PROCUREMENT
AUDIT AND
CERTIFICATION

SOUTH CAROLINA ARTS COMMISSION
AGENCY
JULY 1, 1989 - MARCH 31, 1991
DATE
August 19, 1991

Mr. Richard W. Kelly
Director
Division of General Services
1201 Main Street, Suite 420
Columbia, South Carolina  29201

Dear Rick:

Attached is the final South Carolina Arts Commission procurement 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 a three (3) year certification as noted in the audit report.

Sincerely,

James J. Forth, Jr.
Assistant Division Director

JF/JJ
SOUTH CAROLINA ARTS COMMISSION

PROCUREMENT AUDIT REPORT

JULY 1, 1989 - MARCH 31, 1991
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August 13, 1991

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

Dear Jim:

We have examined the procurement policies and procedures of the South Carolina Arts Commission for the period July 1, 1989 - March 31, 1991. 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 and Commission 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 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 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 Arts Commission in compliance with the South Carolina Consolidated Procurement Code and ensuing regulations.

R. Voight Shealy, CFE, Manager
Audit and Certification
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 Arts Commission and their 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 sixty (60) random samples of expenditure transactions which exceeded $500.00 each and all sealed bid solicitations that had been awarded for the period July 1, 1989 through March 31, 1991. We tested these for compliance to the Consolidated Procurement Code 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) evidence 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
(10) Minority Business Enterprise Plan
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, 1989 through March 31, 1991. Our on-site review was conducted April 22 through May 3, 1991 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 recertified in the areas of design and printing services up to $100,000 per contract and $5,000 in goods and services. This is an increase over the current certification of $40,000 per purchase commitment in design and printing services.

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. Compliance - Sole Source Procurements

We examined all the Commission's sole source procurements, the supporting documents and the quarterly reports for the period July 1, 1989 through March 31, 1991. Our purpose was to determine the appropriateness of the procurement actions taken and the accuracy of the reports submitted to the Division of General Services, as required by Section 11-35-2440 of the Consolidated Procurement Code. Two procurements were inappropriately declared as sole sources. These should have been competed. They were as follows:
Regulation 19-445.2105, Section B, states, "Sole source procurement is not permissible unless there is only a single supplier.... In cases of reasonable doubt, competition should be solicited."

We recommend that procurements which do not meet the definition of a sole source be competitively bid in accordance with the Procurement Code.

COMMISSION RESPONSE

Concur. These transactions are normally competitive. Due to the emergency of this situation, we felt that no other driver would meet our needs at that time.

II. Procurements Without the Required Written Quotations

Two procurements lacked the required supporting written quotations. They were as follows:

<table>
<thead>
<tr>
<th>PO Number</th>
<th>Date</th>
<th>PO Amount</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. 146</td>
<td>08/25/89</td>
<td>$2,400.00</td>
<td>Refurbish exterior of arts trailer</td>
</tr>
<tr>
<td>2. 245</td>
<td>10/23/89</td>
<td>$2,425.00</td>
<td>Printing and Design services</td>
</tr>
</tbody>
</table>

The above procurements were supported only by phone quotes. Regulation 19-445.2100 b(3) requires the solicitation of written quotations from three qualified sources on purchases from $1,500.00 to $2,499.99.
We recommend the Commission adhere to this regulation on future purchases.

COMMISSION RESPONSE

Concur. Since our last audit, we have created a form that the Procurement Officer completes and mails to the vendor so that the vendor can verify his/her quote by signing the form and mailing the form back to the Arts Commission. We will adhere to this regulation in the future.

III. Printing and Design Services Not Publicly Advertised

We noted seven printing and design services contracts which were not advertised in the "South Carolina Business Opportunities (SCBO), as required by Section 11-35-1580(4) of the Code. These contracts are as follows:

<table>
<thead>
<tr>
<th>Bid Number</th>
<th>Award Amount</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. SCAC-90-1</td>
<td>$29,996.00</td>
<td>Design and Printing</td>
</tr>
<tr>
<td>2. SCAC-90-2</td>
<td>4,734.00</td>
<td>Copy services</td>
</tr>
<tr>
<td>3. SCAC-90-5</td>
<td>4,500.00</td>
<td>Die cut folders</td>
</tr>
<tr>
<td>4. SCAC-90-6</td>
<td>3,483.38</td>
<td>Printing services</td>
</tr>
<tr>
<td>5. SCAC-90-7</td>
<td>4,692.00</td>
<td>Printing services</td>
</tr>
<tr>
<td>6. SCAC-90-8</td>
<td>3,751.10</td>
<td>Printing stationary</td>
</tr>
<tr>
<td>7. SCAC-90-12</td>
<td>3,468.15</td>
<td>Visual art guide</td>
</tr>
</tbody>
</table>

The purchasing officer attended a meeting held by the State Materials Management Officer in January 1990 and this advertising requirement was brought to his attention. Since that time we found no more of this type exception. The Commission should continue advertising all printing and design related services in "SCBO".
COMMISSION RESPONSE

Concur. This problem has already been corrected. We shall continue to advertise all printing and design projects, as stated in the response as required by Section 11-35-1580(4) of the Code.

