

Date: January 4, 2011

File No.: 0202

To: Pam Harris, Chief Deputy Director
Employment Development Department
800 Capitol Mall, MIC 83
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 Employment Development Department's (EDD) 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 EDD's purchasing authority delegation agreements with the Department of General Services (DGS).

The EDD's written response to a draft copy of this report is included as an attachment to the report. The report also includes our evaluation of the response as an attachment. We are pleased with the actions being taken to address our recommendation.

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 the recommendation to us by July 5, 2011. 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, 4th Floor, West Sacramento, CA 95605, IMS Code: Z-1, MS 104.

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

If you have any questions, please call me at (916) 376-5058, or Andy Won, Audit Supervisor, at (916) 376-5052.



RICK GILLAM, CPA, CIA
Chief, Office of Audit Services

Attachment

cc: Sheri Huber, Chief, Business Operations Planning and Support Division
Jeannine Fenton, Chief, Office of Procurement, Contracting and Administration
Rose Liu, Chief, Procurement Section
Mark Steinwert, Chief, Audit and Evaluation Division
Trina Martinez, External Audit Coordinator, Audit and Evaluation Division

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To: Pam Harris, Chief Deputy Director
Employment Development Department
800 Capitol Mall, MIC 83
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 Employment Development Department's (EDD) 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. The EDD has two purchasing authority delegations: No. 9G-0709-EDD-HQ1 governing non-information technology purchases and No. 9I-0709-EDD-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 EDD'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 EDD is conducting its delegated purchasing program in compliance with the terms and conditions of its delegation agreements. However, as discussed under the Findings and Recommendations section of this report, we determined that the department's delegated purchasing policies and procedures are not ensuring that information technology goods solicitations valued in excess of \$100,000 are procured in accordance with the State's competitive purchasing requirements.

During our review we also identified other matters requiring attention that we discussed with the EDD's management but are not included in this report. These matters included our concern that policies and procedures were not ensuring full compliance with delegated purchasing requirements 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) obtaining of copies of the contract pricing page(s) for leveraged procurement agreement transactions (SCM 2 and 3, 6.A4.1); and, (3) referencing of the current version of the State's General Provisions in all competitive solicitations and purchase documents (SCM 2, 4.B6.1 and SCM 3, 4.B7.1) and the State's Bidder Instructions in all competitive solicitations (SCM 2, 4.B6.0 and SCM 3, 4.B7.0).

Since the issues noted above are not significant to the EDD's overall delegated purchasing program, they are not further discussed in this report. However, during our audit fieldwork they were discussed with the EDD's management who indicated that appropriate actions had been or were being taken to address our concerns.

FINDINGS AND RECOMMENDATIONS

The following presents our detailed findings and recommendations developed based on our compliance audit of EDD'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 September 15, 2009 through November 9, 2009. 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 EDD's management was promptly advised of any areas of concern so that they could begin taking corrective action. In May 2010, the EDD was also provided a detailed written summary of issues noted during our audit.

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 2008/09 fiscal year. Our transaction tests included the review of 90 delegated non-IT or IT procurements, including 25 leveraged procurement agreement transactions.

INFORMATION TECHNOLOGY PURCHASES

The EDD's procurement policies and procedures are not ensuring that IT goods purchases in excess of \$100,000 are being conducted in full compliance with State requirements. Specifically, although quotes were being obtained from two responsible bidders, the EDD was not conducting the solicitations in accordance with the competitive purchasing requirements contained in SCM 3, 4.C1.2 which provides that IT goods solicitations valued in excess of \$100,000 must:

- Be a written document.
- Include a provision for notice of Intent to Award.
- Provide language regarding protest procedures.
- Be advertised.

The EDD was also not complying with SCM 3, 4.B2.7 which provides that the following business participation programs requirements must be included in competitive solicitations with an estimated dollar value of \$100,000 and over:

- Target Area Contract Preference (TACPA)
- Enterprise Zone Act (EZA)
- Local Agency Military Base Recovery Act (LAMBRA)

¹ The criteria references in this report are those contained in the July 2010 version of SCM Volumes 2 and 3. The same numbering system is used for each volume: chapter, section (if applicable), topic, and information block.

It should be noted that EDD's written IT procurement policies and procedures do include a *Procurement Checklist* that is to be used by buyers to assist in complying with SCM requirements. The checklist includes the above procurement activities that must be conducted when a solicitation is estimated to exceed \$100,000. Apparently, this checklist was not used for the 10 solicitations included in our sample tests that were conducted during the months of January 2009 through June 2009.

Recommendation

Implement policies and procedures that ensure that IT goods solicitations valued in excess of \$100,000 are conducted in accordance with competitive purchasing requirements.

CONCLUSION

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

Your response to our recommendation (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 EDD'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

Staff: Andy Won, Audit Supervisor
Maricela Bautista

cc: Sheri Huber, Chief, Business Operations Planning and Support Division
Jeannine Fenton, Chief, Office of Procurement, Contracting and Administration
Rose Liu, Chief, Procurement Section
Mark Steinwert, Chief, Audit and Evaluation Division
Trina Martinez, External Audit Coordinator, Audit and Evaluation Division



M E M O R A N D U M

To: Rick Gillam
Department of General Services

Date: December 16, 2010

File No.:

From: Sheri Huber
Employment Development Department

Subject: DELEGATED PURCHASING PROGRAM AUDIT DRAFT REPORT

On November 16, 2010, the Department of General Services (DGS) issued the Delegated Purchasing Program Audit Draft Report. The Business Operation Planning and Support Division (BOPSD) is providing the following comments concerning the finding and recommendation in the draft report:

Finding:

The EDD's procurement policies and procedures are not ensuring that Information Technology (IT) goods purchases in excess of \$100,000 are being conducted in full compliance with State requirements. Specifically, although quotes were being obtained from two responsible bidders, the EDD was not conducting the solicitations in accordance with the competitive purchasing requirements contained in SCM 3, 4.C1.2 which provides that IT goods solicitations valued in excess of \$100,000 must:

- Be a written document
- Include a provision for notice of Intent to Award
- Provide language regarding protest procedures
- Be advertised

The EDD was also not complying with SCM 3, 4.B2.7 which provides that the following business participation programs requirements must be included in competitive solicitations with an estimated dollar value of \$100,000 and over:

- Target Area Contract Preference (TACPA)
- Enterprise Zone Act (EZA)
- Local Agency Military Base Recovery Act (LAMBRA)

Recommendation:

Implement policies and procedures that ensure that IT goods solicitations valued in excess of \$100,000 are conducted in accordance with competitive purchasing requirements.

Response:

The BOPSD agrees with the finding and the recommendation. The BOPSD recognizes the need for improving IT procurements and has evaluated policies and procedures for improvement opportunities. Upon implementation of revised policies and procedures, the BOPSD is confident procurements will be done in accordance with competitive purchasing requirements.

If you have any questions regarding BOPSD's response to the Draft Report, I may be reached at (916) 654-8299.



SHERI HUBER, Chief
Business Operations Planning and Support Division

Attachments

cc: Jeannine Fenton, MIC 62-C
Rose Liu, MIC 62-C
Mark Steinwert, MIC 78
Trina Martinez, MIC 78

**EMPLOYMENT DEVELOPMENT DEPARTMENT
COMPLIANCE AUDIT**

EVALUATION OF EDD'S RESPONSE

We have reviewed the response by the Employment Development Department (EDD) to our draft report. The response to the recommendation is satisfactory. We appreciate the efforts taken or being taken by the EDD to improve its delegated purchasing program.