

MEMORANDUM

Date: December 10, 2010

File No. 0201

To: Steve Poizner, Insurance Commissioner
California Department of Insurance
300 Capitol Mall, 17th Floor
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 California Department of Insurance's (CDI) 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. The CDI has two purchasing authority delegations: No. 9G-0510-INS-HQ1 governing non-information technology purchases and No. 9I-0510-INS-HQ1 governing information technology 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 CDI's purchasing authority delegation agreements with the 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 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.

Overall, we concluded that the CDI has implemented a delegated purchasing program that ensures compliance with the State's primary procurement requirements. 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.

During our review we also identified other matters requiring attention that we discussed with the CDI's management but are not included in this report.

It should be noted that when advised of areas for improvement during our audit fieldwork the CDI's management took immediate action to begin addressing our concerns. Although we were not able to verify the effectiveness of the actions prior to the completion of our audit fieldwork, we were pleased with the commitment shown to improve compliance with State requirements.

FINDINGS AND RECOMMENDATIONS

The following presents our detailed findings and recommendations developed based on our compliance audit of CDI's delegated purchasing program. The State's delegated purchasing requirements are primarily contained in State Contracting Manual (SCM) Volumes 2 (Non-IT) and 3 (IT)¹.

This information was developed based on our fieldwork conducted over the period August 4, 2009 through October 6, 2009. Although the finalization of our report was delayed due to other high priority assignments, as findings were observed and developed during our audit fieldwork, the CDI's management was promptly advised of any areas of concern so that they could begin taking corrective action.

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 2008/09 and 2009/10 fiscal years.

DELEGATED PURCHASING PROGRAM

Overall, we concluded that the CDI 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 of a sample of 59 delegated IT or non-IT procurements, including 20 leveraged procurement agreement transactions, 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 involved procurement transaction files that did not always include:

- support that the State's General Provisions were included or incorporated by reference in all competitive solicitations (written or verbal) (SCM 2, 4.B6.1 and 4.B6.2 and SCM 3, 4.B7.1 and 4.B7.2). Further, the State's Bidder Instructions were not always being included or incorporated by reference in all competitive solicitations (written or verbal) (SCM 2, 4.B6.0 and SCM 3, 4.B7.0);
- information on the waiver of the DVBE requirement within the bidder solicitation (SCM 2 and 3, 3.3.2);
- documentation that the Department of Fair Employment and Housing was notified of non-IT purchase awards in excess of \$5,000 (SCM 2, 12.B3.0);
- copies of the contract cover page and pricing page(s) for leveraged procurement agreement (LPA) transactions (SCM 2 and 3, 6.A4.1). Further, a number of the LPA transaction files for IT procurements did not always contain: information on the criteria used to determine best value (SCM 3, 6.A4.0); documentation supporting that multiple offers were solicited (SCM 3, 6.A3.0); and, sufficient detail to support supplier selection when fewer than three offers were received (SCM 3, 6.A3.6);
- information that either two price quotations were received or fair and reasonable pricing established for IT transactions of less than \$5,000 (SCM 3, 4.C1.0); and,

¹ The criteria references in this report are those contained in the July 2010 version of SCM Volumes 2 and 3. The same numbering system is used for each volume: chapter, section (if applicable), topic, and information block.

- a properly completed Purchasing Authority Purchase Order, STD. 65, that accurately referenced the procurement method used to award the purchase order (SCM 2, 8.3.5 and SCM 3, 8.4.5).

Recommendation

1. Implement additional quality assurance policies and procedures to assist in ensuring full compliance with the requirements of the delegated purchasing program. This process should address the issues noted above.

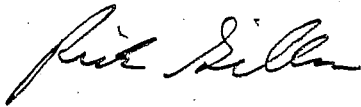
CONCLUSION

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

Your response to our recommendation (Attachment I), as well as our evaluation of the response (Attachment II), are presented as attachments to this report.

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

If you need further information or assistance on this report, please contact me at (916) 376-5058, or Andy Won, Audit Supervisor, at (916) 376-5052.



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

Attachments

Staff: Andy Won, Audit Supervisor
Rhonda Parker
Michael Rossow

cc: Jesse Huff, Chief Deputy Insurance Commissioner
Robin Baker, Deputy Commissioner, Administration and Licensing Services Branch
Julia Cross, Chief, Financial Management Division
Rick Flores, Chief, Business Management Bureau
Patrick Applewhite, Assistant Chief, Business Management Bureau
Dawn Ford, Chief, Project Coordination and Administrative Support Bureau
Keith Nelson, Special Assistant for Executive Operations

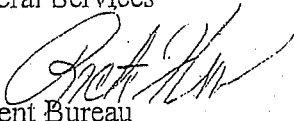
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MEMORANDUM

TO: Rick Gillam, Chief
Office of Audit Services
Department of General Services

FROM: Rick Flores, Chief 
Business Management Bureau
California Department of Insurance

DATE: December 8, 2010

RE: Audit Report: Delegated Purchasing Program

The California Department of Insurance (CDI) thanks the Department of General Services, Office of Audit Services for their review and assessment of the CDI's Delegated Purchasing Programs. The CDI agrees with your exceptions and recommendation that we implement additional quality assurance policies and procedures to assist in ensuring full compliance with the requirements of the delegated purchasing program. The CDI has responded to the exceptions noted in the draft audit report that transaction files did not always include certain documentation as follows:

Exception #1: State's General Provisions and Bidder Instructions – "support that the State's General Provisions were included or incorporated by reference in all competitive solicitations (written or verbal) (SCM 2,4.B6.1 and 4.B6.2 and SCM 3, 4B7.1 and 4.B7.2). Further, the State's Bidder Instructions were not always being included or incorporated by reference in all competitive solicitations (written or verbal) (SCM 2, 4.B6.0 and SCM 3, 4.B&.0)."

