



# MEMORANDUM

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**Date:** March 29, 2022 File No.:1201

**To:** Vito Imbasciani MD, Secretary  
California Department of Veterans Affairs  
1227 O Street  
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 Veterans Affairs' (CalVet) 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 CalVet's purchasing authority delegation agreements with the Department of General Services (DGS), which include dollar threshold limits for various categories of procurements.

CalVet'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 recommendation to us by September 30, 2022.

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 CalVet's personnel.

If you have any questions, please call me at (916) 376-5054, or Christine Pham, Management Auditor, at (279) 946-8608.

*Olivia Haug*

OLIVIA HAUG  
Manager, Office of Audit Services

Attachment

cc: Sherri Gastinell, Deputy Secretary, Administration, CalVet  
David Gerard, Assistant Deputy Secretary, Administration, CalVet  
Ramon Carlos, Procurement and Contracting Officer, CalVet  
Isaiah Mall, Chief Information Officer, Information Services Division, CalVet  
Purchasing Authority Management Section (PAMS), Procurement Division, DGS

**GOVERNMENT OPERATIONS AGENCY  
DEPARTMENT OF GENERAL SERVICES**

**AUDIT OF THE  
CALIFORNIA DEPARTMENT OF  
VETERANS AFFAIRS**

**FOR COMPLIANCE WITH STATE  
DELEGATED PURCHASING PROGRAM  
REPORT NO. 1201**

**OFFICE OF AUDIT SERVICES**

**JANUARY 2022**



**CALIFORNIA DEPARTMENT OF VETERANS AFFAIRS  
DELEGATED PURCHASING PROGRAM AUDIT  
REPORT NO. 1201**

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**STATE OF CALIFORNIA**  
**DEPARTMENT OF GENERAL SERVICES**  
**AUDITOR'S REPORT**

DATE: March 29, 2022

TO: Vito Imbasciani MD, Secretary  
California Department of Veterans Affairs

This report presents the results of our compliance audit of the delegated purchasing program of the California Department of Veterans Affairs (CalVet). 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 CalVet'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 CalVet 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 CalVet in addressing these issues.

During our review we also identified other matters requiring attention that did not pose a significant risk to the delegated purchasing program, that we discussed with CalVet'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, CalVet's management took action or agreed to take action to address 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. CalVet'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 CalVet'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 (279) 946-8608.

*Olivia Haug*

OLIVIA HAUG  
Manager, Office of Audit Services

Staff: Christine Pham, Management Auditor

cc: Sherri Gastinell, Deputy Secretary, Administration, CalVet  
David Gerard, Assistant Deputy Secretary, Administration, CalVet  
Ramon Carlos, Procurement and Contracting Officer, CalVet  
Isaiah Mall, Chief Information Officer, Information Services Division, CalVet  
Purchasing Authority Management Section (PAMS), Procurement Division, DGS



# CALIFORNIA DEPARTMENT OF VETERANS AFFAIRS

## DELEGATED PURCHASING PROGRAM AUDIT

### FINDINGS AND RECOMMENDATIONS

The following presents our detailed findings and recommendations developed based on our compliance audit of CalVet'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 June 3, 2021 through January 10, 2022. 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 2020-21 fiscal year. Our transaction tests included the review of 72 delegated non-IT and IT procurements, including 22 leveraged procurement agreement transactions.

#### **DELEGATED PURCHASING PROGRAM**

Overall, we concluded that CalVet 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.

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 CalVet staff involved insufficiencies in the following areas:

**Use of SB/DVBE Bidders** – For a significant number of test samples, the SB/DVBE certification status verification, DVBE Declaration, Bidder Declaration, and/or Commercially Useful Function (CUF) evaluation and determination was either missing, dated years before the purchase order (PO) dispatch, or done months after the PO dispatch for one or more SB/DVBE bidders. These declarations and verifications are meant to be specific to the transaction that the bidder is bidding on and therefore need to be current for them to have any useful meaning. It should be noted that in a number of our test samples where the SB/DVBE Option was utilized, SB/DVBE Option was

not supported as a procurement method due to the insufficiencies noted concerning the SB/DVBE certification, DVBE Declaration, Bidder Declaration, CUF and/or the transaction not meeting the dollar threshold for this procurement method, i.e., between \$5,000.01 and \$249,999.99. Insufficiencies concerning the SB/DVBE certification status verification, Bidder Declaration, and SB/DVBE Option are repeat findings from our 2016 audit.

