



MEMORANDUM

Date: May 22, 2020

File No.: 0202

To: Heather Halsey, Executive Director
California Commission on State Mandates
980 Ninth Street, Suite 300
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 Commission on State Mandates' (CSM) 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 CSM's purchasing authority delegation agreements with the Department of General Services (DGS), which include dollar threshold limits for various categories of procurements.

CSM'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 November 30, 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 CSM's personnel.

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

A handwritten signature in black ink that reads 'Olivia Haug'.

OLIVIA HAUG
Manager, Office of Audit Services

Attachment

cc: Heidi Palchik, Assistant Executive Director, CSM
Purchasing Authority Management Section (PAMS), Procurement Division, DGS

**GOVERNMENT OPERATIONS AGENCY
DEPARTMENT OF GENERAL SERVICES**

**AUDIT OF THE
CALIFORNIA COMMISSION ON
STATE MANDATES
(CSM)**

**FOR COMPLIANCE WITH STATE
DELEGATED PURCHASING PROGRAM
REPORT NO. 0202**

OFFICE OF AUDIT SERVICES

MARCH 2020

**CALIFORNIA COMMISSION ON STATE MANDATES
DELEGATED PURCHASING PROGRAM AUDIT
REPORT NO. 0202**

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STATE OF CALIFORNIA
DEPARTMENT OF GENERAL SERVICES
AUDITOR'S REPORT

DATE: May 22, 2020

TO: **Heather Halsey**, Executive Director
California Commission on State Mandates

This report presents the results of our compliance audit of the delegated purchasing program of the California Commission on State Mandates (CSM). 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 CSM'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 CSM 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 CSM in addressing these issues.

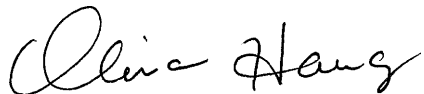
During our review we also identified other matters requiring attention, but did not pose a significant risk to the business management functions, which were discussed with CSM's management and are not further detailed in this report.

It should be noted that when advised of areas for improvement during our audit fieldwork, CSM's management agreed to take corrective action to address some of 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. CSM'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 CSM'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.

A handwritten signature in cursive script that reads "Olivia Haug".

OLIVIA HAUG
Manager, Office of Audit Services

Staff: Christine Pham, Management Auditor

cc: Heidi Palchik, Assistant Executive Director, CSM
Purchasing Authority Management Section (PAMS), Procurement Division, DGS

CALIFORNIA COMMISSION ON STATE MANDATES

DELEGATED PURCHASING PROGRAM AUDIT

FINDINGS AND RECOMMENDATIONS

The following presents our detailed findings and recommendations developed based on our compliance audit of CSM'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 December 18, 2019 through March 4, 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 procedures and transactions completed during the 2018-19 and 2019-20 fiscal years. Our transaction tests included the review of 15 delegated non-IT and IT procurements, including six leveraged procurement agreement transactions.

DELEGATED PURCHASING PROGRAM

Overall, we concluded that CSM has implemented a delegated purchasing program that ensures compliance with the state's primary procurement requirements. 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 during our audit fieldwork, they are not detailed in this report. However, the types of exceptions noted with transactions performed by CSM staff involved procurement transactions files that either did not always include:

- Referencing the delegated purchasing authority number on the purchase order (SCM F, Ch. 5—Overview-Introduction and Leverage Procurement Agreement (LPA) User Instructions—Contract Usage Rules)
- Referencing the State's general provisions on the purchase order (SCM F, 4.B3.1 and 4.D4.0)
- Documenting the seller's permit for all acquisitions of tangible goods (SCM F, 4.B3.3)
- Documenting justification or technique used to determine fair and reasonable (F&R) pricing (SCM F, 6.9.1 and 6.9.4)

- Documenting that Franchise Tax Board (FTB) and California Department of Tax and Fee Administration (CDTFA) websites have been checked to verify that the contractor was not on a prohibited list (SCM F, 2.B4.5)
- Reporting to Department of Fair Employment and Housing (DFEH) acquisitions that exceeded \$5,000 (SCM F, 9.E4.0)
- Documenting commercially useful function (CUF) evaluation and determination for a small business (SB)/Disabled Veteran Business Enterprise (DVBE) supplier (SCM F, 3.A2.6 - 3.A2.8)
- Documenting Bidder Declaration—Form GSPD-05-105/05-106 for a SB/DVBE supplier (SCM F, 3.A4.7)
- Compliance with the Darfur Contracting Act for non-IT goods acquisitions (SCM F, 2.B4.6)

