



**STATE OF HAWAII
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November 14, 2014

PROCUREMENT CIRCULAR NO. 2014 -17(A)

TO: Office of the Governor, Chief of Staff;
Office of the Lieutenant Governor, Chief of Staff;
Chief Procurement Officers;
Executive Department Heads;
Hawaii State Public Library System, State Librarian

ATTENTION: Administrative Services Officers

FROM: Sarah Allen, State Procurement Office Administrator 

SUBJECT: Interim Hawaii Administrative Rules Chapter 3-130 – *Inventory Management*

The purpose of this Procurement Circular is to rescind and replace Procurement Circular No. 2001-06, the disposal of state property paragraph, dated June 27, 2001, Procurement Circular No. 2001-13, dated November 30, 2001, and Procurement Circular No. 2014-16 dated November 10, 2014. This circular supersedes the Authority to Approve Disposal of State Property on pages 8-2 of the Inventory System User Manual, April 2003, and provides an update on the amendments to Chapter 3-130, Hawaii Administrative Rules (HAR) (Interim) regarding Inventory Management of state property, effective November 10, 2014.

Note: The amendments in this Procurement Circular 2014-17(A) replace Procurement Circular 2014-17, posted November 10, 2014, in its entirety.

ADMINISTRATIVE RULE CHANGES – HAR Chapter 3-130

The Procurement Policy Board amended HAR Chapter 3-130, *Inventory Management*, through interim rulemaking procedures pursuant to Hawaii Revised Statutes (HRS) §103D-202¹, to align the administrative rules with the laws governing inventory services in HRS §103D-1204 .

- References to *"the chief procurement officer, or the head of any state governmental unit that is not by law under the control of a chief procurement officer"* have been removed where appropriate, to align with HRS §103D-1204, now to **"the head of the department, or the head of any board, commission, agency, bureau, or office of the State"**
- See Procurement Directive No. 2015-01
- Copies of the rules may be downloaded from the State Procurement Office (SPO) website at [http:// spo.hawaii.gov/references/har/goods/](http://spo.hawaii.gov/references/har/goods/).

¹ Procurement Policy Board amended HAR chapter 3-130 on October 10, 2014; Pursuant to HRS §103D-202, interim rules were filed with the Lieutenant Governor's Office on October 31, 2014, and became effective ten (10) days later; Procurement Directive No. 2015-01 announced the interim rule change.

KEY ISSUES DISCUSSED IN THIS CIRCULAR *(may not be applicable to some jurisdictions):*

- A. INVENTORY REPORTING THRESHOLD**
- B. SUPPLIES**
- C. DISPOSAL AUTHORITY**
- D. MAINTAINING THE RECORD**
- E. OVERSIGHT OF COMPLIANCE**

A. INVENTORY REPORTING THRESHOLD (for jurisdictions utilizing FAIS)

- **MANDATORY FAIS RECORDING:**

The following are categories and dollar thresholds of state property that are required to be reported in the Fixed Asset Inventory System (FAIS):

1. State property that requires recording regardless of cost or expected life includes:
 - Land and Interest in Land - property code 1;
 - Weapons (handguns, rifles, and other explosive devices) - property code 6; and
 - Works of Art and Historical Treasures - property code 7.
2. Non-expendable state property having a unit cost of \$1,000 or more and a useful life of more than one year includes:
 - Land Improvements - property code 1;
 - Buildings and Building Improvements - property code 2;
 - Motorized Vehicles - property code 3;
 - Equipment (machinery, tools, furnishing, software, books, etc) - property code 4; and
 - Infrastructure - property code 8.
3. Theft-sensitive property having a unit cost of \$250.00 through \$999.99 with a useful life of more than one year shall be recorded as **Controlled Items** *(property code 5)*. This type of property includes Personal Computer Equipment; Photographic Equipment; Television Sets; Video Equipment and Communication Equipment.

- **OPTIONAL FAIS RECORDING**

Property custodians have the option to record in the FAIS other non-expendable properties that do not meet the recording requirements, provided the item is determined to be critical to the agency's operation or important for safekeeping and property management. These properties shall be recorded as **Controlled Items** *(property code 5)* and may be recorded either as one item or as identical items combined into a single line item if in the same inventory location.

B. SUPPLIES

1. Consumable Supply - Items that are consumed and/or lose its identity in use.
 - *Examples are paper, pencil, and other materials that are used within one year.*
2. Non-Consumable Supply - Items that are not consumed in use, retaining its original identity when used for the purpose for which it was designed, but do not qualify as an equipment because it is below the inventory reporting threshold.
3. State agencies are required to maintain internal control records for non-consumable supplies with a unit cost of \$250 but less than \$1,000.
4. State agencies with annual expenditures for consumable supplies that exceed \$5,000 are required to maintain written internal control records.

5. Supplies are to be physically inventoried on an annual basis, and each agency shall maintain internal control records containing information on purchases, usage, transfers, and disposals. These records are subject to audit.
6. The Department Head or Designee shall approve the disposal of all supplies. The disposing agency shall maintain disposal records.