SCM F, Chapter 3, describes socioeconomic and environmental programs established by state law and further defined by regulations and policies to increase business opportunities on state procurement and contracting activities for small and disabled veteran businesses and those businesses operating in economically distressed areas of the state. It also includes information about the State's DVBE program to ensure that certified DVBEs are afforded opportunities to compete for State contracts, requirements and application of incentives.

- o SCM F, 3.A2.5, provides that solicitations (including verbal or written requests for offers), consideration of bids, or award of contracts shall not be provided to any firm that has been suspended from State procurement and contracting as listed on the DGS/PD web page. The FI\$Cal system maintains certification status of SBs and DVBEs.
- o SCM F, 3.A3.6, provides that declarations are to be obtained using a Disabled Veteran Business Enterprise Declaration (STD. 843) when the State intends to transact business:
  - With a certified DVBE prime or
  - For equipment rental situations, with either a certified DVBE prime or a prime who is using a certified DVBE subcontractor(s)

This pertains to all types of transactions including competitive and non-competitive situations. It applies both when establishing Leveraged Procurement Agreements (LPAs) and when placing orders against LPAs.

- o Per SCM F, 3.A4.7, written solicitations shall include the Bidder Declaration (GSPD 05-105) to allow bidders to identify if they are a DVBE and identify DVBE subcontractors, their proposed contract function and the corresponding percentage of participation.

When conducting a verbal solicitation, the Bidder Declaration, GSPD 05-106 – Verbal Version and its respective instructions must be provided to the suppliers for completion and must be signed by the prime supplier.

- o Per SCM F, 3.A2.6, in accordance with Government Code Section 14837 and M&VC section 999, all SB and DVBE contractors, subcontractors and suppliers that bid on or participate in a State contract, regardless of being a verbal or written solicitation and/or paid for using the CAL-Card as a payment method, must perform a Commercially Useful Function (CUF). In addition, the requirement to determine CUF is not affected by the applicability of the 5% SB preference and/or the DVBE participation goal or DVBE incentive. There is no exception to this requirement;

consequently, certified SB, MB and DVBEs must perform a CUF. CUF must be determined prior to contract award.

**Use of Leverage Procurement Agreements (LPA)** – We found the procurement files lacking the user instructions, or correct user instructions, and pricing sheets. Additionally, we found the PO not consistently referencing the LPA terms and conditions. Further, staff were not verifying the purchase against the LPA resulting in a small overpayment on one PO and the purchase of items not allowed by the LPA on a number of PO's, potentially costing the department extra money on at least one PO. It should be noted that lack of retention of the pricing page in the procurement file is a repeat finding from our 2016 audit.

Per SCM F, 5.A1.0, LPA prices for products and services vary from category to category. Some LPA prices are listed as maximums and negotiating for lower prices is recommended. Others are at a fixed price for which negotiation is not allowed. Because of these variables, buyers are required to confirm that the products, services, and prices are included in the contract and that the prices in the department's order are at or below the contract rates. This is accomplished by obtaining a complete copy of the LPA before executing any purchase documents. The contract's user instructions describe the tasks necessary to solicit offers for the order.

Further, SCM F, 5.A1.5, provides that departments obtain a copy of the LPA to be used in order to:

- Validate the contractor is authorized to sell specific products and/or services.
- Determine warranties, guarantees, maintenance provisions, product return policies, bond requirements, travel costs, etc.
- Determine if products and services are available on the LPA.
- Determine which products and/or services are specifically excluded.
- Determine if prices quoted are at or below LPA rates.
- Determine if additional approvals, forms, filings, etc. are required.
- Substantiate the contractor is CA certified as a SB or a DVBE (if applicable).
- Substantiate the contractor has a valid contractor's license (if applicable).

**Use of Fair and Reasonable (F&R) Acquisition Method** – For a significant number of our test samples, the F&R method was not adequately supported due to 1) the file lacking supporting documentation when the Cost/Benefit Analysis technique was used, 2) the procurement situations not being identical when Historical Pricing technique was used, or 3) the purchase exceeded the \$10k threshold for this procurement method. It should be noted that while the file often included a statement to the effect that the buyer had had a number of years of experience as a buyer, this statement does not substitute for the requirement to document a cost/benefit analysis.

SCM F, 6.9.0, states that agencies may conduct acquisitions and execute contracts using the F&R Acquisition Method for transactions valued less than \$10,000 and an NCB is not required when using the F&R acquisition method. This section further indicates that

when using this acquisition method, it is required that the pricing be evaluated and determined fair and reasonable by following one of the techniques outlined in SCM F, 6.9.1, which are 1) Price comparison, 2) Catalog or market pricing, 3) Controlled pricing, 4) Historical pricing, and 5) Cost/benefit analysis. SCM F provides additional guidelines as follows:

- o SCM F, 6.9.2, when evaluating fair and reasonable pricing using price comparisons, catalog/market price and/or historical pricing, buyers must base the comparisons on identical situations or those with small variations that do not affect pricing.
- o SCM F, 6.9.4, by using the F&R Acquisition Method, state agencies shall document the technique used to support the F&R pricing. Documentation shall be maintained within the procurement file.

