PROCUREMENT AUDIT AND CERTIFICATION
March 4, 1988

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

Dear Rick:

Attached is the final South Carolina Arts Commission audit report and recommendations made by the Office of Audit and Certification. I concur and recommend the Budget and Control Board grant the Arts Commission two (2) years certification as outlined in the audit report.

Sincerely,

D.L. McMillin
Acting Materials Management Officer
Attachment
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We have examined the procurement policies and procedures of the South Carolina Arts Commission for the period July 1, 1986 through September 30, 1987. 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 Commission's 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 Arts Commission 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 Arts Commission 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 Arts Commission 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.

The Office of Audit and Certification of the Division of General Services reviewed all procurement transactions for the period July 1, 1986 - September 30, 1987, 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;
RESULTS OF EXAMINATION

The Office of Audit and Certification performed an examination of the internal procurement operating procedures and policies and related manual of the South Carolina Arts Commission for the period July 1, 1986 through September 30, 1987.

Our on-site review was conducted October 22 through November 9, 1987, and was made under the authority as described in Section 11-35-1230(1) of the South Carolina Consolidated Procurement Code. The Arts Commission has requested in writing to be certified in the areas of design and printing services up to $30,000 per contract. Over the audit period, the Commission has 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. Sole Source Procurements

Sole source procurements were reviewed from January 1, 1985 forward.

A. Four transactions were unnecessarily reported as sole source as such procurements are exempt.

<table>
<thead>
<tr>
<th>P.O. Number</th>
<th>P.O. Amount</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>575</td>
<td>$ 636.00</td>
<td>16mm Film</td>
</tr>
<tr>
<td>577</td>
<td>525.75</td>
<td>16mm Film</td>
</tr>
<tr>
<td>578</td>
<td>696.00</td>
<td>16mm Film</td>
</tr>
<tr>
<td>037</td>
<td>5,760.00</td>
<td>NASAA Membership dues</td>
</tr>
</tbody>
</table>

The requirements for sole source procurements are waived for those items which have been exempted from the Procurement Code.
Code. The appropriate quarterly reports of sole source procurements should be amended to delete these transactions.

B. The approval of a sole source determination by the procurement officer on purchase order number 960037 is a violation of the Code and internal policy.

Section 11-35-1560 of the Code states in part, "a contract may be awarded . . . without competition when . . . a designee above the level of the procurement officer determines in writing that there is only one source of supply. . . ." (Emphasis added)

Furthermore, section 3-14(c) of the Commission's internal policy states "authority to approve sole source procurements has been delegated by the Executive Director to the Director of Administration." We remind the purchasing office that this determination approval must be made above the level of the procurement officer.

Agency Response

A. Concur. The transactions cited represent an oversight in our internal editing process rather than lack of understanding of the Code. Corrected sole source reports were hand carried to the MMO on February 1, 1988. We now have a current, complete exemptions list available to staff editing for compliance.

B. Concur. On the date in question the Purchasing Officer was Acting Division director and empowered to sign on behalf of Joyce Huey, the Director of Administration. To meet the spirit of the Code, effective February 1, 1988. The
Procurement Officer, when serving as Acting Division Director, will not approve sole source transactions.

II. Compliance - General

We reviewed all purchase orders issued by the Commission during our audit period and noted the following exceptions:

Seven purchase orders, greater than $500.00, were issued for travel agency services without evidence of competition. Also, purchase order number 70289, for repairs to information technology equipment totalling $502.60, was issued without evidence of competition.

Regulation 19-445.2100, Subsection B, Item 2, requires that procurements of $500.01 to $1,499.99 be supported by solicitations of verbal or written quotes from a minimum of two qualified sources of supply.

Agency Response

Concur. Mr. Stiles sought clarification on our behalf about the weight given an agency's using Minority Business Enterprise (MBE) vendors. As of November, 1987, we have obtained competitive quotes for air travel costing more than $500.00. Our intent is to comply fully with Regulation 19-445.2100, Subsection B, Item 2.
III. Review of Design and Printing Services Contract

In August 1985 the Division of General Services established an agency contract for the Arts Commission for design and printing services. The contract period was for one year with an option to extend for four additional one year periods. This option has been exercised twice. All printing procurements for the past three years have referenced this contract.

However, since the award of this contract in 1985, the design and printing requirements of the Commission have changed substantially. The original contract specifications are no longer applicable. Additionally, printing services not covered in the scope of this contract have been procured under it inappropriately, i.e. specifications have been combined on jobs, new projects have been added and stationery has been printed.

We therefore recommend that this contract be cancelled by April 30, 1988, and by May 1, 1988 a revised and updated annual contract be established by the Materials Management Office for design and printing services. Thereafter, a new contract should be bid and established annually. Furthermore, all small printing job requirements should be bid in compliance with the Code and regulations on an "as needed" basis. Until the establishment of a new contract, any design and printing procurements greater than $2,500.00 must have the Information Technology Management Officer's approval, if there is any deviation from the original contract specifications.
Agency Response

Concur. A letter requesting certification for Design and Printing Services was prepared for our audit exit interview. We appreciate your support of this request.
CERTIFICATION RECOMMENDATIONS

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

Under the authority described in Section 11-35-1210 of the Procurement Code, subject to this corrective action, we recommend the Arts Commission be certified to make direct agency procurements for two years up to the limits as follows:

<table>
<thead>
<tr>
<th>PROCUREMENT AREAS</th>
<th>RECOMMENDED CERTIFICATION LIMITS</th>
</tr>
</thead>
<tbody>
<tr>
<td>Design and Printing Services</td>
<td>$30,000 * per purchase commitment</td>
</tr>
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</table>

*The total potential commitment to the State whether single year or multi-term contracts are used.

James M. Stiles, PPB
Audit Supervisor

R. Voight Shealy, Manager
Audit and Certification
Mr. D.L. McMillin, CPPO  
Acting Materials Management Officer  
Division of General Services  
1201 Main Street, Suite 600  
Columbia, South Carolina 29201  

Dear D.L.:  

We have reviewed the response to our audit report of the South Carolina Arts Commission covering the period July 1, 1986 through September 30, 1987. Combined with observations made during our site visit, this review has satisfied the Office of Audit and Certification that the College is correcting the problem areas found and that internal controls over the procurement system are adequate.  

We therefore, recommend that the certification limits for the South Carolina Arts Commission outlined in the audit report be granted for a period of two (2) years.  

Sincerely,  

R. Voight Shealy, Manager  
Audit and Certification