September 28, 2021

Dear Chairman Larry Martin and fellow SHaPE SC task force members:

As requested by the task force, please see attached financial impact statement concerning the cost to restructure the South Carolina Department of Health and Environmental Control (DHEC). In addition, below includes an overview of administrative considerations for the restructuring of DHEC.

Fiscal Impact Statement

The attached fiscal impact statement was initially prepared in May 2016 in response to the introduction of **Senate Bill 550**, which proposed to restructure several state agencies providing health and environmental services. The estimates were and remain preliminary and are subject to provisions specified in any restructuring bill.

It is important to note that information technology (IT) estimates have increased since the initial estimate and may be significantly higher than represented in the May 2016 fiscal impact statement. This is due largely to DHEC's migration to the state data center that occurred after 2016. Duplication of data center resources, software licenses, network hardware, and staff may be required if the agency is restructured.

Administrative Considerations for Restructuring DHEC

DHEC has been in existence for almost 50 years and has leveraged a shared administrative support structure to minimize costs and streamline services. As a result, many interwoven support functions and integrated systems will have to be untangled, and often duplicated, should there be a reorganization.

Deputy-Specific Support Functions

DHEC is comprised of three core deputy areas: Environmental Affairs, Healthcare Quality, and Public Health. Each of these deputy areas fund and maintain a core group of support staff dedicated to administrative functions for their deputies. Typically, these staff oversee specific IT or financial systems used only by that deputy area, or they serve as liaisons and initial process points between the deputy area and centralized administrative functions.

Examples of deputy-specific support functions include:

- IT programmers developing and supporting deputy systems such as:
  - South Carolina's Infectious Disease and Outbreak Network (SCION) used by DHEC for disease surveillance, allows physicians, nurses, and lab professionals to notify DHEC of diseases and outbreaks, and the Client Automated Record and Encounter System

(CARES), which allows the sharing of common patient information, regardless of program area, across the state and is the scheduling system for clinical appointments at county health departments, for Public Health.

- o ePermitting for Environmental Affairs, which is an online platform for environmental permitting, licensing, registration, reporting, monitoring, complaints, compliance and enforcement.
- Procurement staff processing purchase orders for deputy programs
- General Counsel, including dedicated legal teams for each of the deputy programs
- Patient billing for Public Health and fee/fine invoicing for Environmental Affairs and Healthcare Quality
- Human Resources liaisons supporting and initiating personnel actions for deputy programs
- Budget analysts overseeing program-specific federal grants

Centralized Support Functions

While deputy-specific support functions may be divided among the specific service areas accordingly, most support functions are agency-wide functions with shared staffing and limited resources. In some cases, "dividing" the work will be difficult because teams are organized by function with minimal duplication. As a result, it would require additional staffing to support both short- and long-term restructuring needs.

Examples of shared support services include:

- General Counsel, including Freedom of Information, Compliance, and Internal Audits
- Information Technology infrastructure and systems, including over 35 enterprise-level systems, agency network, security, document management and end-user support
- Financial and operational infrastructure, including integrated financial reporting, costing, accounting, payables, receivables, fund oversight, procurement, facilities (15 shared locations), courier/mail and agency fleet
- Human Resources including employee relations, classification and compensation, personnel records, training, safety, recruiting, workforce development, and employee health

An alternative approach to restructuring could also include keeping support functions, such as IT together as a "shared service" between the newly created agencies.

The attached summary estimate prepared in May 2016 contains what it would take to restructure DHEC and is specific to Senate Bill 550. **As a reminder, these estimates are preliminary**. An updated analysis, including alternative restructuring considerations has not been conducted. The ultimate cost will depend on the specifics of any reorganization.

Considerations for Centralization vs Decentralization

It is important to strike a balance between the centralization and decentralization of support services. It is critical for the agency to assure that there are adequate controls in place and consistency in implementation of policies. In particular, we must assure adequate checks and balances for functions such as IT standards and security of information, financial controls, Human

Resources policies and procedures, and procurement policies and procedures. There are also potential economies of scale by keeping support services centralized.

At the same time, it is important to make sure that support staff are knowledgeable of programmatic needs and priorities. Support staff should have an understanding of what programs need to accomplish and assist them in meeting these goals. Program areas need to have staff with a working knowledge of administrative policies and procedures and financial information.

Communication and a close working relationship between support services and programmatic staff is critical, regardless of the organizational structure.

Resources and Timeline to Minimize Service Disruption

Should there be a decision to restructure DHEC, it will take time and resources to assure a smooth transition. Disruptions in the agency's financial, information technology and other support functions will directly impact programmatic services provided to the people of South Carolina.

Each DHEC support service must be examined to determine how best to separate them (and whether to do so) among the new entities to prevent degradation in services. The following are examples of the significant activities and considerations that must occur in this process:

- Duplicating or re-writing over 35 information technology enterprise-level systems
- Restructuring the SCEIS chart of accounts including almost 300 cost centers
- Distributing over 400 grants, that require federal re-delegation or reassignment
- Reviewing and reissuing/duplicating over 2,500 purchase orders and 3,500 contractual agreements
- Determining location and maintenance of agency-level historical information and data (e.g., agency-wide contracts, >1 million personnel records, etc.)
- Reassigning over 4,000 positions and providing new organizational structures and funding information in SCEIS
- Assessing and separating all agency assets (i.e., anything with an initial purchase price of more than $2,500)
- Establishing new branding for new agencies and rebranding applicable websites, forms, literature, etc.
- Installing separate network hardware to separate networks of new agencies in 15 shared facilities
- Cross-training support staff who are currently experts in one function and must be trained to perform multiple functions with the new agencies

Given the complexities and scale of support service separation, DHEC recommends a longer transition timeframe for support functions (at least 12 months), with coordination and assistance from the Department of Administration and other state agencies as appropriate.