



MEMORANDUM

Date: October 29, 2020

File No.: 0204

To: The Honorable Betty T. Yee
California State Controller
300 Capitol Mall, Suite 1850
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 State Controller's Office's (SCO) 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 SCO's purchasing authority delegation agreements with the Department of General Services (DGS), which include dollar threshold limits for various categories of procurements.

SCO'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 SCO's personnel.

If you have any questions, please call me at (916) 376-5054, or Christine Pham, Management Auditor, at (916) 376-5060.

Olivia Haug

OLIVIA HAUG
Manager, Office of Audit Services

Attachment

cc: Russ Fong, Chief Administrative Officer, SCO
Jennifer Chavez, PCO and Chief, Administration and Disbursement Division, SCO
Christian Okoye, Chief, Management Audit and Review Services, SCO
Purchasing Authority Management Section (PAMS), Procurement Division, DGS

**GOVERNMENT OPERATIONS AGENCY
DEPARTMENT OF GENERAL SERVICES**

**AUDIT OF THE
STATE CONTROLLER'S OFFICE**

**FOR COMPLIANCE WITH STATE
DELEGATED PURCHASING PROGRAM
REPORT NO. 0204**

OFFICE OF AUDIT SERVICES

AUGUST 2020

**STATE CONTROLLER'S OFFICE
DELEGATED PURCHASING PROGRAM AUDIT
REPORT NO. 0204**

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STATE OF CALIFORNIA
DEPARTMENT OF GENERAL SERVICES
AUDITOR'S REPORT

DATE: October 29, 2020

TO: The Honorable Betty T. Yee
California State Controller

This report presents the results of our compliance audit of the delegated purchasing program of the State Controller's Office (SCO). 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 SCO'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 SCO 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 SCO 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, that we discussed with SCO's management and are not included in this report.

It should be noted that when advised of areas for improvement during our audit fieldwork, SCO's management promptly took action or assured us corrective action would be taken 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. SCO'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 SCO's personnel.

If you need further information or assistance on this report, please contact me at (916) 376-5054, or Christine Pham, Management Auditor, at (916) 376-5060.

Olivia Haug

OLIVIA HAUG
Manager, Office of Audit Services

Staff: Christine Pham, Management Auditor

cc: Russ Fong, Chief Administrative Officer, SCO
Jennifer Chavez, PCO and Chief, Administration and Disbursement Division, SCO
Christian Okoye, Chief, Management Audit and Review Services, SCO
Purchasing Authority Management Section (PAMS), Procurement Division, DGS

STATE CONTROLLER'S OFFICE

DELEGATED PURCHASING PROGRAM AUDIT

FINDINGS AND RECOMMENDATIONS

The following presents our detailed findings and recommendations developed based on our compliance audit of SCO'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 13, 2020 through August 11, 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 55 delegated non-IT and IT procurements, including 12 leveraged procurement agreement transactions.

DELEGATED PURCHASING PROGRAM

Overall, we concluded that SCO 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.

It should be noted that though the frequency of occurrence is low in some cases for some types of noncompliance instances, 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 SCO staff involved files that did not always include:

- Certification of Compliance with State IT Policies (SCM F, 2.E5.0)
- Valid and current Disabled Veteran Business Enterprise (DVBE) Declaration (SCM F, 3.A3.6)
- Correct version of the Bidder Declaration (SCM F, 3.A4.7)
- User instructions, price page, and documentation of the reason why the third bidder did not respond to request for offers for LPA transactions (SCM F, 5.A1.0, 5.A1.5, 5.A1.7, 5.A2.7)
- Documentation supporting identical situations when Fair and Reasonable pricing methodology is used (SCM F, 6.9.2)

RECOMMENDATIONS

Management should continue to update the procurement process and written procedures to address our concerns. We recommend that management continue to strengthen existing policies and procedures over SCO's delegated purchasing program that includes the following areas:

1. Ensuring that the file consistently contains a signed Certification of Compliance with State IT Policies. It should be noted this is a concern that the DGS PD noted in its recent accreditation review of SCO's purchasing program.
2. Obtaining and including in the file a valid and current Disabled Veteran Business Enterprise (DVBE) Declaration.
3. Obtaining and including in the file the correct version of the Bidder Declaration.
4. Ensuring that the file consistently contains the user instructions, price page, and reason why other bidders did not respond to the request for offers.
5. Ensuring that identical purchase situations are present when evaluating Fair and Reasonable pricing.


CONCLUSION

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



BETTY T. YEE
California State Controller

October 14, 2020

From: State Controller's Office
Management Audit & Review Services
Christian Okoye, Chief 

To: Olivia Haug
Manager, Office of Audit Services
Department of General Services

SUBJECT: State Controller's Office Audit Response

The State Controller's Office (SCO) concurs with the findings in the audit report. As noted in the report and during discussions with the auditor, SCO has indeed already begun to implement corrective actions to resolve the reportable conditions. We have updated our policies and procedures and increased management review and approval processes of purchasing activities to ensure that corrective actions are functioning as intended. In addition, SCO management understands that we have the ongoing responsibility that policies and procedures are functioning as intended. As such, we are in evaluation of our training practices and to ensure that all who are involved in procurement activities have the knowledge to perform their roles in alignment with state policy.

If you have any questions, you may email or call me at (916) 327-0698.

**STATE CONTROLLER'S OFFICE
(SCO)**

EVALUATION OF SCO'S RESPONSE

We have reviewed the response by the State Controller's Office (SCO) to our draft report. The response to the recommendations is satisfactory. We appreciate the efforts taken by SCO to improve its delegated purchasing functions.