



**South Carolina  
Department of Health and Environmental Control**

**INDEPENDENT PROCUREMENT AUDIT REPORT**

**for the Audit Period:  
January 1, 2019 to March 31, 2022**

**Office of Audit & Certification  
Division of Procurement Services  
February 3, 2023**

# TABLE OF CONTENTS

	<u>Page</u>
Abbreviations .....	1
Introduction .....	2
Scope .....	4
Summary of Results .....	5
Results of Audit .....	7
Certification Recommendation .....	14

## ABBREVIATIONS

CG	– SC Comptroller General
Code	– SC Consolidated Procurement Code and ensuing Regulations
COTS	– Commercially Available Off-the-Shelf
CPO	– Chief Procurement Officer
DHEC	– Department of Health and Environmental Control
DPS	– Division of Procurement Services
ITMO	– Information Technology Management Office
PI Manual	– Manual for Planning and Execution of State Permanent Improvements
MBE	– Minority Business Enterprise
MCCs	– Merchant Category Codes
MMO	– Materials Management Office
OCG	– Office of the Comptroller General
OSE	– Office of State Engineer
PCA	– Purchasing Card Administrator
P-Card	– Purchasing Card
PO	– Purchase Order
SCEIS	– South Carolina Enterprise Information
SFAA	– State Fiscal Accountability Authority
SMBCC	– Small and Minority Business Contracting and Certification
SPO	– Surplus Property Office
State PO Policy	– State of South Carolina Statewide Purchase Order Policy

## INTRODUCTION

Per SC Code Ann. § 11-35-1230 and Regulation 19-445.2020, DPS audited DHEC's internal procurement operating policies and procedures, as outlined in their internal Procurement Operating Procedures Manual.

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

The management of DHEC 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 an effective organization structure and system of internal control over procurement activities that provide reasonable assurance that the agency administers its procurement programs in compliance with the Code
- Establishing clear lines of authority and responsibility for making and approving procurements
- Documenting the agency's system of internal control over its procurement activities in an internal procurement procedure manual
- Taking corrective action when instances of noncompliance are identified, including corrective action for the 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

Our audit was also performed to determine if recertification under SC Code Ann. § 11-35-1210 is warranted.

On June 27, 2018 the SFAA granted DHEC the following procurement certifications:

<u>PROCUREMENT AREAS</u>	<u>CURRENT CERTIFICATION LIMITS</u>
Drugs, Biological for Human use; Contraceptives, Biochemicals, And Biochemical Research	*\$12,000,000 per commitment
All other Supplies and Services	*\$ 2,000,000 per commitment
Consultant Services	*\$ 250,000 per commitment
Information Technology	*\$ 225,000 per commitment

On February 11, 2020 the Director of DPS granted DHEC the following certification:

Construction Contract Award	*\$ 100,000 per commitment
-----------------------------	----------------------------

During the audit DHEC requested the following certification limits

<u>PROCUREMENT AREAS</u>	<u>REQUESTED CERTIFICATION LIMITS</u>
Drugs, Biological for Human use; Contraceptives, Biochemicals, And Biochemical Research	*\$12,000,000 per commitment
All other Supplies and Services	*\$ 3,000,000 per commitment
Information Technology	*\$ 500,000 per commitment
Construction Contract Award	*\$ 100,000 per commitment

\* Total potential purchase commitment whether single year or multi-term contracts are used.

