PROCUREMENT
AUDIT AND
CERTIFICATION

S. C. STATE LIBRARY
[APR 28 2000
STATE DOCUMENTS

SOUTH CAROLINA ARTS COMMISSION
AGENCY

JANUARY 1, 1997 – SEPTEMBER 30, 1999
DATE
Mr. Robert W. McClam, Director
Office of General Services
1201 Main Street, Suite 420
Columbia, South Carolina 29201

Dear Robbie:

I have attached the South Carolina 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-year certification as noted in the audit report.

Sincerely,

R. Voight Shealy
Materials Management Officer

March 22, 2000
SOUTH CAROLINA ARTS COMMISSION
PROCUREMENT AUDIT REPORT

JANUARY 1, 1997 - SEPTEMBER 30, 1999
**TABLE OF CONTENTS**

<table>
<thead>
<tr>
<th>Section</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>Transmittal Letter</td>
<td>1</td>
</tr>
<tr>
<td>Scope</td>
<td>3</td>
</tr>
<tr>
<td>Results of Examination</td>
<td>4</td>
</tr>
<tr>
<td>Certification Recommendation</td>
<td>7</td>
</tr>
<tr>
<td>Follow-up Letter</td>
<td>8</td>
</tr>
</tbody>
</table>

**NOTE:** The Commission's responses to issues noted in this report have been inserted immediately following the items they refer to.
Mr. R. Voight Shealy  
Materials Management Officer  
Office of General Services  
1201 Main Street, Suite 600  
Columbia, South Carolina 29201

Dear Voight:

We have examined the procurement policies and procedures of the South Carolina Arts Commission for the period January 1, 1997, through September 30, 1999. 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, State regulations and the Commission’s 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 judgments 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 several 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 South Carolina Arts Commission in compliance with the Consolidated Procurement Code and ensuing regulations.

Sincerely,

[Signature]

Larry G. Sorrell, 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 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 judgemental samples from the period January 1, 1997 through September 30, 1999 of procurement transactions for compliance testing and performed other audit procedures we considered necessary to formulate this opinion. Specifically, the scope of our audit included, but was not limited to, a review of the following:

(1) All sole source, emergency and trade-in sale procurements for the period January 1, 1997 through September 30, 1999

(2) Procurement transactions from the period January 1, 1997 through September 30, 1999 as follows:
   a) Thirty-six payments each exceeding $1,500
   b) A block sample of two hundred seventy five payment transactions reviewed for order splitting and favored vendors

(3) Minority Business Enterprise Plan and reports for the audit period

(4) Information technology plans for audit period

(5) Internal procurement procedures manual review

(6) Surplus property procedures

(7) File documentation and evidence of competition
RESULTS OF EXAMINATION

The Office of Audit and Certification performed an examination of the internal procurement policies and procedures and related manual of the South Carolina Arts Commission, hereinafter referred to as the Commission, for the period January 1, 1997 through September 30, 1999. Our on-site review was conducted December 7, 1999 to December 17, 1999 and was made under the authority described in Section 11-35-1230(1) of the South Carolina Consolidated Procurement Code and Regulation 19-445.2020.

On July 8, 1997, the Budget and Control Board granted the South Carolina Arts Commission, the following certifications:

<table>
<thead>
<tr>
<th>PROCUREMENT AREAS</th>
<th>CERTIFICATION LIMITS</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>

The Commission requested that its certification be increased as follows.

<table>
<thead>
<tr>
<th>PROCUREMENT AREAS</th>
<th>CERTIFICATION LIMITS</th>
</tr>
</thead>
<tbody>
<tr>
<td>Design and Printing Services</td>
<td>$125,000 per commitment</td>
</tr>
<tr>
<td>Goods and Services</td>
<td>$ 25,000 per commitment</td>
</tr>
</tbody>
</table>

Since our previous audit in 1997, the Commission has maintained what we consider to be a professional, efficient procurement system. We did note, however, the following exceptions which should be addressed by management.