In addition, we noted that CSM misclassified two non-IT service transactions for copier maintenance as acquisitions of goods (i.e., purchasing of color and black and white copies) and did not establish a statement of work (SOW) or use a standard agreement (Std. 213) form for those two acquisitions. Properly classifying the acquisition method enables correct execution of procurements and allows CSM to apply the appropriate laws, regulations, policies, and procedures as to prevent or minimize possible disputes, protests, and/or lawsuits (SCM F, 2.B2.0 and 2.B2.1). Further, CSM did not use a Std. 213 for the rental of a postal meter in accordance with the terms and conditions of the LPA, which authorized the rental of such equipment (LPA 7-17-70-41-02 Neopost USA, Inc.).

RECOMMENDATIONS

1. Consider using a file documentation checklist for all procurement transactions.
2. Strengthen existing policies and procedures over CSM's delegated purchasing program that includes the following areas:
 - Referencing the purchasing authority number on all purchase orders
 - Referencing the State's general provisions on all purchase orders
 - Verification and inclusion of the seller's permit in the procurement file
 - Documenting fair and reasonable (F&R) justification in the procurement file
 - Documentation of verification against the FTB and CDTFA websites
 - Reporting to the DFEH all acquisitions that exceed \$5,000
 - Evaluating and including CUF in the procurement file
 - Obtaining and retaining the Bidder Declaration form in the procurement file
 - Compliance with DARFUR Contract Act
 - Proper classification of the acquisition type
 - Compliance with the terms and conditions of the LPA

CONCLUSION

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

Sent via email to: Olivia.Haug@dgs.ca.gov

May 11, 2020

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

The Commission on State Mandates (Commission) appreciates the professional manner in which the compliance audit was conducted and would like to thank the Department of General Services (DGS) Management Auditor, Ms. Christine Pham for her thorough review of the Commission's delegated purchasing program. The Commission is pleased to submit the following as its Response to the Draft Delegated Purchasing Program Compliance Audit, issued April 20, 2020.

In response to the first recommendation in the draft report, the Commission created a procurement file documentation checklist¹ to be used for all procurement transactions and saved to each procurement file. By utilizing the checklist, both staff and management can more readily ensure that each procurement activity complies with applicable procurement requirements and that all documentation is saved to its respective file.

In response to the second recommendation in the draft report, the Commission will review and revise its Purchasing Procedures Manual and related procurement policies, as applicable. Also, Commission procurement staff will continue to seek training opportunities through DGS' California Procurement and Contracting Academy (CalPCA) to ensure compliance with the most current procurement requirements while transacting in FISCAL. Finally, because the Commission does transact in FISCAL to conduct its procurement activities, services requests will need to be submitted to FISCAL to add a field to the purchase order module to include the Commission's delegated purchasing authority number as well as a field where the State's General Provisions can reasonably be incorporated or referenced. Currently and temporarily, to comply with the recommendation of the audit, the buyer must manually type 8885-001 and the General Provisions into the Comment section of the purchase order.

Please contact Heidi Palchik at (916)323-3562 or Heidi.Palchik@csm.ca.gov if you have any questions.

Sincerely,

Heather Halsey
Executive Director

¹ Exhibit A - Procurement Folder Checklist

Procurement File #: XXCSMXX

Purchase Order #:

Vendor:

Product Description:

Product Type: Non-IT Goods Non-IT Services IT Goods IT Services

Payment Method: Invoice Procurement Card (P-Card)

Buyer:

Item	SECTION A: Procurement Requirements and Approvals	N/A	In File
1	Procurement Request	<input type="checkbox"/>	<input type="checkbox"/>
2	Executive Director Approval	<input type="checkbox"/>	<input type="checkbox"/>
Item	SECTION B: Solicitation Documentation	N/A	In File
3	Solicitation Method: Competition (RFQ) <input type="checkbox"/> Verbal <input type="checkbox"/> Written <i>Buyer confirmation: Is the competitive solicitation (RFQ) award based on the lowest net cost meeting all other bid specifications?</i> <input type="checkbox"/> Yes	<input type="checkbox"/>	<input type="checkbox"/>
4	Leveraged Procurement Agreement (LPA) <input type="checkbox"/> CMAS <input type="checkbox"/> SPS <input type="checkbox"/> SLP <input type="checkbox"/> SC <input type="checkbox"/> MA	<input type="checkbox"/>	<input type="checkbox"/>
5	If an LPA RFO is conducted, the assessment and selection of multiple offers is based upon: <input type="checkbox"/> Best value criteria as determined by the Commission (include completed best value worksheet)	<input type="checkbox"/>	<input type="checkbox"/>
6	Exempt by Statute or Policy: <input type="checkbox"/> Exemption based upon _____	<input type="checkbox"/>	<input type="checkbox"/>
7	Fair and Reasonable Pricing Selection was determined by: <input type="checkbox"/> a. Price comparison – attach bid/quote worksheet, or similar <input type="checkbox"/> b. Established catalog/market pricing – attach pricing information <input type="checkbox"/> c. Cost/benefit analysis – attach analysis <input type="checkbox"/> d. Prices set by law or regulation Justification: _____ <input type="checkbox"/> e. Historical comparison Justification: _____	<input type="checkbox"/>	<input type="checkbox"/>
Item	SECTION C: Purchase Documentation	N/A	In File
8	FI\$Cal Purchase Order	<input type="checkbox"/>	<input type="checkbox"/>
9	STD 213/213A (Service Contracts Only)	<input type="checkbox"/>	<input type="checkbox"/>
10	STD 215 (Service Contracts Only)	<input type="checkbox"/>	<input type="checkbox"/>
11	STD 204 - Payee Data Record <input type="checkbox"/> Check if in FI\$Cal	<input type="checkbox"/>	<input type="checkbox"/>
12	Seller's Permit (for tangible product)	<input type="checkbox"/>	<input type="checkbox"/>
13	Recycled content certification, if applicable	<input type="checkbox"/>	<input type="checkbox"/>
14	SB/MB/DVBE Documentation <input type="checkbox"/> Vendor SB/DVBE Certification Buyer Confirms Commercially Useful Function (CUF) INITIAL: _____ DATE: _____	<input type="checkbox"/>	<input type="checkbox"/>

Item	SECTION C: Purchase Documents (<i>continued</i>)	N/A	In File
15	CDTFA/FTB Non-Tax Delinquent Confirmation (save search results to procurement file) CDTFA Tax Delinquent Search FTB Tax Delinquent Search	<input type="checkbox"/>	<input type="checkbox"/>
16	Bidder Declaration	<input type="checkbox"/>	<input type="checkbox"/>
17	Darfur Contracting Act certification	<input type="checkbox"/>	<input type="checkbox"/>
18	Contractor Certification Clause (Service Contracts Only)	<input type="checkbox"/>	<input type="checkbox"/>
19	STD 19, Nondiscrimination Compliance Statement (Service Contracts Only)	<input type="checkbox"/>	<input type="checkbox"/>
20	STD 21, Drug-Free Workplace Certification (Service Contracts Only)	<input type="checkbox"/>	<input type="checkbox"/>
21	STD 16, Contract Award Report (DFEH Notification – Over \$5,000)	<input type="checkbox"/>	<input type="checkbox"/>
Item	SECTION D: Post Award and/or Closeout Activities	N/A	In File
22	General Correspondence <ul style="list-style-type: none"> Including: customer details in terms of quantities, description, specifications, technical requirements, funding and signature approvals 	<input type="checkbox"/>	<input type="checkbox"/>
23	Invoice or P-Card Statement	<input type="checkbox"/>	<input type="checkbox"/>
24	Payment Approval Label	<input type="checkbox"/>	<input type="checkbox"/>
25	Stock Received Report	<input type="checkbox"/>	<input type="checkbox"/>
26	Stock Returned Report	<input type="checkbox"/>	<input type="checkbox"/>
27	Supplier Performance Report	<input type="checkbox"/>	<input type="checkbox"/>
28	Delivery/Acceptance Documentation	<input type="checkbox"/>	<input type="checkbox"/>
Item	SECTION E: REVIEW	Staff Initials	Date
29	Peer Review Name: _____		
30	Supervisor/Manager Review Name: _____		

**CALIFORNIA COMMISSION ON STATE MANDATES
(CSM)**

EVALUATION OF CSM'S RESPONSE

We have reviewed the response by the California Commission on State Mandates (CSM) to our draft report. The response to the recommendations is satisfactory. We appreciate the efforts taken or being taken by CSM to improve its delegated purchasing functions.

As a part of our operating duties, we are 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 include the following documents: the updated Purchasing Procedure Manual and any related procurement policy memos or notices, training certificates and a sample purchase where a checklist was used.