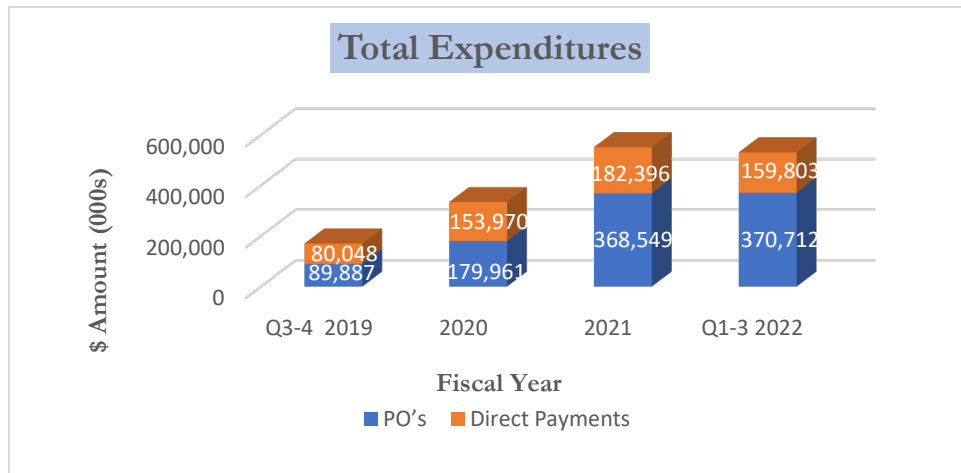
## SCOPE

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 DHEC’s compliance with the Code for the period January 1, 2019 through March 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.

### Total Expenditures

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

	<b>\$ Amount (000s)</b>				<b>Total</b>
	<b>Q3, 4</b>		<b>Q1, 2,3</b>		
	<b>FY2019</b>	<b>FY2020</b>	<b>FY2021</b>	<b>FY2022</b>	
POs <sup>1</sup>	89,887	179,961	368,549	370,712	1,009,109
Direct Pay <sup>2</sup>	80,048	153,970	182,396	159,803	576,217
<b>Total Spend</b>	<b>169,935</b>	<b>333,931</b>	<b>550,945</b>	<b>530,515</b>	<b>1,585,326</b>



<sup>1</sup> **POs** represents all expenditures made with a Purchase Order. These are required for most contract purchases by the terms of the contract and is the preferred procurement instrument when a government unit orders or procures supplies or services from a vendor.

<sup>2</sup> **Direct Pays** are made without purchase order based on the State Purchase Order Policy. These may occur with purchases of supplies or services that are exempt from the Code or for such things as payment for P-Card purchases or purchases less than \$2500.

# SUMMARY OF RESULTS

	<u>PAGE</u>
<b>I. <u>Procurement Manual</u></b> .....	7
Our review of DHEC’s internal procurement procedure manual did not identify any compliance issues.	
<b>II. <u>Supplies and Services</u></b> .....	7
Our review of DHEC’s Supplies and Services did not identify any compliance issues.	
<b>III. <u>Sole Source Procurements</u></b>	
<u>Lacked Proper Public Notice</u> .....	7
DHEC did not include written determinations, or instructions on how to obtain one, in its SCBO advertisements for 67 sole source procurements.	
<b>IV. <u>Emergency Procurements</u></b> .....	8
Our review of DHEC’s Emergency Procurements did not identify any compliance issues.	
<b>V. <u>Construction</u></b> .....	8
Our review of DHEC’s Construction Projects did not identify any compliance issues.	
<b>VI. <u>P-Cards</u></b>	
<u>Program Administration</u>	
Without adequate management oversight, there is increased risk of P-Card misuse or abuse.	
<b>A. <u>Span of Control for P-Card Oversight Was Not Manageable</u></b> .....	8
Three liaisons were responsible for reviewing from 19 to 45 cardholder transactions monthly. In addition, 28 out of 30 liaisons were the liaison of their own cards.	
<b>B. <u>Independent Audit of P-Cards Not Performed</u></b> .....	9
DHEC did not perform periodic independent audits of the P-Card program as required.	
<b>C. <u>Inactive P-Cards Not Cancelled</u></b> .....	10
Sixteen P-Cards listed as active had not been used within the most recent 6 months.	
<b>D. <u>No Documented Liaison Reviews</u></b> .....	10
DHEC did not provide evidence of liaison reviews for 10 out of 27 cardholder statements reviewed.	

# SUMMARY OF RESULTS

PAGE

## Transaction Testing

Blocked MCCs..... 11

DHEC made purchases with blocked MCCs in violation of the State P-Card Policy.

VII. Unauthorized or Illegal Procurements..... 12

Our testing of unauthorized or illegal procurements did not identify any compliance issues.

