



MEMORANDUM

Date: March 19, 2024 File No.: 4200

To: Dr. Tomás J. Aragón, M.D., Dr. P.H.
Director and State Public Health Officer
California Department of Public Health
1615 Capitol Avenue
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 Department of Public Health's (CDPH) delegated purchasing program. The objective of our audit was to determine whether procurement transactions are being conducted in accordance with the terms and conditions of CDPH's purchasing authority delegation agreements with the Department of General Services (DGS), which include dollar threshold limits for various categories of procurements.

CDPH'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 the 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 on your department's official letterhead a status report on the implementation of each recommendation to us by September 19, 2024.

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 CDPH's personnel.

If you have any questions, please call me at (916) 376-5054, or Amalia H. Sanchez, Management Auditor, at (279) 946-8574.

Olivia Haug

OLIVIA HAUG
Manager, Office of Audit Services

Attachment

cc: Rob Hughes, Deputy Director, Office of Compliance, CDPH
Carlo Rose, Internal Audits Unit Deputy Chief, CDPH
Phuong La, Deputy Director, Administration Division, CDPH
Robert Glazier, Branch Chief, Program Support Branch, CDPH
Jesse Bignami, Assistant Branch Chief, Contracts and Purchasing Section,
CDPH
Angela Salas, Section Chief, Contract Management Services Section,
CDPH
Kieu T. Nguyen, Purchasing Services Unit Chief, CDPH
Timothy Henderson, Centralized Services Unit Chief, CDPH
Purchasing Authority Management Section (PAMS), Procurement Division,
DGS

**GOVERNMENT OPERATIONS AGENCY
DEPARTMENT OF GENERAL SERVICES**

**AUDIT OF THE
CALIFORNIA DEPARTMENT OF
PUBLIC HEALTH**

**FOR COMPLIANCE WITH STATE
DELEGATED PURCHASING PROGRAM
REPORT NO. 4200**

OFFICE OF AUDIT SERVICES

JANUARY 2024

**CALIFORNIA DEPARTMENT OF PUBLIC HEALTH
DELEGATED PURCHASING PROGRAM AUDIT
REPORT NO. 4200**

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STATE OF CALIFORNIA
DEPARTMENT OF GENERAL SERVICES
AUDITOR'S REPORT

DATE: March 19, 2024

TO: Dr. Tomás J. Aragón, M.D., Dr. P.H.
Director and State Public Health Officer
California Department of Public Health
1615 Capitol Avenue
Sacramento, CA 95814

This report presents the results of our compliance audit of the delegated purchasing program of the California Department of Public Health (CDPH). 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 CDPH'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.

Overall, we concluded that CDPH 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 CDPH 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 CDPH'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, CDPH's management agreed to take action to address our

concerns with state requirements. However, we did not perform effectiveness tests to determine whether the corrective actions were functioning as intended. CDPH'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 CDPH'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 (279) 946-8574.

Olivia Haug

OLIVIA HAUG
Manager, Office of Audit Services

Staff: Amalia H. Sanchez, Management Auditor
Melissa Hambridge, Management Auditor

cc: Rob Hughes, Deputy Director, Office of Compliance, CDPH
Carlo Rose, Internal Audits Unit Deputy Chief, CDPH
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Timothy Henderson, Centralized Services Unit Chief, CDPH
Purchasing Authority Management Section (PAMS), Procurement Division, DGS

CALIFORNIA DEPARTMENT OF PUBLIC HEALTH

DELEGATED PURCHASING PROGRAM AUDIT

FINDINGS AND RECOMMENDATIONS

The following presents our detailed findings and recommendations developed based on our compliance audit of CDPH's delegated purchasing program. The state's delegated purchasing requirements are primarily contained in the Consolidated State Contracting Manual Volume 2 (SCM Vol. 2).

This information was developed based on our fieldwork conducted over the period of July 27, 2023 through January 9, 2024. 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 2022-23 fiscal year. Our transaction tests included the review of 39 delegated non-IT and IT procurements, including 12 leveraged procurement agreement transactions.

DELEGATED PURCHASING PROGRAM

Overall, we concluded that CDPH 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.

Acquisitions Paid by CAL-Card – The CDPH is not maintaining adequate internal controls related to acquisitions paid by CAL-Card as required by SCM Vol. 2, Section 1902. Current policies and procedures are not ensuring that cardholders and approvers are maintaining sufficient backup documentation for monthly purchases. Further, staff are not performing monthly US Bank reconciliations and management review and approvals are not adequately being performed. The result is the department is approving blanket CAL-Card charges without the proper backup and purchasing documentation.

