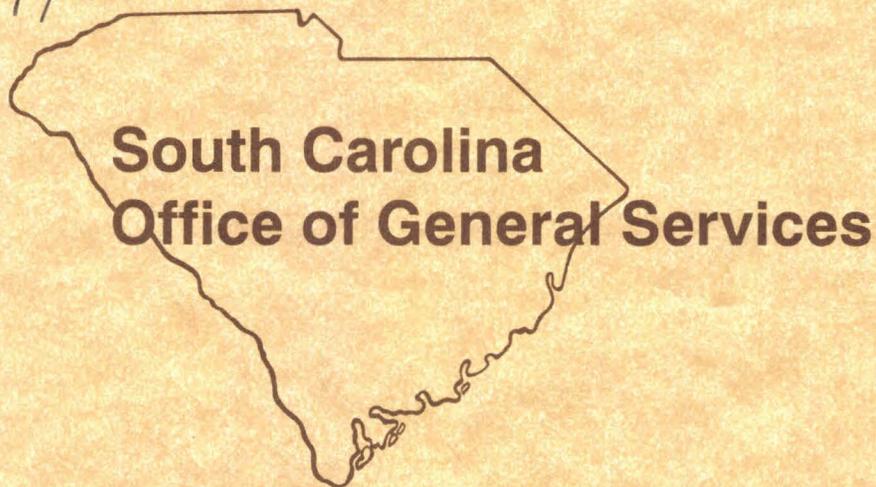


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PROCUREMENT AUDIT AND CERTIFICATION

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SOUTH CAROLINA STATE ACCIDENT
FUND

AGENCY

JULY 1, 1995 - DECEMBER 31, 1997

DATE

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State Budget and Control Board
OFFICE OF GENERAL SERVICES



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MATERIALS MANAGEMENT OFFICE
1201 MAIN STREET, SUITE 600
COLUMBIA, SOUTH CAROLINA 29201
(803) 737-0600
Fax (803) 737-0639

VOIGHT SHEALY
ASSISTANT DIRECTOR

May 22, 1998

Ms. Helen T. Zeigler, Director
Office of General Services
1201 Main Street, Suite 420
Columbia, South Carolina 29201

Dear Helen:

I have attached the audit report for the South Carolina State Accident Fund. Since we are not recommending any certification above the basic \$5,000 allowed by the Code, no action is required by the Budget and Control Board. Therefore, I recommend the report be presented to the Budget and Control Board as information.

Sincerely,

A handwritten signature in cursive script that reads "Voight Shealy".

R. Voight Shealy
Materials Management Officer

/tl

**SOUTH CAROLINA STATE ACCIDENT FUND
PROCUREMENT AUDIT REPORT**

JULY 1, 1995 - DECEMBER 31, 1997

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NOTE: The Fund's responses to issues noted in this report have been inserted immediately following the items they refer to.

STATE OF SOUTH CAROLINA
State Budget and Control Board
OFFICE OF GENERAL SERVICES

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CHAIRMAN, SENATE FINANCE COMMITTEE

HENRY E. BROWN, JR.
CHAIRMAN, WAYS AND MEANS COMMITTEE

LUTHER F. CARTER
EXECUTIVE DIRECTOR

April 7, 1998

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 State Accident Fund for the period July 1, 1995 through December 31, 1997. 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 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 State Accident Fund 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 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 State Accident Fund in compliance with the South Carolina Consolidated Procurement Code and ensuing regulations.

Sincerely,



Larry G. Sorrell, Manager
Audit and Certification

INTRODUCTION

We conducted an examination of the internal procurement operating policies and procedures of the South Carolina State Accident Fund, hereafter referred to as the Fund. Our on-site review was conducted February 17 - 20, 1998 and was made under Section 11-35-1230(1) of 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 Fund 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

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 Fund 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 judgmental samples for the period July 1, 1996 through December 31, 1997 of procurement transactions for compliance testing and performed other audit procedures that 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 July 1, 1995 through December 31, 1997
- (2) Procurement transactions for the period July 1, 1996 through December 31, 1997 as follows:
 - a) Sixteen payments each exceeding \$1,500
 - b) All payment vouchers issued during October and November of 1997
- (3) Surplus property procedures
- (4) Minority Business Enterprise Plans and reports for the audit period
- (5) Information technology plans for fiscal years 1995-98
- (6) Internal procurement procedures manual
- (7) Real property lease procedures

RESULTS OF EXAMINATION

The Office of Audit and Certification performed an examination of the internal procurement operating policies, procedures and related manual of the Fund for the period July 1, 1995 through December 31, 1997. While this audit is our first one of the Fund, the Fund has maintained a professional procurement system. We commend the Fund's efforts to comply with the Consolidated Procurement Code. However, during our examination we noted the following items that should be addressed by management.

