 PROCUREMENT
AUDIT AND
CERTIFICATION

S. C. STATE LIBRARY
AUG 30 1999
STATE DOCUMENTS

SOUTH CAROLINA DEPARTMENT OF
HEALTH & ENVIRONMENTAL CONTROL
AGENCY

JANUARY 1, 1996 - DECEMBER 31, 1998
DATE
Mr. Robert W. McClam, Director  
Office of General Services  
1201 Main Street, Suite 420  
Columbia, South Carolina 29201

Dear Robbie:

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

Sincerely,

R. Voight Shealy  
Materials Management Officer
SOUTH CAROLINA DEPARTMENT OF HEALTH AND ENVIRONMENTAL CONTROL
PROCUREMENT AUDIT REPORT

JANUARY 1, 1996 - DECEMBER 31, 1998
# 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>4</td>
</tr>
<tr>
<td>Scope</td>
<td>5</td>
</tr>
<tr>
<td>Summary of Audit Findings</td>
<td>6</td>
</tr>
<tr>
<td>Results of Examination</td>
<td>7</td>
</tr>
<tr>
<td>Certification Recommendations</td>
<td>16</td>
</tr>
<tr>
<td>Follow-up Letter</td>
<td>17</td>
</tr>
</tbody>
</table>

Note: The Department’s response to issues noted in the report have been inserted immediately following the issues they refer to.
Mr. R. Voight Shealy
Materials Management Officer
Office of General Services
1201 Main Street, Suite 600
Columbia, South Carolina 29201

Dear Voight:

We have examined the procurement policies and procedures of the South Carolina Department of Health and Environmental Control for the period January 1, 1996 through December 31, 1998. As part of our examination, we studied and evaluated the system of internal control over procurement transactions to the extent we considered necessary.

The evaluation was to establish a basis for reliance upon the system of internal control to assure adherence to the South Carolina Consolidated Procurement Code and Department procurement policy. Additionally, the evaluation was used in determining the nature, timing and extent of other auditing procedures necessary for developing an opinion on the adequacy, efficiency and effectiveness of the procurement system.

The administration of the South Carolina Department of Health and Environmental Control is responsible for establishing and maintaining a system of internal control over procurement transactions. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of control procedures. The objectives
of a system are to provide management with reasonable, but not absolute, assurance of the integrity of the disposition and that transactions are executed in accordance with management's authorization and are recorded properly.

Because of inherent limitations in any system of internal control, errors or irregularities may occur and not be detected. Also, projection of any evaluation of the system to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or that the degree of compliance with the procedures may deteriorate.

Our study and evaluation of the system of internal control over procurement transactions, as well as our overall examination of procurement policies and procedures, were conducted with professional care. However, because of the nature of audit testing, they would not necessarily disclose all weaknesses in the system.

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

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

Sincerely,

Larry G. Sorrell, Manager
Audit and Certification
INTRODUCTION

We conducted an examination of the internal procurement operating policies and procedures of the South Carolina Department of Health and Environmental Control. Our on-site review was conducted January 18 - February 19, 1999, and was made under Section 11-35-1230(1) of the South Carolina Consolidated Procurement Code and Section 19-445.2020 of the accompanying regulations.

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

Additionally our work was directed toward assisting the South Carolina Department of Health and Environmental Control 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 rules for ethical behavior on the part of all persons engaged in the public procurement process
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 Office of General Services shall review the respective governmental body's internal procurement operation, shall verify in writing that it is consistent with the provisions of this code and the ensuing regulations, and recommend to the Board those dollar limits for the respective governmental body's procurement not under term contract.

On August 27, 1996, the Budget and Control Board granted the South Carolina Department of Health and Environmental Control the following procurement certifications:

<table>
<thead>
<tr>
<th>Category</th>
<th>Limit</th>
</tr>
</thead>
<tbody>
<tr>
<td>Annual Term Contracts for drugs, pharmaceuticals, and biologicals for human use; contraceptives, biochemicals and biochemical research</td>
<td>$3,000,000 maximum of all such contracts combined</td>
</tr>
<tr>
<td>Annual Term Contracts for hospital sundries and germicides</td>
<td>$1,700,000 maximum of all contracts combined</td>
</tr>
<tr>
<td>All other Goods and Services</td>
<td>$100,000 per commitment</td>
</tr>
<tr>
<td>Consultant Services</td>
<td>$50,000 per commitment</td>
</tr>
<tr>
<td>Information Technology</td>
<td>$50,000 per commitment</td>
</tr>
</tbody>
</table>

Our audit was performed primarily to determine if recertification is warranted.
SCOPE

We conducted our examination in accordance with Generally Accepted Auditing Standards as they apply to compliance audits. Our examination encompassed a detailed analysis of the internal procurement operating procedures of the South Carolina Department of Health and Environmental Control and its related policies and procedures manual to the extent we deemed necessary to formulate an opinion on the adequacy of the system to properly handle procurement transactions.

