September 13, 1994

Helen T. Zeigler
Director
Office of General Services
1201 Main Street, Suite 600
Columbia, South Carolina 29201

Dear Helen:

I have attached the Arts Commission's procurement audit report and recommendations made by the Office of Audit and Certification. I concur and recommend the Budget and Control Board grant the Commission a three (3) year certification as noted in the audit report.

Sincerely,

William E. Gunn
Assistant Division Director

Attachment
SOUTH CAROLINA ARTS COMMISSION
PROCUREMENT AUDIT REPORT

APRIL 1, 1991 - MARCH 31, 1994
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**NOTE:** The Commission's responses to issues noted in this report have been inserted immediately following the issues they refer to.
June 27, 1994

Mr. William E. Gunn
Assistant Division Director
Office of General Services
1201 Main Street, Suite 600
Columbia, South Carolina 29201

Dear Eddie:

We have examined the procurement policies and procedures of the South Carolina Arts Commission for the period April 1, 1991 - March 31, 1994. 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.

Larry G. Sorrell, Manager
Audit and Certification
INTRODUCTION

We conducted an examination of the internal procurement operating policies and procedures of the South Carolina Arts Commission. Our on-site review was conducted March 4 through March 25, 1994, and was made under 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, as outlined in the Internal Procurement Operating Procedures Manual, 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
BACKGROUND

Section 11-35-1210 of the South Carolina Consolidated Procurement Code states:

The (Budget and Control) Board may assign differential dollar limits below which individual governmental bodies may make direct procurements not under term contracts. The Division of General Services shall review the respective governmental body's internal procurement operation, shall verify in writing that it is consistent with the provisions of this code and the ensuing regulations, and recommend to the Board those dollar limits for the respective governmental body's procurement not under term contract.

On October 31, 1991, the Budget and Control Board granted the Commission the following procurement certifications:

<table>
<thead>
<tr>
<th>Category</th>
<th>Certified Limit</th>
</tr>
</thead>
<tbody>
<tr>
<td>Design and Printing Services</td>
<td>$100,000 per commitment</td>
</tr>
<tr>
<td>Goods and Services</td>
<td>$ 5,000 per commitment</td>
</tr>
</tbody>
</table>

This audit was performed primarily to determine if recertification is warranted. Additionally, the Commission requested the following increased certification limits:

<table>
<thead>
<tr>
<th>Category</th>
<th>Certified Limit</th>
</tr>
</thead>
<tbody>
<tr>
<td>Design and Printing Services</td>
<td>$100,000 per commitment</td>
</tr>
<tr>
<td>Goods and Services</td>
<td>$ 10,000 per commitment</td>
</tr>
</tbody>
</table>
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 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 sixty (60) random samples of expenditure transactions which exceeded $500.00 each and all sealed bid solicitations that were awarded for the period April 1, 1991 through March 31, 1994. We tested these for compliance to the South Carolina Consolidated Procurement Code and performed other audit procedures that we considered necessary 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) Adequate audit trails and purchase order registers
(3) Evidence of competition
(4) Small purchase provisions and purchase order confirmations
(5) All sole source procurements (04/01/91 - 03/31/94)
(6) All emergency procurements (04/01/91 - 03/31/94)
(7) All trade-in sales (04/01/91 - 03/31/94)
(8) Source selections
(9) File documentation of procurements
(10) Disposition of surplus property

(11) Minority Business Enterprise Plan and quarterly progress reports for the audit period

(12) One real property lease

(13) Block sample of 750 purchase orders
SUMMARY OF AUDIT FINDINGS

Our audit of the procurement system of the South Carolina Arts Commission, hereinafter referred to as the Commission, produced findings and recommendations as follows:

I. Inappropriate Sole Source Procurement
   We believe one sole source procurement was inappropriate.

II. General Code Compliance
    A. Blanket Purchase Agreement Procedures Not Followed
       One of the Commission's BPA's was not in compliance with Commission's Internal Procurement Manual.
    B. Purchase Orders Not Issued on Sealed Bids
       A statement of award is issued in place of a purchase order on sealed bids.

III. Internal Control Weakness
     A. Overpayments
        We noted two overpayments to vendors.
RESULTS OF EXAMINATION

I. Sole Source Procurements

We examined all the Commission's sole source procurements, the supporting documents and the quarterly reports for the period April 1, 1991 through March 31, 1994. 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.

As a result of this review, we noted the following exceptions.

A. Inappropriate Sole Source

We believe the following sole source transaction was inappropriate.

<table>
<thead>
<tr>
<th>PO#</th>
<th>Date</th>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>40391</td>
<td>12/14/93</td>
<td>Software</td>
<td>$18,880</td>
</tr>
</tbody>
</table>

Section 11-35-1560 of the S.C. Consolidated Procurement Code allows for sole source procurements where there is only one source for a required item. Regulation 19-445.2105(B) notes that competition should have been solicited in cases of reasonable doubt.

