PROCUREMENT
AUDIT AND
CERTIFICATION

S.C. DEPARTMENT OF HEALTH AND
ENVIRONMENTAL CONTROL

AGENCY

JULY 15, 1983

DATE
Mr. Tony Ellis, Director  
Division of General Services  
300 Gervais Street  
Columbia, South Carolina 29201

Dear Tony:

Attached is the final Department of Health and Environmental Control audit report and recommendations made by the Materials Management Office. I recommend the Budget and Control Board grant the Department of Health and Environmental Control two years certification as outlined in the audit report.

Respectfully,

Richard J. Campbell  
Acting Materials Management Officer

RJC/ra

Attachment
SOUTH CAROLINA DEPARTMENT OF HEALTH AND ENVIRONMENTAL CONTROL

AUDIT REPORT

July 15, 1983
# TABLE OF CONTENTS

<table>
<thead>
<tr>
<th>Section</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>Transmittal Letter</td>
<td>1</td>
</tr>
<tr>
<td>Introduction</td>
<td>3</td>
</tr>
<tr>
<td>Background</td>
<td>5</td>
</tr>
<tr>
<td>Scope</td>
<td>6</td>
</tr>
<tr>
<td>Summary of Audit Findings</td>
<td>8</td>
</tr>
<tr>
<td>Results of Examination</td>
<td>14</td>
</tr>
<tr>
<td>Certification Recommendations</td>
<td>62</td>
</tr>
</tbody>
</table>
Mr. Richard J. Campbell  
Acting Materials Management Officer  
Columbia, South Carolina

We have examined the procurement policies and procedures of the South Carolina Department of Health and Environmental Control for the period July 31, 1981 - May 31, 1982. As a part of our examination, we made a study and evaluation of the system of internal control over procurement transactions to the extent we considered necessary.

The purpose of such evaluation was to establish a basis for reliance upon the system of internal control to assure adherence to the Consolidated Procurement Code and State and Department of Health and Environmental Control procurement policy. Additionally, the evaluation was used in determining the nature, timing, and extent of other auditing procedures that were necessary for developing a recommendation for certification above the $2,500 limit.

The administration of the 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 due professional care. They would not, however, because of the nature of audit testing, necessarily disclose all weaknesses in the system.

The examination did, however, disclose conditions enumerated in this report which we believe to be subject to correction or improvement.

Corrective action based on the recommendations described in these findings will in all material respects place the Department of Health and Environmental Control in compliance with the South Carolina Consolidated Procurement Code and ensuing regulations.

Barbara A. McMillan, Director
Contracts and Audit Management
INTRODUCTION

The Audit and Certification Section conducted an examination of the internal procurement operating procedures and policies and related manual of the South Carolina Department of Health and Environmental Control.

Our on-site review was conducted June 1, 1982 through July 30, 1982, and was made under the authority as described in 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.

Additionally, our work was directed toward assisting the agency in promoting the underlying purposes and policies of the Code as outlined in Section 11-35-20, which include:

(1) to ensure the fair and equitable treatment of all persons who deal with the procurement system of this State;

(2) to provide increased economy in state procurement activities and to maximize to the fullest extent practicable the purchasing values of funds of the State;

(3) to provide safeguards for the maintenance of a procurement system of quality and integrity with clearly defined
BACKGROUND

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 materials management office shall review the respective governmental body's internal procurement operation, shall certify 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 6, 1981, the South Carolina Department of Health and Environmental Control requested certification to bid on an annual basis medical supplies and instruments as well as drugs, biologicals and devices for use by the agency's clients. Approval was granted by the Materials Management Office on August 18, 1981, along with a $10,000 temporary certification to procure prescription items, medical, laboratory, dental and optical supplies and equipment. Additionally, approval was granted for the department to purchase durable medical equipment for Home Health Services and to establish a contract for food, food stuffs and related supplies to be used by the Crippled Children's Camp Burnt Gin.

Further, the Department of Health and Environmental Control requested to be certified to the highest amount possible in the four procurement areas of goods and services, consulting services, information technology and construction.
SCOPE

Our examination encompassed a detailed analysis of the internal procurement operating procedures of the South Carolina Department of Health and Environmental Control and the 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 up to the requested certification limits.

The Audit and Certification team of the Materials Management Office statistically selected random samples for the period July 31, 1981 - May 31, 1982, of procurement transactions for compliance testing and performed other auditing procedures that we considered necessary in the circumstances to formulate this opinion. As specified in the Consolidated Procurement Code and related regulations, our review of the system included, but was not limited to, the following areas:

1. adherence to provisions of the South Carolina Consolidated Procurement Code and ensuing regulations;
2. procurement staff and training;
3. adequate audit trails and purchase order register;
4. evidences of competition;
5. small purchase provisions and purchase order confirmations;
6. emergency and sole source procurements;
7. source selections;
8. file documentation of procurements;
9. reporting of Fiscal Accountability Act;
(10) warehousing, inventory and disposition of surplus property; and

(11) economy and efficiency of the procurement process.

At the date of this report, neither the state plan nor the Department's plan for the management and use of information technology have been completed. Additionally, procedures for monitoring construction and related services procurements have not been finalized. Because of this, we feel it would be inappropriate to recommend certification in these areas at this time.

Our examination included a review of these areas so that once the aforementioned plans and procedures are completed we will be able to make recommendations for certification with only a limited follow-up review.
SUMMARY OF AUDIT FINDINGS

Our examination of the procurement system of the South Carolina Department of Health and Environmental Control produced findings and recommendations in the following areas:

I. GENERAL CODE COMPLIANCE

A. Notation that Price is Fair and Reasonable on Less than $500 Procurements

The Bureau of Business Management is not indicating on purchase requisitions for less than $500 that the price is fair and reasonable.

B. Timely Payment of Invoices

Our examination of vouchers in the consultant services area determined that several required in excess of 60 days from the invoice date to the payment date for processing.

C. Reporting of Sole Source and Emergency Procurements

The Department of Health and Environmental Control is not in compliance with Section 11-35-2440 of the Procurement Code in the area of reporting sole source and emergency procurements of consultant services.
II. COMPLIANCE - GOODS AND SERVICES

A. Goods and Services Procurements

Our examination of transactions in the area of goods and services determined that a number of procurements were not made in compliance with the Procurement Code and regulations.

B. Blanket Purchase Agreement

At least one blanket purchase agreement is being used in a way that circumvents the competitive process.

III. COMPLIANCE - CONSULTANT SERVICES

A. Clarification of the Procurement Code Concerning the Procurement of Health Service Professionals

The Department has misinterpreted Section 11-35-1270, Authority to Contract for Certain Services, in the procurement of health service professionals.

B. Administrative Control Over Professional Health Service Contracts

The Office of Administration has insufficient control over the establishment of these contracts.
C. Administration's Contract Authorizations for Consulting Services

We found that many consulting service contracts were in effect before official authorization was obtained.

D. Control Over Contracts and Payments for Consulting Services

We determined that the Department of Health and Environmental Control has made payments for consulting services when there were no contractual agreements.

IV. COMPLIANCE - CONSTRUCTION

A. Renovation at Camp Burnt Gin

Our examination of this construction project revealed several areas of the procurement that were not handled in compliance with the Procurement Code and the State Manual for Permanent Improvements.

B. Authority to Sign Construction Contracts

There is some confusion as to where the authority to administer construction contracts begins and ends.
V. GENERAL PROCUREMENT CONTROL

A. Use of Authorizations for Service

We noted several weaknesses in the use of Authorizations for Service whereby the Department approves outside medical service procurements for clients.

B. Invoice Review and Cancellation of Documents

There is no uniform system which assigns responsibility for the performance of designated control procedures and no written evidence that these procedures have been carried out.

C. Use of Direct Expenditure Vouchers

While at the Department of Health and Environmental Control, we were asked to develop a recommendation on the use of direct expenditure vouchers. This is in response to that request.

D. Turnaround Time for Requisition Processing

During our examination, we noted in some cases there is an excessive amount of time required to process purchase orders.
VI. PLANNING AND SCHEDULING ACQUISITIONS

A. Use of Available Computerized Procurement Data to Plan Future Procurements

The Bureau of Business Management seldom uses reports recapping and analyzing past procurement activity that could be used to review purchasing performance, identify purchasing trends and areas that could be consolidated, and aid in planning future procurements.

B. Planning of Central Stockroom Acquisitions

Our tests indicate insufficient planning in the handling of stockroom acquisitions.

VII. FISCAL ACCOUNTABILITY ACT REPORTING

The Department has failed to comply with the Fiscal Accountability Act quarterly reporting requirements.

VIII. POLICIES AND PROCEDURES NEEDED TO BE ADDED TO OR EXPANDED IN THE INTERNAL PROCUREMENT PROCEDURES MANUAL

Several additions are recommended for the Department's procurement procedures manual.

IX. HOME HEALTH SERVICE CONTRACTS WITH NURSES AND THERAPISTS

The contract used by Home Health Services to contract with nurses and therapists describes what may be construed as an employer-employee relationship as defined by the Internal Revenue Service.
X. DUPLICATING EQUIPMENT UTILIZATION ANALYSIS

As part of our examination, we requested the State Printing Officer evaluate the equipment utilization of the Department of Health and Environmental Control's Print Shop.
RESULTS OF EXAMINATION

I. GENERAL CODE COMPLIANCE

A. Notation That Price is Fair and Reasonable on Less Than $500 Procurements

The Bureau of Business Management is not indicating on purchase requisitions for less than $500 that the price is fair and reasonable.

Rule 19-445.2100, Subsection B, of the Consolidated Procurement Code Regulations states in part:

Small purchases not exceeding $500.00 may be accomplished without securing competitive quotations if the prices are considered to be reasonable. The purchasing officer shall annotate the purchase requisition: 'Price is fair and reasonable' and sign.

The Purchasing Department considers it self-evident that when the purchasing officer signs a requisition for a procurement of less than $500 he considers the price fair and reasonable.

This results in the Department of Health and Environmental Control being out of compliance with the Procurement Code.

We recommend one of the following options:

OPTION I

The Purchasing Department institute a procedure whereby the purchasing officers note that the price is fair and reasonable and sign the requisition for procurements costing less than $500.

or

-14-
OPTION II

It be specifically stated in the internal procurement procedures manual that when a procurement officer signs a requisition that it is understood that they consider the price to be fair and reasonable.

