



# MEMORANDUM

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**Date:** January 8, 2021 File No.: 0205

**To:** Richard Corey, Executive Officer  
California Air Resources Board  
1001 I Street  
Sacramento, CA 95814

**From:** **Department of General Services**  
**Office of Audit Services**

**Subject:** **AUDIT REPORT: DELEGATED PURCHASING PROGRAM**

Attached is the final report on our compliance audit of the California Air Resources Board's (CARB) delegated purchasing program. The objective of our audit was to determine that procurement transactions are being conducted in accordance with the terms and conditions of CARB's purchasing authority delegation agreements with the Department of General Services (DGS), which include dollar threshold limits for various categories of procurements.

CARB's written response to our draft report is included in this final report. The report also includes our evaluation of the response. We are pleased with the actions taken and commitments made to address our recommendations.

We greatly appreciated the cooperation and assistance provided by CARB's personnel.

If you have any questions, please call me at (916) 376-5054, or Amalia H. Sanchez, Management Auditor, at (916) 376-5016.

*Olivia Haug*

OLIVIA HAUG  
Manager, Office of Audit Services

Attachment

cc: Edie Chang, Deputy Executive Officer, CARB  
Edna Murphy, Chief, Administrative Services Division, CARB  
Steve Grogan, Chief, Office of Information Services, CARB  
Purchasing Authority Management Section (PAMS), Procurement Division, DGS



**GOVERNMENT OPERATIONS AGENCY  
DEPARTMENT OF GENERAL SERVICES**

**AUDIT OF THE  
CALIFORNIA AIR RESOURCES  
BOARD**

**FOR COMPLIANCE WITH STATE  
DELEGATED PURCHASING PROGRAM  
REPORT NO. 0205**

**OFFICE OF AUDIT SERVICES**

**OCTOBER 2020**



**CALIFORNIA AIR RESOURCES BOARD  
DELEGATED PURCHASING PROGRAM AUDIT  
REPORT NO. 0205**

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**STATE OF CALIFORNIA**  
**DEPARTMENT OF GENERAL SERVICES**  
**AUDITOR'S REPORT**

DATE: January 8, 2021

TO: **Richard Corey**, Executive Officer  
California Air Resources Board

This report presents the results of our compliance audit of the delegated purchasing program of the California Air Resources Board (CARB). As required by Public Contract Code Section 10333, the Department of General Services (DGS) conducts an audit at least once in each three-year period of each state agency to which purchasing authority has been delegated by the department. The objective of our audit was to determine that procurement transactions are being conducted in accordance with the terms and conditions of CARB's purchasing authority delegation agreements with DGS, which include dollar threshold limits for various categories of procurements. As applicable, the scope of our audits of state agencies includes, but is not limited to, compliance with policies governing the conduct of competitive solicitations, use of leveraged procurement agreements, solicitation of certified small businesses (SB) and disabled veteran business enterprises (DVBE), establishment of fair and reasonable pricing for acquisitions of less than \$10,000, use of CAL-Cards to pay for goods and services, and prompt payment of suppliers. Our audit was conducted in accordance with U.S. generally accepted auditing standards.

Overall, we concluded that CARB is conducting its delegated purchasing program in compliance with the terms and conditions of its delegation agreement. However, as discussed under the Findings and Recommendations section of this report, we identified a number of areas for improvement that need to be addressed to fully comply with purchasing requirements. The implementation of the recommendations presented in this report will assist CARB in addressing these issues.

During our review we also identified other matters requiring attention, but did not pose a significant risk to the delegated purchasing program, that we discussed with CARB's management and are not further detailed in this report.

It should be noted that when advised of areas for improvement during our audit fieldwork, CARB's management agreed to take action to address our concerns. We were pleased with the commitment shown to improve compliance with state requirements. However, we did not perform effectiveness tests to determine whether the corrective actions were functioning as intended. CARB's management has the ongoing responsibility for ensuring that its business management policies and procedures are functioning as prescribed and are modified, as appropriate, for changes in conditions.

Your response to our recommendations as well as our evaluation of the response are included in this report.

We greatly appreciated the cooperation and assistance provided by CARB's personnel.

If you need further information or assistance on this report, please contact me at (916) 376-5054, or Amalia H. Sanchez, Management Auditor, at (916) 376-5016.