In addition, during our audit testing we identified the below noncompliance areas which, when combined, represent a weakness in internal controls:

- Conflicting procurement methods listed in the procurement file and in FI\$Cal, and; file documentation not supporting the method listed in FI\$Cal (SCM F, 2.B2.0)
- NCB process not properly followed and NCB form missing from the file (SCM F, 6.2.1-6.2.2)
- Department of Fair Employment and Housing (DFEH) Std.16 report missing from the file (SCM F, 9.E4.0)
- Franchise Tax Board (FTB) and/or California Department of Tax and Fee Administration (CDTFA) verifications not done (SCM F, 2.B4.5)
- Certification of Compliance with State IT Policies (SIMM 71B) missing from the file (SCM F, 2.E5.0)
- Written solicitation missing from the file (SCM F, 4.D1.2; 6.7.1)
- State General Provisions not referenced on the PO/not included in the solicitation (SCM F, 4.B3.1; 4.D2.2; 4.D4.0)

We found that staff at the program level did not always use or document a file checklist. When they did use a checklist, the checklist versions often differed and did not cover the same required compliance items. Further, staff did not always complete the checklist fully and/or did not mark items off as being completed. A file checklist serves as a guide to assist staff in ensuring many key requirements are met.

A contributing factor to the findings above may be due to CalVet's decentralized purchasing program. In decentralization, there is a risk of lack of coordination and consistency in decision making. Management should require that staff use a standard checklist(s) across the department to ensure full compliance with purchasing requirements.

**RECOMMENDATIONS**

1. Increase staff training and education to ensure they understand and comply with State requirements in the areas noted above.
2. Revise or update the file checklist(s) as applicable to ensure that it covers all required compliance items.
3. Require that all staff across the department use and document one standard checklist(s) and complete the checklist in its entirety by marking off items as they complete them.

**CONCLUSION**

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



**DEPARTMENT OF VETERANS AFFAIRS**

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February 28, 2022

Olivia Haug, Manager, Office of Audits  
Department of General Services  
707 3<sup>rd</sup> Street, 8<sup>th</sup> Floor  
West Sacramento, CA 95605

Dear Ms. Haug,

The Department of Veterans Affairs (CalVet) has reviewed the draft report of the Department of General Services (DGS), Office of Audit Services (OAS) compliance audit review. We agree with the findings and recommendations. Below are the corrective measures and practices already in place to address the deficiencies found in our procurement program.

We submit the following **Non-IT** responses to address the recommendations by DGS, OAS:

**Recommendation #1:** Increase staff training and education to ensure they understand and comply with State requirements in the areas noted above.

**Use of SB/DVBE bidders –**

CalVet Headquarters Office of Procurement and Contracts (OPC) developed and provided a hard copy sample procurement folder as of January 1, 2021, to the entire department procurement staff. The sample folder replicates CalVet's procurement file (electronic and hard) documentation to be maintained by procurement staff with various acquisition methods. OPC directs the procurement staff to iCalVet and DGS websites for the most current procurement forms and templates to use and not continue using out dated forms. The sample folder also included scripts to use when conducting a verbal solicitation versus a written solicitation and documents to share.

**Use of Leverage Procurement Agreements (LPA) -**

The sample folder also provides expectations when using LPA contracts; written instructions to follow, and a formal script to be used when conducting verbal solicitations. OPC continually reinforces to procurement staff the need to read the instructions for each and every LPA solicitation as they are different and/or might change over time. This is to ensure the LPAs are being used correctly, and the procurement staff are maintaining a current copy of the LPA in their offices in an electronic or hard file.

**Fair and Reasonable (F&R) Acquisition Method –**

OPC has established a more consistent line of communication with all department procurement staff to have ongoing discussion on topics such as F&R. We discuss best

practices and what should be used to justify a F&R acquisition and what should not be used.

OPC has developed and implemented a procurement review process for the Veteran Homes. This process reviews the Homes procurement files for compliance with CalVet's procurement process. The procurement review criteria are to ensure the correct acquisition methods are being used and supported by file documentation. This includes, verifying the required forms are current and completed correctly, supplier's licenses and certifications are verified, and all are included in the procurement file (electronic and hard).