B. Timely Payment of Invoices

Our examination of 39 vouchers in the consultant and contractual services area determined that seven vouchers required in excess of 60 days from the invoice date to the payment date for processing. Of these seven, four took in excess of five months for payment to be processed. In each case above, the service was acquired on an "Authorization for Service" whereby the Department of Health and Environmental Control authorizes a client to visit a hospital, clinic, etc. and the Department will make payment.

Section 11-35-20 of the Consolidated Procurement Code states in part that two of the underlying purposes and policies of the Code are to promote increased public confidence in the procedures followed in public procurement and to ensure the fair and equitable treatment of all persons who deal with the procurement system of the State.

Additionally, Section 17 of the Code has been amended to read:

(A) Beginning January 1, 1983, all vouchers for payment of purchases of goods or services shall be delivered to the Comptroller General's Office within thirty workdays from receipt of the goods or services [or the invoice], whichever is received later by the agency. After the thirtieth workday, the Comptroller General shall levy an amount not to exceed fifteen percent (15%) per
annum from the funds available to the agency, such amount to be applied to the unpaid balance to be remitted to the vendor.

Not only is there a possibility of the unnecessary assessment of these interest charges when the processing time is excessive, but there may also be vendor discounts which are lost.

We recommend that the user departments be reminded of the importance of processing the documents within the necessary time frame to facilitate prompt payment with full advantage to the Department of Health and Environmental Control and the State. For vouchers which take a long time to process, a written explanation should be required.

C. Reporting of Sole Source and Emergency Procurements

We examined the quarterly reports of sole source and emergency procurements and all available supporting documents for the period July 1, 1981 - March 31, 1982, for the purpose of determining the appropriateness of the procurement actions taken and the accuracy of the reports submitted to the Division of General Services, as required by Section 11-35-2440 of the Code. We found the majority of these transactions to be proper and accurately reported, but we did encounter the following problems:

(1) In several cases, purchase orders for service contracts were issued after the effective dates of the contracts themselves.
(2) The sole source reports of service contracts procured by the Office of Administration did not include the required commodity codes.

Good internal control procedures require that purchases not be made unless properly authorized. The effective dates shown on contracts should be the same or later than those shown on the purchase orders authorizing those contracts.

Per Section 11-35-2440 of the Consolidated Procurement Code, the quarterly record of sole source and emergency contracts should contain the type of each contract and a listing of the supplies, services or construction procured under each contract. For convenience, the Materials Management Office opted to do this by commodity code classification.

Because of the above conditions, we were unable to determine to our satisfaction that the procurement action taken in many of these cases was appropriate or not.

Additionally, the Department of Health and Environmental Control is not in compliance with Section 11-35-2440 of the Procurement Code in the area of reporting sole source and emergency procurements of consultant services.

We recommend that the beginning effective dates of consultant contracts and purchase orders for those contracts start with the contract authorization dates. This will be addressed in more detail later.

Further, all quarterly reports should show the commodity codes for the types of items or services procured. The Office of Administration should be supplied with the sections of the Materials Management
Commodity Code Catalog for consulting services by the Bureau of Business Management. The Contracts Officer should determine the correct code for each procurement and show it on the quarterly reports.

II. COMPLIANCE - GOODS AND SERVICES

A. Goods and Services Procurements

Our examination of a sample of transactions in the area of Goods and Services revealed the following procurements which were not made in compliance with the Consolidated Procurement Code and regulations:

<table>
<thead>
<tr>
<th>ITEM DESCRIPTION</th>
<th>AMOUNT</th>
<th>VOUCHER NUMBER</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Copier Supplies</td>
<td>2,310.62</td>
<td>32143</td>
</tr>
<tr>
<td>2. Microfiche Printing Service</td>
<td>525.00</td>
<td>19811</td>
</tr>
<tr>
<td>3. Computer Maintenance</td>
<td>3,054.00</td>
<td>41958</td>
</tr>
<tr>
<td>4. Fire Alarm Maintenance</td>
<td>1,101.90</td>
<td>58078</td>
</tr>
</tbody>
</table>

Item 1 was a purchase order for copier supplies. The prices used were taken directly from the Xerox supply catalog entitled "State and Local Government Prices". This is a list of Xerox supplies and their prices at which they have agreed to sell them to any governmental unit. However, this is merely a list of prices offered by the vendor not a state term contract.

Item 2 was a payment for microfiche services. In August, 1979, the Information Technology Management Officer sent a letter to the Department of Health and Environmental Control's Data Systems Management Section authorizing them to contract with the vendor temporarily.
At that time, the Department's Data Systems Management Section was experiencing problems with a contractor who had failed to perform the needed services satisfactorily. The Department of Health and Environmental Control, however, has been paying for this service monthly ever since on a direct expenditure voucher without seeking additional competition.

Item 3 is a direct expenditure voucher payment for monthly maintenance service charges on computer equipment. There is no way to verify these monthly fees as Business Management cannot find a copy of the maintenance contract. Each month the Bureau of Business Management simply approves the payment. The average monthly charge for this service is over $3,000.

Item 4 is for maintenance on the fire alarm system at the State Park Health Center. The system was installed some years ago and the maintenance contract cannot be located to verify terms or if the original contract is still in effect.

Section 19-445.2100, Subsection B Items 2 and 3, of the Regulations state in part:

Purchases from $500.01 to $1499.99. Solicitations of verbal or written quotes from two qualified sources of supply shall be made and documented that the procurement is to the advantage of the State, price and other factors considered, including the administrative cost of the purchase. Such documentation shall be attached to the requisition.

Also,

Purchases from $1500.00 to $2499.99. Solicitation of written quotations from three qualified sources of supply shall be made and documented that the procurement is to the advantage of the State, price and other factors considered, including the
administrative cost of the purchase. Such documentation shall be attached to the purchase requisition. When prices are solicited by telephone, the vendors shall be requested to furnish written evidence of their quotation.

Finally, in order to properly control payments against maintenance contracts, there must be a copy of the contract available so that services and charges can be verified. This also will indicate when the contract should be rebid.

These procurements of commodities and services apart from competition and proper sole source designations have resulted in the Department of Health and Environmental Control being out of compliance with the requirements of the Procurement Code. Furthermore, payments for services for maintenance of equipment where the contract cannot be located may be resulting in payments against non-existent contracts.

Based upon the sample from which these items were taken, we can project statistically at a 90% confidence level that at least 2% and up to 16% of all procurements of goods and services may have been handled out of compliance with the Procurement Code.

Although the Department's Internal Procurement Procedures Manual has not been approved by the Board, our review of a draft determined that policies and procedures for the procurement of goods and services, as outlined therein, should work effectively to ensure compliance with the Procurement Code. We, therefore, recommend that the manual be presented to the Department of Health and Environmental Control Board for approval once the additional items pointed out in VIII below are included.

Additionally, we recommend that if any maintenance contracts cannot be located or are found to have expired that Business Management estab-
lish new contracts by the competitive process or by sole source, if the situation so warrants.

B. Blanket Purchase Agreement

Our review of the blanket purchase agreements established for the automobile maintenance shop revealed one that is being used in a way that circumvents the competitive process in the procurement of tires.

The blanket purchase order, number B-7520, was issued September 18, 1981. It was for tires for use by agency fleet vehicles and was to run through December 31, 1981, but was extended through June 30, 1982. The original encumbered amount of the purchase order was $1,000, but as of June 30, 1982, over $5,000 worth of tires had been procured using this purchase order.

The shop would order tires in such a way that each order stayed under $500 so that competition was not required. This is documented in the following transactions:

<table>
<thead>
<tr>
<th>VOUCHER NO.</th>
<th>TOTAL VOUCHER AMOUNT</th>
<th>INVOICE DATE</th>
<th>INDIVIDUAL INVOICE AMOUNTS</th>
</tr>
</thead>
<tbody>
<tr>
<td>23118</td>
<td>$464.12</td>
<td>8/27/81</td>
<td>$360.26</td>
</tr>
<tr>
<td>42049</td>
<td>469.85</td>
<td>11/20/81</td>
<td>469.85</td>
</tr>
<tr>
<td>47078</td>
<td>*1,697.85</td>
<td>1/6/82</td>
<td>*474.99</td>
</tr>
<tr>
<td></td>
<td></td>
<td>1/7/82</td>
<td>491.59</td>
</tr>
<tr>
<td></td>
<td></td>
<td>1/30/82</td>
<td>481.67</td>
</tr>
<tr>
<td>53891</td>
<td>493.71</td>
<td>3/10/82</td>
<td>493.71</td>
</tr>
<tr>
<td>56785</td>
<td>494.92</td>
<td>3/18/82</td>
<td>494.92</td>
</tr>
<tr>
<td>59441</td>
<td>456.04</td>
<td>3/31/82</td>
<td>456.04</td>
</tr>
<tr>
<td>66016</td>
<td>454.27</td>
<td>4/23/82</td>
<td>454.27</td>
</tr>
<tr>
<td>70226</td>
<td>480.69</td>
<td>5/17/82</td>
<td>480.69</td>
</tr>
</tbody>
</table>

*NOTE: The remaining difference was for $249.60 worth of tubeless valve assemblies paid on the same voucher.
Section 11-35-1550 of the Procurement Code states:

Any procurement not exceeding the dollar amounts established in regulation and updated periodically by the board may be made by governmental bodies in accordance with small purchase procedures promulgated by the board; provided, however, that purchases shall not be artificially divided by governmental bodies so as to constitute a small purchase under this section.

Additionally, Rule 19-445.2100, Subsection C-Item 2 and Subsection D, explains the use of blanket purchase agreements and how competition can be solicited with this method of procurement as follows:

...Alternate Sources. To the extent practicable, blanket purchase agreements for items of the same type should be placed concurrently with more than one supplier. All competitive sources shall be given an equal opportunity to furnish supplies or services under such agreements.

...Calls against blanket purchase agreements shall be placed after prices are obtained. When concurrent agreements for similar items are in effect, calls shall be equitably distributed. In those instances where there is an insufficient number of BPAs for any given class of supplies or services to assure adequate competition, the individual placing the order shall solicit quotations from other sources.

