



**South Carolina
State Accident Fund**

INDEPENDENT PROCUREMENT AUDIT REPORT

**for the Audit Period:
January 1, 2018 to March 31, 2021**

**Office of Audit & Certification
Division of Procurement Services
June 2, 2021**

TABLE OF CONTENTS

	<u>PAGE</u>
Introduction.....	1
Scope.....	2
Summary of Findings.....	3
Results of Audit	4

INTRODUCTION

The Division of Procurement Services (DPS) audited the 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. 19-445.2020ⁱ of the ensuing regulations.

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

The management of SAF 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.

SAF is a non-certified agency. The Agency contracts to buy administrative services including procurement thru the Department of Administration.

Total Expenditures

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

	\$ Amount (000s)					
	<u>Count</u>	<u>FY2018</u>	<u>FY2019</u>	<u>FY2020</u>	<u>FY2021</u>	<u>Total</u>
POs	121	387	686	1,223	930	3,226
DEV	1,126	2,357	3,544	2,786	21,633	30,320
Total Spend	<u>1,247</u>	<u>2,744</u>	<u>4,230</u>	<u>4,009</u>	<u>22,563</u>	<u>33,546</u>

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 January 1, 2018 through March 31, 2021, 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. There were no sole source or emergency procurements during the audit period.
- (3) Procurement transactions for the audit period as follows:
 - a) Thirty supplies & services expenditures totaling \$2.12 M.
 - b) Twenty direct expenditure vouchers (DEVs) totaling \$27.77 M.
 - 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 for single transaction limit (STL), split transactions, and MCC code compliance.
- (4) 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>
2018	1,672	-0-
2019	1,672	-0-
2020	1,110	1,049
2021	1,672	331

- (5) Information Technology acquisition under IT Plans.
- (6) Reporting of surplus property dispositions, and approval of trade-ins in excess of \$5,000
- (7) Disposition of unauthorized procurements. The following unauthorized procurement activity was reported to DPS:

<u>Fiscal Year</u>	<u>Count</u>	<u>\$ Amount</u>
2018	-	-0-
2019	1	2,765,527
2020	-	-0-
2021	-	-0-

SUMMARY OF FINDINGS

I. <u>SAF Procurement Manual Lacked Key Sections</u>	4
Important sections of SAF’s Procurement Manual were not included.	
II. <u>Purchasing Card Program Administration</u>	
Weaknesses in management oversight of the P-Card program result in increased risk that inappropriate use of P-Cards could go undetected.	
A. <u>Purchasing Card Manual</u>.....	5
Important sections of the revised Code were not included in SAF’s Procurement Manual.	
B. <u>Cardholder Approved Their Own Purchases</u>	5
Seventeen purchases were identified in which the cardholder approved their own purchases.	
C. <u>Bank Statements Lacked Management Approval</u>.....	6
Twenty-five transactions were identified in which the supervisor/approver did not sign the monthly bank statements.	
D. <u>Bank Statements Lacked Cardholder Approval</u>.....	6
Twenty-five transactions were identified in which the cardholder did not sign the monthly bank statements.	
E. <u>Prohibited Purchases</u>.....	6
One transaction was identified in which lodging was purchased on a P-Card.	
F. <u>Purchases from Non-Contract Vendor</u>.....	7
Two transactions were identified in which furniture items were purchased from non-contract vendors.	
G. <u>Blocked Merchant Category Codes</u>	7
Two transactions were identified in which blocked MCCs were used for purchases.	
H. <u>P-Card Training Program Not Documented</u>	8
The agency had no documented training program for Level I or Level II P-Cardholders.	
III. <u>Small and Minority Business Utilization Plans and Progress Reports Not Filed</u>	9
One Annual Utilization Plan was not filed and three Quarterly Progress Reports were not filed.	

Note: The agency’s responses to issues raised in this report have been inserted immediately following the recommendations in the body of the report.

RESULTS OF AUDIT

I. SAF Procurement Manual Lacked Key Sections

Important sections of the revised Code were not included in SAF's Procurement Manual. SAF's procurement manual was last updated on December 31, 2014 and had not been approved by the CPO. Significant changes were made to the South Carolina Procurement Code effective May 13, 2019.

- (1) The Small Purchase Procedures have not been updated to reflect SC Code Ann. § 11-35-1550.
- (2) There are no written procedures in the manual for the purchase of Commercial Products and Commercially Available Off-the-Shelf (COTS) products per SC Regs. 19-445-2141.
- (3) There are no written procedures in the manual referencing the new requirements for advertising all Sole Source and Emergency Procurements greater than \$50,000 to reflect SC Code Ann. §§ 11-35-1560 and 1570.
- (4) There are no written procedures in place that comply with the Retention of Procurement Records. SC Code Ann. § 11-35-2430.

