



South Carolina Arts Commission

INDEPENDENT PROCUREMENT AUDIT REPORT

**For the Audit Period:
January 1, 2015 to June 30, 2020**

**Office of Audit & Certification
Division of Procurement Services
January 29, 2021**

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INTRODUCTION

The Division of Procurement Services (DPS) audited the Arts Commission's (Commission) internal procurement operating policies and procedures, as outlined in their internal Procurement Operating Procedures Manual, under § 11-35-1230 (1) of the South Carolina Consolidated Procurement Code (Code) and R 19-445.2020 of the ensuing regulations.

The primary objective of our audit was to determine whether, in all material respects, the internal controls of the Commission's procurement system were adequate to ensure compliance with the Code and ensuing regulations.

The management of the Commission is responsible for the commission's compliance with the Code. Those responsibilities include the following:

- Identifying the commission's procurement activities and understanding and complying with the Code
- Establishing and maintaining effective controls over procurement activities that provide reasonable assurance that the commission administers its procurement programs in compliance with the Code
- Evaluating and monitoring the commission's compliance with the Code
- Taking corrective action when instances of noncompliance are identified, including corrective action on audit findings of this audit

Because of inherent limitations in any system of internal controls, errors or irregularities may occur and not be detected. 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 review and evaluation of the system of internal control over procurement transactions, as well as our overall audit of procurement policies and procedures, was conducted with professional care. However, because of the nature of audit testing, they would not necessarily disclose all weaknesses in the system.

INTRODUCTION

Our audit was also performed to determine if recertification under SC Code Ann. § 11-35-1210 is warranted.

On August 23, 2016 the State Fiscal Accountability Authority (SFAA) granted the Commission the following procurement certifications:

PROCUREMENT AREAS

CERTIFICATION LIMITS

Supplies and Services

*\$ 100,000 per commitment

Information Technology

*\$ 100,000 per commitment

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

During the audit, the Commission did not request an increase in its certification limits.

Total Expenditures

During the audit period, the Commission conducted procurements as follows:

	\$ Amount (000s)							
	<u>Count</u>	<u>FY2015</u>	<u>FY2016</u>	<u>FY2017</u>	<u>FY2018</u>	<u>FY2019</u>	<u>FY2020</u>	<u>Total</u>
POs	56	22	35	80	87	38	91	353
DEV	4,268	1,277	3,690	4,011	4,254	5,187	13,371	31,789
Total Spend		1,299	3,725	4,091	4,341	5,225	13,462	32,142

SCOPE

We conducted our audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. Our audit included testing, on a sample basis, evidence about the Commission's compliance with the Code for the period January 1, 2015 through June 30, 2020, the audit period, and performing other procedures that we considered necessary in the circumstances. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

The scope of our audit included, but was not limited to, a review of the following:

- (1) Internal procurement and purchasing card (P-Card) procedure manuals
- (2) All sole source and emergency procurement justifications. The following sole source procurement activity was reported to DPS:

<u>Fiscal Year</u>	<u>Count</u>	<u>\$ Amount</u>
2015	-	-0-
2016	1	6,750
2017	3	44,000
2018	3	27,500
2019	1	2,500
2020	-	-0-

- (3) Procurement transactions for the audit period as follows:
 - a) Twenty-eight purchase orders each exceeding \$2,500, five of which exceeded \$10,000
 - b) Nine direct expenditure voucher (DEV) payments
 - c) Twenty-five P-Card transactions
 - d) A block of sequential expenditures over a two-month period reviewed for order splitting or the use of favored vendors
 - e) One blanket purchase agreement
- (4) Small and Minority Business Enterprise (MBE) utilization plans and reports. The following activity was reported to the Division of Small and Minority Business Contracting and Certification (SMBCC) during the audit period:

<u>Fiscal Year</u>	<u>\$ Goal</u>	<u>\$ Amount</u>
2015	3,363	-
2016	2,078	323
2017	1,198	705
2018	2,274	619
2019	-	-
2020	1,915	99

- (5) Information Technology acquisitions under IT Plans
- (6) Reporting of surplus property dispositions, and approval of trade-ins in excess of \$5,000, of which there were none
- (7) Disposition of unauthorized procurements, of which there were none

SUMMARY OF FINDINGS

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SUMMARY OF FINDINGS

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One annual MBE utilization plan and eight quarterly progress reports were not submitted to the SMBCC.

B. Annual MBE Utilization Plans and Progress Reports Not Submitted Timely 11

Four annual utilization plans and six quarterly reports were not filed in a timely manner.

RESULTS OF AUDIT

The following issues were identified during the audit:

I. Purchasing Cards

We reviewed the Commission's internal P-Card procedures for compliance with the State P-Card Policy dated March 6, 2020. The Commission had three cardholders that spent approximately \$173,000 during the audit period through 950 transactions.

A. Insufficient P-Card Manual

The Commission's P-Card Manual had not been revised based on revisions to the State P-Card Policy. The roles and responsibilities of P-Card Administrators (PCAs), supervisors/approving officials, and liaisons were inconsistent with the State P-Card Policy. Section III. A. 1. a) requires agencies to "Develop the internal policy governing the use of P-Cards, to include the [listed] minimum requirements." The responsibilities for these roles are detailed in sections III. A, B, and C, of the State P-Card Policy.