This blanket purchase agreement is not being handled in compliance with the above sections of the Procurement Code.

We recommend that all future procurements using blanket purchase agreements be in accordance with Rule 19-445.2100, Subsections A-D, of the regulations.

More specifically, for the procurement of a commodity as competitive as tires, we recommend that a "recap" be done of last year's procurements of tires by the department through blanket purchase agreement and competitive bids. This information should be compiled and
reviewed to see if quantity and dollar amounts would justify a term contract on this commodity.

With the Auto Maintenance Shop being responsible for servicing over 250 Department of Health and Environmental Control vehicles, it would appear likely a term contract would be feasible. This would result in a price reached through the competitive bidding process and thus very likely a lower unit cost than buying small quantities two or three times a month.

III. COMPLIANCE - CONSULTANT SERVICES

A. Clarification of the Procurement Code Concerning the Procurement of Health Service Professionals

The Department of Health and Environmental Control considers procurements of health services professionals exempt from the Consolidated Procurement Code Sections on competition and source selection by Section 11-35-1270, Authority to Contract for Certain Services. They handle these procurements internally with no input from the Materials Management Office because of this interpretation. Included in this category are doctors, dentists, nurses, physical therapists, occupational therapists, speech therapists and some social workers among others.

Section 11-35-1270 states in part, "...a governmental body may act as a purchasing agent and contract on its own behalf for such services, subject to this code and regulations which may be established by the board." (emphasis added).
Rule 19-445.2025 states in part that a governmental body shall have the authority to contract for these services "...up to the certified dollar limit assigned to that agency.... For procurement of professional services on a fee basis which exceed the certified dollar amount, the governmental body shall forward requests for professional services needs to the appropriate Chief Procurement Officer...for processing."

The Budget and Control Board has exempted the procurement of the following health service professionals on the condition that, for the exemption to apply, the individual or firm involved must be licensed to perform the specific professional services, must provide that specific service to the requesting governmental body, and the contractual relationship created by the individual or firm and the governmental body cannot be an employer/employee relationship which would be governed by State Personnel Rules and Regulations:

(a) Doctors;
(b) Registered Nurses;
(c) Licensed Practical Nurses;
(d) Optometrists;
(e) Psychiatrists;
(f) Dentists;
(g) Physical Therapists;
(h) Physical Therapy Assistants; and
(i) Speech Pathologists.

Therapists other than the above Physical Therapists, and several other health service professionals have not been included in these exemptions so they should be procured under Section 11-35-1270 of the
Procurement Code through the use of competitive sealed proposals as explained in Section 11-35-1530 of the Procurement Code and Rule 19-445.2095 of the regulations. A sole source determination would be appropriate if no competition exists. Should the anticipated amount of the contract exceed the department's certified amount, requests should be forwarded to the appropriate Chief Procurement Officer.

B. Administrative Control Over Professional Health Service Contracts

The Department centrally establishes fee schedules for health service professionals which are used unless specifically exempted by the Office of Administration. These fees are based on the current Medicaid/Medicare Profile.

The services are procured locally by the District Medical Directors throughout the State. Each Director negotiates contracts for the professional health services needed for his district. These contracts are signed by both parties when mutually agreed upon. They are then forwarded to the Office of Administration for approval. In the Office of Administration the Contracts Officer reviews these clinic agreements for correct information and fair rate of pay.

During our review, we noted the following weaknesses in this system of contracting for health service professionals:

(1) The Office of Administration does not sign these contracts. They are legally binding when the District Medical Director signs them except for a two week termination clause in the standard agreement form. We found
that, at times, two weeks have passed before the contract is received by Administration. This means it is too late for the central office to cancel it if there is a problem.

(2) The contracts only show a "per scheduled clinic hour" rate of pay with no reference to the limit of the commitment by the Department of Health and Environmental Control.

By requiring the District Medical Directors to submit health service professionals contracts to the Office of Administration, an effort was obviously made to control these procurements centrally. In actuality though, this falls short of the desired control because there is nothing to prevent these contracts from being binding agreements from the time the District Medical Directors sign them.

Additionally, good internal control over the procurement function requires that limits be set on the potential liability of the agency for each procurement transaction. This affords agency sections a more realistic view of their budgetary situation and protects the agency against unrealistic claims.

The Office of Administration has insufficient control over the establishment of these contracts. Additionally, the contracts do not work as effectively as possible to control the payments against them since there is no limit placed on the agreement.

In order to correct the condition noted in (1) above, we recommend the following options:
OPTION I
These contracts be sent to the Office of Administration signed only by the specialist. It should be completed in the District Office except for the Department of Health and Environmental Control authorization. Policies and procedures should be changed to require the signature of the Deputy Commissioner for Administration or his designee in the Office of Administration. This way the contracts would not become binding until approved by the Central Office. This method is used statewide in the procurement of construction and related professional services without obvious problems;

or

OPTION II
The contract form be amended as follows:

(1) Another item be included in the "Terms and Conditions" section indicating that the contract must be signed by the Deputy Commissioner for Administration or his designee in the Office of Administration before it is official and binding upon the Department of Health and Environmental Control.

(2) Additional signature and date lines be added under the section entitled "As to South Carolina Department of Health and Environmental Control" for the Deputy Commissioner for Administration approval. This option, like the first, gives the Office of Administration control over the establishment of these contracts.
In either case, the Internal Procurement Operating Procedures Manual should be adjusted to reflect this procedure.

Additionally, each contract should show the limit of the potential liability to the Department of Health and Environmental Control. As the contracts are now written, the agency could be committing very small amounts or thousands of dollars on each contract. The Office of Administration must estimate the commitment based on past history.

These types of contracts have been in existence for years so the history information should be available to estimate the total contract amounts.

In our opinion, these recommended changes would strengthen the Office of Administration's control over these contracts and aid in the management of the agency's funds.

C. Administration's Contract Authorizations for Consulting Services

The Department of Health and Environmental Control contracts for certain health or environmental services, as needed, with private firms or individuals. The source selection process for procuring these services is handled by the requesting sections. The procurement of these services is controlled by the Office of Administration as follows:

(1) The Section or District selects the individual/firm desired and negotiates a tentative contract for the desired services.

(2) This unsigned draft contract is submitted to Administration for approval.
(3) If approved, Administration prepares a contract authorization form and assigns the contract a number. The Section/District is authorized to complete the contract at this point.

(4) The contract draft and a copy of the authorization are returned to the requesting Section or District.

(5) The Section or District formalizes and signs the contract and sends a copy to Administration.

(6) Administration sends a copy of the authorization to Finance authorizing them to make payments against the contract.

(7) Finance monitors the payments against these contracts.

Both the contract and the contract authorization show the effective dates of the contract. We found, in a limited test of these contracts, that in 57% of the contracts tested the beginning effective dates of the contracts were prior to the contract authorization dates.

The Department of Health and Environmental Control does not have a policy requiring that the beginning effective dates of these contracts be adjusted to match the authorization dates.

When the contract authorization is signed after the effective beginning date of the contract, the authorization is automatically retroactive to the beginning date of the contract. In one case a contract was authorized January 13, 1981 to be effective July 1, 1980, six months prior.

When the contract authorizations are sent to Finance in this condition, there is a possibility that a payment may be made to an
individual or firm for services rendered prior to the date of authorization by Administration.

In order to properly control these contracts, the beginning effective dates of the contracts and of resultant purchase orders should be adjusted by the Office of Administration to match their contract authorization dates. This would ensure that Sections/Districts send the draft contracts to Administration in time to process them prior to the effective beginning dates. Also, this would ensure that the Department of Health and Environmental Control did not pay for services rendered prior to the approval of the contract authorizations. If services are rendered prior to the authorization dates, they should be considered unauthorized procurements and handled accordingly. The Office of Finance should not pay for these unless the procurement is properly ratified as per Section 19-445.2015 of the regulations.

D. Control Over Contracts and Payments for Consulting Services

We determined that the Department of Health and Environmental Control has made payments for consultant services when there were no actual written agreements. Between July 1, 1981 and May 31, 1982, the American National Red Cross was paid $951.50 for contract services when there was no contract. Additionally, the Crippled Children Program allowed a contract for orthotic and prosthetic appliances and services to expire for the three months of September - December, 1981 unintentionally, but payments totaling $4,701.03 were made to this contractor for services rendered during this time.
The Department of Health and Environmental Control typically writes contracts for services for a year at a time and payments are processed against these. Binding contracts are, of course, required by Department policy before payments are made against them.

The Department of Health and Environmental Control procures services on an "as needed" basis from the American Red Cross, which are handled as separate procurements not against the above contract. The payments to the Red Cross referred to herein were processed as these, instead of against a contract. In actuality though, the Contracts Officer was waiting for the division to send the final signed contract to her before she sent the contract authorization to Finance.

In the case of the contract for the Crippled Children Program, the contract expiration was missed by the division so it was not renewed. Services continued to be authorized against the old contract by the Crippled Children Division. Also, the Bureau of Finance did not stop payment on these although they did not have the proper contract authorization on hand.

The Department of Health and Environmental Control has in effect made payments totaling at least $5,652.53 against non-existent contracts.

The Contracts Officer should establish a quick reference method to spotlight contract expiration dates. The Division or District for whom this contract is authorized should be contacted in time for a new contract to be procured before the old one expires. Once notified, the Division/District should promptly process the procurement of a new contract or indicate to the Contracts Officer that the service will be
terminated. This should reduce the possibility of needed contracts being allowed to expire.

If a contract is not renewed, all personnel involved should be notified promptly by the appropriate Division or District. No further orders should be placed against these contracts.

Further, the Bureau of Finance is responsible for monitoring and controlling payments against these and all contracts. This control failed in these instances. Finance should be more careful not to allow this to happen again.

IV. COMPLIANCE - CONSTRUCTION

A. Renovation at Camp Burnt Gin

Our examination of construction procurements was limited to the one project, number J04-012, which was entered into subsequent to the enactment of the Procurement Code. The scope of the project was to construct a concrete block combination restroom/shower building at Camp Burnt Gin. It also included the construction of an addition to the existing arts and crafts building with some additional concrete work to be done.