SC Code Ann. § 11-35-540 (3) requires governmental bodies to develop internal operating procedures consistent with the Code.

Recommendation: We recommend SAF revise its internal procurement procedures manual to include source selection methods and other aspects of the Code commonly conducted by the agency as required by SC Code Ann. § 11-35-540 and Reg. 19-445.2005, and that SAF submit the manual to the Division of Procurement Services for approval.

Agency Management Response

In accordance with the Recommendation concerning SAF's Procurement Manual, SAF is revising our internal procurement procedures manual and internal procedures to comply with South Carolina Procurement Code. We will update the manual to reflect the changes in the Code as set forth in Section I of the Results of the Audit. We expect to have a proposed revised manual to the Division of Procurement Services for approval within 45 days of the date of this letter.

II. Purchasing Card Program Administration

We reviewed SAF's P-Card policies and procedures for compliance with the South Carolina Purchasing Card Policy and Procedures (State P-Card Policy) and identified areas of non-compliance. SAF had four cardholders who spent \$59,616 during the audit period.

RESULTS OF AUDIT

A. Purchasing Card Manual

SAF's P-Card Manual was last updated on July 1, 2014 and did not address critical elements of the State P-Card Policy as follows:

- (1) Inadequate roles and responsibilities for the documentation of manager/supervisor approval.
- (2) Inadequate procedures for prohibited transactions.
- (3) No prohibition of order splitting.
- (4) No procedures for BOA Works or a description of how to use BOA Works.

Recommendation: We recommend SAF revise its internal P-Card Manual that covers the key requirements of the State P-Card Policy.

Agency Management Response

In accordance with Recommendation A concerning the Purchasing Card Manual, SAF is revising our internal P-Card Manual to ensure that it complies with the critical requirements of the State P-Card Policy, including, but not limited to, those requirements identified in Section II(A) of the Results of the Audit. We expect to have a proposed revised manual to the Division of Procurement Services for review and/or approval within 45 days of the date of this letter.

B. Cardholder Approved Their Own Purchases

We identified seventeen purchases where the cardholder, the agency director, approved her own purchases. Per section V. A. of the State P-Card Policy, "Internal Controls shall include, (4) No Cardholder can provide approval for payment for his/her transactions or of the P-Card cardholder activity statements." During the audit, the agency committed to reassigning the card and having the director approve the purchases with oversight by the Purchasing Card Administrator (PCA).

Recommendation: We recommend SAF revise its P-Card procedure manual to ensure adequate separation of duties including prohibition of a cardholder approving his/her own purchases. PCA roles and responsibilities should be adequately described including verification of manager approvals as required by the State P-Card Policy.

Agency Management Response

In accordance with Recommendation B concerning SAF's procedures governing cardholder purchase approvals, we are revising our P-Card purchase manual and procedures to ensure that adequate separation of duties are in place to prohibit a cardholder from approving his/her own purchases. We are implementing a process by which the all purchases made by cardholders must

RESULTS OF AUDIT

go through multiple levels of approval. All approvals will be made by individuals who are not cardholders. Our revised P-Card manual will outline this process.

C. Bank Statements Lacked Management Approval

Twenty-five bank statements had not been signed by management. Per State P-Card Policy Section III(B)(8), supervisors “Sign the cardholder activity statements signifying review and approval for payment. This responsibility cannot be delegated to another person.”

Recommendation: We recommend that management sign the activity statements as required by State P-Card Policy. We also recommend that SAF’s P-Card procedure manual be updated to comply with the State P-Card Policy.

Agency Management Response

In accordance with Recommendation C concerning management approval of bank statements, we will require that management review and sign all bank statements from any purchases with the P-Card. We will also update SAF’s P-Card Manual to include this requirement.

D. Bank Statements Lacked Cardholder Approval

Twenty-five bank statements had not been signed by the cardholder. Per State P-Card Policy III(D)(4) states, cardholders “sign the cardholder activity statements attesting to the accuracy and completeness of the statement. All signatures must be original. Signatures made with rubber stamps are prohibited.”

Recommendation: We recommend that SAF’s P-Card Policy be updated to comply with the State P-Card Policy. We also recommend that cardholders be re-trained to sign the activity statements as required by State P-Card Policy.

Agency Management Response

In accordance with Recommendation D concerning cardholder approval of bank statements, we will require that all cardholders review and sign all bank statements from their purchases with the P-Card. We will update SAF’s P-Card Manual to include this requirement and will include this requirement in the training provided to P-Cardholders.

E. Prohibited Purchases

One transaction paid for a prohibited purchase. Lodging cannot be charged to a P-Card per State P-Card Policy IV (E), "The following types of purchases are strictly prohibited by State policy. No exceptions will be granted unless obtained in writing as set forth in this policy. This list must be included in lists of prohibited purchases in policies at the local agency and program

RESULTS OF AUDIT

level:" (4) Employee travel expenses, including lodging, transportation (except airline tickets & rental cars), and meals".

