



**South Carolina
State Accident Fund**

FOLLOW-UP PROCUREMENT AUDIT REPORT

**for the Audit Period:
April 1, 2021 to January 31, 2022**

**Office of Audit & Certification
Division of Procurement Services
March 17, 2022**

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INTRODUCTION

The Division of Procurement Services (DPS) audited State Accident Fund's (SAF) internal procurement operating policies and procedures, as outlined in their internal Procurement Operating Procedures Manual, under § 11-35-1230 of the South Carolina Consolidated Procurement Code (Code) and Reg. 19-445.2020¹. This audit was a follow-up to the period ending March 31, 2021, audit. DPS conducted the follow-up audit at the request of the State Fiscal Accountability Authority based on the findings in the original report.

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

The management of State Accident Fund is responsible for the agency's compliance with the Code. Those responsibilities include the following:

- Identifying the agency's procurement activities and understanding and complying with the Code
- Establishing and maintaining effective controls over procurement activities that provide reasonable assurance that the agency administers its procurement programs in compliance with the Code
- Evaluating and monitoring the agency'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

Total Expenditures

During the audit period, the agency made expenditures as follows:

| | \$ Amount (000s) | | |
|--------------------|-------------------------|---------------|--------------|
| | Q4 | Q1,2 | |
| | FY2021 | FY2022 | Total |
| POs | 636 | 504 | 1,140 |
| Direct Pays | 424 | 1,356 | 1,780 |
| Total Spend | 1,060 | 1,860 | 2,920 |

*Claims expenses totaling \$51M removed from Direct Pays

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 SAF’s compliance with the Code for the period April 1, 2021 through January 31, 2022, 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) Procurement transactions for the audit period as follows:
 - a) Seventeen supplies & services expenditures each exceeding \$10k totaling \$693k.
 - b) Four direct payments totaling \$4.2M.
 - c) A block of sequential expenditures over a two-month period reviewed for order splitting or the use of or favored vendors
 - d) Twenty-five P-Card transactions totaling \$5k for compliance with the South Carolina Card Policy and Procedures (State P-Card Policy). During the audit SAF had two P-Card cardholders that made P-Card expenditures as follows:

| <u>Fiscal Year</u> | <u>Transactions</u> | <u>\$ Amount</u> |
|--------------------|---------------------|------------------|
| Q4 2021 | 21 | 2,839 |
| Q1,2 2022 | 34 | 5,608 |

- e) Information Technology acquisitions under approved IT Plans
- (3) Construction contracts and Architect/Engineer and Related Professional Service Contracts for compliance with the Manual for Planning and Execution of State Permanent Improvements of which there were none.
- (4) Written determinations for all sole source and emergency procurements. The following sole source and emergency procurement activity was reported to DPS during the audit period:

| <u>Fiscal Year</u> | <u>Count</u> | <u>Sole Source</u> | <u>Count</u> | <u>Emergency</u> |
|--------------------|--------------|--------------------|--------------|------------------|
| | | <u>\$ Amount</u> | | <u>\$ Amount</u> |
| Q4, 2021 | 0 | 0 | 0 | 0 |
| Q1,2 2022 | 1 | 17,000 | 0 | 0 |

- (5) Disposition of unauthorized procurements. SAF reported no unauthorized procurement activity to DPS during the audit period.
- (6) Reporting of surplus property dispositions, and approval of trade-ins in excess of \$5k.

SCOPE

- (7) Small and Minority Business utilization plans and reports. The following activity was reported to the Division of Small and Minority Business Contracting and Certification (SMBCC):

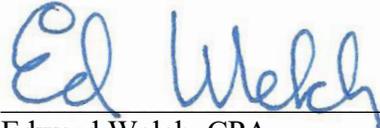
| <u>Fiscal Year</u> | <u>\$ Goal</u> | <u>\$ Actual</u> |
|--------------------|----------------|------------------|
| Q4 2021 | 1,672 | 20,400 |
| Q1,2 2022 | 10,144 | 467 |

CONCLUSION

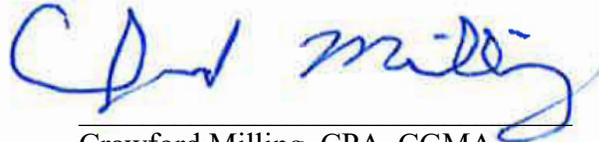
Our examination found that the internal controls of SAF's procurement system were adequate to ensure compliance with the Code and ensuing regulations and identified no material violations of Code.

In our opinion the South Carolina State Accident Fund's internal procurement operations are consistent with the South Carolina Consolidated Procurement Code and ensuing regulations.

The Agency has not requested increased procurement certification above the \$50,000 statutory authority provided by § 11-35-1210 of the Code. As provided by SC Code Ann. § 11-35-1210, we recommend the State Accident Fund be allowed to continue to make direct agency procurements of supplies and services, information technology, and construction services up to \$50,000 per commitment.



Edward Welch, CPA
Audit Manager,
Audit & Certification



Crawford Milling, CPA, CGMA
Director, Audit & Certification

End Notes

ⁱ Regulation 19-445.2020 Certification

(A) Review Procedures.

(2) The Materials Management Officer shall review and report on the government body's entire internal procurement operation to include, but not be limited to the following:

- (a) Adherence to provisions of the Code and these Regulations;
- (b) Procurement staff and training;
- (c) Adequate audit trails and purchase order register;
- (d) Evidence of competition;
- (e) Small purchase provisions and purchase order confirmation;
- (f) Emergency and sole source procurements;
- (g) Source selection;
- (h) File documentation of procurements;
- (i) Decisions and determinations made pursuant to section 2015;
- (j) Adherence to any mandatory policies, procedures, or guidelines established by the appropriate chief procurement officers;
- (k) Adequacy of written determinations required by the Code and these Regulations;
- (l) Contract administrations;
- (m) Adequacy of the governmental body's system of internal controls in order to ensure compliance with applicable requirements.

(3) The report required by item A(2) shall be submitted to the board.



South Carolina State Accident Fund

Henry D. McMaster
Governor

Erin Farthing
Acting Director

June 13, 2022

Via e-mail: dcmilling@mmo.sc.gov

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Division of Procurement Services/Audit & Certification
State Fiscal Accountability Authority
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RE: South Carolina State Accident Fund Follow-Up Procurement Audit Report

Dear Mr. Milling:

We are in receipt of the Follow-Up Procurement Audit Report following your follow-up audit of the State Accident Fund (SAF)'s internal procurement operating policies and procedures. Once again, we appreciate your time, effort, and professionalism in conducting this audit. Per the conclusion of your report, you did not identify any material violations of the South Carolina Consolidated Procurement Code by SAF, and "found that the internal controls of SAF's procurement system were adequate to ensure compliance with the Code and ensuing regulations." Since your audit in 2021, we at SAF have worked to ensure our procurement policies, procedures, and practices are in full compliance with the South Carolina Consolidated Procurement Code and its correlating regulations. We will continue to conduct internal reviews and make any necessary changes to ensure that all future procurement actions remain in full compliance with the Code and ensuing regulations.

Thank you again for your input and assistance in helping the State Accident Fund improve our procurement procedures. If you have any questions please do not hesitate to contact me.

Sincerely,

A handwritten signature in black ink that reads "Erin Farthing".

Erin Farthing
Acting Director