The project was awarded to the successful bidder, but neither performance nor payment bonds were secured. Furthermore, the Department of Health and Environmental Control authorized the successful bidder, by letter, to make additional changes to the project that increased the cost without first having written approval from the State Engineer. The
E-11 form for State Engineer's approval was prepared and submitted over thirty days after the bidder was authorized to perform the additional work.

Section 11-35-3030(2) of the Code states:

When a construction contract is awarded pursuant to Section 11-35-3020, the following bonds or security shall be delivered to the using agency and shall become binding on the parties upon the execution of the contract:

(i) a performance bond satisfactory to the State, executed by a surety company meeting the criteria established by the board in regulations, or otherwise secured in a manner satisfactory to the State, in an amount equal to one hundred percent of the price specified in the contract;

(ii) a payment bond satisfactory to the State, executed by a surety company meeting the criteria established by the board in regulations, or otherwise secured in a manner satisfactory to the State, for the protection of all persons supplying labor and material to the contractor or its subcontractors for the performance of the work provided for in the contract. The bond shall be in an amount equal to one hundred percent of the contract price.

Additionally, the State of South Carolina Budget and Control Board's Permanent Improvement Manual states in Section 11.14:

REVISION OF PROJECT ESTIMATES.-Following the Board's approval of the Owner's Application (Form E-1), the Owner shall keep the Board informed of any revisions made in the cost estimates originally submitted with the Application. Revised estimates shall be submitted on the Board's Form E-11, and shall be subject to approval by the Board.

The Department of Health and Environmental Control's procurement methodology for small improvements was that if these improvements amounted to less than the original estimated cost of the project approved on the E-1, Approval For a Permanent Improvement Project, then it was
okay to authorize them and follow up later with the appropriate E-11, Revision of Project Cost Estimate, for State Engineer's approval.

The Department did not follow the appropriate procedures in authorizing 14 changes to this contract increasing the commitment by $2,507 before the State Engineer's approval was obtained.

We recommend that the Department of Health and Environmental Control secure the proper performance and payment bonds, as outlined in Section 11-35-3030(2) of the Code, from the successful bidder upon the execution of a construction contract.

We further recommend that the Department of Health and Environmental Control notify the State Engineer promptly in writing and obtain proper approval on all change orders before authorizing the vendor to proceed with changes to the original contract.

B. Authority to Sign Construction Contracts

Our examination in the construction area revealed the Administrative Assistant in Business Management internally administers all contracts for permanent improvement projects procured with Department of Health and Environmental Control funding. The job description of this position reads, in part, to: "Develop and maintain a reporting system for agency construction and renovation projects. Prepare E-1, E-2, and E-11's for submission to State Auditor and State Budget and Control Board. Prepare quarterly report to Legislative Audit Council on projects underway in accordance with the Stephenson Bill. Acts as liaison for agency and districts to State Auditor and contractors."
The last construction contract executed by the Department of Health and Environmental Control was also signed by the Administrative Assistant.

Our review of the Department of Health and Environmental Control's policy and procedures manual determined that there is no written authority designating the Administrative Assistant as the administrator authorized to sign a construction contract.

While we recognize that the Administrative Assistant handles the functions in the construction area in a generally effective and efficient manner, we did notice some confusion internally as to where her authority begins and ends.

We, therefore, recommend that the Department of Health and Environmental Control's policy and procedures manual include the area of construction and a statement from the Board indicating who has written authority to sign and execute a construction contract. We further recommend that this authority not be granted to an administrative level below the Chief of the Bureau of Business Management.

V. GENERAL PROCUREMENT CONTROL

A. Use of Authorizations for Service

The Department operates clinics throughout the State for the purpose of providing health care to the general public. When services cannot be provided at the clinic, the patient is authorized to see a doctor, enter the hospital, obtain medical devices, etc., for which the
Department of Health and Environmental Control will pay part or all based on the patient's ability to pay. This is done with an "Authorization for Service" form which is item and vendor specific.

The patient is informed where to go and what services to request. The authorization is sent to the vendor where it is matched with the patient's request.

Once the service is rendered, the vendor sends the Department of Health and Environmental Control a copy of the authorization indicating on the bottom of the form what services were actually performed, what appliances were issued and the cost to be paid by the Department. The Department makes payment directly to the vendor.

During our examination we found the following weaknesses in the use of Authorizations for Service:

(1) During the period July, 1981 - May 31, 1982, payments totaling $4,316.49 were made to a single orthotic and prosthetic brace shop for services provided after the authorization void dates.

(2) In one instance, according to the dates on the authorization, service was rendered before it was authorized.

(3) On one authorization, the payment amount exceeded the authorized amount by $130.19.

(4) The authorization form does not provide a space for the patient to acknowledge receipt of the service.

To provide the needed control necessary to monitor the use of authorizations, the system must be structured to only pay for services performed during the specified time period and for the authorized
amount. Also, the lack of the patient's acknowledgement that the item or service was received opens the door to potential abuse.

The use of Authorizations for Service, properly controlled, is an acceptable method of providing these services to the general public. However, the system should be strengthened to ensure that:

1. Vendors are informed that services should only be provided during the specified time period shown on the authorizations and that payment will not be made otherwise.

2. The appropriate program and the Finance Division monitor the payment for services rendered on authorizations for (a) timeliness, (b) correct price, (c) appropriateness of care provided.

3. Patients acknowledge receipt of the authorized services.

B. Invoice Review and Cancellation of Documents

The Accounts Payable Section of the Bureau of Finance is responsible for reviewing the invoice, purchase order and other supporting documentation before producing the voucher for payment. Present internal control procedures of this function are not very effective. A clerk checks off on the invoice that extensions were verified.

The review of disbursement documentation is a vital control procedure to ensure that only proper and authorized amounts are disbursed, and supporting documents are effectively cancelled to prevent duplicate or improper payments.

There is no uniform system which assigns responsibility for the performance of designated procedures and no written evidence that those
procedures have been carried out. The combination of a lack of written procedures for both the accounts payable and purchasing functions in this area is at least partially responsible for the absence of effective internal control.

The possibility exists that an unauthorized purchase may be paid even though there is section head approval; also, double payment of an invoice could occur if prior payment is not readily apparent.

We recommend the invoice review process be re-evaluated to improve the handling and control of disbursements. Also, it is recommended that written procedures be formulated with the goal of establishing effective internal controls. Another recognized benefit will be the assurance of proper procurement support documents. One beneficial method of controlling the invoice review process involves the use of a checklist stamp on the invoices. This would provide evidence of performance by requiring the initials of the employee performing the procedure. The checklist would contain the functions to be performed in order to satisfy the needs of the Division as well as the requirements of good internal control.

For example, the checklist might be similar to the following:

| Original invoice received |  |
| Signed receiving report received |  |
| Quantity & price agreed to P.O. or contract |  |
| Extensions and totals verified |  |
| Coding checked | X |
| Proper discount taken | X |
| Vendor number check | X |
| Sales or Use Tax checked |  |
| Payment approved by Section | X |

Performed or Approved

Section | Finance

Items not required to be performed should be clearly indicated as in the above example by insertion of an X.
Payment should not be processed until all applicable requirements are met.

C. Use of Direct Expenditure Vouchers

While at the Department of Health and Environmental Control, we were asked to develop a recommendation on the use of direct expenditure vouchers (D.E.V.'s), how they should be controlled, and what they should be used for.

The direct expenditure voucher is designed to allow individual sections to make small purchase transactions without the use of the Bureau of Business Management. Direct expenditure vouchers do not require that a purchase order and a separate receiving report support the disbursement. Thus the proper use of this system can facilitate decreased paperwork and turnaround time for small orders, while maintaining adequate control over the procurement function. The reduction of paperwork and "red tape" reduces the cost of processing purchase orders and results in a measurable cost savings to the procurement section, effectively increasing economy and efficiency.

While the Department has not developed their average cost to process a purchase order, we have found at other agencies that it ranged from $25 to $30.

The direct expenditure voucher, further, is designed for handling and authorizing nominal procurements of supplies and services not available through central stockrooms. Compliance with state policies
for the use of the direct expenditure voucher should rest with the user department.

Direct expenditure vouchers should be approved by the Bureau of Business Management, then forwarded to the Office of Finance for payment. The Bureau of Business Management should be responsible for assuring compliance with Department regulations and the Procurement Code, as well as Fiscal Accountability Act reporting. The Accounts Payable Section of the Office of Finance should be responsible for invoice verification, approval, classification and funding.

In our opinion, direct expenditure vouchers could be used for procurements of all supplies and services costing no more than $100.

Additionally, we feel that the following items could be procured efficiently in this manner without consideration of the $100 limitation:

1. Oil company credit card charges for gas, oil and jet fuel;
2. Heat, light and water bills;
3. Telephone and telegraph bills;
4. U. S. Post Office box rentals and postage;
5. Freight and express bills;
6. Contributions, dues and registration fees;
7. Sales tax paid to the South Carolina Tax Commission;
8. Auto licenses and registrations;
9. Equipment repairs (not to exceed $500);
10. Magazine subscriptions.
11. Payments against existing, properly approved contracts on file with the Deputy Commissioner for Administration when
the contract number is referenced on the direct expenditure voucher.

Further, direct expenditure vouchers could be used to process expenditures authorized by blanket purchase orders.

Finally, if it is determined that goods or services other than those approved are procured by the use of direct expenditure vouchers, they should be considered unauthorized procurements and handled accordingly. The Office of Finance should not pay for these unless the procurement is properly ratified as per Section 19-445.2015 of the regulations.

D. Turnaround Time for Requisition Processing

During our examination we noted in some cases there is an excessive amount of time required between the time requisitions are submitted for processing and the purchase order is prepared. This is particularly evident when processing requisitions from outlying offices. In our discussions with District Administrators and officers of other satellite offices, this was the primary complaint.

In our opinion, two factors are the prime contributors to this problem. They are as follows:

(1) The monitoring of available funds is performed by the budget section of the Bureau of Finance, and not by operating personnel who should be responsible. The initial step in the Finance Bureau's processing of purchase requisitions and direct expenditure vouchers is
to route them through the budget section for a determination of unexpended budget for the particular account. If funds are not available in the respective account, a budget adjustment is made to transfer funds from another account. This step relieves the operating personnel of all responsibility for complying with the budget, since a budget adjustment is made to permit the expenditure. This procedure creates an excessive volume of budget adjustments and adversely effects the efficiency of the procurement process by increasing the requisition turnaround time for the user departments.