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 CDPH staff involved either missing or inadequate procurement documentation for the following areas:

- The appropriate and current delegated purchasing authority number not listed on the Purchasing Authority Purchase Order (STD. 65) and/or the Standard Agreement (STD. 213) (SCM Vol. 2, Section 100.1 & SCM Vol. 2, Section 1803)
- For procurements over \$5,000, the STD. 65 was not reported to DFEH (SCM Vol. 2, Section 2200.4)
- State's General Provisions were not included in the solicitation (SCM Vol. 2, Section 1403.3)
- The required Economic Sanctions Language was not included in competitive solicitation dated after 6/23/22 (Executive Order N-6-22)
- For SB or DVBE Option 14838.5 transactions, the file did not have documentation to support the requirements for this type of procurement (SCM Vol. 2, Section 1200)
- For SB/DVBE transactions, the buyer did not determine Commercially Useful Function (CUF) and document analysis used prior to the award (SCM Vol. 2, Section 1200.1)
- No evidence on file that FTB (Franchise Tax Board) and CDTFA (California Department of Tax and Fee Administration) websites are checked to verify that the contractor was not on a prohibited list prior to executing the contracts (SCM Vol. 2, Section 605)
- No evidence on file that solicitations were created for transactions (SCM Vol. 2, Section 1405.1)
- Purchases were not properly classified (SCM Vol. 2, Section 303)
- A signed Bidder Declaration Form was not in the transaction file (SCM Vol. 2, Section 1202)
- Start and end dates on the STD. 65 and/or STD. 213 do not match the dates on FI\$Cal-SCPRS (SCM Vol. 2, Section 2200.1)
- When using the RFQ format for IT Solicitations, the award was not made within 45 days of receipt of the RFQ (SCM Vol. 2, Section 1405.2)

- The transaction file did not include a STD. 213 (SCM Vol. 2, Section 1803)
- State's General Provisions were not incorporated in the STD. 213 (SCM Vol. 2, Section 1403.3)
- The STD. 213 and/or the Agreement Summary (STD. 215) were not signed by someone with delegated purchasing signature authority (SCM Vol. 2, Section 1804)
- The transaction file did not include a STD. 215 (SCM Vol. 2, Section 1803)
- The STD. 215 is not itemized in sufficient detail to accurately describe the service(s) ordered (SCM Vol. 2, Section 1803)
- The appropriate "Bidding Method" box was not marked on the STD. 215 (SCM Vol. 2, Section 1804)
- The bid/quote worksheet was not retained in the procurement file (SCM Vol. 2, Section 1405.2)
- For SB/DVBE transactions, a valid OSDS certification was not documented in the file (SCM Vol. 2, Section 1200)
- A Statement of Work was not included in the file (SCM Vol. 2, Section 305)
- IT Service transactions amount over \$4,999.99, did not have a written solicitation on file (SCM Vol. 2, Section 1405.1)
- For IT transactions valued over \$5,000 the signed "Certification of Compliance with State IT Policies" (SIMM 71B) was not included in the procurement file (SCM Vol. 2, Section 1013)
- Purchase Order was created after services were rendered (SCM Vol. 2, Section 1801)

Leveraged Procurement Agreement (LPA) proper documentation:

- The transaction was not on the department's logs or the FI\$Cal-SCPRS log (SCM Vol. 2, Section 2200.1)

- The appropriate and current delegated purchasing authority number was not listed on the STD. 65 (SCM Vol. 2, Section 100.1)
- The Terms and Conditions were not incorporated in the STD. 65, STD. 213 ; or purchase document (SCM Vol. 2, Section 1602)
- The department does not obtain and maintain a complete copy of the LPA contract (SCM Vol. 2, Section 1602)
- The purchase file did not include a copy of the User Instructions (SCM Vol. 2, Section 1602)
- The purchasing transaction file did not include a copy of the Contract Cover Page (SCM Vol. 2, Section 1602)
- The purchasing transaction file did not include a copy of the Contract Price Page (SCM Vol. 2, Section 1602)
- No evidence on file that FTB (Franchise Tax Board) and CDTFA (California Department of Tax and Fee Administration) websites are checked to verify that the contractor was not on a prohibited list prior to executing the contracts (SCM Vol. 2, Section 605)
- For procurements over \$5,000, the STD. 65 was not reported to DFEH (SCM Vol. 2, Section 2200.4)
- When soliciting a SB or DVBE, the department did not verify certification through OSDS (SCM Vol. 2, Section 1200)

