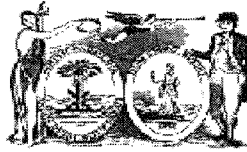


STATE OF SOUTH CAROLINA
State Budget and Control Board
PROCUREMENT SERVICES DIVISION

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R. VOIGHT SHEALY
MATERIALS MANAGEMENT OFFICER

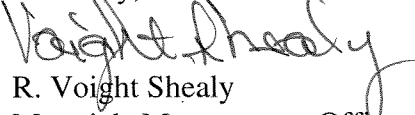
March 12, 2002

Mr. Delbert H. Singleton Jr.
Director
Procurement Services Division
6th Floor-Wade Hampton Building
Columbia, South Carolina 29201

Dear Delbert:

I have attached the Department of Health and Environmental Control's procurement audit report and recommendations made by the Office of Audit and Certification. I concur and recommend the Budget and Control Board grant the Department a three-year certification as noted in the audit report.

Sincerely,


R. Voight Shealy
Materials Management Officer

/jl

**SOUTH CAROLINA DEPARTMENT OF HEALTH AND
ENVIRONMENTAL CONTROL
PROCUREMENT AUDIT REPORT**

JANUARY 1, 1999 - DECEMBER 31, 2001

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

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R. VOIGHT SHEALY
MATERIALS MANAGEMENT OFFICER

February 1, 2002

Mr. R. Voight Shealy
Materials Management Officer
Procurement Services Division
1201 Main Street, Suite 600
Columbia, South Carolina 29201

Dear Voight:

We have examined the procurement policies and procedures of the South Carolina Department of Health and Environmental Control for the period January 1, 1999 through December 31, 2001. 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 South Carolina Consolidated Procurement Code, State Regulations and the Department's 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 Department of Health and Environmental Control 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 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 South Carolina Department of Health and Environmental Control in compliance with the Consolidated Procurement Code and ensuing regulations.

Sincerely,

A handwritten signature in black ink, appearing to read "Larry G. Sorrell", written in a cursive style.

Larry G. Sorrell, Manager
Audit and Certification

INTRODUCTION

We conducted an examination of the internal procurement operating policies and procedures of the South Carolina Department of Health and Environmental Control. Our on-site review was conducted December 7, 2001 through January 25, 2002, 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.

Section 11-35-1210 of the South Carolina Consolidated Procurement Code states:

The (Budget and Control) Board may assign differential dollar limits below which individual governmental bodies may make direct procurements not under term contracts. The Office of General Services shall review the respective governmental body's internal procurement operation, shall verify in writing that it is consistent with the provisions of this code and the ensuing regulations, and recommend to the Board those dollar limits for the respective governmental body's procurement not under term contract.

On August 12, 1999, the Budget and Control Board granted the South Carolina Department of Health and Environmental Control the following procurement certifications.

<u>PROCUREMENT AREAS</u>	<u>CERTIFICATION LIMITS</u>
Annual Term Contracts for drugs, pharmaceuticals, biologicals for human use, contraceptives, biochemicals and biochemical research	\$3,000,000 maximum of all contracts combined
Annual Term Contracts for Hospital sundries and germicides	\$1,700,000 maximum of all contracts combined
All other Goods and Services	\$100,000 per commitment
Information Technology	\$ 50,000 per commitment
Consultant Services	\$ 50,000 per commitment

Our audit was performed primarily to determine if recertification is warranted. Additionally, the Department requested the following increased certifications.

<u>PROCUREMENT AREAS</u>	<u>CERTIFICATION LIMITS</u>
Annual Term Contracts for drugs, pharmaceuticals, biologicals for human use, contraceptives, biochemicals and biochemical research	\$3,000,000 maximum of all contracts combined
Annual Term Contracts for Hospital sundries and germicides	\$1,700,000 maximum of all contracts combined
All other Goods and Services	\$200,000 per commitment
Consultant Services	\$ 50,000 per commitment
Information Technology	\$100,000 per commitment

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 South Carolina Department of Health and Environmental Control, hereinafter referred to as the Department, 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, 1999 through December 31, 2001, 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 January 1, 1999 through December 31, 2001
- (2) Procurement transactions for July 1, 1999 through December 31, 2001 as follows:
 - a) One hundred sixteen payments each exceeding \$1,500
 - b) Five hundred and fifty satellite office transactions from two areas and forty-one direct purchase orders from four other areas
 - c) One month numeric listing of three thousand one hundred thirty-five purchase orders
 - d) Procurement card purchases for three months
 - e) An additional sample of twenty solicitations greater than \$10,000
- (3) One indefinite delivery contract for professional services for compliance with the Manual for Planning and Execution of State Permanent Improvements
- (4) Minority Business Enterprise Plans and reports
- (5) Information technology plans for the audit period
- (6) Internal procurement procedures manual
- (7) Surplus property disposal procedures
- (8) File documentation and evidence of competition
- (9) Blanket purchase order files

SUMMARY OF AUDIT EXCEPTIONS

Inadequate Competition on Two Procurements

Only two written quotes rather than three quotes as required per Section 11-35-1550 (2) (b) of the Code supported purchase orders 355385 for \$2,195 and 316176 for \$1,895.