We selected judgmental samples for the period January 1, 1996 through December 31, 1998, of procurement transactions for compliance testing and performed other audit procedures that we considered necessary to formulate this opinion. Specifically, the scope of our audit included, but was not limited to, a review of the following:

(1) All sole source, emergency and trade-in sale procurements for the period January 1, 1996 through December 31, 1998

(2) Procurement transactions for the period January 1, 1996 through December 31, 1998 as follows:
   a) One hundred sixty-six payments each exceeding $1,500
   b) Eighty-nine procurements made by satellite offices
   c) A block sample of two hundred twenty-six purchase orders

(3) One professional service contract and the contracts associated with twenty-nine payments for environmental remediation contracts for compliance with the Manual for Planning and Execution of State Permanent Improvements and the procedures approved by the Office of State Engineer

(4) Minority Business Enterprise Plans and reports

(5) Information technology plans for the audit period

(6) Internal procurement procedures manual

(7) Surplus property procedures

(8) File documentation and evidence of competition

(9) Blanket purchase order files
SUMMARY OF AUDIT FINDINGS

Our audit of the procurement system of the South Carolina Department of Health and Environmental Control, hereinafter referred to as the Department, produced the following findings and recommendations.

I. Procurement System Internal Control Weaknesses
   Our testing of procurement transactions revealed internal control weaknesses in the Department’s procurement system that needs immediate corrective action.

II. Unauthorized Sole Source Procurements
    A properly authorized official did not approve three sole source procurements.

III. Unauthorized Professional Service Change Order
    The Department improperly issued a modification for $7,700 on one architectural service contract.

IV. Procurements Without Competition
    Two procurements were not supported by solicitations of competition. One of which was artificially divided into three purchase orders.
RESULTS OF EXAMINATION

I. Procurement System Internal Control Weaknesses

Our testing of procurement transactions revealed internal control weaknesses in the Department’s procurement system that needs immediate corrective action.

Purchase order K-1409 was issued for $30,000 to install water supply wells at leaking underground storage tank sites. The vendor invoiced and was paid higher rates than was bid without the Procurement Office’s approval or knowledge. The Department’s Automated Information Management System (AIMS) does not allow for higher rates to be paid on purchase orders without a change being authorized in the system. Therefore, someone outside of the Procurement Office without procurement authority made the change in AIMS. Based on the difference in the rates bid versus rates paid, the vendor was paid $13,677 more than authorized by the Procurement Office.

In determining how an unauthorized change was made to a purchase order or contract, we learned that anyone with access to AIMS can make a change in the automated system. We found the ability of personnel without procurement authority to make changes to a purchase order or contract without the knowledge of the contracting officer to be a serious breakdown in internal controls.

We recommend the Department implement immediate controls that will not allow personnel without procurement authority the ability to make changes on contracts through AIMS. Because the higher rates paid were not properly authorized, the Department must submit to the Commissioner the unauthorized portion of the contract for ratification in accordance with Regulation 19-445.2015.

Purchase order 14439 was issued for $5,160 to procure film developing services over a three year period. A payment was made in the amount of $9,788 on voucher 508 without a change order being issued in AIMS. We questioned how much had been spent against purchase order 14439. A total of $22,591 was spent in the first four months. No change order was issued authorizing expenditures above $5,160. Further, the Department awarded the contract for three
years with an anticipated value of $5,160 over the entire period. With $22,591 being spent in four months, the value of the contract was grossly underestimated. A second procurement solicitation had to be issued within a year. Adequate knowledge of contract volume would have prevented a second solicitation.

We recommend an internal control feature be implemented that will prohibit personnel from exceeding the purchase order amount unless a properly authorized change order is issued by a Procurement Officer. With the Procurement Officer issuing change orders, contract volume will be known and appropriate measures can be taken to ensure sufficient competition is solicited for that volume level.

