

**Date:** December 12, 2019 File No.: 9212

**To:** **Roy W. Wesley**, Inspector General  
Office of the Inspector General  
10111 Old Placerville Road, Suite 110  
Sacramento, CA 95827

**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 Office of Inspector General's (OIG) 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 OIG's purchasing authority delegation agreements with the Department of General Services (DGS), which include dollar threshold limits for various categories of procurements.

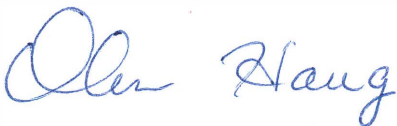
OIG's written response to our draft report is included in this final report. The report also includes our evaluation of the response. We are pleased with the actions taken or proposed and commitments made to address our recommendations.

As part of its operating responsibilities, the Office of Audit Services is responsible for following up on audit recommendations. Therefore, please submit a status report on the implementation of each to us by June 10, 2020.

The necessity of any further status reports will be determined at that time. Please transmit your status report to: DGS – Office of Audit Services, 707 3rd Street, 8th Floor, West Sacramento, CA 95605.

We greatly appreciated the cooperation and assistance provided by OIG'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  
Manager, Office of Audit Services

Attachment

cc: Melissa Lang, Chief of Administration, OIG  
Purchasing Authority Management Section (PAMS), Procurement Division, DGS



**GOVERNMENT OPERATIONS AGENCY  
DEPARTMENT OF GENERAL SERVICES**

**AUDIT OF THE  
OFFICE OF THE INSPECTOR  
GENERAL**

**FOR COMPLIANCE WITH STATE  
DELEGATED PURCHASING PROGRAM  
REPORT NO. 9212**

**OFFICE OF AUDIT SERVICES**

**NOVEMBER 2019**



**OFFICE OF THE INSPECTOR GENERAL  
DELEGATED PURCHASING PROGRAM AUDIT  
REPORT NO. 9212**

**TABLE OF CONTENTS**

	<u>PAGE</u>
AUDITOR'S REPORT .....	1
FINDINGS AND RECOMMENDATIONS .....	3
DELEGATED PURCHASING PROGRAM .....	3
RECOMMENDATIONS .....	4
CONCLUSION .....	4
OIG'S RESPONSE .....	5
EVALUATION OF OIG'S RESPONSE.....	7



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

DATE: December 12, 2019

TO: **Roy W. Wesley**, Inspector General  
Office of the Inspector General

This report presents the results of our compliance audit of the delegated purchasing program of the Office of the Inspector General (OIG). 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 OIG'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 OIG 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 OIG in addressing these issues.

During our review we also identified other matters requiring attention, but did not pose a significant risk to the business management functions, which were discussed with OIG'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, OIG'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. OIG'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.

Roy W. Wesley

December 12, 2019

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 OIG'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  
Manager, Office of Audit Services

Staff: Amalia H. Sanchez, Management Auditor

cc: Melissa Lang, Chief of Administration, OIG  
Purchasing Authority Management Section (PAMS), Procurement Division, DGS



# OFFICE OF THE INSPECTOR GENERAL

## DELEGATED PURCHASING PROGRAM AUDIT

### FINDINGS AND RECOMMENDATIONS

The following presents our detailed findings and recommendations developed based on our compliance audit of OIG'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 June 25, 2019 through September 27, 2019. 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 2018-19 fiscal year. Our transaction tests included the review of 19 delegated non-IT and IT procurements, including 9 leveraged procurement agreement transactions.

#### **DELEGATED PURCHASING PROGRAM**

Overall, we concluded that OIG 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.

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 transactions performed by OIG staff involved procurement transactions files that did not always include:

- properly classifying purchases (SCM 2, 2.B1.0 and SCM F, 2.B2.0)
- referencing the State's General Provisions on Purchase Orders (PO) (SCM 2, 4.B6.2)
- reporting to the Department of Fair and Employment Housing (DFEH) (SCM F, 9.E4.0)
- Commercially Useful Function (CUF) evaluation and determination for all small business (SB) and disabled veteran business enterprise (DVBE) contractors, subcontractors and suppliers that bid on or participate in a state contract (SCM F, 3.A2.6 and 3.A2.8)
- CAL Card purchases over \$2,500 not processed on a purchase order (SCM F, 8.B4.1)