**In addition to the above-mentioned responses:**

OPC is updating on a bi-annual basis the CalVet Policies and Procedures for Non-IT Goods to make easier for all department procurement staff to understand the process.

OPC implemented Home's Procurement Monthly meetings to improve communication between OPC and all department procurement staff. This meeting is designed to share updates, changes, and smaller session trainings on the procurement process with the procurement staff.

OPC has conducted bi-annual procurement training for the procurement staff. Moving forward, CalVet will be conducting a mandatory annual procurement training for all staff who have some part in the procurement process; from requesting, creating Purchase Orders (PO) and for those approving POs. This procurement training is in addition to OPC's requirement for all procurement staff to take the CalPCA Basic Acquisition Course (BAC). OPC also encourages the procurement staff to take the CalPCA intermediate procurement courses to continue developing their procurement knowledge and skills. Executive and Leadership staff are encouraged to take the higher-level course for awareness.

**Recommendation #2:** Revise or update the file checklist(s) as applicable to ensure that it covers all required compliance items.

Implemented in January 1, 2021, the CalVet Purchase Order File Documentation Checklist was distributed to all procurement staff/units to use in their files. This DGS audit was conducted during our transition period; therefore, this might be the reason some files didn't have a standard checklist. This has also been a finding during OPC's internal procurement reviews during the 2021 calendar year.

**Recommendation #3:** Require that all staff across the department use and document one standard checklist(s) and complete the checklist in its entirety by marking off items as they complete them.

As included in the previous recommendation response, the CalVet Purchase Order File Documentation Checklist has been implemented as of January 1, 2021. During our monthly calls and reviews, OPC is reiterating to the procurement staff to make sure they fill out the checklist in its entirety for each and every PO file.



We are submitting the following IT responses to address the recommendations by DGS, OAS:

The Information Services Division (ISD) of CalVet concurs with the purchasing insufficiencies in the following areas:

- Use of SB/DVBE Bidders
- Use of Leverage Procurement Agreements (LPA)
- Use of Fair and Reasonable (F&R) Acquisition Method

The ISD also agrees with the DGS, OAS recommendations, and is fully committed to comply with IT state procurement policies and standards. Specifically, in order to reinforce staff knowledge of procurement and contract policies and standards as well as comply with State requirements in the areas noted above, the ISD has been providing in-house Procurement trainings to its Procurement Analysts (PAs) beginning December 2021, and plans to provide ongoing training moving forward. In addition, the PAs will be attending Procurement and Contract Webinars offered by DGS.

The ISD updated its IT Purchase Checklist to include the PA Commercially Useful Function Evaluation requirement on November 4, 2021, and continues to update it to ensure the purchase package includes all supporting documents and forms required according to the SCM Volume 2. Moreover, the Procurement Supervisor ensures that the latest version of the IT purchase checklist is used consistently.

In closing, many of the recommendations noted in the audit draft report either have been implemented or in the process of being implemented.

CalVet is pleased that DGS, OAS review concluded that CalVet is conducting its delegated purchasing program in compliance with our delegated purchasing authority. CalVets team appreciates the time and collaboration the DGS, OAS auditor had with staff and management during the audit review as it was instrumental in providing further improvements to our procurement program.

Sincerely,

DR. VITO IMBASCIANI  
Secretary

cc: Sherri Gastinell, Deputy Secretary, Administration, CalVet  
David Gerard, Assistant Deputy Secretary, Capital Assets and Facilities Management, CalVet  
Ramon Carlos, Procurement and Contracting Officer, CalVet  
Isaiah Mall, Chief Information Officer, Information Services Division, CalVet  
Purchasing Authority Management Section (PAMS), Procurement Division, DGS



# **CALIFORNIA DEPARTMENT OF VETERANS AFFAIRS (CALVET)**

## **EVALUATION OF CALVET'S RESPONSE**

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

As 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, proof-of-practice, training plans, agendas, and supporting documentation should be specific and include excerpts, samples, screenshots and/or copies of the following:

- Use of SB/DVBE bidders
- Use of Leverage Procurement Agreements (LPA) requirements
- Use of fair and reasonable (F&R) acquisition method
- Proper documentation and correct recording of the procurement method in the procurement file and in FI\$Cal
- Adherence to the NCB process and documenting the required NCB forms
- Department of Fair Employment and Housing (DFEH) Std.16 reporting
- Franchise Tax Board (FTB) and California Department of Tax and Fee Administration (CDTFA) verifications
- Documenting Certification of Compliance with State IT Policies (SIMM 71B)
- Ensuring the procurement file includes the written solicitation
- Referencing/including the State General Provisions on the PO and in the solicitation