Additionally, prudent administrative practices dictate that budgeted figures be adhered to and controlled by operating personnel. The Financial Management System produces several levels of detail reports, and almost all of them compare actual expenditures to the budgeted amounts. These reports are widely circulated and could be used to control commitments by operating personnel.

We recommend that the whole process of budgetary approval and processing be revised with the oversight on availability of funds being shifted to operating department personnel.

(2) The buyers for the Bureau of Business Management are required to hand-type all purchase orders, invitations for sealed proposals, and sealed bids. Then two clerks are used to capture all purchase orders, insert commodity
codes and manually compile the Fiscal Accountability Act commodity reports to the Division of General Services.

The use of buyers for routine clerical functions is an uneconomical use of personnel for it requires a considerable amount of the buyer's time. This time might be better utilized to improve the preparation of specifications, monitoring of procurement activity in order to spot areas where purchases might be standardized or procured more economically through an alternate source or a different procurement method and generally improving processing time.

We recommend that the Department of Health and Environmental Control investigate the possibility of obtaining the necessary number of computer terminals (two should be sufficient) needed for the on-line preparation of purchase orders through the Department's computer system. This function might be handled by the commodity code clerks now serving the Bureau of Business Management.

This method should improve procurement productivity by (a) freeing up the buyers to concentrate on their primary function; (b) eliminating the need for manual Fiscal Accountability Act report preparation since it could be captured automatically; (c) decreasing purchase order preparation time since corrections can be made before it
is actually printed; (d) eliminating the manual accumulation of term contract procurement history; and (e) generally improving procurement history data in the interest of planning, standardizing and scheduling procurements, as addressed next in Section VI.A. of this report.

VI. PLANNING AND SCHEDULING ACQUISITIONS

A. Use of Available Computerized Procurement Data to Plan Future Procurements

The Bureau of Business Management seldom uses reports recapping and analyzing past procurement activity that could be used to review purchasing performance, identify purchasing trends and areas that could be consolidated, and aid in planning future procurements.

The Department has the computer capabilities to analyze the procurement function. A computer tape recapping procurements by major object codes is generated quarterly from the general accounting system for Fiscal Accountability Act reporting to the Comptroller General. Another tape is generated quarterly recapping procurements by purchase order and commodity codes for Fiscal Accountability Act reporting to the Division of General Services.

There is no agency policy requiring user departments nor the Bureau of Business Management to plan future acquisitions. Additionally, no organized effort has been made by the Bureau of Business Management and
Computer Systems Management to implement programs through which full use could be made of the computer capabilities available.

As a result, the Bureau of Business Management must manually maintain usage records on the procurements made from their agency term contracts. Additionally, the Bureau of Business Management must anticipate future needs and other areas where procurements could be consolidated through term contracts, warehousing in central stockrooms, blanket purchase orders, etc., by memory of past transactions.

Section 11-35-20 of the Consolidated Procurement Code states in part that one of the underlying purposes and policies of the Code is:

to provide increased economy in state procurement activities and to maximize to the fullest extent practicable the purchasing values of funds of the State.

This could be more effectively accomplished with the following changes:

(1) Policies and procedures be implemented requiring all departments to report to the Purchasing Department future procurement requirements on at least an annual basis. This is already basically done for budget preparation.

(2) The Purchasing Department be required to combine, standardize and plan acquisitions based upon the information supplied by the user departments and their knowledge of past procurement activity.

(3) A system be developed which will draw upon the procurement information available and recap it in logical groupings that would help in planning acquisitions and standardizing procurements. Procurement information
could be grouped by account or commodity class, vendor or
dollar range to accumulate quantities ordered, ordering
frequencies, vendor performance, unit prices per trans-
action, bidder's list and history, etc.

We commend the Department of Health and Environmental Control for
their efforts to plan acquisitions through their agency term contracts
and the central supply room. However, by having past procurement
activity readily available and combining past activity with estimates of
future procurement requirements, the Bureau of Business Management could
develop long-range plans which should be useful in procurement forecast-
ing.

B. Planning of Central Stockroom Acquisitions

The Department of Health and Environmental Control maintains
several central stockrooms for the department. We reviewed the opera-
tional efficiency of (1) the office supply storeroom for the main
office and the laboratory, (2) the central warehouse at State Park
Health Center, and (3) the central supply of chemicals and laboratory
supplies at the State Laboratory by performing a turnover test of the
items in stock. We found the following:

(1) In a test of 10% of the items stocked in the office
supply storeroom, we found that 50% of the items tested
are overstocked to the point that, at the present rate of
usage, it would take in excess of one year to issue the
current stock. In some instances, it could take over
five years to issue the current stock.
(2) In a test of 5% of the items stocked at the State Park central warehouse, we found that 55% of the items tested would take in excess of one year to issue the current stock.

(3) In a test of 5% of the stocked items at the State Laboratory, we found that 68.6% of the items tested will take longer than one year to use the current stock.

These warehouses were established to consolidate purchases of commonly used items to increase economy and efficiency in the procurement process. Generally, it is more economical to buy high-usage items in large quantities, warehouse them and fill small orders from warehouse stock rather than making many small purchases of the same items.

However, there are inherent costs in a warehousing operation, such as personal service, utilities, equipment repair and other overhead costs. The cost of operating a central warehouse must be weighed against the cost savings it provides. Prudent management requires that regular and timely procedures be established to delete unneeded and slow moving stock items so that funds and space are not tied up in unwanted stock.

Our tests indicate insufficient planning in the handling of stockroom item acquisitions. Minimum reorder points, economical order quantities and turnover goals have not been established.

In order to improve warehouses operational efficiency, we recommend that stockroom acquisitions be scheduled so that on-hand balances will be issued out in a maximum of twelve months or in accordance with
industry averages. The National Association of Educational Buyers Guide to office and maintenance warehouse operations of this type states in part:

Turnover ratios can be important with an average 3 to 4 times per year being considered acceptable,... Where time and convenience are important, there may be specific items which do not turnover more than once per year.

Current stocks could be reduced by:

(1) Reduce excess inventory through attrition and reduction of new purchases.

(2) Advise prime user departments of the excess stock and determine their future needs. If the items are not needed and/or obsolete, they can be written off inventory and transferred to surplus property for disposal.

(3) Contact vendors to see if some credit arrangements can be made about the excess inventory.

(4) Notify other state agencies of the availability of excess supplies and where feasible and practical, transfer supplies at a mutually agreeable price which is approved by the Materials Management Officer or his designee.

VII. FISCAL ACCOUNTABILITY ACT REPORTING

Partially, as a result of lack of clarification as to reporting procedures statewide, the Department of Health and Environmental Control has failed to comply with the requirements of the Fiscal Accountability Act in the following areas:
(1) Failed to report to the Comptroller General a statement of all existing contracts for permanent and capital improvements and the status of work pursuant to such contracts.

(2) Failed to report to General Services the following:
   (a) All procurements made by Direct Expenditure Voucher for utilities, contracts for Home Health Services or equipment, all procurements handled with "authorizations for service," and any small dollar direct expenditures for rush pick-up or repairs.
   (b) Procurements of professional services.
   (c) Items exempted from the Consolidated Procurement Code.

(3) Neglected to reconcile the data collected for Fiscal Accountability Act reporting to General Services with the commitment listing or the general ledger system.

Act 561 of 1976, Section 4 states in part:

The quarterly reports required by this Act shall include the following information current to the end of the last preceding quarter:

...(2) A statement of all existing contracts for permanent or capital improvements and the status of the work pursuant to such contracts....

Additionally, Section 5 states in part:

All agencies, departments and institutions of state government shall...furnish to the Division of General Services of the Budget and Control Board...a statement of all expenditures...for commodities which were not purchased through the Division. Such statements shall be prepared in
the commodity code structure and report format established by the Division for reporting commodities purchased through the Division's central purchasing system....

...Expenditures for units under two hundred dollars shall be reported in the aggregate and units in excess of two hundred dollars shall be itemized.

Further, 561 as amended May 30, 1977 states in part:

...it is the intent of the General Assembly that all funds including state, federal, and other agency revenues, and also including any financial transactions covered by the budget code of the Comptroller General's office, be included in the reporting requirements of this Act....

Our examination revealed a lack of knowledge that contracts for permanent and capital improvements and progress made on such projects was required.

The General Assembly, without major additional effort, could not readily obtain the procurement activity of the Department of Health and Environmental Control as contemplated by the Fiscal Accountability Act in the areas of:

(1) Permanent and capital improvements; and,

(2) Total commodities purchased.

Additionally, by not establishing Fiscal Accountability Act input as a reliable data base, the Department has deprived itself of the internal fringe benefits that could have resulted therefrom, such as,

(1) Planning and scheduling acquisitions;

(2) Consolidation of commodities for better prices;

(3) Monitoring of user department needs for efficiency, cost effectiveness and small order abuse;

(4) Evaluation of purchasing goals.
The Division of General Services is currently working with the Comptroller General's Office on proposals to make major revisions in the reporting requirements of the Fiscal Accountability Act in the near future. These revisions will hopefully make the data reported by agencies more responsive and more cost effective.

Because of the possibility of these major revisions, we cannot recommend that the Department of Health and Environmental Control expend unnecessary time and money in effecting compliance with the law although we feel compelled to point out the lack of compliance. This lack of compliance has been discovered in differing degrees, however, at all agencies which we have audited.

VIII. POLICIES AND PROCEDURES NEEDED TO BE ADDED TO OR EXPANDED IN THE INTERNAL PROCUREMENT PROCEDURES MANUAL

The Department of Health and Environmental Control has given us a draft copy of the Bureau of Business Management's Internal Procurement Operating Procedures Manual for review to determine that written internal operating procedures as submitted are consistent with the Consolidated Procurement Code and ensuing regulations.

Our review of this manual indicated that the following areas needed to be added and/or expanded:

(1) Page 58 of the manual gives the impression that all consultant service contracts are backed up by purchase orders. This is not totally true, many are paid by direct expenditure voucher.
(2) The Minority Business Enterprise Liaison Officer is no longer accurate because of retirement. This should be corrected.