We recommend that procurements which do not meet the definition of a sole source be competitively bid in accordance with the procurement code.
After extensive research and evaluation, the Arts Commission determined that there was only one available produce that fully met its requirements; however, we concur that there may have been reasonable doubt. Future software procurements that meet the bidding criteria will be processed in accordance with the Code.

II. General Code Compliance

A. Blanket Purchase Agreement Procedures Not Followed

One of the Commission's blanket purchase agreements (BPA) was not in compliance with its internal procurement manual, Section 3-20C. The manual states in part: "the combined total of all purchases may not exceed the face value of purchase order."

BPA purchase order 40113 was issued for miscellaneous supplies for $400. Voucher 177 for $1,336.27 was issued against the BPA, thus resulting in an overexpenditure of $936.27 on the BPA.

We recommend the Commission follow its procedures as stated in their manual regarding blanket purchase agreements.

B. Purchase Order Not Issued on Sealed Bids

The Commission issues a statement of award in lieu of a purchase order on all sealed bids. The statement of award does not include the terms and conditions of the bid award or detailed item descriptions.

We recommend the Commission either issue a purchase order in
addition to the statement of award, or include all relevant information on the statement.

**ARTS COMMISSION RESPONSE**

Concur: The South Carolina Arts Commission Procurement Department will continue to issue Statement of Awards and will also issue a Purchase Order that will include all relevant information on the bid. See Standard Below.

**Standard Format for all Sealed Bid Purchase Orders:**
- **Contract #:**
- **For Furnishing:**
- **Base Bid Amount (excluding sales tax):**
- **Delivery Date:**
- **Statement to vendor:**

The South Carolina Government Printing Services Manual dated February 1, 1992, is, in its entirety incorporated herein by reference except that paragraph 5 on page 3 of the manual entitled Overruns/Underruns, hereby DELETED. The vendor will deliver the exact quantity as stated above. Alterations not covered in this contract shall be approved or disapproved by the South Carolina Arts Commission Procurement Officer before job is completed. Failure to follow this procedure may result in a non-payment to vendor.

### III. Internal Control

#### A. Overpayments

We noted two overpayments on vendor invoices. They were as follows:

<table>
<thead>
<tr>
<th>PO#</th>
<th>PO Amount</th>
<th>Voucher#</th>
<th>Invoice Amount</th>
<th>Overpayment Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>920056</td>
<td>$7,577</td>
<td>01122</td>
<td>$7,755</td>
<td>$178</td>
</tr>
<tr>
<td>920056</td>
<td>7,577</td>
<td>02070</td>
<td>7,755</td>
<td>178</td>
</tr>
</tbody>
</table>

The vendor incorrectly invoiced the Commission on the above printing purchases, resulting in an overpayment of $356.

We recommend the Commission request reimbursements from this vendor and evaluate their internal control procedures for detecting these differences.
ARTS COMMISSION RESPONSE

Concur: On July 25, 1994, the South Carolina Arts Commission Accounting Department corresponded with the Vendor requesting reimbursement for the overpayment amount.

The South Carolina Arts Commission Accounting Department is in the process of updating its existing policy on Accounts Payable and is anticipating implementation by September 30, 1994.

1. Receive and file copies of Purchase Orders.
2. Receive and file receiving reports from Purchasing Department.
3. Receive and file invoices from vendors.
4. Match the three (3) preceding documents for payment.
5. Process invoice extensions and initial.
6. Process contingency vouchers and send to the Comptroller General's Office.
7. Mail check to vendor upon receipt from the Comptroller General's Office.
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 Arts Commission in compliance with the South Carolina Consolidated Procurement Code. Corrective action should be accomplished by August 10, 1994.

Under the authority described in Section 11-35-1210 of the South Carolina Consolidated Procurement Code, subject to this corrective action, we recommend 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>
</tr>
</thead>
<tbody>
<tr>
<td>Design and Printing Services</td>
<td>*$100,000 per purchase commitment</td>
</tr>
<tr>
<td>Goods and Services</td>
<td>*$ 10,000 per purchase commitment</td>
</tr>
</tbody>
</table>

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

David Rawl
Compliance Analyst

Larry G. Sorrell, Manager
Audit and Certification
September 13, 1994

William E. Gunn
Assistant Division Director
Office of General Services
1201 Main Street, Suite 600
Columbia, South Carolina 29201

Dear Eddie:

We have reviewed the Arts Commission's response to our audit report for April 1, 1991 - March 31, 1994. We are satisfied that the Commission has corrected the problem areas and that internal controls over the procurement system are adequate.

Therefore, we recommend that the Budget and Control Board grant the Arts Commission the certification limits noted in our audit report for a period of three (3) years.

Sincerely,

Larry G. Sorrell, Manager
Audit and Certification

LGS/tl

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