*Olivia Haug*

OLIVIA HAUG  
Manager, Office of Audit Services

Staff: Amalia H. Sanchez, Management Auditor

cc: Edie Chang, Deputy Executive Officer, CARB  
Edna Murphy, Chief, Administrative Services Division, CARB  
Steve Grogan, Chief, Office of Information Services, CARB  
Purchasing Authority Management Section (PAMS), Procurement Division, DGS



# CALIFORNIA AIR RESOURCES BOARD

## DELEGATED PURCHASING PROGRAM AUDIT

### FINDINGS AND RECOMMENDATIONS

The following presents our detailed findings and recommendations developed based on our compliance audit of CARB's delegated purchasing program. The state's delegated purchasing requirements are primarily contained in State Contracting Manual (SCM) Volumes 2 (Non-IT), 3 (IT), and F (FI\$Cal).

This information was developed based on our fieldwork conducted over the period of March 19, 2020 through October 6, 2020. To determine compliance, we reviewed policies and procedures, interviewed parties involved, tested records and transactions and performed other tests as deemed necessary. The period covered by our testing varied depending upon the area of review and the type of transactions involved; however, the emphasis of our review and testing was with current procedures and transactions completed during the 2019-20 fiscal year. Our transaction tests included the review of 40 delegated non-IT and IT procurements, including 11 leveraged procurement agreement transactions.

#### **DELEGATED PURCHASING PROGRAM**

Overall, we concluded that CARB has implemented a delegated purchasing program that ensures compliance with the state's primary procurement requirements, including those governing the obtaining of bids from multiple suppliers. However, our tests disclosed a number of areas for improvement that need to be addressed to fully comply with purchasing requirements.

**Prompt Payments to Vendors** – CARB's current invoice processing policies and procedures are not ensuring the prompt payment of vendor invoices. In reviewing a sample of 28 invoices processed for payment during 2020, we found 10 (36%) SB/DVBE invoices which were not processed in a manner that ensured payment in accordance with the state's prompt payment requirements. In addition, late payment penalties for seven of those vendor payments were paid only after the CARB's Accounting Unit was informed by the auditor.

Government Code Section 927, et seq., and SAM Sections 8474 through 8474.4 contain the state's policies related to the prompt payment of businesses. These policies include a requirement that vendor invoices be paid within 45 calendar days of receipt and the automatic payment of penalties when applicable. The 45-day timeline allows state agencies 30 days to perform their payment approval function and the State Controller's Office (SCO) 15 days to perform its audit and warrant generation process. The failure to promptly pay invoices restricts the state's efforts in getting businesses to provide goods and services to the state.

It should be noted that though the frequency of occurrence is low in some cases for some types of instances of noncompliance, when combined, the numerous instances indicate a weakness in the procurement program that warrants addressing. Since the instances of noncompliance were discussed with responsible management and staff during our audit fieldwork, they are not detailed in this report. However, the types of exceptions noted with procurement transactions performed by CARB staff involved either missing or inadequate procurement documentation for the following areas:

The following are additional exceptions noted:

- Purchase over CARB's Purchasing Authority Delegation Limit (SCM F, 1.A2.0)
- Department's Purchasing Authority Number missing from Purchase Order (SCM F, 1.A1.5)
- Purchase was incorrectly classified (SCM F, 2.B2.0)
- State's General Provisions not referenced on Purchase Order (SCM F, 4.B3.1)
- Seller's Permit not in the file (SCM F, 4.B3.3)
- State's Bidder Instructions not in file (SCM F, 4.B3.0)
- State's General Provisions missing from solicitation (SCM F, 4.B3.1)
- DVBE Program Requirements missing from solicitation (SCM F, 3.A3.1)
- Commercially Useful Function (CUF) documentation not in file (SCM F, 3.A2.7)
- Bidder Declaration Form (GSPD 05-105/05-106) not in file (SCM F, 3.A4.7)
- Solicitation not advertised in California State Contracts Register (CSCR) (SCM F, 4.A2.1)
- Target Area Contract Preference Act (TACPA) not included in solicitation (SCM F, 3.A9.0)
- Verification of FTB and CDTPA not in file (SCM F, 2.B4.5)
- Reporting to DFEH transactions over \$5,000 (SCM F, 9.E4.0)
- Applying SB Preference on a purchase that was not applicable (SCM F, 3.A6.0)
- Leveraged Procurement Agreement (LPA) proper documentation:
  - o Department's Purchasing Authority Number missing from Purchase Order (SCM F, 1.A1.5)
  - o Verification of FTB and CDTPA not in file (SCM F, 2.B4.5)
  - o Reporting to DFEH transactions over \$5,000 (SCM F, 9.E4.0)

While it was difficult to determine the primary causes of all the aforementioned exceptions, the lack of awareness of applicable requirements and simple oversight while processing these types of transactions were found to be contributing factors.

