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Subject: E-Alert - Restructuring Matters

Dear Friend:

When we're talking about government restructuring and reforming the Budget and Control Board, in a lot of cases what we're talking about is the need for more accountability. The reason why that's important is because when everyone is in charge, no one is in charge – and when no one is held accountable for the spending decisions made every day in state government, it's often the taxpayers that suffer.

A fairly obscene example of this is highlighted in the article below. In this case, somewhere between \$2 million and \$4 million went out of our pockets each year as taxpayers, and into the pockets of a politically connected insurance firm. In this case, the contract was not competitively bid – just given to them year after year for 20 years!

In the few months the Executive Branch controlled the Budget and Control Board, we were able to put together a team, led by a friend and business person Chad Walldorf. They found more than \$500 million that could be saved there, and this is just one of many stories that fit with a Budget and Control Board that is essentially accountable to no one.

It's for reasons like this that we need for you to continue making your voice heard, and if you can I'd appreciate you sending this to a friend.

Take care

Mark

http://www.charlestonbusiness.com/current/13_21/news/10535-1.html

Insurance bid process questioned

October 15, 2007

By Dan McCue,
Staff Writer

For more than two decades, it's been among the most mysterious governmental relationships in Columbia: the one between the state Insurance Reserve Fund and the broker, Competitive Insurance Group LLC, that handles its \$20.8 million catastrophic windstorm insurance policy.

The policy has been exclusively placed with Columbia-based CIG, formerly known as the Thomas Brown Agency, for 25 years, and not competitively bid for the past 19.

According to the state Government Efficiency and Accountability Review Committee, since 2001 the procurement has not been brought to the state's five-member Budget and Control Board, which is supposed to have oversight over the broker's selection.

On at least four occasions, the board chose to exercise its exemption from the procurement code to extend the contract. And the Insurance Reserve Fund admits it has no way of knowing how much the broker has earned over the years in commissions on the contract.

"They are not paid a specific amount," said Michael Sponhour, the Fund's director of public relations. "In this type of broker arrangement, the broker's compensation is included in the total amount of the reinsurance and thus we have no way of saying how much the broker earned."

Comments like those send a chill through critics of the longstanding practice of continuing the existing brokerage contract.

"Our state's most important agency, the Budget and Control Board, is answerable to no one and our taxpayers pay the price," said Chad Walldorf, the former deputy chief of state to Gov. Mark Sanford and former chair of the state government accountability committee.

"Speaking personally, as a taxpayer, I was shocked to find that this large contract was being awarded annually without any sort of competitive process.

"I think it also speaks to concerns across the state about the influence lobbyists have in a 'Good Ol' Boy' network where who you know and who's scratching your back seems to have a greater importance than the best interests of the state." Whether that backroom network continues to prevail or is cast aside is currently being decided. During its last session, the Legislature mandated that the brokership be put out to bid.

Eleven companies, including CIG, responded to the request for proposal and each made a presentation to a panel of insurance experts on Oct. 4.

The Budget and Control Board is scheduled to consider the panel's recommendation at its Nov. 6 meeting.

The initial contract

The Insurance Reserve Fund provides a full range of insurance products to state agencies and also to some local

governments that opt to use its services.

Although the IRF receives no General Funds from the Legislature, it has \$100 million in annual operating expenses and, thanks to payments from its client agencies, had some \$378 million in cash at the end of the last fiscal year.

As part of its operations, the Insurance Reserve Fund has long maintained an excess policy to protect the state's internal property fund from the financial impact of large losses from hurricane wind damage or other causes.

CIG's participation as broker of this policy extends back to former state Rep. Robert E. "Bobby" Kneece's purchase in the early 1980s of the Thomas Brown Agency, then based in Florence. Kneece later moved the company to Columbia. Since Kneece's death in 2000, the firm has been run by his sons, Bobby Kneece Jr. and Rex Kneece, both attorneys at the Columbia law firm of Kneece, Kneece and Brown.

For as long as it's been the broker of the state's property damage policy, CIG has used an insurance wholesaler, Thomas E. Sears Inc., of Boston, to deal with the reinsurance firms.

Sponhour conceded that the Thomas Brown Agency received extensions on its contract in 1982, 1985 and 1988 without fully going through a competitive bid process. But he said the reason wasn't cronyism; rather, it was the process itself, which includes the right to file protests under the procurement code.

"When you have provisions like that, the contract can't move forward until all the disputes are resolved. When you get into disputes and delays, you run into the potential of not having the insurance in place during the period of highest risk, hurricane season," he said.

In 1993, 1996 and 2001, the Budget and Control Board bypassed the competitive bidding process altogether through the use of a procurement exemption. Sponhour said in those years the move was made because the broker was able to place all of the state's reinsurance needs and that there didn't appear to be a reason to switch brokers.

Critics looking for skulduggery point not only to the Kneece brothers but to Warren Tompkins and Graham Tew, two of the state's most powerful lobbyists, who also represent CIG.

Tompkins served as former Gov. Carroll Campbell's chief of staff from 1987 to 1991 and Tew served as Campbell's executive assistant from 1987 to 1994. During those years the Budget and Control Board chaired by Gov. Campbell twice used the board's exemption to the procurement code to extend the contract with the Thomas C. Brown Agency.

While some are tempted to raise their eyebrows at such interconnectedness, to date no one has produced any tangible evidence that either man had a hand in either of the exemptions that led to contract extensions.

Tew could not be reached for comment. Tompkins declined requests by the Charleston Regional Business Journal for comment and directed questions to Robert Kneece Jr., who said he could not comment.

"As you know, we are participating in a review and request for proposal along with several other insurance vendors," Kneece said. "It would be inappropriate for me to comment on this process until it's completion in hopes that this process remains fair and free from outside influence."

Critics: Lack of oversight

No one has flat-out accused anyone connected with CIG with violating the Ethics Act. The GEAR Committee and others are most bothered by the failure by anyone to monitor what CIG has been paid over the years.

James Conlon Nimmich, founder of Conlon Co. Inc., a risk management firm on Sullivan's Island, said brokers working for large private companies typically earn a commission of about 10% for handling businesses' reinsurance issues, while the reinsurance wholesaler with whom they work takes in another 10%.

Today many firms perform both the brokerage and wholesale function, so switching to a company with those capabilities could result in a significant savings for the state, Nimmich said.

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