CALIFORNIA DEPARTMENT OF GENERAL SERVICES

MEMORANDUM

Date: July 30, 2026 File No.: 5205

To: Jennifer Osborn, Director
Department of Industrial Relations
1750 Howe Avenue, Suite 130
Sacramento, CA 95825

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 Department of Industrial Relation's (DIR) delegated purchasing program. The objective of our audit was to determine whether procurement transactions are being conducted in accordance with the terms and conditions of DIR's purchasing authority delegation agreements with the Department of General Services (DGS), which include dollar threshold limits for various categories of procurements.

DIR'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 the 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 on your department's official letterhead a status report on the implementation of each recommendation to us by January 30, 2027.

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 or via email to Amalia.Sanchez@dgs.ca.gov.

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

If you have any questions, please contact me at (279) 799-3759 or via email at Monica.DeLaRosa@dgs.ca.gov, or Amalia H. Sanchez, Management Auditor, at (279) 946-8574 or via email at Amalia.Sanchez@dgs.ca.gov.

Monica De La Rosa

MONICA DE LA ROSA
Manager, Office of Audit Services

Attachment

cc: Andrew Collada, Chief of Administration, DIR
Ed Scholte, Chief, Business Management Office, DIR
Joshua Iverson, Chief Fiscal Officer, DIR
Suman Biswas, Chief Technology Officer, DIR
Edward Hoang, Senior Management Auditor, DIR
Andy Won, Deputy Director, Office of Audit Services, DGS
Statewide Procurement Oversight and Consulting Unit (SPOC), Procurement Division, DGS

GOVERNMENT OPERATIONS AGENCY

DEPARTMENT OF GENERAL SERVICES

AUDIT OF THE
DEPARTMENT OF INDUSTRIAL
RELATIONS

FOR COMPLIANCE WITH STATE
DELEGATED PURCHASING PROGRAM
REPORT NO. 5205

OFFICE OF AUDIT SERVICES

NOVEMBER 2025
(End of Fieldwork)

DEPARTMENT OF INDUSTRIAL RELATIONS
DELEGATED PURCHASING PROGRAM AUDIT
REPORT NO

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STATE OF CALIFORNIA

DEPARTMENT OF GENERAL SERVICES

AUDITOR'S REPORT

DATE: July 30, 2026

TO: Jennifer Osborn, Director
Department of Industrial Relations

This report presents the results of our compliance audit of the delegated purchasing program of the Department of Industrial Relations (DIR). As required by Public Contract Code Section 10333, at least once in each three-year period the Department of General Services (DGS) conducts an audit of each state agency to which purchasing authority has been delegated by the department. The objective of our audit was to determine whether procurement transactions are being conducted in accordance with the terms and conditions of DIR'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 (LPAs), solicitation of certified small businesses (SBs) and disabled veteran business enterprises (DVBEs), establishment of fair and reasonable pricing for acquisitions of less than $10,000[1], use of CAL-Cards to pay for goods and services, and prompt payment of suppliers.

Overall, we concluded that DIR 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 DIR in addressing these issues.

During our review we also identified other matters requiring attention that did not pose a significant risk to DIR's delegated purchasing program. We discussed these issues with DIR's management and they are not further detailed in this report.

[1] Fair and reasonable pricing threshold increased from $10,000 to $20,000 effective November 7, 2025.

It should be noted that when advised of areas for improvement during our audit fieldwork, DIR's management 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. DIR'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 DIR's personnel.

If you need further information or assistance with this report, please contact me at (279) 799-3759, or Amalia H. Sanchez, Management Auditor, at (279) 946-8574.

Monica De La Rosa

MONICA DE LA ROSA
Manager, Office of Audit Services

Staff: Amalia H. Sanchez, Management Auditor

cc: Andrew Collada, Chief of Administration, DIR
Ed Scholte, Chief, Business Management Office, DIR
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Statewide Procurement Oversight, Consulting Unit (SPOC), Procurement Division, DGS

DEPARTMENT OF INDUSTRIAL RELATIONS

DELEGATED PURCHASING PROGRAM AUDIT

FINDINGS AND RECOMMENDATIONS

The following presents our detailed findings and recommendations developed based on our compliance audit of DIR's delegated purchasing program. The state's delegated purchasing requirements are primarily contained in Consolidated State Contracting Manual Volume 2 (SCM Vol. 2).