### **RECOMMENDATIONS**

Strengthen existing policies and procedures over its delegated purchasing program that includes the following areas:

1. Prompt payment to vendors – processing invoices for payment timely in compliance with the Prompt Payment Act (GC 927). Further, assessing and paying late payment penalties when due.
2. Additional areas of non-compliance – ensure staff is trained and knowledgeable in processing procurements within the delegated amounts or requesting the

Department of General Services (DGS) to complete the procurement; including the department's delegation number on each purchase document and solicitation; accurately classifying purchase types; including the General Provisions on the purchase orders; maintaining the seller's permits in the procurement file; including the state's bidder instructions in the procurement file; including DVBE program requirements in the solicitations, documenting CUF requirements in the procurement file; maintaining bidder declaration forms in the procurement file; advertising solicitations as required; including TACPA requirements in solicitations; maintaining file documentation for FTB and CDTPA verifications, reporting purchases over \$5,000 to DFEH; and ensuring that the SB preference is applied correctly.

3. LPA purchases – conducted in accordance with the terms and conditions set forth by the LPA. Further, maintain a complete file for each LPA purchase.

### **CONCLUSION**

Our findings and recommendations are presented to aid CARB in administering its delegated purchasing program. CARB should address the reported issues to assist in ensuring compliance with applicable state laws, policies and procedures.



December 16, 2020

Ms. Olivia Haug, Manager  
707 3<sup>rd</sup> Street  
West Sacramento, California 95605

Dear Ms. Haug:

The California Air Resources Board (CARB) has reviewed the draft report of the Department of General Services, Office of Audit Services (DGS, OAS) compliance audit review. We are pleased that the DGS, OAS review concluded that CARB is conducting its delegated purchasing program in compliance with our delegated purchasing authority. CARB further appreciates the time and collaboration the DGS OAS Auditor had with CARB staff and management during the audit review as it was instrumental in providing further improvements to CARB's procurement program.

The following responses address the recommendations by DGS, OAS:

**Recommendation #1: Prompt Payment to Vendors**

On November 2, 2020, a memo was released to all CARB employees explaining that vendor invoices must be paid within 45 calendar days of receipt. To ensure prompt payment, language stating that all invoices must be remitted to CARB's Accounting Branch has been added to all purchase orders and contracts. The Accounting Branch will track all invoices. CARB employees have been asked to immediately remit any invoices they receive in error to the Accounting Branch for tracking and processing. A detailed process for disputing invoices has been relayed to all CARB staff; in addition, invoice-processing timelines have been relayed to all employees.

**Recommendation #2: Additional Exceptions**

The timing of the audit coincided with CARB's transition to the State's new Financial Information System for California (FI\$Cal). This one-time transition created a significant additional workload (including required overtime) and subsequent oversights by staff and reviewing managers resulting in many of the exceptions identified in the audit. To address the audit findings, CARB has revised our procurement checklists, procurement email templates and solicitation templates.

Ms. Olivia Haug  
December 16, 2020  
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Staff have been trained on the new checklists and a standard format has been provided in order to ensure all items are incorporated as required on the purchase order and in the procurement packet. Management has incorporated a new review process where several levels of review take place prior to approving purchases. Lastly, each quarter, samples of procurement packages will be pulled for file audits to ensure all needed documentation is included.

CARB is committed to conducting its delegated purchasing program in compliance with DGS's procurement policies. CARB will continue to take actions to improve and monitor procurement policies and procedures to ensure compliance with delegated purchasing authority.

If you have further questions or need assistance, please contact Brandy Hunt, Contracts, Procurement, and Grants Chief, at (916) 327-1799 or via email at [Brandy.Hunt@arb.ca.gov](mailto:Brandy.Hunt@arb.ca.gov).

Sincerely,



Richard W. Corey  
Executive Officer  
California Air Resources Board

cc: Edie Chang  
Deputy Executive Officer  
California Air Resources Board

Edna Murphy  
Chief  
Administrative Services Division

Steve Grogan  
Chief Information Officer  
Office of Information Services

Eric Jarvis  
Assistant Secretary  
California Environmental Protection Agency, Fiscal and Admin Programs

**CALIFORNIA AIR RESOURCES BOARD  
(CARB)**

**EVALUATION OF CARB'S RESPONSE**

We have reviewed the response by the California Air Resources Board (CARB) to our draft report. The response to the recommendations is satisfactory. We appreciate the efforts taken or being taken by CARB to improve its delegated purchasing functions.