Recommendation: We recommend the Commission clearly define the roles and responsibilities of the PCAs, supervisors/approving officials, and liaisons in its P-Card Manual.

Agency Response

The Commission's current P-card Manual links to the online version of the State P-Card Policy. The Commission has begun updating the agency P-card manual to include the internal policy governing the use of P-cards and clearly define roles and responsibilities for the administrator, supervisors, and liaisons. This update will be finalized by September 1, 2021.

B. Improper Approval of Transactions

Cardholders approved their own purchases in nine transactions in violation of State P-Card Policy. The Commission's P-Card manual does not adequately define the roles and responsibilities of supervisors/approvers. Section V. A. 4. of the State P-Card Policy provides that "No Cardholder can provide approval for payment for his/her transactions or of the P-Card cardholder monthly bank statements."

Recommendation: We recommend the Commission revise its P-Card Manual to include adequate separation of duties including a defined approval process. We further recommend that Level I P-Card training clearly explain the prohibition against cardholders approving their own purchase transactions.

RESULTS OF AUDIT

Agency Response

The Commission's P-Card manual will be revised to clearly define the roles and responsibilities of supervisors/approvers, establish adequate separation of duties, and clarify that cardholders cannot approve their own purchases. This update will be completed by September 1, 2021.

C. Improperly Documented Approval

Eleven transactions lacked proper approval. The agency discontinued the use of an internal "Agency Credit Card Receipt Covers" form with each purchase, but did not develop and implement a new procedure. Section III. A. 2. a) of the State P-Card Policy requires governmental bodies to "establish written procedures to ensure compliance with, or request exceptions to, the Code, and State and internal P-Card policy."

Recommendation: We recommend the Commission develop and implement new transaction approval procedures for the PCA, liaisons, supervisor/approving officials, and P-Card holders, as required by the State P-Card Policy.

Agency Response

The Commission re-established use of an internal credit card receipt cover with the April 2021 p-card statement. This procedure and any new approval procedures will be added to the revision of the agency p-card manual by September 1, 2021.

D. PCA Roles and Responsibilities Inadequately Defined

The roles and responsibilities of the PCA are not adequately defined to ensure that reviews of monthly statements and transactions are effective. Based on the nature of the Commission's P-Card program, we do not believe an external/third party audit is necessary. However, when considering the issues observed during the audit, there should be more thorough reviews by the PCA to ensure compliance with the State P-Card Policy. Section III. A. 2. a) of the State P-Card Policy requires governmental bodies to "establish written procedures to ensure compliance with, or request exceptions to, the Code, the State P-Card Policy, and the internal P-Card policy."

Recommendation: We recommend the Commission revise its P-Card manual to specify the roles and responsibilities of the PCA, and establish criteria by which the PCA confirms that transactions are in compliance with the State P-Card Policy during the monthly review process. Common practice is for the criteria to be documented in a checklist that can be used with each bank statement review to ensure the consistency and effectiveness of such reviews.

RESULTS OF AUDIT

Agency Response

The Commission will revise the P-card manual to specify the roles and responsibilities of the PCA and include monthly review criteria for confirming transaction compliance. This update will be finalized by September 1, 2021.

E. Training Program Not Implemented

The Commission had no documented Level 1 P-Card training program. There is no documentation to confirm the cardholders, supervisors/approvers/ or liaisons were trained prior to issuance of the P-Card. Section III. A. 4. of the State P-Card Policy requires agencies to “Develop a documented, Agency-specific training program that must be completed for all prospective cardholders, supervisors/approving officials, and liaisons prior to issuance of the P-Card.” The training requirement in the State P-card Policy is specified depending on the roles of each cardholder.

Recommendation: We recommend the Commission develop and implement documented Level I and II training programs for new and existing cardholders.

Agency Response

Two staff members currently hold P-cards (as of April 1, 2021). These two existing cardholders did receive training when their cards were issued. We will ensure that existing cardholders receive updated Level I and II training and document this training, and that any new cardholders also receive documented training.

F. Missing Monthly P-Card Statement Certifications

The monthly P-Card Statement Certification was not completed for May 2020. Section V. A. 7. of the State P-Card Policy states that, “PCAs are required to submit a completed P-Card Statement Certification Form with each monthly statement.”

Recommendation: We recommend the Commission develop and implement procedures in their internal P-Card manual to ensure the P-Card certification form is completed and submitted to the Comptroller General’s Office each month.

Agency Response

The May 2020 certification was not completed in the normal manner due to employees working from home during the pandemic. (The approval was granted in an email message in lieu of the certification form being completed.) This process was corrected for the June 2020 billing cycle, and all subsequent certifications have been completed and submitted correctly.

RESULTS OF AUDIT

G. Bank of America (BOA) Works Auto-Signoff

The Commission does not use the BOA Works Payment Manager system to approve individual transactions. All transactions were shown to have an "auto-signoff" instead of a manager's approval. State P-Card Policy Section I states, "All Entities are required to use the Works Payment Manager system provided by the Bank, or other system approved by DPS, for card administration and cardholder monthly bank statement reconciliation."