This information was developed based on our fieldwork conducted over the period of April 21, 2025 through November 4, 2025. 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 2024-25 fiscal year. Our transaction tests included the review of 39 delegated non-IT and IT procurements, including 9 leveraged procurement agreement transactions.

Overall, we concluded that DIR 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 although some types of noncompliance occurred infrequently, 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 DIR staff involved either missing or inadequate procurement documentation for the following areas:

<u>DELEGATED PURCHASING PROGRAM AREAS</u>

(Includes Leverage Procurement Agreements)

- The appropriate and current delegated purchasing authority number is not listed on the purchase document (SCM Vol. 2, Section 100.1).

- The dollar amount on the purchase order is not within the department's purchasing authority delegation limits (SCM Vol. 2, Section 100.2).

- The Standard Agreement (STD 213) did not include the department's agreement number (SCM Vol. 2, Section 1803).

- The purchase document and/or Agreement Summary (STD 215) are not itemized in sufficient detail to accurately describe the goods or services ordered (SCM Vol. 2, Section 1802 and 1803).

- The incorrect procurement method was used to process the acquisition (SCM Vol. 2, Section 303).

- The appropriate bidding method box was not marked on the STD 215 (SCM Vol. 2, Section 1803).

- The State's General Provisions are not correctly incorporated in the purchasing document (purchase order and/or STD 213) (SCM Vol. 2, Section 1403.3).

- The procurement file did not include documentation of a valid seller's permit at the time of the award (SCM Vol. 2, Section 1403.3).

- For competitive solicitations the State's Bidder Instructions (GSPD-451) and General Provisions were not included in the solicitation (SCM Vol. 2, Section 1403.3 and 1405.2).

- For competitive solicitations after 6/23/22 the required Economic Sanctions Language was not included in the solicitation (Broadcast Bulletin P-7-22, Executive Order N-6-22).

- Adequate and comparable bids were not found in the procurement file for competitive solicitations (SCM Vol. 2, Section 1404.2).

- The competitive solicitation did not include DVBE program requirements, or the procurement file did not have the DVBE Exemption Request form (STD 816) (SCM Vol. 2, Section 1201).
- The signed Bidder Declaration form (GSPD 05-105/05-106) was not in the procurement file (SCM Vol. 2, Section 1202).

- DVBE transactions did not have a signed DVBE Declaration (STD 843) in the procurement file (SCM Vol. 2, Section 1201).

- For SB/DVBE transactions, a valid Office of Small Business and Disabled Veteran Business Enterprise Services (OSDS) certification was not located in the procurement file, and the buyer did not determine Commercially Useful Function (CUF) and document the evaluation prior to award (SCM Vol. 2, Section 1200 and 1200.1).

- The procurement file did not include a copy of the published ad in the California State Contracts Register (CSCR) (SCM Vol. 2, Section 1402.3).

- Contracts were awarded based on vendor quotes that were older than (45) days (SCM Vol. 2, Section 1405.2).

- No evidence on file that a solicitation was created (SCM Vol. 2, Section 1403.1).

- Complete procurement files were not maintained (SCM Vol. 2, Section 100.3).

- The signed Certification of Compliance with State IT Policies (SIMM 71B) was not in the procurement file for IT transactions valued over $5,000 (SCM Vol. 2, Section 1013).

- Prior to executing the contract, the department did not verify that the contractor is not on a prohibited list by checking both the Franchise Tax Board (FTB) and California Department of Tax and Fee Administration (CDTFA) websites (SCM Vol. 2, Section 605).

- Transactions over $5,000 were not reported to the Civil Rights Department (CRD) (SCM Vol. 2, Section 2200.4).

- A bid/quote worksheet was not retained in the procurement file (SCM Vol. 2, Section 1405.2).

- The procurement file for IT services did not include a STD 213/STD 215 (SCM Vol. 2, Section 1803).

- The STD 213/STD 215 was not signed by someone with delegated signature authority (SCM Vol. 2, Section 1804).

- A Statement of Work was not included with the STD 213 for IT services (SCM Vol. 2, Section 305).

- Amendments are not being processed with the correct purchasing document (SCM Vol. 2, Section 1504).
- For IT services transactions over $4,999.99, a written solicitation was not on file (SCM Vol. 2, Section 1405.1).
- The department did not obtain a complete copy of the LPA (SCM Vol. 2, Section 1602).
- The purchasing file did not include a copy of the User Instructions, contract cover page, or contract price page (SCM Vol. 2, Section 1602).
- The department did not document "best value" for LPA transactions when required (SCM Vol. 2, Section 1603).
- The procurement file did not include required documentation for bottled water purchases as outlined in SCM Vol. 2, Section 412 and SAM Section 3612, nor were any DIR exemptions or applicable state statute exemptions provided.

