



MEMORANDUM

Date: August 30, 2011

File No. 0208

To: The Honorable Tom Torlakson
Superintendent of Public Instruction
California Department of Education
1430 N Street
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 Education's (CDE) 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 CDE had two purchasing authority delegations: No. 9G-0210-EDU-HQ1 governing non-information technology purchases and No. 9I-0210-EDU-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 CDE'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 CDE 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 CDE'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 CDE's management indicated that appropriate action would be taken to address our concerns. 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 CDE'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 March 2, 2010 through August 31, 2010. 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 CDE's management was promptly advised of any areas of concern so that they could begin taking corrective action. Further, at our August 2010 audit exit conference, the CDE was provided a detailed written summary of issues noted during our review.

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 2009/10 fiscal year.

DELEGATED PURCHASING PROGRAM

Overall, we concluded that the CDE 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 88 delegated IT or non-IT procurements, including 17 leveraged procurement agreement transactions, disclosed a number of areas for improvement that need to be addressed to fully comply with purchasing requirements. Our audit scope included transactions performed by IT and non-IT procurement staff located at the CDE Sacramento headquarters and transactions directly performed by business managers or business services officers located at the State Special Schools and Diagnostic Centers. Although the purchasing activities of the six² State Special Schools and Diagnostic Centers are overseen by CDE's headquarters purchasing management, in general, those operating entities have significant responsibilities for ensuring that their purchases are conducted in compliance with State 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 with transactions performed by CDE headquarters' staff involved procurement transaction files that did not always include:

- support that the State's Bidder Instructions and General Provisions were included or incorporated by reference in all competitive non-IT solicitations (written or verbal) (SCM 2, 4.B6.0 and 4.B6.1);
- a copy of the supplier's seller's permit for non-IT purchases (SCM 2, 4.B6.3);
- 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);

¹ The criteria references in this report are those contained in the most current version of SCM Volumes 2 and 3.

² The CDE administers three special schools and three diagnostic centers: California School for the Blind, Fremont; California School for the Deaf, Fremont; California School for the Deaf, Riverside; Diagnostic Center, Northern California, Fremont; Diagnostic Center, Southern California, Los Angeles; and, Diagnostic Center, Central California, Fresno. Due to a lack of transactions, we did not include the Fresno location in our sample tests.

- copies of the contract cover page and pricing page(s) for leveraged procurement agreement transactions (SCM 2 and 3, 6.A4.1);
- documentation that a firm's certification status was verified prior to the award of a non-IT procurement to a firm identifying itself as a small business (SB) and/or disabled veteran business enterprise (DVBE). Departments must verify SB and/or DVBE status on a DGS website prior the award of a procurement and maintain a copy of the firm's current certification in the procurement file to fully document the transaction (SCM 2, 3.2.5); and,
- information on the waiver of the DVBE requirement within the bidder solicitation (SCM 2 and 3, 3.3.2);

The types of exceptions noted with transactions performed by State Special Schools and Diagnostic Centers' purchasing staff included the same six issues noted above plus three additional areas for improvement. The exceptions involved procurement transaction files that did not always include:

- support that the State's Bidder Instructions and General Provisions were included or incorporated by reference in all competitive solicitations (written or verbal) (SCM 2, 4.B6.0 and 4.B6.1 and SCM 3, 4.B7.0 and 4.B7.1);
- a copy of the supplier's seller's permit (SCM 2, 4.B6.3 and SCM 3, 4B7.6);
- documentation that the Department of Fair Employment and Housing was notified of purchase awards in excess of \$5,000 (SCM 2 and 3, 12.B3.0);
- copies of the contract cover page and pricing page(s) for leveraged procurement agreement transactions (SCM 2 and 3, 6.A4.1);
- documentation that a firm's certification status was verified prior to the award of a non-IT procurement to a firm identifying itself as a small business (SB) and/or disabled veteran business enterprise (DVBE). Departments must verify SB and/or DVBE status on a DGS website prior the award of a procurement and maintain a copy of the firm's current certification in the procurement file to fully document the transaction (SCM 2, 3.2.5);
- information on the waiver of the DVBE requirement within the bidder solicitation (SCM 2 and 3, 3.3.2);
- information that either two price quotations were received or fair and reasonable pricing established for transactions of less than \$5,000, including CAL-Card payment transactions (SCM 2, 4.C1.0);
- documentation that a procurement was entered into the State's centralized database for contract and purchase transactions (SCM 2, 8.1.1); and,
- a properly completed Purchasing Authority Purchase Order, STD. 65, that accurately referenced such items as the delegated purchasing authority number, procurement method and general provisions used to award the purchase order (SCM 2, 8.3.5 and SCM 3, 8.4.5).

