



MEMORANDUM

Date: May 16, 2012

File No. 1200

To: The Honorable Bill Lockyer
California State Treasurer
State Treasurer's Office
915 Capitol Mall
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 State Treasurer's Office's (STO) 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 STO had two purchasing authority delegations: No. 9G-1010-TRE-HQ1 governing non-information technology purchases and No. 9I-1010-TRE-HQ1 governing information technology (IT) 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 STO's purchasing authority delegation agreements with the DGS, which include dollar threshold limits for various categories of procurements. The State's delegated purchasing requirements are primarily contained in State Contracting Manual (SCM) Volumes 2 (non-IT) and 3 (IT). 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.

Based on the results of our fieldwork conducted over the period October 4, 2010 through March 3, 2011 and limited follow-up work performed in May 2012, we concluded that the STO is conducting its delegated purchasing program in compliance with the terms and conditions of its delegation agreements. The STO's delegated purchasing policies and procedures are sufficient to provide reasonable assurance of compliance with the State's procurement statutes, policies, and procedures.

During our review we identified a number of areas for improvement within the STO's delegated purchasing program. These areas included our concern that policies and procedures were not always ensuring full compliance with SCM provisions governing the: (1) maintenance of information on the waiver of the DVBE requirement within the bidder solicitation (SCM 2 and 3, 3.3.2); (2) referencing of the State's Bidder Instructions and General Provisions in all competitive solicitations (SCM 2, 4.B6.0 and 4.B6.1 and SCM 3, 4.B8.0 and 4.B8.1); (3) obtaining of bidder declaration forms from small businesses and disabled veteran business enterprises which assist in verifying the performance of a commercially useful function (SCM 2 and 3, 3.2.6); (4) obtaining of a copy of the supplier's sellers permit (SCM 2, 4.B6.3 and SCM 3,

4.B8.6); (5) notification of the Department of Fair Employment and Housing of purchase awards in excess of \$5,000 (SCM 2 and 3, 12.B3.0); and, (6) maintenance in the procurement transaction files of copies of the contract cover page and pricing page(s) for leveraged procurement agreement transactions (SCM 2 and 3, 6.A4.1).

Prior to the completion of our audit, we verified that appropriate actions had been or were being taken to address the above issues. Therefore, they are not further discussed in this report. We were pleased with the prompt actions taken by the STO to address findings identified during our audit fieldwork. However, the scope of our follow-up review conducted in May 2012 did not include effectiveness tests to determine whether actions taken to address our concerns were functioning as intended. The STO's management has the ongoing responsibility for ensuring that its delegated purchasing policies and procedures are functioning as prescribed and are modified, as appropriate, for changes in conditions.

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. Our transaction tests included the review of 36 delegated procurements.

We greatly appreciated the cooperation and assistance provided by the STO'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.



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