Purchase order 56533 was issued for $82,617 for printing of the Baby Keepsake Books. The purchase order listed the freight terms as FOB destination meaning that the vendor was responsible for all freight costs. However, the Department paid $582 in freight costs on voucher 61629. AIMS does not allow for items that are not on purchase orders to be paid, including freight, unless a change is made in the system. The Procurement Office never authorized a change order for freight charges meaning someone without procurement authority made the change in AIMS.

To determine if the freight charges were appropriate, we reviewed the solicitation and the awarded vendor's response. The vendor bid freight as a separate charge to be paid by the Department. However, we had to review the actual bid documents to make this determination, something other Department personnel outside of the Procurement Office can not readily do. Accounts Payable should not have paid freight charges with a purchase order that stated FOB destination unless the Procurement Office issued a properly approved change order.

We recommend internal controls be implemented in AIMS to only allow the Procurement Office to authorize changes on freight charges if applicable.

A blanket purchase agreement (BPA) was issued on purchase order 87910 for laboratory supplies. The BPA did not include a statement of the maximum amount of the Department's obligation as required by Regulation 19.445-2100 (B)(3)(a).
We recommend, to strengthen internal controls over BPAs that all BPAs contain a statement of the maximum amount of the Department’s obligation.

On voucher 4349 the Department paid $28,535 for pap smear lab services. No receiving information was entered into AIMS verifying that 3,612 lab tests had been performed. AIMS utilizes an electronic receiving system which should not allow payment unless receiving information is entered into the system. The Department could not explain how the automated system was bypassed.

We recommend the Department implement new internal controls to correct the deficiencies.

The following eight procurements were made without referencing the applicable State term contract numbers.

<table>
<thead>
<tr>
<th>PO</th>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>POF5969</td>
<td>Rabies vaccine</td>
<td>$53,508</td>
</tr>
<tr>
<td>76152</td>
<td>Contraceptives</td>
<td>5,407</td>
</tr>
<tr>
<td>75725</td>
<td>Network cards</td>
<td>4,468</td>
</tr>
<tr>
<td>103195</td>
<td>Repair of phone system</td>
<td>3,578</td>
</tr>
<tr>
<td>63588</td>
<td>Labels</td>
<td>3,544</td>
</tr>
<tr>
<td>2883</td>
<td>Personal computer</td>
<td>3,046</td>
</tr>
<tr>
<td>76125</td>
<td>Contraceptives</td>
<td>1,980</td>
</tr>
<tr>
<td>79686</td>
<td>Hazardous material services</td>
<td>1,600</td>
</tr>
</tbody>
</table>

Each purchase order was issued outside of the Procurement Office by individuals with delegated procurement authority. The Department’s manual limits delegated procurement authority to $2,500. The practice has been to allow certain items, such as State term contract items, to be procured above the $2,500 authority limit. However, without the State term contract references being included on the purchase orders, Accounts Payable has no way of knowing that the procurements are within the delegated authority. Therefore, none of the purchase orders above $2,500 should have been paid. A good business practice is to include appropriate contract
references on all purchase orders, whether State term contracts or contracts established by the Department.

We recommend Accounts Payable not process any procurements above $2,500 made by individuals outside of the Procurement Office unless appropriate information is included to satisfy external audit that the procurement is properly authorized. All contract references, exemptions or other exceptions to the $2,500 policy should be noted on the purchase orders.

Our review of formal bid solicitations revealed that the bid award posting location was not included in the solicitations. Section 11-35-1520 (10) states in part, “Unless there is a compelling reason to reject bids as prescribed by regulation of the board, notice of an intended award of a contract to the lowest responsive and responsible bidder whose bid meets the requirements set forth in the invitation for bids shall be given by posting such notice at a location specified in the invitation for bids.”

We recommend the Department include in all its formal bid solicitations the posting location of the award notices.

**DEPARTMENT RESPONSE**

**Purchase Order K-1409** - AIMS is a new information management system, and as with any new system, there are some problems and weaknesses that need to be resolved. The persons in the program area responsible for modifying the purchase order had a misunderstanding of the limits of their authority. They have revised their processes to ensure this does not happen again. We are exploring several corrective actions to prevent such activity from recurring. We will

1. Reemphasize to all users the importance of not changing purchase orders created by another buyer without authorization.
2. Enhance our training program in this area to make sure all users are thoroughly familiar with the correct modification procedures.
3. Analyze the additional securities within the system with the intent of decreasing the number of users of the system to minimize errors in processing.
4. Develop periodic reports, as a control mechanism, to identify when the buyers in Procurement Services have been changed, the reason for the change and who made the change.