Recommendation: We recommend SAF train employees on the types of purchases that are prohibited. We further recommend that monthly management review address purchases that violate State P-Card Policy.

Agency Management Response

In accordance with Recommendation E concerning prohibited purchases, we will ensure that both our P-Card policy and our training for P-Card holders include information regarding prohibited purchases, including but not limited to employee travel expenses. We will also ensure that management's review of all purchases with the P-Card address any purchases that violate State P-Card Policy.

F. Purchases from Non-Contract Vendor

There were two transactions in which the procurement code was not followed. Two items of furniture in the amount of \$3,283 were purchased from a non-contract vendor. Furniture should be purchased from the vendors that are on state term contract. SC Code Ann § 11-35-310 Definitions (37). "Term contract" means contracts established by the chief procurement officer for specific supplies, services, or information technology for a specified time and for which it is mandatory that all governmental bodies procure their requirements during their term"

Recommendation: We recommend SAF purchase supplies & services from state term contracts whenever possible to ensure compliance with SC Code Ann § 11-35-310 (37).

Agency Management Response

In accordance with Recommendation F concerning purchases from non-contract vendors, we will ensure that, whenever possible, we will purchase supplies and services from state term contracts in compliance with S.C. Code Ann. §11-35-310(37). We will ensure the updated P-Card Manual includes this requirement and will include this requirement in the training provided to P-Card holders.

G. Blocked Merchant Category Codes

We identified two purchases made on blocked MCCs without prior approval by the Office of the Comptroller General (OCG).

Recommendation: We recommend that SAF develop and implement procedures assigning responsibility for reviewing for blocked MCCs use to monthly management review and we further recommend that the justified use of any blocked MCCs be approved by the OCG.

RESULTS OF AUDIT

Agency Management Response

In accordance with Recommendation G concerning blocked merchant category codes (“MCC”), as discussed during the exit conference, due to the nature of some purchases we have to make as part of our business practices, at times we do not know that a MCC is blocked until we attempt to make a purchase. We discussed that, in the future, when and if this occurs, we will provide a written explanation to the Office of the Comptroller General (“OCG”) to obtain approval for such a purchase. If, we need to make a purchase with a MCC that we know is blocked in the future, we will obtain written approval from the OCG before making such a purchase.

H. P-Card Training Program Not Documented

The Agency had no documented training program for Level I and Level II P-Cardholders. Regarding Level I training (initial training of prospective cardholders), Section III (A)(4) of the State P-Card Policy states "Develop a mandatory Agency-specific training program for all prospective Cardholders and supervisors/approving officials prior to issuance of the P-Card." Additionally, the Manual requires Level II training, also referred to as “Procurement Official” training, for those making purchases exceeding the no competition threshold.

Recommendation: We recommend that SAF ensure adequate training is provided to cardholders and supervisors/approving officials providing oversight responsibilities. Both the Level I and the Level II training should be documented, and completion dates recorded in the cardholder's file.

Agency Management Response

In accordance with Recommendation H concerning P-Card training, we will ensure that all P-Card holders and any supervisors and approving officials have adequate and complete training regarding the responsibilities and limitations on the use of the P-Card. We are developing a training program within SAF for these individuals and will ensure that we document their completion of this training within their individual files. We expect to have this training program completed within 45 days of the date of this letter.

RESULTS OF AUDIT

III. Small and Minority Business Utilization Plans and Progress Reports Not Filed

One of the required annual utilization plans was not filed and three of the quarterly progress reports were not filed. SC Code Ann. § 11-35-5240 (2) states in part 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 that SAF develop and implement procedures to comply with SC Code Ann. § 11-35-5240(2) by submitting annual utilization plans and quarterly progress reports to the SMBCC in a timely manner.

Agency Management Response

In accordance with the Recommendation concerning the Small and Minority Business Utilization Plans and Progress Reports, we have implemented procedures to ensure that all future annual utilization plans and quarterly progress reports are submitted to the SMBCC in a timely manner in compliance with S.C. Code Ann. §11-35-5240(2).

CONCLUSION

As described in our transmittal letter, corrective action based on the recommendations described in this report, we believe, will in all material respects place The State Accident Fund in compliance with the South Carolina Consolidated Procurement Code.

The Agency has not requested increased procurement certification above the basic limit of \$50,000 allowed by the Code. Subject to the corrective action listed in this report, we will recommend the Agency be allowed to continue procuring supplies and services, consultant services, construction services and information technology up to the basic level of \$50,000 as allowed by the South Carolina Consolidated Procurement Code.



Edward Welch, CPA
Audit Manager



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.