(3) The manual should outline procedures for certain programs where they differ from normal processing, such as:

(a) The Woman, Infants and Children Program's authorizations to procure which the Department pays.

(b) The procedures for obtaining the food service contract for Camp Burnt Gin.

(c) Include a copy of the standard contract for durable medical equipment.

(d) Procedures for obtaining therapist and nursing services for Home Health Services showing the standard contract.

(4) A procurement policies statement listing the general procurement policies to be adhered to in the area of construction and related professional services including repairs and renovations. Further, a flow chart showing the document processing flow for construction and related professional services should be prepared. These should indicate the close involvement with the Division of General Services in these activities.

(5) Determination reports as listed in Sections 11-35-2410, 11-35-2420, 11-35-2440, 11-35-3820, 11-35-3830 and 11-35-5260 of the Consolidated Procurement Code should be addressed outlining the use of each.
(6) Bid Security and Bid Opening Procedures.
(7) Procedures for Change or Amendment to Purchase Orders and Contracts.
(8) Authorized Signature Forms for Division/District Heads and Location Where Kept.
(9) Blanket Purchase Order Procedures.
(10) In-State Bidder's Preference and Tie Bid Procedures.
(11) Procedures for obtaining printing services should be expanded showing the involvement of the Department of Health and Environmental Control Print Shop.
(12) The Information Technology Master Plan should be addressed.
(13) Procedures for the addition, deletion and reinstatement of bidders and vendors should be noted.
(14) A procurement policy statement addressing professional development of purchasing personnel should be added.
(15) The manual should reference the special approvals required for procurements of legal and auditing services and should specifically address the other items which have been exempted by the Code and the Budget and Control Board.

IX. HOME HEALTH SERVICE CONTRACTS WITH NURSES AND THERAPISTS

We determined that the contract used by Home Health Services to contract with nurses and therapists describes what may be construed as
an employer-employee relationship as defined by the Internal Revenue Service.

This contract is rather specific in the scope of services to be rendered and the terms and conditions under which the nurse or therapist is to operate. It also requires a great deal of performance evaluation by the Department of Health and Environmental Control of the services performed.

These individuals are assigned recurring tasks in that they must visit home-bound clients on a regular basis, i.e., weekly, bi-weekly, monthly, etc. They must submit reports monthly detailing the visits that were made and the services performed.

In order to prevent the State from incurring unnecessary payroll tax liabilities, we recommend the Department of Health and Environmental Control request a specific ruling from the Internal Revenue Service concerning these services. The Director of Audit and Certification can assist in filing the necessary ruling forms.

X. DUPLICATING EQUIPMENT UTILIZATION ANALYSIS

As a part of our examination, we requested the State Printing Officer evaluate the equipment utilization of the Department of Health and Environmental Control's Print Shop. The results of this study are as follows:

DUPLICATING EQUIPMENT UTILIZATION ANALYSIS

Standards for evaluating efficiency and effectiveness of duplicating equipment in DHEC's Print Shop were established by the Legislative
Audit Council in 1978. (See Program and Operational Review of Printing, Duplicating and Photocopying Activities of South Carolina State Agencies, November 14, 1978.) The Print Shop is currently operating five separate pieces of duplicating equipment. These five are made up of three Offset Duplicators and two Xerox Duplicators. The criteria for evaluating equipment utilization has been established as 5,000 impressions per hour for offset equipment, and 4,000 impressions per hour for Xerography equipment.

A minimum standard for use levels has been developed by allowing 3½ hours out of each 7½ working day to be used for job set-up time, clean up time, routine maintenance, operator's lunch period, breaks and miscellaneous down time. The number of hours duplicating equipment is available for operation annually is the same as the number of hours an operator would be on the job.

\[
\begin{align*}
37\frac{1}{2} \text{ hours straight time per week} & \times 52 \text{ weeks} = 1,950 \\
\text{Less: 15 days annual leave} & = 112.5 \\
\text{15 days sick leave} & = 112.5 \\
\text{11 holidays} & = 82.5 \\
\hline
\text{307.5 hours available} & = 1642.5 \text{ hours} \\
1642.5 \text{ divided by 7.5 hours} & = 219 \text{ days}
\end{align*}
\]

Utilizing the production standards mentioned, 100% utilization would equal four hours per day. The number of working days per month based on 219 days divided by 12 equals 18.25 days.
In this analysis, each piece of duplicating equipment has been evaluated individually and a percentage of utilization calculated. An overall percentage of utilization has also been calculated based on the five pieces of equipment collectively. Man hours have also been analyzed using basically the same criteria established for evaluating equipment utilization.

The equipment utilization percentage and the man hour utilization percentage differentiate because there are five pieces of duplicating equipment being operated by four operators. The percentage of man hours utilized out of the working hours available indicates the overall efficiency of DHEC's Print Shop. From the standpoint of making a comparison of the efficiency of DHEC's Print Shop and others in state government, at this point data is not available to analyze. In November of 1978, DHEC's Print Shop was operating three offset duplicators 43.9% of the production hours available and producing approximately 5.8 million impressions per year. The data contained in this analysis indicates 24.5% increase in equipment utilization and over a 100% increase in impressions per year.

**DHEC DUPLICATING EQUIPMENT INVENTORY**

1. Xerox Duplicators - 9400  
2. 9200  
3. Offset Duplicators - AB Dick 350  
4. Ser. No. 543624 - AB Dick 360  
5. Ser. No. 20601 - AB Dick 360  
6. NuArc Platemaker  
7. Collator 18 Bin  
8. Light Table  
9. Binders - GBC Binder and Punch  
10. Cheshire Binder  
11. Photomat Processor

-56-
12. Folders - O and M Folder  
13. AB Dick Folder  
14. Martin Yale Folder  
15. Challenge Drill  
16. Stitcher/Stapler - Interlake Stitcher  
17. Bostitch Stapler  
18. Xerox Jogger Stitcher  
19. Jogger - Table Top Jogger  
20. Lectrojog  
21. Champ Padding Press

XEROX 9200

Monthly Volume:

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<table>
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<tr>
<td>August 1981</td>
<td>212,499 impressions</td>
<td></td>
</tr>
<tr>
<td>Sept. 1981</td>
<td>174,654 impressions</td>
<td></td>
</tr>
<tr>
<td>Oct. 1981</td>
<td>487,161 impressions</td>
<td></td>
</tr>
<tr>
<td>Nov. 1981</td>
<td>44,201 impressions</td>
<td></td>
</tr>
<tr>
<td>Dec. 1981</td>
<td>59,384 impressions</td>
<td></td>
</tr>
<tr>
<td>Jan. 1982</td>
<td>58,436 impressions</td>
<td></td>
</tr>
<tr>
<td>Feb. 1982</td>
<td>116,484 impressions</td>
<td></td>
</tr>
<tr>
<td>March 1982</td>
<td>112,769 impressions</td>
<td></td>
</tr>
<tr>
<td>April 1982</td>
<td>144,873 impressions</td>
<td></td>
</tr>
<tr>
<td>May 1982</td>
<td>245,751 impressions</td>
<td></td>
</tr>
<tr>
<td>June 1982</td>
<td>196,720 impressions</td>
<td></td>
</tr>
</tbody>
</table>

Total annual volume - 2,095,854 impressions  
Average monthly volume - 174,654 impressions

2,095,854 annual impressions divided by 219 work days = 9,570 impressions

9,570 impressions divided by 4,000 impressions  
(Production Standard) = 2.39 hours

2.39 hours is 60% of 4 hours (Representing 100% utilization)

9200 Utilization - 60%

XEROX 9400

Monthly volume:

(Note: Service begins October 9, 1981)

<p>| | | |</p>
<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Oct. 1981</td>
<td>324,988 impressions</td>
<td></td>
</tr>
<tr>
<td>Nov. 1981</td>
<td>227,617 impressions</td>
<td></td>
</tr>
<tr>
<td>Dec. 1981</td>
<td>211,687 impressions</td>
<td></td>
</tr>
<tr>
<td>Jan. 1982</td>
<td>203,121 impressions</td>
<td></td>
</tr>
<tr>
<td>Feb. 1982</td>
<td>149,832 impressions</td>
<td></td>
</tr>
<tr>
<td>March 1982</td>
<td>251,413 impressions</td>
<td></td>
</tr>
</tbody>
</table>

-57-
April 1982 - 186,362 impressions
May 1982 - 205,113 impressions
June 1982 - 291,678 impressions

Total annual volume
Oct. 1981-June 1982 - 2,051,811 impressions
Average monthly volume - 227,979 impressions

Working days based on 9 months x 18.25 days = 164.25

2,051,811 annual impressions divided by 164.25 =
12,492 impressions per day

12,492 impressions divided by 4,000 impressions
(Production Standard) = 3.12 hours

3.12 hours is 78% of 4 hours (Representing 100% Utilization)

9400 Utilization - 78%

**AB DICK 360**
**SERIAL NO. 543624**

Monthly volume:

July 1981 - 77,300 impressions
August 1981 - 476,175 impressions
Sept. 1981 - 295,460 impressions
Nov. 1981 - 241,500 impressions
Dec. 1981 - 288,400 impressions
Jan. 1982 - 173,200 impressions
Feb. 1982 - 218,450 impressions
March 1982 - 305,075 impressions
April 1982 - 179,920 impressions
May 1982 - 229,921 impressions
June 1982 - 163,500 impressions

Total annual volume - 2,878,471 impressions
Average monthly volume - 239,873 impressions

2,878,471 annual impressions divided by 219 work days =
13,143.7 impressions

13,143.7 impressions divided by 5,000 impressions
(Offset Standard) = 2.63 hours

2.63 hours is 66% of 4 hours (Representing 100 Utilization)

**AB Dick 360 Utilization - 66%**
AB DICK 360  
SERIAL NO. 31232

Monthly volume:

<table>
<thead>
<tr>
<th>Month</th>
<th>Year</th>
<th>Impressions</th>
</tr>
</thead>
<tbody>
<tr>
<td>July</td>
<td>1981</td>
<td>302,205</td>
</tr>
<tr>
<td>Aug.</td>
<td>1981</td>
<td>310,100</td>
</tr>
<tr>
<td>Sept.</td>
<td>1981</td>
<td>193,080</td>
</tr>
<tr>
<td>Oct.</td>
<td>1981</td>
<td>308,165</td>
</tr>
<tr>
<td>Nov.</td>
<td>1981</td>
<td>276,400</td>
</tr>
<tr>
<td>Dec.</td>
<td>1981</td>
<td>305,300</td>
</tr>
<tr>
<td>Jan.</td>
<td>1982</td>
<td>219,300</td>
</tr>
<tr>
<td>Feb.</td>
<td>1982</td>
<td>254,000</td>
</tr>
<tr>
<td>March</td>
<td>1982</td>
<td>366,960</td>
</tr>
<tr>
<td>April</td>
<td>1982</td>
<td>293,500</td>
</tr>
<tr>
<td>May</td>
<td>1982</td>
<td>351,680</td>
</tr>
<tr>
<td>June</td>
<td>1982</td>
<td>172,500</td>
</tr>
</tbody>
</table>

Total annual volume - 3,353,190 impressions  
Average monthly volume - 279,433 impressions

3,353,190 annual impressions divided by 219 work days = 15,311 impressions

15,311 impressions divided by 5,000 impressions (Offset Standard) = 3.06 hours

3.06 hours is 77% of 4 hours

AB Dick 360 Utilization - 77%

AB DICK 350  
SERIAL NO. 31232

Monthly volume:

<table>
<thead>
<tr>
<th>Month</th>
<th>Year</th>
<th>Impressions</th>
</tr>
</thead>
<tbody>
<tr>
<td>July</td>
<td>1981</td>
<td>279,335</td>
</tr>
<tr>
<td>Aug.</td>
<td>1981</td>
<td>232,900</td>
</tr>
<tr>
<td>Sept.</td>
<td>1981</td>
<td>213,750</td>
</tr>
<tr>
<td>Oct.</td>
<td>1981</td>
<td>165,400</td>
</tr>
<tr>
<td>Nov.</td>
<td>1981</td>
<td>311,540</td>
</tr>
<tr>
<td>Dec.</td>
<td>1981</td>
<td>269,820</td>
</tr>
<tr>
<td>Jan.</td>
<td>1982</td>
<td>216,600</td>
</tr>
<tr>
<td>Feb.</td>
<td>1982</td>
<td>303,750</td>
</tr>
<tr>
<td>Mar.</td>
<td>1982</td>
<td>266,600</td>
</tr>
<tr>
<td>April</td>
<td>1982</td>
<td>222,550</td>
</tr>
<tr>
<td>May</td>
<td>1982</td>
<td>190,820</td>
</tr>
<tr>
<td>June</td>
<td>1982</td>
<td>297,975</td>
</tr>
</tbody>
</table>

Total annual volume - 2,971,040 impressions  
Average monthly volume - 247,587 impressions
2,971,040 annual impressions divided by 219 work days = 13,566 impressions

13,566 impressions divided by 5,000 impressions (Offset Standard) = 2.71 hours

2.71 hours is 68% of 4 hours

AB Dick 350 Utilization - 68%

MAN HOUR UTILIZATION ANALYSIS

Number of employees - Six full time

1. Print Shop Manager
2. Printing Equipment Operator III
3. Printing Equipment Operator II
4. Printing Equipment Operator I
5. Photocopy Specialist
6. Clerk III

There are four employees (2 through 5 above) directly responsible for duplicating equipment productivity. Four employees operate five pieces of duplicating equipment.

Volume produced overall - 13,350,366 impressions

13,350,366 impressions divided by 219 work days = 60,961 impressions per day

60,961 impressions per day divided by 4 employees = 15,240 impressions per employee

15,240 impressions per employee divided by 4,500* impressions = 3.39 hours

3.39 hours is 85% of 4 hours (Representing 100% Utilization)

Man Hour Utilization - 85%

*4,500 is the average of Xerox Duplicating Production Standard of 4,000 impressions per hour and Offset Standard of 5,000 per hour.

100% Equipment Utilization would generate - 20,148,000
Actual Equipment Utilization - 13,350,366

100% Man Hour Utilization - 3,504 hours
Actual Man Hour Utilization - 2,970 hours
RECOMMENDATIONS

The Print Shop Manager should make an effort during this fiscal year to solicit more work from the user base. Every effort should be made to reproduce all material in house that is within the capability of equipment available. Each equipment operator should strive to produce approximately 1,900 more impressions per hour based on four hours of production per day.

If during the year it becomes apparent the volume necessary to attain 100% utilization is not available, then a decision must be made to eliminate one Offset Duplicator and assign the operator to either the Xerox 9200 or 9400 permanently.

We suggest that the Department of Health and Environmental Control take these recommendations into consideration and strive to upgrade the operational efficiency of the Print Shop.
CERTIFICATION RECOMMENDATIONS

As enumerated in our transmittal letter, corrective action based on the recommendations described in the findings contained in the body of this report, we believe, will in all material respects place the 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 this corrective action, we recommend the South Carolina Department of Health and Environmental Control be certified to make direct agency procurements as follows:

<table>
<thead>
<tr>
<th>PROCUREMENT AREAS</th>
<th>RECOMMENDED CERTIFICATION LIMITS</th>
</tr>
</thead>
<tbody>
<tr>
<td>I. GOODS AND SERVICES</td>
<td></td>
</tr>
<tr>
<td>A. Annual Term Contracts for Drugs, Biologicals and Devices and all other Commodities Defined in the State Procurement Commodity Code Manual under #270-Drugs, Pharmaceuticals and Biologicals, #475-25-Contraceptives, and #115-Biochemical Research.</td>
<td>$3,000,000 maximum, all such contracts combined</td>
</tr>
<tr>
<td>B. Annual Term Contracts for Medical Supplies and Instruments under Commodity Code Classes #475-Hospital Sundries and #435-Germicides.</td>
<td>$1,700,000 maximum, all such contracts combined</td>
</tr>
<tr>
<td>C. All other goods and services procurements excluding printing equipment which must be approved by the Materials Management Office.</td>
<td>$10,000 per purchase commitment</td>
</tr>
<tr>
<td>II. CONSULTANT SERVICES</td>
<td></td>
</tr>
<tr>
<td>Not to exceed $10,000 to one person or firm within a twelve month period.</td>
<td>$10,000 per purchase commitment</td>
</tr>
</tbody>
</table>
This would result in the Department of Health and Environmental Control handling 99% of their procurement transactions.

As indicated in the Scope section of our report, certification recommendations in the areas of Information Technology and Construction and Related Services are being deferred until completion of statewide procedures in these areas.

Voight Shealy
Audit Supervisor

Robert W. Wilkes, Jr., CPA
Director, Audit and Certification
Dear Ms. McMillan:

Enclosed is our response to your recommendations in your audit and certification report dated April 5, 1983 for the period July 31, 1981 - May 31, 1982. We request that our response become an integral part of your report.

In our opinion, the Department has, or will, implement corrective procedures that will eliminate the internal control weaknesses cited in your report. Corrective actions to be implemented will be completed during July, 1983. We are prepared for the auditors from the Audit and Certification Section to conduct their post-audit review at any time.

We appreciate you and your staff's efforts and wish to compliment you for the high quality, professional work that was done.

Sincerely,

Benjamin R. Lee, Jr.
Deputy Commissioner for Administration

BRL/lb
I. GENERAL CODE COMPLIANCE

A. Notation that Price is Fair and Reasonable on Less than $500.00 Procurements.

finding: The Bureau of Business Management is not indicating on purchase requisitions for less than $500 that the price is fair and reasonable.

response: The Internal Procurement Manual will state that when a Procurement Officer signs a requisition that it is understood that they consider the Price to be Fair and Reasonable. This Procedure was implemented December, 1982, and conforms to Option 11 on page fifteen (15) of your report. The Procedures Manual will be submitted to the Board for approval.

B. Timely Payment of Invoices.

finding: Our examination of vouchers in the consultant services area determined that several required in excess of 60 days from the invoice date to the payment date for processing.

response: The situations cited in your draft report would not occur under our current operating procedures. Our current procedure for authorizing services for health care and for processing invoices should preclude vouchers being paid after the discount period.

Our General Ledger now reflects late charges as stipulated in our Attachment 1.
The first sentence of this section refers to "39 vouchers in the consultant services area". We offer the following comments to explain how we define a consultant, a contract, and an agreement.

We use two different agreement forms to provide services through Health Professionals. A "Clinic agreement form" is used for any individual or organization involved in a clinic service to provide an unknown number of clinics in a specific geographic area. Payments are made by DEV since a maximum cost is very hard to determine.

We use a "Home Health Services Agreement" for services provided by speech therapists, physical therapists, occupational therapists, dietitians, and social workers. These payments are made by DEV because the number of visits is not known.

In addition to these "Agreements" described above, we use the term "Contract" to mean an arrangement for a specific service within a specific time frame. A purchase order is issued on the contract and the exact amount of money committed is entered in our accounting records. Within DHEC, we restrict the term "Consultant" to a contractual situation described in this paragraph.

C. Reporting of Sole Source and Emergency Procurements

Finding:

The Department of Health and Environmental Control is not in compliance with Section 11-35-2440 of the Procurement Code in the area of reporting sole source and emergency procurements of consultant services.

Response: (1) The purchase orders cited for service contracts occurred during a period of transition for us, and we believe that our current procedures preclude any re-occurrence of these problems.
(2) The office of Administration did not include the required Commodity Codes on the first two reports filed, covering months of January through June, 1982. The Commodity Codes were not reported because of our belief that they were not required. The Codes were reported from July 1, 1982 forward, when the Bureau of Business Management began reporting sole source consultant services in the third quarter of 1982. The Bureau of Business Management currently maintains all required documentation in a central file to comply with the review and auditing procedures as outlined in the Procurement Code.

II. COMPLIANCE-GOODS AND SERVICES

A. Goods and Service Procurements

finding: Our examination of transactions in the area of goods and services determined that a number of procurements were not made in compliance with the Procurement Code and regulations.

response: (1) Copier Supplies: Buyer failed to complete the D & F because she was under the impression that the State Government price list was also the effective S.C. State Government contract price. We believe that our current procedures and level of training preclude this re-occurring.