**Purchase Order 14439** - The program area created a requisition and encumbered an initial amount of $5,160. The procurement officer used the request for quotation procurement method to solicit for this contract. The solicitation was advertised in the South Carolina Business Opportunities. We stated in the solicitation that the quantities indicated were good faith estimates and we reserved the right to increase or decrease the quantity to reflect changes in workload, program and funding. The solicitation also stated that no minimum or maximum
quantity could be guaranteed. In the solicitation, we asked for a unit price for an original and a
unit price for a duplicate for an estimated quantity of 8,600. The award was made based on those
factors. The program area had only a vague estimate of the potential volume required, since no
past history of such information had been established. We also intended to extend this bid for an
additional two years. We agree that the contract was grossly underestimated. However, the
$25,000 limit was established in AIMS to prevent any purchases that might exceed that amount
and it did its job in preventing purchases over the $25,000 limit. Where applicable, we will
make sure that the maximum limit is included on the purchase order.

**Purchase Order 56533** - Item 5 on the purchase order outlines specific shipping instructions to
the vendor which gives the vendor authorization to bill DHEC for shipping charges after each
shipment. For accountability the vendor provides a copy of the freight bill showing the number
of cartons and weight of each shipment. The payment and reimbursement of the shipping charges
were a special condition in the contract. Although prepaid and added should have been
annotated on the purchase order, FOB destination-prepaid is a default in the AIMS and was an
oversight on the behalf of the procurement officer to change it.

**Purchase Order 87910** - Purchase order 87910 is a contract to provide miscellaneous laboratory
supplies as described in MMO state contract C500632002. Since the items are on the state
contract, unlimited purchases are allowed. Orders placed against this purchase order are made
with an electronic key entry by supply room personnel. The computer system is centrally located
in the supply area of the Division of Laboratories. The electronic key-entry system is password
protected and all orders against the contract are approved by one of the two individuals on the
purchase order. The orders are only placed after receiving the appropriate authorization. On all
contracts not supported by a state contract, DHEC will establish a dollar limit per call for the
person authorized to place orders and state a maximum amount for the blanket purchase
agreement.

**Voucher 4349** - The vendor made an error in invoicing us using the old contract number (LB6-
025); however, when the invoice was received, the system prevented payment under the old
contract. The invoice was correctly paid using the current and correct contract number and
purchase order (LB-8-115, PO 11414). Bypassing the system in this case was required to
correctly make the payment. However, we acknowledge that internal controls need to be stronger
in order to prevent an inappropriate circumvention of the system. We are exploring several
corrective actions to prevent inappropriate bypassing of the receiving system. We will
1. Develop clearer instructions for AIMS users regarding when circumstances warrant the
   changing of the “Receipt Required” to “Receipt not Required” and communicate this
distinction to all users.
2. Develop periodic reports, as a control mechanism, to purchase order lines with “Receipt
   Required” set to “No” and follow up with the users identified in the report.

**State Contract Numbers** - All of the purchases were on state contract and were authorized for
Finance/Account Payable to pay. The requirement for placing contract references and
exemptions on the purchase order has been briefed at two DPO updates and at the district
administrators meeting. Periodic reports from AIMS will be run to check to see if DPO
originators are putting the correct contract number on their purchase orders. We will modify our internal procurement manual to clarify the purchasing authority and limits for DPO originators to include purchases requiring competition, exemptions, and contracts (state and DHEC).

**Formal Bid Solicitations** - We have included the posting location of the award notices in our formal bid solicitation boilerplate.

II. **Unauthorized Sole Source Procurements**

A properly authorized official did not approve three sole source procurements.

<table>
<thead>
<tr>
<th>PO</th>
<th>Date</th>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>10229</td>
<td>08/14/97</td>
<td>Repair parts</td>
<td>$18,041</td>
</tr>
<tr>
<td>108387</td>
<td>09/08/98</td>
<td>Repair parts</td>
<td>11,338</td>
</tr>
<tr>
<td>97612</td>
<td>07/23/98</td>
<td>Repair parts</td>
<td>21,038</td>
</tr>
</tbody>
</table>

The Deputy Commissioner for Administrative Services delegated sole source authority in his absence to the Administrative Information Management System Chief. However, Section 11-35-1560 of the Code states in part, "A contract may be awarded for a supply, service, or construction item without competition when ... the chief procurement officer, the head of a purchasing agency, or a designee of either officer ... determines in writing that there is only one source for the required supply, service, or construction item." At the Department the Commissioner is the only person that can delegate sole source authority. Since the delegation of authority noted above was not allowable, each of the procurements was unauthorized as defined in Regulation 19-445.2015.