VIII. Surplus Property..... 12

Our testing of surplus property did not identify any compliance issues.

## IX. MBE Reports

Required MBE Reporting Not Submitted to SMBCC ..... 12

MBE Annual Utilization Plans and Quarterly Progress reports were not submitted timely.

**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. Procurement Manual**

We reviewed the agency's internal procurement procedures manual to evaluate its effectiveness in documenting the agency's system of internal controls over procurement.

Our review of DHEC's internal procurement procedure manual did not identify any compliance issues.

## **II. Supplies and Services**

We audited expenditures exceeding \$10,000 made with POs, and expenditures made without a PO to determine compliance with the Code.

Our review of DHEC's Supplies and Services did not identify any compliance issues.

## **III. Sole Source Procurements**

We evaluated written determinations for all sole source procurements pursuant to SC Code Ann. § 11-35-1560, to assess the appropriateness of the procurement actions and the accuracy of the quarterly reports required by § 11-35-2440. During the audit period DHEC reported 614 sole source procurements totaling approximately \$50.8M to DPS.

### **Sole Source Procurements Lacked Adequate Public Notice**

DHEC did not include a written determination or instructions on how to obtain one in its public notice for all 67 sole source procurements greater than \$50k as required by Regulation 19-445-2105.D(2).

**Recommendation:** We recommend DHEC update its Procurement Manual to include procedures for compliance with Regulation 19-445-2105.D(2) and provide training for procurement personnel on the revised procedures.

### **Agency Response**

We concur with the finding. This new requirement became effective in the Regulation when revised June 26, 2020. We did not recognize this change and act on it. In recent months, this has been added to the SCBO online form for Sole Source advertisements, making compliance easier. Additionally, this information has been updated in our Procurement Procedures Manual which will be published on March 8, 2023

# RESULTS OF AUDIT

## IV. Emergency Procurements

All written determinations for emergency procurements made pursuant to SC Code Ann. § 11-35-1570 were evaluated to assess the appropriateness of the procurement actions and the accuracy of the quarterly reports required by § 11-35-2440. DHEC reported 351 emergency procurements totaling approximately \$537.3M to DPS during the audit period.

Our review of DHEC's Emergency Procurements did not identify any compliance issues.

## V. Construction

We tested construction, and architectural/engineer and related professional service contracts for compliance with the Code and the PI Manual. Our review of DHEC's Construction projects did not identify any compliance issues.

## VI. P-Cards

DHEC had 208 P-Cards in use during the audit period and spent approximately \$9.3M in 38,677 transactions. Based on the volume of usage, there is increased risk that misuse or abuse of P-Cards will not be prevented or detected without adequate management oversight.

### Program Administration

We reviewed DHEC's P-Card Policy and Procedures for compliance with the State P-Card Policy and identified areas of non-compliance.

#### A. Span of Control for P-Card Oversight Was Not Manageable

DHEC did not have adequate oversight over its P-Card program as required by State P-Card Policy, Section V. (A). DHEC had 30 liaisons, 28 of which were the liaisons of their own cards. Additionally, three liaisons were responsible for 19, 20, and 45 cardholders. Span of control of these liaisons was too broad to maintain adequate oversight as required by State P-Card Policy, Section III. A .3.

**Recommendation:** We recommend DHEC revise its internal P-Card policies and procedures to include roles and responsibilities for all P-Card personnel, including Liaisons, and provide for adequate separation of cardholder, supervisor, and Liaison

## RESULTS OF AUDIT

duties. We further recommend establishing appropriate limits on the number of Cardholders assigned to Liaisons (span of control).

