



# MEMORANDUM

**Date:** March 21, 2012

File No. 0209

**To:** Cliff Allenby, Acting Director  
Department of Mental Health  
1600 9<sup>th</sup> Street, Suite 151  
Sacramento, CA 95814

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

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

This report presents the results of our compliance audit of the Department of Mental Health's (DMH) delegated purchasing program. 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. At the time of our audit, the DMH had two purchasing authority delegations: No. 9G-0510-DMH-HQ1 governing non-information technology purchases and No. 9I-0510-DMH-HQ1 governing information technology (IT) purchases. Our audit was conducted in accordance with U.S. generally accepted auditing standards.

The objective of our audit was to determine that procurement transactions are being conducted in accordance with the terms and conditions of DMH's purchasing authority delegation agreements with the DGS, which include dollar threshold limits for various categories of procurements. The State's delegated purchasing requirements are primarily contained in State Contracting Manual (SCM) Volumes 2 (non-IT) and 3 (IT). 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 and disabled veteran business enterprises, establishment of fair and reasonable pricing for acquisitions of less than \$5,000, use of CAL-Cards to pay for goods and services, and prompt payment of suppliers.

Based on the results of our fieldwork conducted over the period May 11, 2010 through October 28, 2010 and limited follow-up work performed in April 2011, we concluded that the DMH is conducting its delegated purchasing program in compliance with the terms and conditions of its delegation agreements. The DMH's delegated purchasing policies and procedures are sufficient to provide reasonable assurance of compliance with the State's procurement statutes, policies, and procedures.

During our review we identified a number of areas for improvement within the DMH's delegated purchasing program. These areas included our concern that policies and procedures were not always ensuring full compliance with SCM provisions governing the: (1) maintenance of information on the waiver of the DVBE requirement within the bidder solicitation (SCM 2 and 3, 3.3.2); (2) referencing of the State's Bidder Instructions and General Provisions in all competitive solicitations (SCM 2, 4.B6.0 and 4.B6.1 and SCM 3, 4.B8.0 and 4.B8.1); (3) obtaining of bidder declaration forms from small businesses and disabled veteran business enterprises which assist in verifying the performance of a commercially useful function (SCM 2 and 3, 3.2.6); (4) obtaining of a copy of the supplier's sellers permit (SCM 2, 4.B6.3 and SCM 3, 4.B8.6); (5) notification of the Department of Fair Employment and Housing of purchase awards

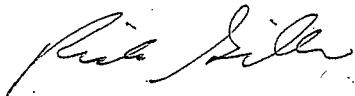
in excess of \$5,000 (SCM 2 and 3, 12.B3.0); and, (6) completion of a Purchasing Authority Purchase Order, STD. 65, that accurately references the procurement method and general provisions used to award the purchase order (SCM 2, 8.3.5 and SCM 3, 8.4.5).

Prior to the completion of our audit, we verified that appropriate actions had been or were being taken to address the above issues. Therefore, they are not further discussed in this report. We were pleased with the prompt actions taken by the DMH to address findings identified during our audit fieldwork. However, the scope of our follow-up review which was primarily conducted in April 2011 did not include effectiveness tests to determine whether any actions taken to address our concerns were functioning as intended. The DMH's management has the ongoing responsibility for ensuring that its delegated purchasing policies and procedures are functioning as prescribed and are modified, as appropriate, for changes in conditions.

To determine compliance, we reviewed policies and procedures, interviewed parties involved, tested records and transactions and performed other tests as deemed necessary. In addition to reviewing purchasing activities conducted by DMH's headquarters, we also reviewed delegated purchases independently performed by the DMH's five State hospitals and two psychiatric program facilities. 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 2009/10 and 2010/11 fiscal years. Our transaction tests included the review of 103 delegated procurements.

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

If you need further information or assistance on this report, please contact me at (916) 376-5058, or Dennis Miras, Audit Supervisor, at (916) 376-5064.



RICK GILLAM, CPA, CIA  
Chief, Office of Audit Services

Staff: Dennis Miras, Audit Supervisor  
Susan Mitchel

cc: Vallery Walker, Senior Management Auditor, Internal Audits