(2) Microfiche Printing Service: Business Management has established a contract for microfiche services.

(3) Computer Maintenance: Business Management is in the process of obtaining current maintenance contracts for computer equipment and will rebid as required.

(4) Fire Alarm Maintenance System: Business Management will establish a contract for this service meeting all Procurements Code Standards.
B. Blanket Purchase Agreement

**finding:** At least one blanket purchase agreement is being used in a way that circumvents the competitive process.

**response:** The Department was not in compliance with the Code regarding the purchase of the tires. The tires were ordered as needed, but this was not an attempt to "artificially divide" the orders so that they could be considered small purchases.

Three (3) blanket purchase orders are currently used by the garage staff for the purchase of one or two tires on an emergency basis.

A purchase order has been established to obtain a large quantity of tires for the garage.

III. COMPLIANCE - CONSULTANT SERVICES

A. Clarification of the Procurement Code concerning the Procurement of Health Service Professionals.

**finding:** The Department has misinterpreted Section 11-35-1270, Authority to Contract for Certain Services, in the procurement of health professionals.

**response:** The acquisition of health care services is more complex than other procurements. Procurement procedures that work very well for office supplies and other commodities do not work as well for health care services.

We applied for exemptions from the Budget and Control Board for Physical Therapists, Physical Therapists assistant, Speech Pathologist, Medical Social Workers, Occupational Therapist and Nutritionist. We were advised March 30, 1983, that the Physical Therapist, Physical Therapist assistant and Speech Pathologist had been approved. On May 4, we were advised by phone that the Occupational Therapist was being approved. The Medical Social Worker and Nutritionist were not approved. The Nutritionist will be procured under Section 11-35-1270 or Section 11-35-1550, whichever is appropriate. The Medical Social Workers will be placed under State Personnel Policies and Procedures.
B. Administrative Control Over Professional Health Service Contracts

finding: The Office of Administration has insufficient control over the establishment of these contracts.

response: We are in the process of changing the agreement format to include a section for the Deputy Commissioner for Administration or his designee to sign to make the document binding on the day the signature is applied.

These agreements should not indicate a maximum dollar amount and payments should be made by DEV. See our comments under "Fiscal Accountability Act Reporting", and "Timely Payment of Invoices".

C. Administration's Contract Authorization for Consulting Services

finding: We found that many consulting service contracts were in effect before official authorization was obtained.

response: In the future, our Procedures will be:

1. The draft will be submitted with a purchase requisition to the Deputy Commissioner for Administration for review and correction.

2. Corrected draft will be returned to the program area including the contract authorization giving the program approval to finalize the contract.
3. The program will type contracts and have appropriate individuals sign and return to the Deputy Commissioner for Administration.

4. The approved authorization and requisition will be forwarded to Business Management for processing.

D. Control Over Contracts and Payments for Consulting Services

**finding:**
We determined that the Department of Health and Environmental Control has made payments for consulting services when there were no contractual agreements.

**response:**
New procedures have been established so that the proper programs will be notified prior to contract expirations.

IV. COMPLIANCE - CONSTRUCTION

A. Renovation at Camp Burnt Gin

**finding:**
Our examination of this construction project revealed several areas of the procurement that were not handled in compliance with the Procurement Code and the State Manual for Permanent Improvements.

**response:**
This project was being finalized during a period when the Office of the State Engineer was being transferred from the Office of the State Auditor to General Services. During this transition we obtained several approvals verbally (as we had been accustomed to doing) and believed that we were complying with all statutes and regulations. (The definition of a renovation as compared to a repair also created difficulties for us).

An E-1 was submitted and approved by the Joint Bond Review Committee and the State Engineer, for $40,000.00. Bids were received and a contract was awarded for $2681 less than the approved amount, and an E-11 reflecting this was submitted and approved. During the renovation period certain changes totaling $2507 were needed and verbal approval was obtained from the State Engineer's Office to proceed with these changes, in order to continue the project as economically as possible but prior to receiving written approval. These changes were still within our original approved amount of $40,000.00. Written approval is attached.
B. Authority to Sign Construction Contracts

Finding:
There is some confusion as to where the authority to administer construction contracts begins and ends.

Response:
All construction contracts will be signed by the Chief, Bureau of Business Management, beginning in December, 1982.

Our current procurement manual includes requirements for construction and renovation contracts, and includes the Joint Bond Review Committee changes received in December, 1982.

V. GENERAL PROCUREMENT CONTROL

A. Use of Authorization for Service

Finding:
We noted several weaknesses in the use of Authorization for Services whereby the Department approves outside medical service procurements for clients.

Response:
Authorization for services currently indicate the authorized time period for services.

In our opinion, the various programs and Finance are now adequately monitoring these payments.

The patient's signature is now obtained on the authorization receipt, if practical. Sufficient alternative controls exist to ensure the delivery of services when signatures are not obtained. As stated earlier on page 4, the acquisition of health care services is very complex.

B. Invoice Review and Cancellation of Documents

Finding:
There is no uniform system which assigns responsibility for the performance of designated control procedures and no written evidence that these procedures have been carried out.

Response:
We have a "practical" problem and a fundamental objection to the inclusion of this comment in your management letter. According to Section 137 of the 1981-82 Appropriation Act (and subsequent legislation) the "Budget and Control Board shall withhold a portion of the funds appropriated herein to any agency... which fails to satisfactorily correct material weaknesses in their internal accounting system as cited in a Management Letter issued by the State Auditor".
Section 11-35-1230 of the Procurement Code states:

"In procurement audits of governmental bodies thereafter, the auditors from the materials management office shall review the adequacy of the system's internal controls in order to ensure compliance with the requirements of this code and the ensuing regulations. Any noncompliance discovered through audit shall be transmitted in management letters to both the audited governmental body and the Budget and Control Board. The materials management office auditors shall provide in writing proposed corrective action to governmental bodies.

Corrective action as specified by materials management office auditors not taken during the next subsequent quarter shall be reported to the board and the respective governmental body director. Based upon audit recommendations of the materials management office received by the board concerning non-corrective action by the governmental body, the board may revoke certification as provided for in Section 11-35-1210 and require the governmental body to make all procurements through the office of materials management above a dollar limit set by the board until such time as the board is assured of compliance with this code and its regulations by that governmental body."

The problems that we foresee from the above audit authorities is that mutually exclusive recommendations could emanate on the same subject and force us into non-compliance with one of the audit recommendations. Since both of these audit groups are part of the Budget and Control Board, we believe that a closer coordination of audit work done and recommendations made should be achieved. This would benefit the operating agencies and the audit groups.

Our response to the State Auditors Management Letter of March 19, 1982, on this subject included the following:

(1) A perforating machine will be purchased and used to cancel the voucher and all supporting documentation.

(2) Our procedures manual will contain specific instructions on how to document the work done.
(3) The procedures manual will contain a list of the payables and accounting personnel responsible for each task, and these lists will be updated as required. Each out-dated list will be retained for audit purposes.

(4) The Chief of the Bureau of Finance, or his designee, will sign all vouchers for final payment authorization.

(5) A computer run of payments to each vendor is available to assist in the detection of duplicate payments.

D. Turnaround Time for Requisition Processing

finding: During our examination, we noted in some cases there is an excessive amount of time required to process purchase orders.

response: Business Management has hired additional staff for typing bid requests and purchase orders to relieve the buyers from clerical duties. This will allow the buyers to be involved in quality assurance and monitor the current market trends, and Agency usage.

VI. PLANNING AND SCHEDULING ACQUISITIONS

A. Use of Available Computerized Procurement Data to Plan Future Procurements.

finding: The Bureau of Business Management seldom uses reports recapping and analyzing past procurement activity that could be used to review purchasing performance, identify purchasing trends and areas that could be consolidated, and aid in planning future procurements.

response: We are establishing new methods and procedures to analyze past procurements. These procedures will aid in planning future procurements and assess past performance.

B. Planning of Central Stockroom Acquisitions

finding: Our tests indicate insufficient planning in the handling of stockroom acquisitions.

response: A computerized inventory system is in the final development stage. After implementation in July 1983, this system will monitor the history of each stock item.
Currently, an office supply catalog has been developed for the central supply room. Annual usage rates will be determined with the cardex inventory system and acquisitions made accordingly.

VII. FISCAL ACCOUNTABILITY ACT REPORTING

Finding: The Department has failed to comply with the Fiscal Accountability Act quarterly reporting requirements.

Response: We will wait until the Division of General Services and the Comptroller General's Office finalize their plans to revise the reporting requirements before we take further amendatory action.

We have not been able to report all procurements by purchase orders because purchase orders are not always issued. The obvious solution of issuing purchase orders on all procurements would create operational difficulties and additional administrative costs. Costs would increase because:

1. The paper work flow would become more cumbersome and time consuming because additional documents are required for purchase order processing as compared to DEV processing;

2. Additional program and budget personnel time would be required to estimate and record projected costs, by cost center and source of funds, determine actual usage of funds versus projected usage, and preparing and recording budget adjustments to account for a constantly changing patient load between cost centers and source of funds.

3. The computer resources required would have to increase to account for the higher volume of budgetary and accounting transactions.

Our opinion is that our current processing procedures optimizes patient service and minimizes administrative costs. To report all procurements under the Fiscal Accountability Act, we need to be allowed to report by voucher number and not by purchase order number.

We would appreciate your assistance in helping us in the development of procedures to solve the problems you cited in your report and those outlined above.
Mr. Richard J. Campbell  
Materials Management Officer  
800 Dutch Square Boulevard, Suite 150  
Columbia, South Carolina  29210

Dear Mr. Campbell:

We have returned to the Department of Health and Environmental Control to determine the progress made toward implementing the recommendations in our audit report covering the period July 31, 1981 – May 31, 1982. During this visit, we followed up on each recommendation made in the audit report through inquiry, observation and limited testing.

The Audit and Certification Section observed that the Department has made substantial progress toward correcting the problem areas found and improving the internal controls over the procurement system.

We, therefore, recommend that the certification limits for the Department of Health and Environmental Control, as outlined in the audit report, be granted for a period of two (2) years.

Sincerely,

Barbara A. McMillan, Director  
Contracts and Audit Management

BAM:rms