Unauthorized Procurement

The Commission issued sealed bid 97-2 on January 15, 1997 for mail handling services. The solicitation was for one year with an option to extend up to four additional years. Purchase order 980067 was issued for $8,000 for the services for the period July 1, 1997 to June 30, 1998. With a value of $8,000 per year, the total potential value of the contract was $40,000. On July 21, 1998, the Commission realized that the total value would exceed its certification of $10,000 for goods and services and cancelled the contract. However, the Commission did not address the unauthorized procurement as defined in Regulation 19-445.2015. The Commission must request
ratification of the unauthorized procurement from the Materials Management Officer in accordance with Regulation 19-445.2015.

We recommend the Commission solicit competition based on the total potential value of a contract rather than the initial contract period.

**COMMISSION RESPONSE**

The Commission has submitted a letter to your office requesting ratification of contract #97-2. The Commission cancelled the contract after the first year when the Commission realized that if options were exercised the total value would exceed the Commission's goods and services certification. In the future, the Commission shall review all terms and conditions of a contract to insure compliance with certification limits.

**Purchase Order and Payment Did Not Agree**

We noted three instances where the purchase order and the payment did not agree.

<table>
<thead>
<tr>
<th>Item</th>
<th>PO</th>
<th>Description</th>
<th>PO Amount</th>
<th>Amount Paid</th>
<th>Overpayment</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>700606</td>
<td>Software</td>
<td>$25,500</td>
<td>$26,745</td>
<td>$1,245</td>
</tr>
<tr>
<td>2</td>
<td>980725</td>
<td>Printing</td>
<td>4,584</td>
<td>4,687</td>
<td>103</td>
</tr>
<tr>
<td>3</td>
<td>980068</td>
<td>Printing</td>
<td>4,731</td>
<td>4,880</td>
<td>149</td>
</tr>
</tbody>
</table>

For item one, the Commission paid for the annual license fee, however the fee was not listed on the purchase order. For items two and three, the vendors invoiced for amounts greater than the amounts listed on the purchase orders. Change orders were not prepared to authorize the increases nor were the increases approved by the Procurement Officer.

We recommend that any differences between the purchase order and invoice be reconciled before any payment is made.

**COMMISSION RESPONSE**

The Commission's Procurement Officer is working with the Accounting Department to reconcile all invoices that exceed the purchase order amount. Internal procedures have been revised so that such invoices are routed to the Purchasing Officer to resolve all discrepancies before payment is made to a vendor.

**Internal Procurement Procedures Manual**

We noted several areas in the Internal Procurement Procedures Manual that need clarification and revision. We have provided a listing of the changes to the Procurement Officer.
Section 11-35-540(3) of the Code states, "Governmental bodies shall be authorized to develop internal operational procedures consistent with this code provided, that such operational procedures shall be certified in writing by the appropriate chief procurement officer as being consistent with this chapter."

We recommend the manual be updated and submitted to our office for review.

**COMMISSION RESPONSE**

Prior to and during the audit, the South Carolina Arts Commission's Procurement Officer was updating the manual. Subsequently, in February a revised Internal Procurement Procedures Manual was submitted to your office for review and we are awaiting the recommendations. In the future the manual will be kept current.
CERTIFICATION RECOMMENDATION

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 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 will recommend the Commission be recertified to make direct agency procurements for three 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>*$125,000 per commitment</td>
</tr>
<tr>
<td>Goods and Services</td>
<td>*$25,000 per commitment</td>
</tr>
</tbody>
</table>

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

David E Rawl, CPPB
Senior Auditor

Larry G. Sorrell, Manager
Audit and Certification
Mr. R. Voight Shealy  
Materials Management Officer  
Materials Management Office  
1201 Main Street, Suite 600  
Columbia, South Carolina 29201

Dear Voight:

We have reviewed the response from the South Carolina Arts Commission to our audit report for the period of January 1, 1997 – September 30, 1999. Also we have followed the Commission’s corrective action during and subsequent to our fieldwork. We are satisfied that the Commission has corrected the problem areas and the internal controls over the procurement system are adequate.

Therefore, we recommend the Budget and Control Board grant the South Carolina Arts Commission the certification limits noted in our report for a period of three years.

Sincerely,

Larry G. Sorrell, Manager  
Audit and Certification

Total Copies Printed  25  
Unit Cost -  .18  
Total Cost -  $4.50