### Agency Response

Concur. Liaison who managed 19 cardholders now manages 12 cardholders. Liaison who managed 20 cardholders now manages 13 cardholders. Liaison who managed 45 cardholders has been reduced to 35. We are currently working to split those 35 cardholders between 3 liaisons, each having 11 or 12 cardholders, but this will not be completed until a vacancy is filled and the person trained. We expect this to be completed by not later than June 1, 2023. We will revise our internal P-Card policies in order to include roles and responsibilities for all P-Card personnel to include liaisons and the appropriate number of cardholders assigned to them (span of control) in the next revision of our Procurement Procedures Manual, scheduled for March 8, 2023

### B. Independent Audit of P-Cards Not Performed

DHEC did not perform or have performed annual independent P-Card audits as required by Section V. A (6) of the State P-Card and DHEC's Internal Policy. Management provided documentation of DHEC's most recent yearly review dated March 2, 2022, which tested 39 out of 779 (5%) transactions for December 2020. No other P-Card reviews were performed during the audit period. The review was not completed until 15 months later and did not address all the required criteria for a yearly audit per the State P-Card Policy, including a review of adequacy of internal policies and procedures. DHEC's internal policy is vague on what a P-Card audit should review; only stating that there should be a review of the P-Card Program by the P-Card Coordinator.

**Recommendation:** We recommend DHEC comply with the State P-Card and internal policy regarding independent audits or reviews. Reviews should be performed at least annually and include program administration and transaction testing. To improve the effectiveness of these audits, we further recommend that these audits be performed by individuals not associated with the P-Card program.

### Agency Response

Concur. The cited section from the State P-Card Policy, Section V. A. 6 requires "an annual independent audit or review of the P-Card Program by the P-Card Administrator, Internal Audit unit, or other unit assigned audit responsibilities." Audits have been

## RESULTS OF AUDIT

completed by the P-Card Administrator on a yearly basis, though some were delayed due to COVID. We now understand that these audits are best performed not by the P-Card Administrator but should instead be performed by another person or 3 of 4 entity not associated with the P-Card Program. Now that we have a better understanding of the expectation of the audits, we will add a provision for audits, at least annually, by individuals not associated with the P-Card program to our Procedures Manual in our upcoming revision and will communicate this at our March 8 training.

### C. Inactive P-Cards Not Cancelled

DHEC had 16 cards inactive for greater than six months (ranging from 7 to 89 months). The State P-Card Policy, Section III (A).1.(a) xi. requires monitoring for inactive cards and promptly closing accounts and cards no longer needed. DHEC's Internal Policy does not address monitoring for inactive cards.

**Recommendation:** We recommend DHEC comply with the State P-Card Policy and revise DHEC's internal policy to address monitoring for inactive cards. We further recommend these cardholder accounts be reviewed to determine if they should be closed.

### **Agency Response**

Concur. We have examined the situation with all 16 identified inactive cards and 11 of those 16 cards have been deactivated. The remaining 5 need to maintain cards to be used in the event of an Emergency or as back-up due to staff shortages and turnover. We will revise internal policy to address the monitoring for inactive cards and what justification may be needed for a card to remain open. This policy update will be presented at our scheduled update to agency staff on March 8, 2023.

### D. No Documented Liaison Reviews

DHEC did not provide documented liaison reviews for 10 out of 27 cardholder statements as required by Part III(C) of the State P-Card Policy. The agency's internal policy includes a liaison role for reconciling the p-card statements but does not require that the review be documented.

**Recommendation:** We recommend DHEC assign Liaisons in accordance with the State P-Card Policy and update its internal P-Card Policy to provide for a documented monthly review by Liaisons that ensures effective reviews are consistently performed for unallowable purchases, split transactions, and the use of blocked MCC codes. Accepted

## RESULTS OF AUDIT

practice is to use a checklist to document and ensure an effective review of business need and required documentation for each purchase.

### **Agency Response**

Concur. This State P-Card Policy on this topic was overlooked. It was implemented as soon as it was brought to our attention. A Checklist for Liaisons to use was created and distributed to liaisons for their immediate use in September 2022. This requirement has been updated in our Procurement Procedures Manual which will be published on March 8, 2023.

### **P-Card Transaction Testing**

We performed tests of P-Card transactions to ensure compliance with State and agency P-Card policies and procedures. Transaction testing identified an area of non-compliance, which was not identified by the PCAs or supervisor/approvers during the monthly review and reconciliation of cardholder statements.

