SOUTH CAROLINA MANAGEMENT SYSTEMS

PERFORMANCE AUDIT FINAL REPORT

November 1997

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South Carolina Performance Audit Steering Committee
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This report presents the results of our performance audit of South Carolina's
management systems. Our audit was conducted in accordance with *Government
Auditing Standards*, issued by the Comptroller General of the United States.

Purpose

The State of South Carolina has undertaken a comprehensive performance audit of state
government to improve its efficiency and effectiveness. As part of this statewide effort,
this report assesses South Carolina's management systems of procurement, personnel and
benefits, and information technology. Specific objectives of this performance audit are
to:

- Determine program and service duplications and recommend candidates for
  elimination
- Streamline programs, policies and procedures
- Identify out-of-date technologies that detract from efficient program performance
- Recommend resource management strategies to apply governmental revenues where
  they can be most effective

Background

The state's management systems form the cornerstone for government operations in the
State of South Carolina. Over 100 state agencies rely on the state's procurement system
to provide them with the best possible goods at the lowest possible price. Agencies also
depend upon the human resource management system to provide competitive
compensation and benefits levels and define equitable policies and procedures to manage
the state's workforce of 68,000 employees. Wise use of information technology
throughout state government is the key to improving, modernizing, and reducing costs
associated with administrative operations and service delivery.

Results in brief

The State of South Carolina has recently implemented a number of reforms and initiatives to improve its management systems. Recent legislative changes have streamlined the Procurement Code and it incorporates many of the elements of a sound procurement system. The state's recently revised classification and compensation system provides salary levels that are competitive and a classification structure that is one of the most efficient in the nation. In addition, the state utilizes a number of modern human resource management tools, including mentoring, employee performance appraisals, pay for performance, incentive compensation, and alternative dispute resolution. The Governor's establishment of the Information Resource Council is a major step for the state in providing a common technology vision, strategy and plan. The data center consolidation project represents a sound and very positive effort to reduce costs, improve services and encourage sharing of agency data. Several state agencies are making use of emerging technologies such as document imaging, kiosks, electronic data interchange and the Internet.

The state's decentralized management systems organization structure offers both advantages and challenges in each of the management systems areas. Interviews, focus groups, and surveys indicate that customer satisfaction within agencies is generally high. Over time, opportunities exist to improve reporting capabilities and information flow by migrating to standard information systems in areas such as procurement, financial management, and human resources. In addition, opportunities also exist to encourage greater agency participation in centralized training programs and adoption of best practices, innovative technologies, and model policies and procedures.

Recommendations

The state should reduce procurement costs by eliminating procurement preferences, encouraging and strengthening cooperative purchasing, and implementing the purchase card program in all state agencies within the next year.

The Budget and Control Board and agency leadership and governing authorities should encourage participation in a statewide procurement training program, training on the new classification and compensation system, the agency head training program, and the mentor program. In addition, agencies should be encouraged to establish separate budgets for training, including technology training.

The state should improve recruitment processes and retention strategies by developing a formal employee referral program and a strategic plan to recruit for hard-to-fill positions and retain employees already in those positions.

The state should encourage greater agency use of modern human resources tools such as pay for performance, incentive compensation, tuition reimbursement programs, mentoring, and alternative dispute resolution.

The state should evaluate changes to its benefits offerings to be more in line with those of other states and the private sector. In addition, the state should continue to evaluate its benefits offerings to ensure that they remain competitive.

The state should consider organizational changes to aid in the promotion, coordination and implementation of policies, standards and "best practices" deriving from the Information Resource Council.

The state should consider using innovative funding strategies to fund enterprise-wide and multi-year technology projects.

The state should supplement the current technology infrastructure, provide increased access to information and technologies to improve employee productivity and customer service, and develop plans to replace or reengineer outdated systems across all state agencies.

A basic need is improved financial and management information. The state should migrate to standard procurement, human resources, and financial systems to help achieve this objective.

The state should pursue an aggressive and comprehensive program that will identify and manage the resources necessary to correct Year 2000 system problems across all state agencies.

Response of the South Carolina Budget and Control Board

The Budget and Control Board's response to the draft performance audit report is included in the **Appendix—Management Response**.