We recommend the Department solicit adequate competition.

DEPARTMENT RESPONSE

We concur. Special emphasis will be placed on this topic during our quarterly DPO training classes and quarterly DPO updates. A recurring special workshop will be offered during the DPO updates as a refresher course for DPO Purchasing Coordinators, as reinforcement of the current DHEC procurement policies and procedures.

No Evidence of Compliance on Two Procurements

Purchase orders 297964 for printing of legal briefs for \$2,179 and 324824 for catering services for \$2,177 were not supported by solicitations of telephone quotes. The individuals responsible for these procurements believed they were exempt per Section 11-35-710 and did not solicit competition.

We recommend competition be solicited for items that are not exempt from the Code.

DEPARTMENT RESPONSE

We concur. Special emphasis will be placed on this topic during our quarterly DPO training classes and quarterly DPO updates. A recurring special workshop will be offered during the DPO updates as a refresher course for DPO Purchasing Coordinators, as reinforcement of the current DHEC procurement policies and procedures.

Improper Charges

Voucher 56843 included labor charges for a supervisor in the amount of \$494. The payment was made against an agency term contract on purchase order 300394 for office moving services. The contract did not include provision for a supervisor.

We recommend that payments be made in compliance with the established contract.

DEPARTMENT RESPONSE

The invoice shows a supervisor with the rate is \$26.00 a hour. This amount equates to a "truck and driver" in the contract. The program area confirms that the person driving the truck was also the person in charge therefore, they did not question the supervisor description. In the future, the program area will make sure that the invoice agrees with the contract.

Incomplete Documentation for Trade-In

Purchase order 367767 was issued for a global positioning system that included a trade-in. The file did not indicate the original unit cost of the trade-in. Regulation 19-445.2150(G) requires that trade-ins with an original unit cost exceeding \$5,000 be referred to the Materials Management Office, the ITMO or designee of either office for disposition. Without the information in the file on the acquisition cost, we could not determine if the item was disposed of properly.

We recommend the Department identify the acquisition cost on each trade-in and comply with the Regulation if the cost exceeds \$5,000.

DEPARTMENT RESPONSE

We concur. In the future, the trade-in amount and original purchase amount will be clearly documented. Decisions and further actions with the trade-in will be based on that documentation and processed as outlined in the Code.

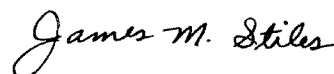
CERTIFICATION RECOMMENDATIONS

As enumerated in our transmittal letter, corrective action based on the recommendations described in this report, we believe, will in all material respects place the South Carolina Department of Health and Environmental Control in compliance with the Procurement Code.

Under the authority described in Section 11-35-1210 of the Procurement Code, subject to this corrective action, we will recommend the South Carolina Department of Health and Environmental Control be recertified to make direct agency procurements for three years up to the following levels.

<u>PROCUREMENT AREAS</u>	<u>CERTIFICATION LIMITS</u>
Annual Term Contracts for drugs, pharmaceuticals, biologicals for human use, contraceptives, biochemicals and biochemical research	\$3,000,000 maximum of all such contracts combined
Annual Term Contracts for Hospital sundries and germicides	\$1,700,000 maximum of all contracts combined
All other Goods and Services	*\$ 200,000 per commitment
Consultant Services	*\$ 50,000 per commitment
Information Technology	*\$ 100,000 per commitment

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



James M. Stiles, CPPB
Audit Manager



Larry G. Sorrell, Manager
Audit and Certification

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R. VOIGHT SHEALY
MATERIALS MANAGEMENT OFFICER

March 12, 2002

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 response from the Department of Health and Environmental Control to our audit report for the period of January 1, 1999 – December 31, 2001. Also we have followed the Department's corrective action during and subsequent to our fieldwork. We are satisfied that the Department has corrected the problem areas and the internal controls over the procurement system are adequate.

Therefore, we recommend the Budget and Control Board grant the South Carolina Department of Health and Environmental Control the certification limits noted in our report for a period of three years.

Sincerely,

A handwritten signature in cursive script, appearing to read "Larry G. Sorrell".

Larry G. Sorrell, Manager
Audit and Certification

LGS/jl

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Unit Cost	.20
Total Cost	\$5.00