RECOMMENDATIONS

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

1. Enter current delegated purchasing authority number on all STD. 65/STD. 213; procurements over \$5,000 are reported to DFEH; ensure current State General Provisions are included in all solicitations; Economic Sanctions Language be included in competitive solicitations dated after 6/23/22; for SB or DVBE Option 14838.5 transactions, ensure documentation to support the requirements for this type of procurement is in the procurement file; SB/DVBE transactions have a valid OSDS certification documented in the file and Commercially Useful Function (CUF) is determined and is documented prior to the award; include solicitations regardless of format (phone, RFQ, IFB, RFP);

properly classifying the procurement; a signed Bidder Declaration Form is included in the transaction file; start and end dates listed on the STD. 65/213 match the dates in the FI\$Cal-SCPRS; ensure the correct methodology is used to determine Fair and Reasonable cost justification.

2. Ensure contracts are awarded within 45 days of RFQ date.
3. IT Service transactions include a STD. 213 in conjunction with a STD. 215; include the State's General Provisions on the STD. 213; ensure the STD. 213/215 are signed by someone with delegated purchasing signature authority; ensure that the STD. 215 is itemized in sufficient detail to accurately describe the service(s) ordered; ensure the appropriate bidding method box is marked on the STD. 215; bid/quote worksheet is retained in the procurement file; a statement of work is included when applicable; IT Service transactions amount over \$4,999.99, must include a written solicitation on file; a signed "Certification of Compliance with State IT Policies" (SIMM 71B) in the procurement file for IT Transactions valued over \$5,000; purchase orders must be created and approved prior to receipt of services and must not be combined with prior services.
4. Provide additional training for staff and require staff to attend training courses offered by DGS where applicable.
5. Update policies and procedures to assist in ensuring full compliance with the requirements of the CAL-Card program, which include periodically reminding staff of the requirements. Ensure all staff are adequately trained and knowledgeable. Remind staff of the need to keep all backup documents, including detailed receipts, required justifications and current purchase documents for all CAL-Card statements.

CONCLUSION

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



Tomás J. Aragón, MD, DrPH
Director and State Public Health Officer

State of California—Health and Human Services Agency
California Department of Public Health



GAVIN NEWSOM
Governor

March 4, 2024

Department of General Services
Office of Audit Services
707 3rd Street, 8th Floor
West Sacramento, CA 95605

Dear Office of Audit Services:

The California Department of Public Health (CDPH) has reviewed the Department of General Services' draft audit report of our compliance with the State Delegated Purchasing Program. CDPH appreciates the opportunity to respond to the report and provide our assessment of the recommendation contained therein.

Below we reiterate our response to the auditor's specific recommendations.

Recommendation to CDPH:

Enter current delegated purchasing authority number into all Std.65/213; procurements over \$5,000 are reported to DFEH; ensure current State General Provisions are included in all solicitations; Economic Sanctions Language be included in competitive solicitations dated after 6/23/22; For SB or DVBE transactions ensure documentation to support the requirements for this type of procurement is in the procurement file; SB/DVBE transactions have a valid OSDS certification documented in the file and Commercially Useful Function (CUF) is determined and documents analysis used prior to the award; include solicitations regardless of format (phone, RFQ, IFB, RFP); properly classifying the procurement; A signed Bidder Declaration Form is included in the transaction file; Start and end dates listed on the Std.65/213 match the dates on the FI\$Cal-SCPRS; Ensure the correct methodology is used to determine Fair and Reasonable cost justification.

Management Response:

CDPH's Program Support Branch (PSB) will review and update purchasing checklists to ensure our Centers/Divisions/Offices (CDO) identify all transactions over \$5,000 as *Std. 16 reportable "YES"* in the Contracting and Purchasing System. PSB will provide additional training and updated checklists to all appropriate CDPH staff.



PSB management will provide additional training to section and unit managers to ensure they select the correct general provisions for each purchase order.

PSB will provide written communication to all CDOs outlining the requirements for incorporating Economic Sanctions Language into all competitive solicitations. The Purchasing Services Unit will add this requirement to existing checklists as well.

Beginning soon the Purchasing Services Unit Manager will provide quarterly training with buyers to ensure they include all required documents with each procurement package. Additionally, buyers will be provided monthly training regarding the appropriate classification of each procurement processed.

In addition, Purchasing Services Unit buyers will continue to follow updated purchasing checklists and when appropriate, return purchasing packages for CDOs to correct. Compliance of each procurement package will remain a priority.

