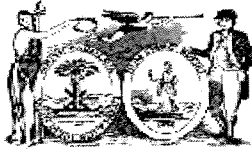


STATE OF SOUTH CAROLINA
State Budget and Control Board
PROCUREMENT SERVICES DIVISION

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R. VOIGHT SHEALY
MATERIALS MANAGEMENT OFFICER

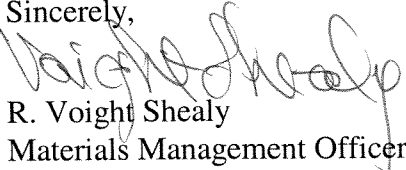
February 15, 2005

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

Dear Delbert:

I have attached 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 of Health and Environmental Control 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, 2001 - SEPTEMBER 30, 2004

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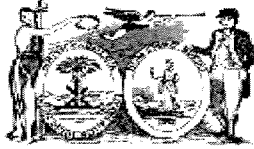
NOTE: The Department's response to issues noted in this report have been inserted immediately following the items they refer to.

STATE OF SOUTH CAROLINA
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PROCUREMENT SERVICES DIVISION

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R. VOIGHT SHEALY
MATERIALS MANAGEMENT OFFICER

February 4, 2005

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, 2001 through September 30, 2004. 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 procurement process, that affected assets are safeguarded against loss from unauthorized use or 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,



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 review was conducted September 29, 2004 to November 18, 2005 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.

The examination was directed principally to determine whether, in all material respects, the procurement system's internal controls were adequate and the procurement procedures, as outlined in the Internal Procurement Operating Procedures Manual, were in compliance with the South Carolina Consolidated Procurement Code and its ensuing regulations.

On March 26, 2002, 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	\$200,000 per commitment
Consultant Services	\$ 50,000 per commitment
Information Technology	\$100,000 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	\$5,000,000 maximum of all contracts combined
Annual Term Contracts for Hospital sundries and germicides	\$1,000,000 maximum of all contracts combined
All other Goods and Services	\$1,000,000 per commitment
Consultant Services	\$ 100,000 per commitment
Information Technology	\$ 225,000 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 or DHEC, 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 a judgmental sample for the period July 1, 2002 through September 30, 2004 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, 2002 through June 30, 2004
- (2) Procurement transactions for July 1, 2002 through September 30, 2004 as follows:
 - a) Ninety payments each exceeding \$1,500
 - b) A block sample of two hundred seventy-five sequentially issued purchase orders to test against the use of favored vendor and splitting of orders
 - c) Procurement card transactions for May of 2004
- (3) Five professional services contracts for environmental remediation projects for compliance with the procedures approved by the Office of the State Engineer
- (4) Minority Business Enterprise Plans and reports
- (5) Approval of most recent Information Technology Plan
- (6) Internal procurement procedures manual
- (7) Surplus property disposal procedures
- (8) File documentation and evidence of competition

RESULTS OF EXAMINATION

Inappropriate Sole Sources

Three procurements processed as sole sources did not have adequate justification.

<u>Purchase Order</u>	<u>Description</u>	<u>Amount</u>
483022	Tobacco control program	\$1,400,000
480677	Tobacco use reduction campaign	425,000
415649	Groundwater remediation system	50,000

Section 11-35-1560 of the Code states, in part, "A contract may be awarded for a supply, service, or construction item without competition when, under regulations promulgated by the board, the chief procurement officer, the head of a purchasing agency, or a designee of either officer, above the level of the procurement officer, determines in writing that there is only one source (emphasis added) for the required supply, service, or construction item." This section further states, "In cases of reasonable doubt, competition must be solicited."

We recommend the Department solicit competition on these items in the future.

DEPARTMENT RESPONSE

We disagree that all three of these sole sources needed to be competitively solicited.

For the two tobacco contracts, this was a situation where these two community organizations were already in existence whose mission was to foster tobacco reduction with various groups throughout the State. DHEC was provided these Federal funding to foster community partners whose mission is to prevent tobacco use. These organizations were in a unique position to address the reduction of tobacco use with additional funding support.