Recommendation: We recommend the Commission use the BOA Works Payment Manager system to approve transactions and complete monthly bank statement reconciliations as required.

Agency Response

The Commission understands from our audit exit interview that using BOA Works Payment Manager is not a requirement for an agency of our size. However, we are committed to correcting identified p-card issues in compliance and documentation and will begin using Works Payment Manager if improving our current internal processes is not sufficient to strengthen compliance and documentation.

II. Sole Source Procurements

Inadequate Written Determinations for Sole Source Procurements

The justifications for four procurements did not adequately explain why the vendor was the only qualified vendor. An adequate justification would define the agency's need, describe the methods used to determine suitable products available in the market, and weigh the advantages/disadvantages of the identified options. SC Code Ann. § 11-35-1560 requires governmental bodies to determine in writing that there is only one source for the required supply, service, information technology, or construction item. SC Regulation 19-445.2105 further specifies that "the determination must contain sufficient factual grounds and reasoning to provide an informed, objective explanation for the decision."

Recommendation: We recommend the Commission review and revise its internal procedures for preparing written determinations, including adequate review and approval, to ensure written determinations adequately justify sole source procurements.

Agency Response

The commission concurs with these findings. We will ensure that our written determinations in the future are thoroughly detailed to justify the reasoning of sole sourcing the procurement.

RESULTS OF AUDIT

III. Procurement Policies and Procedures Manual

Internal Procurement Manual Not Updated

The Commission's internal procurement manual was not revised after May 13, 2019, and there was no written approval from the Chief Procurement Officer (CPO) for their current manual, which has a revision date of July 2011. This is a repeat finding from the procurement audit completed in 2008. SC Code Ann. § 11-35-540 (3) states that "governmental bodies shall develop internal operational procedures consistent with this code; except, that the operational procedures must be approved in writing by the appropriate CPO."

Recommendation: We recommend the Commission update its procurement manual and submit the updated manual to the CPO for approval as required. To assist the agency, DPS has a Procurement Manual Checklist on its website.

Agency Response

As Procurement Officer, I concur with these findings. I will work to make the proper revisions to the commission's procurement manual to align with the state procurement code by September 1, 2021. I will use the Division of Procurement Services' checklist as oversight to make sure that the manual covers all necessary areas of procurement.

IV. Blanket Purchase Agreement

Inadequate Blanket Purchase Agreement

A blanket purchase agreement was found not to contain the terms and conditions required by Regulation 19-445.2100 (E): description of agreement, extent of obligation, notice of individuals authorized to place calls, and dollar limitations. Regulation 19-445.2100 (E) specifies the terms and conditions to be applied in the establishment of a blanket purchase agreement.

Recommendation: We recommend the Commission modify the blanket purchase agreement to include the terms and conditions required by SC Code of Regulation 19-445.2100 (E). We also recommend the Commission develop and implement procedures to ensure that future blanket purchase agreements contain terms and conditions required by regulation.

Agency Response

The Commission concurs with these findings. This was a mistake in coding this purchase order, and it should not have been classified as a blanket purchase agreement. More attention will be paid to prevent such oversights.

RESULTS OF AUDIT

V. Minority Business Enterprise (MBE) Utilization

A. Annual Utilization Plan and Progress Reports Not Filed

One annual utilization plan and eight quarterly reports were not filed.

B. Annual Utilization Plans and Progress Reports Not Submitted Timely

Four annual utilization plans and six quarterly reports were not filed in a timely manner.

SC Code Ann. § 11-35-5240 (2) requires that MBE utilization plans be submitted to the SMBCC for approval no later than July 30th annually and that progress reports be submitted to the SMBCC no later than 30 days after the end of each fiscal quarter.

Recommendation: We recommend the Commission develop and implement procedures, including management review and approval, to ensure that annual MBE utilization plans and quarterly progress reports are submitted to the SMBCC in a timely manner as required by SC Code Ann. § 11-35-5240 (2).

Agency Response

The Commission concurs with these findings. I have completed all quarterly reporting for FY20 and have set up MBE reporting in my Outlook reminder system, which has worked well for my other reporting, but mistakenly was overlooked in including MBE. Along with this, I will also work more closely with our accountant to ensure that I receive financial data well in advance to help me complete the annual utilization plan and quarterly reports in a timely manner.

CERTIFICATION RECOMMENDATION

We believe corrective action based on the recommendations in this report will make the Arts Commission's internal procurement operations consistent with the South Carolina Consolidated Procurement Code and ensuing regulations.

As provided in SC Code Ann. § 11-35-1210, we recommend that the Arts Commission's procurement authority to make direct agency procurements be re-certified up to the following limits for three years:

PROCUREMENT AREAS

RECOMMENDED CERTIFICATION LIMITS

Supplies and Services¹

*\$ 100,000 per commitment

Information Technology²

*\$ 100,000 per commitment

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



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¹ Supplies and Services includes non-IT consulting services.

² Information Technology includes consulting services for any aspect of information technology, systems and networks.