Recommendations

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.
2. Provide additional guidance and training on delegated purchasing program requirements to procurement staff located within the State Special Schools and Diagnostic Centers.

CONCLUSION

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

Your response to our recommendations (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 CDE'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
Michael Rossow

cc: Sharon Taylor, Director, Fiscal and Administrative Services Division
Kevin Matsuo, Director, Technology Services Division
Dr. William Ellerbee, Deputy Superintendent, Special Services & Support Branch
Kevin Chan, Director, Audits and Investigations Division



CALIFORNIA
DEPARTMENT OF
EDUCATION

TOM TORLAKSON
STATE SUPERINTENDENT OF PUBLIC INSTRUCTION

August 25, 2011

Rick Gillam, CPA, CIA
Chief, Office of Audit Services
Department of General Services
707 Third Street
West Sacramento, CA 95605

Dear Mr. Gillam:

Subject: Audit Report: Delegated Purchasing Program

The California Department of Education (CDE) has reviewed the draft audit report that was received July 28, 2011 and is providing a written response to each of the compliance deficiencies detailed in the report. Below are the Department of General Services (DGS) recommendations and the CDE responses:

DGS 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.

CDE Response

The CDE has incorporated the following into its procurement file documentation requirements and created a checklist to ensure all necessary documents are included in each file:

- All Request For Quote (RFQ) documents for non-IT competitive solicitations will incorporate by reference the State's Bidder Instructions and General Provisions
- A print-out from the Board of Equalization Web page verifying the supplier has a valid seller's permit (auditor said this was acceptable in lieu of copy of actual permit)
- A copy of the Contract Award Report (STD-16) form for transactions exceeding \$5,000.00. The original will be mailed to the Department of Fair Employment and Housing

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- Copies of the contract cover page and pricing page(s) for leveraged procurement agreement transactions
- A print-out from the DGS Bidsync Web page verifying a supplier is a certified SB/DVBE at the time of award
- Information on the waiver of the DVBE requirement within the bidder solicitation document

DGS Recommendation #2

Provide additional guidance and training on delegated purchasing program requirements to procurement staff located within the State Special Schools and Diagnostic Centers.

CDE Response

The CDE's Purchasing Office traveled to the State Special Schools and Diagnostic Centers in April and May 2011 and provided procurement training that emphasized all the compliance exceptions highlighted in the audit exit meeting. Specifically, the training focused on file documentation findings identified in the audit exit meeting:

- Support that the State's Bidder Instructions and General Provisions are included or incorporated by reference in all competitive solicitations
- A copy of the supplier's seller's permit
- Documentation that the Department of Fair Employment is notified of purchase awards in excess of \$5,000.00
- Copies of the contract cover page and pricing page(s) for leveraged procurement agreement transactions
- Documentation that a supplier's SB/DVBE certification status is verified prior to the award
- Information on the waiver of the DVBE requirement within the bidder solicitation

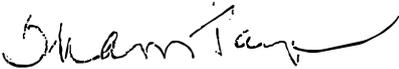
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- Information that either two price quotations were received for fair and reasonable pricing established for transactions less than \$5,000.00, including transactions paid with CalCard
- Documentation that a procurement was entered into the State's centralized database for contract and purchasing transactions (SCPRS)
- A properly completed STD-65 form that accurately references such items as the delegated purchasing authority number, procurement method, and general provisions used to award the purchase order

In addition, the CDE's Purchasing Office has proposed peer reviews in which procurement staff will travel to the State Special Schools and Diagnostic Centers at least once per year to conduct additional trainings, procurement transactions file audits and peer reviews.

If you have any questions, please contact me at 916-323-7506 or by e-mail at shtaylor@cde.ca.gov.

Sincerely,



Sharon Taylor, Director
Fiscal and Administrative Services Division

ST:dm:fh

**CALIFORNIA DEPARTMENT OF EDUCATION
COMPLIANCE AUDIT**

EVALUATION OF CDE'S RESPONSE

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