- Leveraged Procurement Agreement (LPA) proper documentation:
  - o Not reporting to DFEH transactions over \$5,000 (SCM F, 9.E4.0)
  - o Not following LPA user instructions (SCM F, 5.F1.2)
- Not completing and signing the Certification of Compliance with State IT Policies for purchases over \$5,000 (SCM F, 2.E5.0).<sup>1</sup>

### **RECOMMENDATIONS**

The OIG should strengthen existing policies and procedures over its delegated purchasing program that includes the following areas:

Increase staff training and reinforce peer reviews over:

1. Properly classifying purchases
2. Ensuring completeness of purchasing documents
3. Include in the procurement process the requirement of reporting to DFEH
4. Include in the procurement process the requirement of CUF evaluation for participating SB/DVBE bidders
5. Include in Cal Card checklist the requirement for a purchase document for purchases over \$2,500
6. Ensuring LPA user instructions are being followed

### **CONCLUSION**

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

---

<sup>1</sup> The department takes the responsibility for not complying with State IT Policies: Pursuant to State Administrative Manual (SAM) Section 4819.41, a signed Certification of Compliance with IT Policies is required for all IT acquisitions of hardware, software, services and IT Interagency Agreements. A certification is not required for acquisitions less than \$5,000.00.

Independent Prison Oversight

November 27, 2019

*Regional Offices*

Sacramento  
Bakersfield  
Rancho Cucamonga

Ms. Olivia Haug  
DGS-Office of Audit Services  
707 3<sup>rd</sup> Street, 8<sup>th</sup> Floor  
West Sacramento, CA 95605

Dear Ms. Haug:

The Office of the Inspector General (OIG) has addressed the findings noted in the Department of General Services Compliance Review. The following responses indicate the processes that have been established to achieve a higher level of compliance.

*DGS Finding: Not reporting to Department of Fair and Equal Housing transactions over \$5,000*

*OIG Response:* The OIG will continue to adhere to the state’s mandate to notify DFEH of purchases exceeding \$5,000. In addition to the DFEH notification being sent, the OIG has added an internal policy to include a copy of the notification in the procurement file as confirmation of these transactions for future audits.

*DGS Finding: Not following Leveraged Procurement Agreement instructions*

*OIG Response:* OIG policy has been updated to require that a minimum of three (3) offers from eligible Master Service Agreement and State Leveraged Procurement Agreement holders shall be solicited. When less than three responses are received, Buyers must contact solicited vendors to determine and document why they did not respond. Additionally, the rationale for proceeding with less than the minimum responses shall be documented in the procurement file.

*Finding: Referencing the State General Provisions on Purchase Order*

*OIG Response:* Staff were retrained on the importance of procurement checklist requirement 62, that the “Appropriate General Terms and Conditions” appear on the final dispatched purchase order.



Ms. Olivia Haug, Manager  
November 27, 2019  
Page 2

DGS Finding: Commercially Useful Function evaluation and determination for all small business and disabled veteran business enterprise contractors, subcontractors and suppliers that bid on or participate in a state contract not on file

OIG Response: The OIG has previously verified CUF for the winning vendor only prior to awarding the bid. The OIG has developed a worksheet to evaluate CUF for all bidders; the worksheet is included in the procurement file.

DGS Finding: Purchase Orders not processed for CAL Card purchase over \$2,500

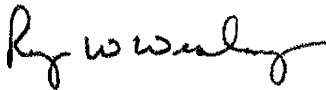
OIG Response: Training has been provided to better specify when purchase orders are required for CAL Card purchases.

DGS Finding: Properly Classifying Purchases

When using the *Fair and Reasonable* procurement method to purchase items originally procured using an LPA the OIG will classify the procurement as an LPA.

OIG Response: Training has been provided to buyers to ensure that LPAs are properly referenced in the FISCal when utilized.

Sincerely,



ROY WESLEY  
Inspector General

cc: Melissa Lang  
Chief of Administration

## **OFFICE OF THE INSPECTOR GENERAL**

### **EVALUATION OF OIG'S RESPONSE**

We have reviewed the response by the Office of the Inspector General (OIG) to our draft report. The response to the recommendations is satisfactory. We appreciate the efforts taken or being taken by OIG to improve its delegated purchasing functions.