### **Blocked MCCs**

DHEC made 500 purchases with blocked MCCs during the audit period. We tested a sample of 42 transactions for proper approvals to unblock the MCC codes prior to purchase. Nine out of 42 purchases tested were made without prior approvals from the CG's office to unblock the MCC codes. DHEC's P-Card Manual does not list purchases made with blocked MCC codes as prohibited, nor does their policy require liaisons to review for purchases made with blocked MCC codes.

**Recommendation:** We recommend DHEC revise its internal P-Card policies to prohibit the use of blocked MCC codes. Additionally, we recommend implementing checklists in the monthly liaison review to identify purchases that violate State and internal P-Card policies. After the procedure manual has been revised, we recommend DHEC retrain cardholders and reviewers to ensure compliance with State and internal P-Card Policy.

### **Agency Response**

Concur. Transactions were made with merchants with blocked Merchant Category Codes (MCC), but fortunately there is no evidence that any of these purchases were for improper items. There is no explanation as to how the transactions that did not receive proper "lifts" (9 out of 42 sampled) went through except for the fact that there were several

## RESULTS OF AUDIT

time periods where the bank's software failed and allowed certain MCCs through without proper approvals. Closer daily scrutiny by the agency, however, could have caught these. We have reviewed our procedures and will add to our internal policies manual that blocked MCCs are prohibited without proper authorization from the CGO. We will also revise our internal policies to include the State P-Card policy on unblocking MCCs, located on Page 5, #4 of the State P-Card Policy Manual. These Procedure Manual changes will be made and reviewed with staff at our March 8, 2023 Update. In addition, Purchasing Card Administrator will closely monitor the WORKS summary emails each day and utilize the WORKS reports tool to run blocked MCC reports to prevent this from happening in the future.

### VII. Unauthorized or Illegal Procurements

We tested Unauthorized or Illegal Procurements to determine compliance with the Procurement Code and Regulations. Our testing of reported unauthorized or illegal procurements did not identify any compliance issues.

### VIII. Surplus Property

We tested asset disposals to determine compliance with the Procurement Code and State policies and procedures. Our testing of asset disposals did not identify any compliance issues.

### IX. MBE Reports

We requested copies of the agency's Annual MBE utilization plans and quarterly progress reports to assess compliance with the Code.

#### Required MBE Reporting Not Submitted to SMBCC

DHEC did not provide one out of four annual MBE utilization plans, and the three provided were not submitted to SMBCC timely. The agency did not provide six out of 13 quarterly progress reports, and five out of the seven that were provided were not submitted to SMBCC timely as required by SC Code Ann. § 11-35-5240.

**Recommendation:** We recommend DHEC develop and implement procedures, including management review and approval, for submitting annual utilization plans and quarterly progress reports to the SMBCC as required by the Procurement Code.

## RESULTS OF AUDIT

### Agency Response

Concur. DHEC will implement procedures for submitting annual utilization plans and quarterly reports on a timely basis.

## CERTIFICATION RECOMMENDATION

We believe corrective action based on the recommendations in this report will make DHEC's internal procurement operations consistent with the South Carolina Consolidated Procurement Code and ensuing regulations.

As provided in SC Code Ann. § 11-35-1210, we recommend that the SC Department of Environmental Control's procurement authority to make direct agency procurements be certified up to the following limits for three years:

<u>PROCUREMENT AREAS</u>	<u>RECOMMENDED CERTIFICATION LIMITS</u>
Drugs, Biological for Human use; Contraceptives, Biochemicals, And Biochemical Research	*\$12,000,000 per commitment
All other Supplies and Services <sup>3</sup>	*\$ 3,000,000 per commitment
Information Technology <sup>4</sup>	*\$ 500,000 per commitment
Construction Contract Award	*\$ 100,000 per commitment

\* Total potential purchase commitment whether single year or multi-term contracts are used.

---

Cherie Ergle, CRMA  
Audit Manager,  
Audit & Certification

---

Crawford Milling, CPA, CGMA  
Director, Audit & Certification

---

<sup>3</sup> Supplies and Services includes non-IT consulting services

<sup>4</sup> Information Technology includes consulting services for any aspect of information technology, systems and networks