C. DISPOSAL AUTHORITY

The disposing agency shall contact the Surplus Property Branch (SPB) at 808-831-6757 to offer the state property, **prior** to preparing a Disposal Application for approval. In the event that SPB accepts the offer, the disposing agency shall prepare the Disposal Application (DA) with "Dispose to Surplus Property Branch" as the proposed method of disposal. The disposing agency should also assign a disposal number (date of the application may be used) and is required to maintain records of all approved DAs.

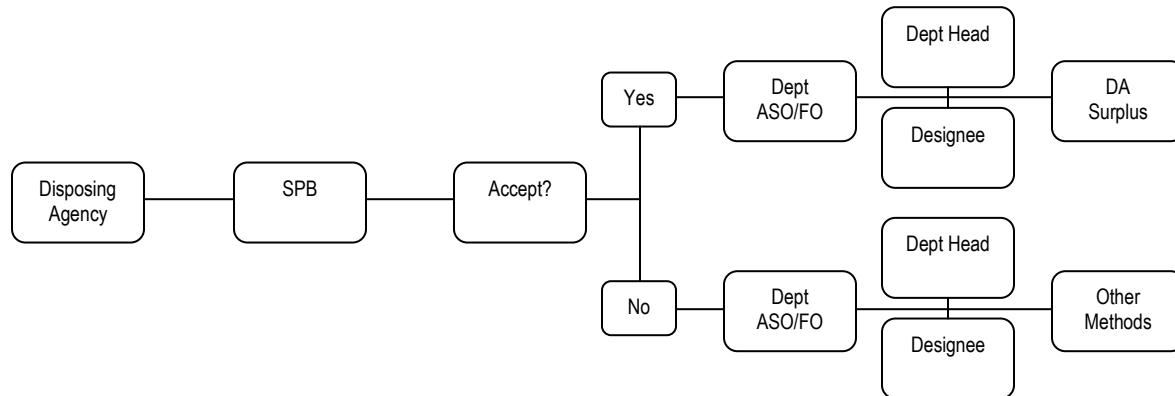
Whenever any designated property custodian desires to dispose or remove any state property from their inventory records, other than transfer to another state agency, **before any disposal action may occur, the designated property custodian must submit a written DA** to the following individuals according to the following requirements:

Authority to approve disposal of state property:

1. Department Head (*shall not be delegated to anyone else*).
 - Submit written disposal application for the following state property:
 - a. All non-expendable state property having a unit cost of \$1,000 or more and a useful life of more than one year.
 - b. Weapons, Works of Art, Historical Treasures, Land, and Interest in Land.
 - Before submittal of disposal application for Land and Interest in Land, disposal approval must be obtained from the Department of Land and Natural Resources, unless the agency is exempt by statutes.
 - c. Lost, stolen or damaged state property having a unit cost of \$500 or more.
2. Department Head or Department Designee.
 - Submit written DA for the following state property:
 - a. All state property having a unit cost below \$1,000, including supplies, except weapons, Works of Art, Historical Treasures, Land, and Interest in Land.
 - b. Lost, stolen or damaged state property with a unit cost less than \$500.

The disposal application should be similar to the format submitted to the Department Head.

The following flow chart provides a general guideline for the disposal process:



D. MAINTAINING THE RECORD:

The disposing agency shall also maintain a record that shows the DA has been offered to SPB for audit purposes.

The record shall include at a minimum:

- 1) Date property was offered to SPB;
- 2) Name of SPB personnel who was contacted;
- 3) Result of the offer; and
- 4) Name with signature of the disposing agency's personnel who contacted SPB making the offer.

This information shall be integrated in the DA in order to make it easier for the department or agency to keep track and properly manage disposal records.

For state property with a unit cost of \$1,000 or more, and weapons, works of art, historical treasures, land, interest in land, and lost, stolen or damaged state property having a unit cost of \$500 or more, proper records include attaching and submitting the following documents:

- 1) A copy of approved DA, including the offer to SPB information;
- 2) The completed Certificate of Disposal (SPO-034); and
- 3) The detailed inventory property form (SPO-017A) for the disposing agency quarterly update.

E. OVERSIGHT OF COMPLIANCE

Pursuant to HRS §103D-1204, the head of the department, or the head of any board, commission, agency, bureau, or office of the State shall be responsible for the accountability, protection, maintenance, and proper use of all state property pertaining to their office or department. Thus, the Department Heads shall be responsible to ensure the conformity and compliance of their departmental inventory management and procedures with HRS §103D and HAR §3-130, including but not limited to ensuring that all state property is disposed in the approved methods and manners.

- The law imposes fine or imprisonment penalties to any officer, member of a public board, assessor, or other person who fails to perform any of the duties imposed upon the person.

Questions may be directed to the State Procurement Office (SPO) Inventory Management Office at 586-0574, or SPO Inventory Specialist Michael Ong at Michael.LT.Ong@hawaii.gov, or you may contact me directly at Sarah.Allen@hawaii.gov.