Response: The ADM 006 Request for Quote form will be revised to include a link, or reference to, the State's General Provisions. CDI's IT Purchasing presently includes a link to the State's IT General Provisions and any Special Provisions that apply to the solicitation when emailing for quotes. The link is also included all written solicitations. All documentation is included in the contract file. The ADM 006 has been revised to include a link to Bidder Instructions. Use of the revised form will be included in future non-IT purchasing training classes. IT Purchasing only performs solicitations that include evaluation based on value effective criteria. Utilization of this

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solicitation method does not require inclusion of Bidder Instructions. IT Purchasing ensures that the value effective criteria are documented in the contract file.

Exception #2: DVBE Participation Requirement – “information on the waiver of the DVBE requirement is not included in the bidder solicitation (SCM 2, and 3, 3.3.2)”.

Response: The CDI has included statements in our Policy and Procedures Manuals for IT and Non-IT Goods and Services, dated April 2010, that mandatory DVBE participation is waived for purchases of goods and services less than \$15,000. The CDI will continue to make every effort to solicit DVBE vendors and will require a waiver letter signed by the Bureau Chief for all orders over \$15,000 that does not contain a DVBE quote. Language is being developed to include in solicitations if the DVBE Participation requirement is being waived.

Exception #3: Department of Fair Employment and Housing Notification – “documentation that the Department of Fair Housing and Employment was notified of non-IT purchase awards in excess of \$5,000 (SCM 2, 12.B3.0).

Response: CDI is now providing STD 16 Contract Award Report to DFEH for all non-IT purchase awards in excess of \$5,000. A copy of each STD 16 is being retained in the purchase order file.

Exception #4: Leveraged Procurement Agreement Documents- “copies of the contract cover page and pricing page(s) for leveraged purchase agreements (LPA) transactions. Further, a number of the LPA transaction files for IT procurements did not always contain: information on the criteria used to determine best value (SCM 3, 6.A4.0); documentation supporting that multiple offers were solicited (SCM 3, 6.A3.0); and, sufficient detail to support supplier selection when fewer than three offers were received (SCM 3, 6.A3.6).”

Response: CDI is attempting to comply with the Commissioner’s effort to go paperless and keeps master copies of LPA in a central file. In an effort to comply with the State’s contract documentation requirements, all contract files now contain a copy of the LPA cover page and the price sheets that apply to the offer(s). CDI will also ensure that documentation of best value criteria, multiple offers and detail to support supplier selection when fewer than three offers were received, are included in the contract file.

Exception #5: Two Price Quotes or Fair and Reasonable- “information that either two price quotations were received or fair and reasonable pricing established for IT transactions of less than \$5,000 (SCM 3, 4.C1.0);”

Response: IT Purchasing continues to attach a bid work sheet and vendor quotes to all purchase orders. If less than two quotes are acquired, IT Purchasing documents fair and reasonable pricing as to why the particular procurement option was chosen for the transaction.

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Exception #6: Procurement Method Documentation- “a properly completed Purchasing Authority Purchase Order, STD. 65, that accurately referenced the procurement method used to award the purchase order (SCM 2, 8.3.5 and SCM 3, 8.4.5).”

Response: CDI ensures that STD. 65 are completed accurately and that procurement methods used to award the purchase order (e.g., SB/DVBE Option, LPA) are correctly referenced. To ensure quality control, CDI procurement staff peer review final products prior to submittal of the STD 65 packages to the appropriate approving authority.

Again, the CDI wishes to thank the Department of General Services, Office of Audit Services for their review and assessment of our Delegated Purchasing Programs. Please contact Pat Applewhite, Assistant Chief, Business Management Bureau, at (916) 492-3333 if you have questions or need additional information.

cc: Steve Poizner, Insurance Commissioner
Jesse Huff, Chief Deputy Commissioner
Robin Baker, Deputy Commissioner, Administration
and Licensing Services Branch
Julia Cross, Chief, Financial Management Division
Keith Nelson, Special Assistant for Executive Operations
Dawn Ford, Chief, Project Coordination and Administrative
Support Bureau
Patrick Applewhite, Assistant Chief, Business Management Bureau

**CALIFORNIA DEPARTMENT OF INSURANCE
COMPLIANCE AUDIT**

EVALUATION OF CDI'S RESPONSE

We have reviewed the response by the California Department of Insurance (CDI) to our draft report. The response to the recommendations is satisfactory. We appreciate the efforts taken or being taken by the CDI to improve its delegated purchasing program.