Recommendation to CDPH:

Ensure contracts are awarded within 45 days of RFQ date.

Management Response:

PSB will update all purchasing checklists to include a reference to the 45-day requirement for all RFQ documents, including all vendor quotes as required for each acquisition type. The Purchasing Services Unit Manager will incorporate this talking point in future monthly unit meeting agendas to prompt staff to remain aware of this requirement.

PSB will additionally communicate to all appropriate CDPH staff regarding updated checklists and the requirement that all RFQ documents, including quotes, are dated within 45 days of the award date.

Recommendation to CDPH:

IT Service transactions include a Std.213 in conjunction with a Std.215; Include the State's General Provisions on the Std.213; Ensure the Std.213/215 are signed by someone with delegated purchasing signature authority; Ensure that the Std.215 is itemized in sufficient detail to accurately describe the service(s) ordered; Ensure the appropriate bidding method box is marked on the Std.215; Bid/quote worksheet is retained in the procurement file; A statement of work is included when applicable; IT Service transactions amount over \$4,999.99, must include a written solicitation on file; A signed "Certification of Compliance with State IT Policies" (SIMM 71B) in the procurement file for IT Transactions valued over \$5,000; Purchase orders must be created and approved prior to receipt of service and must not be combined with prior services.

Management Response:

The Purchasing Services Unit will update the internal checklists to require a Std. 213 and Std. 215 for all IT purchases involving services. The Purchasing Services Unit Manager will meet with buyers and provide additional training on how to complete both documents correctly, including but not limited to, a sufficient description of the services ordered, and that the correct bidding box is selected for each Std. 215.

Additionally, purchasing staff will receive training to ensure that all IT service transactions exceeding \$4,999.99 include both the written solicitation and a signed Certification of Compliance with State IT policies (SIMM 71B) in the file.

Lastly, CDPH will not complete procurements for any services or goods received prior to executed agreements. CDPH acknowledges this finding and will include this in our communication to CDPH CDOs.

Recommendation to CDPH:

Provide additional training for staff and require staff to attend training courses offered by DGS where applicable.

Management Response:

PSB management will review all staff training logs while finalizing the Performance Appraisal Summaries and Probation Reports for staff to confirm the completion of all required trainings, including those provided by DGS. Additionally, PSB will ensure all required trainings are refreshed every two years. Updated transcripts will be accessible by July 2024.

Lastly, given CDPH's decentralized purchasing structure, we will continue to encourage program staff to undertake DGS training to enhance their understanding of the entire purchasing process. This encouragement will be provided by written communication to appropriate CDPH staff that will include links to the DGS training pages.

Recommendation to CDPH:

Update policies and procedures to assist in ensuring full compliance with the requirements of the CAL-Card program. Periodically remind staff of the requirements. Ensure all staff is trained and knowledgeable. Remind staff of the need to keep all backup documents including detailed receipts, required justifications and current purchase documents on CAL-Card statements.

Management Response:

PSB will update the P-Card Manual to ensure staff better understand the requirements and associated documentation needed for each P-Card transaction.

PSB will also review all current cardholders' and administrators' training certificates to ensure all minimum requirements are met and will conduct periodic reviews thereafter. PSB will also

create a P-Card Transaction Checklist for implementation prior to July 1, 2024. The Purchasing Services Unit Manager will join monthly internal P-Card meetings to review current monthly transactions and discuss any outstanding purchases made on P-Cards. P-Card Administrators will distribute monthly US Bank Statements and reconciliation documentation to both the Purchasing Services Unit and FI\$Cal Services Unit managers to ensure the addition of required documentation and reconciliation documentation to internal files.

We appreciate the opportunity to respond to the audit. If you have any questions, please contact Rob Hughes, Deputy Director, Office of Compliance, at (916) 306-2251.

Sincerely,

A handwritten signature in blue ink that reads "Tomás Aragón". The signature is written in a cursive style with a large initial 'T'.

Tomás J. Aragón, MD, DrPH
Director and State Public Health Officer

**CALIFORNIA DEPARTMENT OF PUBLIC HEALTH
(CDPH)**

EVALUATION OF CDPH'S RESPONSE

We have reviewed the response by the California Department of Public Health (CDPH) to our draft report. The response to the recommendations is satisfactory. We appreciate the efforts being taken by CDPH to improve its delegated purchasing functions.

As a part of our operating duties, DGS is responsible for following up on audit recommendations and will require a six-month status report on the implementation of those recommendations that have not been fully implemented. To the extent practical, supporting documentation should reflect the requirements stated in the Recommendations section in the report.