

**SOUTH CAROLINA DEPARTMENT OF
HEALTH AND ENVIRONMENTAL CONTROL
PROCUREMENT AUDIT REPORT
OCTOBER 1, 2004 – SEPTEMBER 30, 2007**

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PROCUREMENT SERVICES DIVISION

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R. VOIGHT SHEALY
MATERIALS MANAGEMENT OFFICER

May 15, 2008

Mr. R. Voight Shealy
Materials Management Officer
Procurement Services Division
1201 Main Street, Suite 600
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Dear Voight:

We have examined the procurement policies and procedures of the South Carolina Department of Health and Environmental Control for the period October 1, 2004 through September 30, 2007. 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 established a basis for reliance upon the system of internal control to assure adherence to the Consolidated Procurement Code, State regulations and procurement policies and procedures of the South Carolina Department of Health and Environmental Control. Additionally, the evaluation determined 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 transactions are executed in accordance with management's authorization and 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 actions 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, conducted December 18, 2007 through February 21, 2008, was made under Section 11-35-1230(1) of the South Carolina Consolidated Procurement Code and Section 19-445.2020 of the accompanying regulations.

On March 3, 2005, the State Budget and Control Board granted the South Carolina Department of Health and Environmental Control, hereinafter referred to as DHEC, the following procurement certifications:

<u>PROCUREMENT AREAS</u>	<u>CERTIFICATION LIMITS</u>
Annual Term Contracts for: Drugs, biological 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
Information Technology	\$ 225,000 per commitment
Consultant Services	\$ 100,000 per commitment

The audit was performed to determine if DHEC should be recertified. Additionally, DHEC requested the following increases in certifications.

Annual Term Contracts for: Drugs, biological for human use; Contraceptives, biochemicals and Biochemical research	\$10,000,000 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	\$ 3,000,000 per commitment
Information Technology	\$ 1,000,000 per commitment
Consultant Services	\$ 500,000 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 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 samples for the period July 1, 2005 through September 30, 2007 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 October 1, 2004 through September 30, 2007
- (2) Procurement transactions for the period July 1, 2005 through September 30, 2007 as follows:
 - a) One hundred-one payments each exceeding \$1,500
 - b) Eight hundred thirty-one sequentially issued purchase orders reviewed against the use of order splitting and favored vendors
- (3) Five construction contracts for compliance with the Underground Storage Tank Environmental Remediation Procedures Manual approved by the State Engineer's Office under an exemption granted by the State Budget and Control Board
- (4) Procurement card transactions for May of 2006 and June of 2007
- (5) Minority Business Enterprise Plans and reports for the audit period
- (6) Approval of the most recent Information Technology Plan
- (7) Internal procurement procedures manual
- (8) File documentation and evidence of competition
- (9) Surplus property disposal procedures

RESULTS OF EXAMINATION

Inadequate Written Determinations

The Code requires written determinations to be made when justifying use of certain types of contracts and use of certain types of procurement methods. We reviewed these determinations using criteria established in a declaratory judgment issued against Greenville County School District in *Sloan v. School District of Greenville County*, No. 98-CP-23-2816 (Greenville, S.C., Ct. Common Pleas, July 15, 2003). The Court stated in part in regards to a written emergency determination that:

The Code requires a written determination to afford the District and the public sufficient information to intelligently and objectively review the decision. The decision to use the emergency exception must be sufficiently detailed to satisfy an audit, and it must be made available to the public. The purpose of the determination is to provide the basis of the decision to the school board and to the public. If the determination provides, in sufficient detail, the information necessary for the school board and the public to make an intelligent, objective review of these decisions, then it has accomplished its purpose. The Court is empowered to determine whether the written determination is sufficiently detailed to accomplish this purpose.

DHEC's written determinations for sixteen multi-term contracts failed to adequately justify why those contracts must exceed 12 months. Also, the written determination for one request for proposal and one best value bid solicitation failed to adequately explain why those procurement methods should be used over the standard bidding method.

We recommend DHEC follow the court ruling in preparing its written determinations by providing sufficient, factual details that allow intelligent, objective reviews of the decisions. In May of 2007, the Regulations regarding written determinations were amended to reflect the requirements in the court ruling.

DEPARTMENT RESPONSE

We concur and will provide sufficient, factual details that will allow intelligent, objective reviews for decisions involving written determination for requests for proposal and best value bids. We will follow the guidance on written determination in the May 2007 amended Regulations.