RECOMMENDATIONS

1. **Strengthen Procurement Policies and Procedures**

   - Develop and enforce clear procurement policies and procedures to align with regulatory requirements.
   - Ensure that all procurement activities comply with the policies, procedures, and guidelines outlined in SCM Vol. 2 to promote sound business decisions and practices.

2. **Documentation and Record Keeping**

   - Maintain complete and accurate records of all procurement transactions, including solicitations, contracts, and exemptions per state statute to ensure transparency and accountability.

3. **Develop a Structured Training Program**

   - Establish mandatory procurement training for all staff involved in purchasing and contract management.

- Align training with SCM Vol. 2 requirements, covering procurement methods, vendor selection, contract management, and legal compliance.
- Offer tiered training based on roles (e.g., buyers, managers, approvers).

ACQUISITION PAID BY CAL-CARD

DIR does not have a process in place to ensure CAL-Card purchases of water coolers and water filters meet state requirements.

RECOMMENDATIONS

4. DIR should develop an approval process for purchasing water coolers, water filters, including bottled water purchases, that meets state requirements as listed in SCM Vol. 2, Section 412 and SAM Section 3612, or include exemptions that meet state statute.

5. Ensure all supporting documentation is maintained in the procurement file.

PROMPT PAYMENT OF INVOICE

Invoices were not disputed, or disputed timely, despite being received after the stated due date, or prior to the receipt of goods. Additionally, late payment penalties were calculated incorrectly, resulting in inaccurate penalty to vendors.

RECOMMENDATIONS

6. Establish a communication process between Programs and Accounting when invoice dates are incorrect to ensure timely dispute resolution.

7. Establish clear guidelines for disputing invoices that are dated before actual receipt date.

8. Train staff on recognizing discrepancies and initiating disputes within the allowable timeframe.

9. Implement a review process to ensure late penalties are calculated correctly and paid accurately.

10. Document all disputes and resolutions to support audit trails and compliance.

CONCLUSION

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

STATE OF CALIFORNIA GAVIN NEWSOM, *Governor*

DEPARTMENT OF INDUSTRIAL RELATIONS
Office of the Director
1515 Clay Street, Suite 2208
Oakland, CA 94612
Tel: (510) 286-7087 Fax: (510) 622-3265

July 13, 2026

Monica De La Rosa
Manager, Office of Audit Services
Department of General Services
707 3rd Street
West Sacramento, CA 95605

RE: Audit of the Department of Industrial Relations for Compliance with State Delegated Purchasing Program Report No. 5205

Dear Ms. De La Rosa:

Thank you for the opportunity to review and respond to the draft audit report regarding the Department of Industrial Relations (DIR) delegated purchasing program. We appreciate the Department of General Services' (DGS) efforts in conducting the audit.

DIR acknowledges the findings and recommendations of the report and is committed to strengthening its internal process to ensure full compliance with the terms and conditions of the purchasing authority delegation agreements.

DIR has already begun implementing changes based on the findings. For example, DIR has implemented a procurement checklist for buyers, along with templates for obtaining requests for quotes and issuing solicitations. These checklists and templates will help ensure procurement files contain the required documents in accordance with the State Contracting Manual (SCM). DIR has also revised its requisition checklists to better guide staff through the purchasing process. Lastly, DIR is rolling out training on the invoice dispute process and will continue training staff on the procurement process.

Should you have any questions related to this CAP, please contact DIR's Chief Auditor, Mathew Raute, at (916) 860-2219 or Mathew.Raute@dir.ca.gov.

Sincerely,

Jennifer Osborn
Director

Cc: Krystal Densmore, Chief Operating Officer, DIR
Mathew Raute, Chief—Office of Equity and Risk, DIR

DEPARTMENT OF INDUSTRIAL RELATIONS
(DIR)

EVALUATION OF DIR'S RESPONSE

We have reviewed the response by the Department of Industrial Relations (DIR) to our draft report. The response to the recommendations is satisfactory. We appreciate the efforts being taken by DIR to improve its delegated purchasing functions.

As a part of our operating duties, DGS is 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 reflect the requirements stated in the Recommendations section in the report.