Unauthorized Sole Sources

The Chief Operations Officer signed two sole source determinations for requisitions 351667 and 351701 totaling \$3,650 and \$26,823 respectively. The Internal Procurement Procedures Manual states, "Written authorization and the determination and basis for the proposed sole source procurement shall be approved by the Director or the Chief Administrative Officer in the Director's absence." Regulation 19-445.2015 defines an unauthorized procurement as an act obligating the State in a contract by any person without the requisite authority to do so by an appointment or delegation. Since the Chief Operations Officer does not have sole source authority, these purchases are unauthorized. We recommend the Fund request ratification for requisition 351667 from the Director and prepare a ratification request for the Materials Management Officer for requisition 351701 since it exceeded its certification. Additionally, the Fund needs to consider delegating sole source authority to the Chief Operations Officer or comply with the current delegation of authority.

FUND RESPONSE

The Fund has changed the Internal Procurement Manual to include all members of the Fund's Executive Team as authorization purposes.

Drug-Free Workplace Certification

The Fund did not request the Drug-Free Workplace Certification on two sole source contracts.

<u>Date</u>	<u>Requisition</u>	<u>Amount</u>	<u>Description</u>
07/01/96	301157	\$206,500	Computer maintenance
01/13/97	358963	60,000	Processing premiums

Section 44-107-30 of the South Carolina Code of Laws states, "No person, other than an individual, may receive a domestic grant or be awarded a domestic contract for the procurement of any goods, construction or services for a stated or estimated value of fifty thousand dollars or more from any state agency unless the person has certified to the using agency that it will provide a drug-free workplace." The Fund did not realize this requirement applied to sole source contracts.

We recommend the Fund obtain this certification on all contracts exceeding \$50,000 including sole source, emergency, interagency and exempt contracts.

FUND RESPONSE

The Fund has obtained a drug-free certification for the on-going sole source. In the future, a drug-free certification will be obtained on all sole source procurements exceeding \$50,000.

No Evidence of Compliance

We noted two procurements that were not supported by evidence of competition or a determination to support a sole source procurement. On voucher DV587 for \$2,543 for computer software and accessories, the file had no evidence of competition. The Fund provided a memo which stated that competition was sought but not documented. However, without that documentation, we cannot determine if an adequate number of solicitations was made or the procurement was awarded correctly. The Fund paid a company to perform additional network cabling on voucher DV495 for \$2,887. The work was done as part of a new network system being installed. The Fund wanted to maintain the integrity and consistency of the network and decided to use the original subcontractor. However, no sole source determination was prepared.

Section 11-35-1550(2)(b) of the Code states, "Solicitations of verbal or written quotes from a minimum of three qualified sources of supply shall be made and documentation of the quotes

attached to the purchase requisition. The award shall be made to the lowest responsive and responsible source." (Emphasis added.) Section 11-35-1560 of the Code states, "A contract may be awarded for a supply, service, or construction item without competition when, under regulations promulgated by the board, the chief procurement officer, the head of a purchasing agency, or a designee of either officer, above the level of the procurement officer, determines in writing that there is only one source for the required supply, service, or construction item." (Emphasis added.)

We recommend the Fund comply with the Code concerning sole source and small purchase requirements.

FUND RESPONSE

The Fund will comply with the Code concerning small purchase and sole source requirements.

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 South Carolina State Accident Fund in compliance with the Consolidated Procurement Code and ensuing Regulations.

We will perform a follow-up review by June 30, 1998, to ensure that the Fund has completed this corrective action. Subject to this corrective action and since the State Accident Fund has not requested additional procurement certification, we recommend the Fund be allowed to continue procuring all goods and services, consultant services, construction services and information technology up to the basic level of \$5,000 as allowed by the Consolidated Procurement Code and accompanying regulations.



Melissa Rae Thurstin
Senior Auditor



Larry G. Sorrell, Manager
Audit and Certification

STATE OF SOUTH CAROLINA
State Budget and Control Board
OFFICE OF GENERAL SERVICES



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VOIGHT SHEALY
ASSISTANT DIRECTOR

May 22, 1998

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 South Carolina State Accident Fund's response to our audit report for July 1, 1995 - December 31, 1997. We are satisfied that the Fund has corrected the problem areas and the internal controls over the procurement system are adequate.

Additional certification was not requested. Therefore, we recommend the Fund be allowed to continue procuring all goods and services, construction, information technology and consulting services up to the basic level of outlined in the Code.

Sincerely,

Handwritten signature of Larry G. Sorrell in cursive.

Larry G. Sorrell, Manager
Audit and Certification

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