Procurements Without Solicitations of Competition

Two procurements were supported by downloaded internet catalog prices to support competition. An exemption was misapplied on one procurement.

<u>PO</u>	<u>Description</u>	<u>Amount</u>
632251	Breast pumps	\$4,854
662704	Mosquito light traps and accessories	5,029
651994	Envelope totes	4,675

Section 11-35-1550 (2) (b) requires solicitations of competition from a minimum of three qualified vendors for procurements greater than \$2,500 to \$10,000. DHEC downloaded pricing from a catalog off the internet on purchase orders 632251 and 662704. The downloading of catalog pricing from the internet does not meet the definition of soliciting competition.

The purchase order for the envelope totes referenced an exemption for educational films, filmstrips, slides and transparencies. The envelope totes were folders designed of heavyweight paper stock to hold up to 12 booklets, or a bundle of 8 1/2" x 11" papers, or a combination of both up to 3/8" thick with custom printing added.

We recommend DHEC solicit competition in accordance with the Code.

DEPARTMENT RESPONSE

We concur. There was a misunderstanding in making such purchases from a catalog. We will provide additional training to ensure that competition is solicited in accordance with the Code.

Unauthorized Procurement Card Purchases

Two procurements made using the procurement card violated DHEC’s internal procedures.

<u>Date</u>	<u>Description</u>	<u>Amount</u>
05/18/06	Airline ticket	\$1,032
05/18/06	Airline ticket	1,032
05/18/06	Airline ticket	574
05/18/06	Airline ticket	544
05/18/06	Airline ticket	<u>544</u>
	Total	<u>\$3,726</u>
05/30/07	Name plate	\$1,377
05/30/07	Name plate	629
05/30/07	Name plate	<u>1,386</u>
	Total	<u>\$3,392</u>

On page 6-4, under the heading of Spending Controls/Purchasing Limits in DHEC’s Direct Purchase Order Reference Manual, item B., states: “The maximum spending limit is \$2,500 per card per transaction, with no single item to exceed \$1,000.00. Since the transactions exceeded the spending limit, these procurements were unauthorized as defined in Regulation 19-445.2015.

We recommend DHEC comply with the approved procedures for procurement card transactions. Ratification requests for the unauthorized procurements must be submitted to the Director or his designee in accordance with Regulation 19-445.2015.

DEPARTMENT RESPONSE

We concur with the findings and will ratify these purchases. Although 5 of 8 findings were for airline tickets which were documented as being the lowest cost, we will provide additional training for this area of special emphasis. The remaining 3 purchases were for a total of \$3,392 to the same vendor. There was a misunderstanding in the program area regarding the use of the procurement card. Special emphasis will be placed on these topics during our direct purchase order training and our direct purchase order updates.

CERTIFICATION RECOMMENDATIONS

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

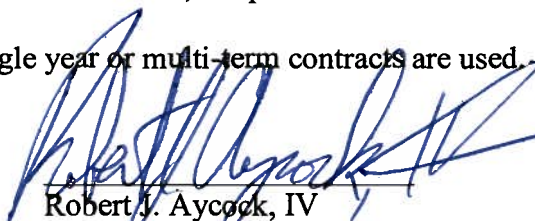
Under the authority described in Section 11-35-1210 of the Procurement Code, subject to corrective action, we will recommend the South Carolina Department of Health and Environmental Control be re-certified to make direct agency procurements for three years up to the limits as follows.

PROCUREMENT AREAS

RECOMMENDED CERTIFICATION LIMITS

Annual Term Contracts for: Drugs, biological for human use; contraceptives, biochemicals and biochemical research	\$ 7,500,000 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	*\$ 2,000,000 per commitment
Information Technology	*\$ 225,000 per commitment
Consultant Services	*\$ 250,000 per commitment

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


Robert J. Aycock, IV
Audit Manager

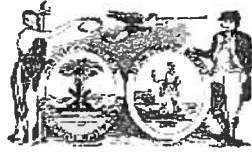

Larry G. Sorrell, Manager
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MATERIALS MANAGEMENT OFFICER

June 3, 2008

Mr. R. Voight Shealy
Materials Management Officer
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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 October 1, 2004 to September 30, 2007. 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,

Handwritten signature of Larry G. Sorrell in cursive.

Larry G. Sorrell, Manager
Audit and Certification

LGS/gs

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