KPMG Peat Marwick LLP

EXECUTIVE SUMMARY

Executive Summary

Fulfilling the State of South Carolina's mission to provide high quality, cost-effective services to citizens and taxpayers, requires support from the management system functions of:

- **Procurement**: providing for the acquisition of goods and services necessary to accomplish state agencies' missions

- **Personnel and Benefits**: supporting the state government's most important asset, its employees

- **Information Technology**: promoting the exchange and maintenance of the state's most important input for effective decision making, information

In South Carolina, these management support functions are carried out by the Budget and Control Board and state agencies.

Central offices in the Budget and Control Board provide uniform, overarching policies and regulations, direction, oversight, and support for agencies pertaining to each of these management system functions through the following offices:

- Procurement: Office of General Services, Materials Management Office

- Personnel and Benefits: Office of Human Resources, Division of Retirement Systems Division, and Office of Insurance Services

- Information Technology: Office of Information Resources and Office of Information Technology Policy and Management

State agencies are primarily responsible for the day-to-day management and implementation of the management systems functions. Descriptions of the division of responsibilities between the state's central offices and the agencies are detailed in each area's respective Section 2.

Performance Audit Objectives

The objectives of this performance audit are to:

- Determine program and service duplications and recommend candidates for elimination
- Streamline programs, policies and procedures
- Identify out-of-date technologies that detract from efficient program performance
- Recommend resource management strategies to apply governmental revenues where they can be most effective

Each of the management systems areas, Procurement, Personnel and Benefits, and Information Technology, have further specific objectives that are detailed in their respective **Introduction** sections. Our recommendations in each of these areas are outlined later in this summary, in the section entitled **Recommendations in Brief.**

Approach

In fulfilling the objectives of the performance audit of South Carolina's management systems, KPMG conducted the audit in accordance with *Government Auditing Standards*, published by the Comptroller General of the U.S. Our analysis was organized to follow the three major components of a Yellow Book performance audit: audit work plan, field work, and reporting. Key activities during the field work stage of the performance audit included:

- Compiling and reviewing background data
- Issuing, compiling and reviewing surveys
- Conducting interviews of Budget and Control Board and selected agency directors and managers
- Holding various focus groups of agency managers and employees
- Interviewing selected stakeholders from the vendor community
- Conducting site visits to state agency and Budget and Control Board offices
- Benchmarking South Carolina's management systems policies and procedures against peer states, the private sector, and national data
- Issue development and analysis

Each of the functional area audits, Procurement, Personnel and Benefits, and Information Technology, has further specific field work approaches that are detailed in their respective **Introduction** sections.

South Carolina's Management Systems

The State of South Carolina has recently implemented a number of reforms and initiatives to improve its management systems. Recent legislative changes have streamlined the Procurement Code and it incorporates many of the elements of a sound procurement system. The state's recently revised classification and compensation system provides salary levels that are competitive and a classification structure that is one of the most efficient in the nation. In addition, the state utilizes a number of modern human resource management tools, including mentoring, employee performance appraisals, pay for performance, incentive compensation, and alternative dispute resolution. The Governor's establishment of the Information Resource Council is a major step for the state in providing a common technology vision, strategy and plan. The data center consolidation project represents a sound and very positive effort to reduce costs, improve services and encourage sharing of agency data. Several state agencies are making use of emerging

technologies such as document imaging, kiosks, electronic data interchange and the Internet.

The state's decentralized management systems organization structure offers both advantages and challenges in each of the management systems areas. Interviews, focus groups, and surveys indicate that customer satisfaction within agencies is generally high. Over time, opportunities exist to improve reporting capabilities and information flow by migrating to standard information systems in areas such as procurement, financial management, and human resources. In addition, opportunities also exist to encourage greater agency participation in centralized training programs and adoption of best practices, innovative technologies, and model policies and procedures.

Recommendations in Brief

Our specific findings and recommendations for South Carolina's management systems of Procurement, Personnel and Benefits, and Information Technology appear in the **Findings and Recommendations** chapters of those sections of the report. An Implementation Plan is located at the end of the report.

These recommendations, when fully implemented, could result in annual savings and cost avoidance totaling $20.1 to $31.7 million. The state should also evaluate specific investment opportunities identified within this report.