We recommend the Department comply with the Code on the delegation of sole source authority. A ratification request for each of the three unauthorized sole source procurements must be submitted to the Commissioner for ratification per Regulation 19-445.2015.

**DEPARTMENT RESPONSE**

The DHEC Commissioner has delegated all the sole source authority. We have submitted the three unauthorized sole source procurements to the Commissioner for ratification per Regulation 19-445.2015.
II. Unauthorized Professional Service Change Order

The Department improperly issued a modification for $7,700 on one architectural service contract on purchase order P1493. The purchase order was originally issued for professional services to design a directory and room numbering system for the Sims/Aycock and Mills/Jarrett facilities. The 1995 Manual for Planning and Execution of State Permanent Improvements, Part II, section 4.3 (D), states in part:

The agency shall submit form SE-260 to the OSE (Office of State Engineer) for approval prior to authorizing the work related to an amendment to a professional services contract when the following occurs:

1. When the amendment exceeds the agency’s construction certification amount.

Because the modification exceeded the Department’s construction certification of $5,000, the State Engineer should have authorized the contract modification. Because the modification was not approved by the State Engineer, ratification must be requested by the Commissioner from the State Engineer in accordance to Regulation 19-445.2015.

We recommend the Department comply with the Manual for Planning and Execution of State Permanent Improvements, Part II for contract modifications to architectural/engineering contracts.

DEPARTMENT RESPONSE

A request for ratification from the Commissioner will be sent to the Office of the State Engineer. Future modifications for contracts processed through the State Engineer will be routed through the State Engineer for approval. We will reemphasize compliance with the Manual for Planning and Execution of State Permanent Improvements, Part II for contract modifications to architectural/engineering contracts.

IV. Procurements Without Competition

The following three purchase orders should have been combined and competition solicited for the total of $2,593.

<table>
<thead>
<tr>
<th>PO</th>
<th>Date</th>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>2811</td>
<td>05/27/97</td>
<td>Promotional items</td>
<td>$903</td>
</tr>
<tr>
<td>2813</td>
<td>05/27/97</td>
<td>Promotional items</td>
<td>897</td>
</tr>
</tbody>
</table>
CERTIFICATION RECOMMENDATIONS

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

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

<table>
<thead>
<tr>
<th>PROCUREMENT AREAS</th>
<th>RECOMMENDED CERTIFICATION LEVELS</th>
</tr>
</thead>
<tbody>
<tr>
<td>Annual Term Contracts for drugs, pharmaceuticals, and biologicals for human use; contraceptives, biochemicals and biochemical research</td>
<td>$3,000,000 maximum of all such contracts combined</td>
</tr>
<tr>
<td>Annual Term Contracts for hospital sundries and germicides</td>
<td>$1,700,000 maximum of all contracts combined</td>
</tr>
<tr>
<td>All other Goods and Services</td>
<td>* $100,000 per commitment</td>
</tr>
<tr>
<td>Consultant Services</td>
<td>* $50,000 per commitment</td>
</tr>
<tr>
<td>Information Technology</td>
<td>* $50,000 per commitment</td>
</tr>
</tbody>
</table>

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

Robert J. Aycock, IV
Audit Manager

Larry G. Sorrell, Manager
Audit and Certification
Mr. R. Voight Shealy  
Materials Management Officer  
Materials Management Office  
1201 Main Street, Suite 600  
Columbia, South Carolina 29201

Dear Voight:

We have reviewed the response from the South Carolina Department of Health and Environmental Control to our audit report for the period of January 1, 1996 - December 1, 1998. Also we have followed the Department’s corrective action during and subsequent to our fieldwork. We are satisfied that the Department has corrected the problem areas and the internal controls over the procurement system are adequate.

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

Sincerely,

Larry G. Sorrell, Manager  
Audit and Certification

Total Copies Printed 25  
Unit Cost - .28  
Total Cost - $7.00