183461	Power wash building	\$ 4,600

Compliance with this policy is required of all State agencies under SCEIS. Expenditures not processed in accordance with this policy maybe rejected by the Comptroller General.

We recommend the Library comply with the State's policy on the use of purchase orders and direct expenditures.

Library Response

The South Carolina State Library has taken corrective measures. This error was brought to our attention during the audit review process and we immediately began complying with the State policy.

VI. Minority Business Enterprise Annual Plans Not Submitted

The Library has not submitted annual minority business enterprise (MBE) utilization plans to the Governor's Office of Small and Minority Business Assistance (OSMBA) for the three fiscal years ending June 30, 2012, 2013, and 2014 as required by the Procurement Code.

Section 11-35-5240(2) of the Procurement Code requires that MBE utilization plans be submitted to the OSMBA for approval no later than July thirtieth, annually.

We recommend that the State Library comply with Section 11-35-5240 of the South Carolina Consolidated Procurement Code by submitting annual utilization plans to OSMBA.


Library Response

The South Carolina State Library has taken corrective measures. This error was brought to our attention during the audit review process and we immediately began submitting the required MBE Utilization Plan.

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 Library in compliance with the South Carolina Consolidated Procurement Code.

The Library has not requested increased procurement certification above the basic limit of \$50,000 allowed by the Code. Subject to the corrective action listed in this report, we will recommend the Library be allowed to continue procuring supplies and services, consultant services, construction services and information technology up to the basic level of \$50,000 as allowed by the South Carolina Consolidated Procurement Code.



Robert J. Aycöck, IV, Manager
Audit and Certification

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DIVISION DIRECTOR
(803) 734-8018

JOHN ST. C. WHITE
MATERIALS MANAGEMENT OFFICE
(803) 737-0600
FAX: (803) 737-0639

October 1, 2015

Mr. John St. C. White
Interim Materials Management Officer
Division of Procurement Services
1201 Main Street, Suite 600
Columbia, South Carolina 29201

Dear John:

We have reviewed the response from the South Carolina State Library to our audit report for the period of April 1, 2011 through March 31, 2014. We have followed-up on the South Carolina State Library's corrective action during and subsequent to our fieldwork.

In our opinion, the South Carolina State Library complies with the South Carolina Consolidated Procurement Code, State regulations, and the Library's procurement policies and procedures in all material respects and the internal procurement operating procedures are adequate to properly handle procurement transactions. Therefore, we recommend that the South Carolina State Library be allowed to continue to procure all supplies and services, consultant services, information technology, and construction up to the basic level of \$50,000 as outlined in the South Carolina Consolidated Procurement Code.

Sincerely,

Robert J. Aycock, IV, Manager
Audit and Certification

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