A brief overview of the recommended strategies to improve the efficiency and effectiveness of the state's Procurement, Personnel and Benefits, and Information Technology management systems is outlined below:

Opportunities to Eliminate Program and Service Duplications

- Designate a primary information (contact) number that allows employees to direct human resources questions
- Continue to monitor the number of employees per job classification on a regular basis
- Encourage agencies to discontinue the practice of assigning pay ranges within the same salary band
- Encourage agencies to use the Statewide Mediators Pool
- Consider the creation of a single entity in the Budget and Control Board responsible for support of the end user desktop computing infrastructure, particularly in geographically dispersed areas
- Minimize the number of telecommunications bills to be paid to simplify the bill payment and accounting processes, reduce overhead, and contribute to the potential reduction of administrative staff
- Direct additional calls to the primary contracted long distance service in order to reduce costs
- Consolidate telecommunications contracts where possible
- Consolidate multiple data networks onto one highly reliable backbone

Opportunities to Streamline Programs, Policies and Procedures

- Amend the legislation that provides for procurement preferences
- Implement the purchase card program in all state agencies within the next year
- Develop a consistent set of procurement terms, definitions and forms
- Encourage greater implementation of universal review dates for performance evaluations in the state agencies
- Streamline the performance management system
- Establish consistency within an agency in the use of measurable goals in EPMS
- Work with agencies to develop best practice guidelines for recruitment and selection of staff
- Establish statewide IT standards, policies and guidelines

Opportunities to Enhance Technology for Better Program Performance

- Develop a comprehensive statewide procurement management information system through the use of advanced technology
- Expand the Office of Human Resources information system to include all aspects of human resources management
- Modify existing human resources systems to create a central reporting point for all human resource management functions
- Develop a statewide records management system to track all training activities
- Implement a central database of training programs and resources
- Supplement the current technology infrastructure to establish improved customer access to information and services
- Provide increased access to information and technologies that can improve employee productivity and customer service
- Invest in relational databases and related tools to understand information needs and provide access to data
- Develop a five year plan and resource requirements to replace or reengineer outdated systems across all agencies
- Consider utilization of off-the-shelf software packages for system replacements or as new development requirements arise
- Select standard financial, human resource and procurement systems and assist agencies in their migration
- The Information Resource Council should recommend modern and improved systems development tools and techniques throughout the state

Resource Management Strategies

- Modify the Procurement Code to encourage and strengthen cooperative purchasing
- Establish a centralized quality assurance and contract administration unit

- Establish an exchange program for Office of Human Resources consultants and agency staff
- Require agencies to submit a written compensation strategy that includes a definition of the competitive market and the components of the compensation program
- Include more extensive private sector job classifications when making salary comparisons
- Develop and implement a strategic plan to recruit for and improve retention in hard-to-fill positions
- Implement a statewide formal employee referral program
- Develop and pilot test a performance-based incentive plan
- Agencies should identify career paths within each agency and communicate career path opportunities to employees
- Encourage agencies to establish a separate budget for training that is at least one and one-half percent of the agency payroll budget
- Encourage broader participation in the statewide tuition reimbursement program
- Continue to expand the mentor program statewide
- Encourage greater participation in the agency head training programs
- Continue to offer multiple choices of medical plans to employees, moving further into managed care vehicles, such as point-of-service or more extensive preferred-provider models to offer employees even greater flexibility
- Expand the managed prescription drug program to provide greater discounts
- Consider reducing the number of sick days offered
- Investigate increasing life insurance and offering a short-term disability plan
- Evaluate the state's compensation policies and practices for IT technicians to ensure they are competitive
- Make technical IT training a funding priority
- Consider organizational changes to aid in the promotion, coordination and implementation of policies, standards, and "best practices" deriving from the Information Resource Council
- Consider using innovative strategies to fund enterprise-wide and multi-year technology projects
- Create an environment where IT unit priorities and resource allocations are aligned with agency strategic plans, goals and objectives
- Institute a comprehensive IT planning process that presents a cohesive and concise vision for all centralized and decentralized technology organizations
- OIR should investigate and implement initiatives to achieve recommended efficiencies in the management and operation of the consolidated data center
- OIR should develop a proactive method and approach to manage the state's network with tools capable of providing proactive monitoring and management of networked resources