On purchase order 415649 for a groundwater remediation system, a long-term contract could not be secured before the expiration of the original sole source contract. The vendor was already at the site, and it was important that there be continuity of service due to it being a hazardous waste site. Using another vendor would have jeopardized the integrity of the monitoring and also obscured the responsibility for the accuracy of the monitoring service being provided by the vendor should it no longer be providing the service.

Because the auditors felt there was an inappropriate perception regarding these sole sources, we re-evaluated our procedures to see if they needed to be improved. For all future sole sources, we have modified an internal approval form. Program area staff will be required to more thoroughly review sole source procurement requests to reduce the dialogue of questions, minimize processing time, and increase documentation supporting the request for the sole source procurement.

Trade-in Sales Not Approved

The Department failed to obtain approval for trade-in sale procurements.

<u>Purchase Order</u>	<u>Description</u>	<u>Historical Cost</u>	<u>Trade-in Value</u>
492429	Autoclave sterilizers	\$ 9,187	\$ 250
492429	Autoclave sterilizers	17,130	1,000
492429	Autoclave sterilizers	18,843	250
492429	Autoclave sterilizers	18,843	250
492429	Autoclave sterilizers	15,966	250
492429	Autoclave sterilizers	18,840	250
492429	Autoclave sterilizers	7,980	250
443118	Phone system	6,949	595
436878	Test system	\$8,500	\$635

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.

We recommend the Department comply with Regulation 19-445.2150(G) for trade-in sales when the historical cost of items being traded exceeds \$5,000.

DEPARTMENT RESPONSE

We concur with this finding. We have the correct procedures in the regulation and our procedures manual. This was a result of a misinterpretation by two buyers. To eliminate future misinterpretation, we have provided additional training to all buyers to ensure they understand the difference between the trade-in value and historical cost and process the trade-in based on the historical cost. To rectify this situation, we obtained approval on December 30, 2004 of these trade-ins from the Surplus Property Office with the Division of General Services.

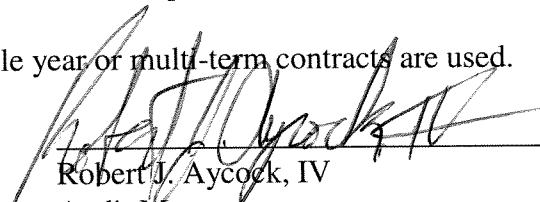
CERTIFICATION RECOMMENDATIONS

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 Consolidated Procurement Code and ensuing regulations.

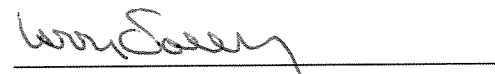
Under the authority described in Section 11-35-1210 of the Procurement Code, subject to this corrective action, we will recommend the South Carolina Department of Health and Environmental Control be recertified to make direct agency procurements for three years up to the limits as follows:

<u>PROCUREMENT AREAS</u>	<u>CERTIFICATION LIMITS</u>
Annual Term Contracts for drugs, pharmaceuticals, biologicals for human use, contraceptives, biochemicals and biochemical research	\$5,000,000 maximum of all such contracts combined
Annual Term Contracts for Hospital sundries and germicides	\$1,000,000 maximum of all contracts combined
All other Goods and Services	*\$ 1,000,000 per commitment
Consultant Services	*\$ 100,000 per commitment
Information Technology	*\$ 225,000 per commitment

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



Robert J. Aycock, IV
Audit Manager



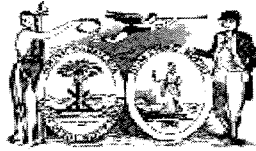
Larry G. Sorrell, Manager
Audit and Certification

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R. VOIGHT SHEALY
MATERIALS MANAGEMENT OFFICER

February 15, 2005

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, 2001 – September 30, 2004. Also we have followed the Department's corrective action during and subsequent to our fieldwork. We are satisfied that the Department of Health and Environmental Control 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 Department of Health and Environmental Control the certification limits noted in our report for a period of three years.

Sincerely,

A handwritten signature in black ink, appearing to read 'Larry G. Sorrell'.

Larry G. Sorrell, Manager
Audit and Certification

LGS/jl

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