



MEMORANDUM

Date: November 29, 2022 File No.: 2203

To: David Scribner, Esq.
Director
Department of Community Services and Development
2389 Gateway Oaks Drive, Suite 100
Sacramento, CA 95833

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 Community Services and Development's (CSD) 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 CSD's purchasing authority delegation agreements with the Department of General Services (DGS), which include dollar threshold limits for various categories of procurements.

CSD'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 on your department's official letterhead a status report on the implementation of Recommendation 2 to us by May 31, 2023.

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 CSD'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: Megan Rivers, Deputy Director, Administrative Services Division, CSD
Purchasing Authority Management Section (PAMS), Procurement Division,
DGS

**GOVERNMENT OPERATIONS AGENCY
DEPARTMENT OF GENERAL SERVICES**

**AUDIT OF THE
CALIFORNIA DEPARTMENT OF
COMMUNITY SERVICES
AND DEVELOPMENT**

**FOR COMPLIANCE WITH STATE
DELEGATED PURCHASING PROGRAM
REPORT NO. 2203**

OFFICE OF AUDIT SERVICES

NOVEMBER 2022

**CALIFORNIA DEPARTMENT OF COMMUNITY SERVICES
AND DEVELOPMENT
DELEGATED PURCHASING PROGRAM AUDIT
REPORT NO. 2203**

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STATE OF CALIFORNIA
DEPARTMENT OF GENERAL SERVICES
AUDITOR'S REPORT

DATE: November 29, 2022

TO: David Scribner, Esq.
Director
California Department of Community Services and Development

This report presents the results of our compliance audit of the delegated purchasing program of the California Department of Community Services and Development (CSD). 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 CSD'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 CSD 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 CSD 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 CSD'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, CSD'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. CSD'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 CSD'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: Megan Rivers, Deputy Director, Administrative Services Division, CSD
Purchasing Authority Management Section (PAMS), Procurement Division, DGS

CALIFORNIA DEPARTMENT OF COMMUNITY SERVICES AND DEVELOPMENT

DELEGATED PURCHASING PROGRAM AUDIT

FINDINGS AND RECOMMENDATIONS

The following presents our detailed findings and recommendations developed based on our compliance audit of CSD'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 May 23, 2022 through September 7, 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 2021-22 fiscal year. Our transaction tests included the review of 15 delegated non-IT and IT procurements, including 3 leveraged procurement agreement transactions.

DELEGATED PURCHASING PROGRAM

Overall, we concluded that CSD 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 CSD staff involved insufficiencies in the following areas:

Use of SB/DVBE Bidders – For a 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 or dated months before the purchase order (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 test samples where the SB or DVBE

Option was utilized, SB/DVBE Option was not supported as a procurement method due to the insufficiencies noted concerning the SB/DVBE certification verification, DVBE certification status of the bidder, Bidder Declaration, CUF, mixing of the two types of certified businesses in one transaction, and/or the transaction not meeting the dollar threshold for this procurement method, i.e., between \$5,000.01 and \$249,999.99.

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 DGS/PD web page. The FI\$Cal system maintains certification status of SBs and DVBEs.
- 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 pricing sheets and correct user instructions. Additionally, we found the PO not referencing the LPA terms and conditions. Further, staff not verifying the purchase against the LPA resulting in a purchase of items not allowed by the LPA.

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 directs 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).

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

- Procurement method not used correctly and conflicting procurement method and/or acquisition type listed in the procurement file and in FI\$Cal and file documentation not supporting the method or acquisition type listed in FI\$Cal (SCM F, 2.B2.0)
- 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)
- Bid/quote worksheet missing from the file (SCM F, 4.C4.0; 4.D2.3)
- Written solicitation missing from the file for transactions involving IT services exceeding \$4,999.99 (SCM F, 4.D1.2)

We found that the file documentation checklist that staff used did not include all required compliance items, i.e., FTB/CDTFA tax delinquency verification. We also found that staff did not always use a file documentation checklist. A file checklist serves as a guide to assist staff in ensuring many key requirements are met. Management should require that staff use a checklist for every procurement 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 documentation checklist(s) as applicable to ensure that it covers all required compliance items.

3. Require that staff use a checklist for every procurement and complete the checklist in its entirety by marking off items as they complete them.

CONCLUSION

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



DAVID SCRIBNER
DIRECTOR

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GAVIN NEWSOM
GOVERNOR

November 16, 2022

Ms. Olivia Haug, Manager
Office of Audit Services
Department of General Services
707 3rd Street, 8th Floor
West Sacramento, CA 95605

Re: Audit Report: Delegated Purchasing Program (File No: 2203)

Dear Ms. Haug:

The California Department of Community Services and Development (CSD) has reviewed the Department of General Services, Office of Audit Services (DGS OAS) draft Audit Report of CSD's Delegated Purchasing Program issued on October 19, 2022. CSD appreciates the DGS OAS review did not reveal any findings of noncompliance and affirms that CSD is conducting its delegated purchasing program in compliance with delegated purchasing authority. CSD welcomes such compliance reviews and is especially appreciative of the technical guidance offered by DGS staff during the audit review.

In accordance with the recommendations offered in the draft Audit Report, CSD wishes to confirm staff trainings and other process improvements that the Department has implemented to further improve its delegated purchasing program:

Completed Staff Trainings:

- Use of Small Business (SB) and Disabled Veteran Business Enterprise (DVBE) Bidders and the associated paperwork used in these procurements for every transaction, including, but not limited to:
 - SB/DVBE certification status verification.
 - DVBE Declaration.
 - Bidder Declaration.
 - Commercially Useful Function evaluation and determination

Process Improvements:

- Use of Leveraged Procurement Agreements (LPA), including ensuring the following items are addressed with these types of procurements:
 - Placing pricing sheets and correct user instructions in the procurement file.
 - Referencing the LPA Terms and conditions on the resulting Purchase Order.
 - Verifying the purchase against the LPA.

Ms. Olivia Haug, Manager
November 16, 2022
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In addition, CSD will implement an improved review process where additional levels of review will take place prior to approving purchases. This improved review process will include a full review of the required updated checklists for each purchase to ensure full compliance with each of the purchasing guidelines associated with them.

CSD is committed to conducting its delegated purchasing program in compliance with DGS's procurement policies and will continue to monitor and strengthen the Department's procedures as needed.

If you have any questions or need any additional information, please contact Megan Rivers, Deputy Director of Administration Services, at (916) 318-7770 or Megan.Rivers@csd.ca.gov.

Sincerely,

A handwritten signature in blue ink, appearing to read "D. Scribner", is written on a light green rectangular background.

DAVID SCRIBNER, ESQ.
Director

**CALIFORNIA DEPARTMENT OF COMMUNITY
SERVICES AND DEVELOPMENT
(CSD)**

EVALUATION OF CSD'S RESPONSE

We have reviewed the response by the California Department of Community Services and Development (CSD) to our draft report. The response to the recommendations is satisfactory. We appreciate the efforts taken or being taken by CSD to improve its delegated purchasing functions.

As a 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. By May 31, 2023, please provide us a copy of the updated and approved procurement file checklist(s) for use by purchasing personnel.