IV. Change Order Approvals Not Obtained

On voucher 2465 we noted a payment made where the required approval for an increase to the purchase order was not obtained. The increase was $300.00 for 500 additional copies of a tabloid. The problems we found with purchase order 822 dated May 30, 1990 for printing of the "Independent Spirit" news tabloid are as follows:

A. No written request from the user department to increase the quantity
B. No approval from the purchasing officer for the increase
C. No approval by the senior accountant as required when a change is greater than the original purchase order
D. Payment was made without any receiving report for the additional 500 copies verifying receipt.

The Commission should take steps to insure that all future purchase order increases are documented and approved by the requisite authorities as outlined in the Commission's Policies and Procedures Manual.

COMMISSION RESPONSE

Concur. We have talked to all personnel involved in the process and all agreed any increase in quantity shall be approved by the Procurement Officer and Budget Manager before job is completed.
V. Compliance - Surplus Property

The Arts Commission has not reported their surplus property in a timely manner. There has not been a screening of the Arts Commission's surplus property by State Surplus Property in approximately two years. When observing the surplus property warehouse, we could not determine the following:

(1) Which items were surplus property and which needed to be disposed of by sale
(2) Which items should be classified as junk
(3) Which items were being held for repair and/or future use
(4) Which items were being held for spare parts

The following types of items were observed and their disposition needs to be made immediately:

(a) audio speakers
(b) cameras
(c) tripods
(d) projectors
(e) video players

Regulation 19-445.2150(A) states in part: "All governmental bodies must identify surplus items, declare them as such, and report them to the Materials Management Officer, or his designee within 90 days from the date they become surplus."

By not moving these items through the State Surplus Property Office, funds that could have been returned to the Arts Commission for future procurements or to the State General Fund have not been produced.

We recommend that the Commission contact the Surplus Property Office for technical assistance to establish and implement the necessary inventory procedures to identify the status of their surplus property and move these items in a timely manner.
COMMISSION RESPONSE

Concur. We have completed and submitted the paperwork to Surplus Property for this project. A representative from Surplus Property reviewed and identified those items that were appropriate for surplus.

VI. Procurement Procedures Manual

During our audit we reviewed the Commission's procurement procedures manual with the procurement officer. We noted the following topics that we recommend be added to the manual as policy statements or procurement procedures:

A. Retention of Records
B. Restrictive Specification
C. Professional Development
D. In-State Vendor Preference
E. Tie Bids
F. Purchase Order Modification
G. Protest Procedures
H. Legal Services
I. Auditing Services
J. Confirming Purchases
K. Conflict of Interest
L. Sealed Bid Procedures

COMMISSION RESPONSE

Concur. All items have been added to the manual and are located in the manual as follows:

A. Retention of Records - Chapter 8 page 3
B. Restrictive Specification - Chapter 8 page 3
C. Professional Development - Chapter 8 page 3
D. In-State Vendor Preference - Chapter 6 page 4
E. Tie Bids - Chapter 6 page 4
F. Purchase Order Modification - Chapter 3 page 12
G. Protest Procedures - Chapter 7
H. Legal Services - Chapter 8 page 3
I. Auditing Services - Chapter 8 page 3
J. Confirming Purchases - Chapter 3 page 12
K. Conflict of Interest - Chapter 8 page 3
L. Sealed Bid Procedures - Chapter 6
CERTIFICATION RECOMMENDATIONS

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 Arts Commission in compliance with the Consolidated Procurement Code.

Prior to September 30, 1991, we will perform a follow-up review in accordance with Section 11-35-1230(1) of the Procurement Code to determine if the proposed corrective action has been taken by the Arts Commission. Based on the follow-up review, and subject to this corrective action, we will recommend that the South Carolina Arts Commission be certified to make direct agency procurements for a period of three (3) years up to the following limits:

<table>
<thead>
<tr>
<th>Procurement Areas</th>
<th>Recommended Certification Limits</th>
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<tbody>
<tr>
<td>Design and Printing Services</td>
<td>*$100,000 per purchase commitment</td>
</tr>
<tr>
<td>Goods and Services</td>
<td>*$  5,000 per purchase commitment</td>
</tr>
</tbody>
</table>

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

James M. Stiles, PPB
Audit Manager

R. Voght Shealy, CFE, Manager
Audit and Certification
August 15, 1991

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

Dear Jim:

We have reviewed the response to our audit report of the South Carolina Arts Commission covering July 1, 1989 - March 31, 1991. Combined with observations made during our site visit and subsequent correspondence, this review has satisfied the Office of Audit and Certification that the Commission has corrected the problem areas found and that internal controls over the procurement system are adequate.

We, therefore, recommend that the certification limits as outlined in the audit report be granted for a period of three (3) years.

Sincerely,

R. Voight Shealy, Manager
Audit and Certification

RVS/jjm