

**CALIFORNIA DEPARTMENT OF
CORRECTIONS AND REHABILITATION
CALIFORNIA PRISON HEALTH CARE SERVICES**

Report of Review

**ADMINISTRATIVE AND INTERNAL ACCOUNTING
CONTROLS OVER THE SERVICE CONTRACT PROCESS**

July 1, 2008, through August 31, 2009



JOHN CHIANG
California State Controller

June 2010



JOHN CHIANG
California State Controller

June 23, 2010

J. Clark Kelso, Receiver
California Prison Health Care Services
501 J Street, Suite 100
Sacramento, CA 95814

Dear Mr. Kelso:

This report presents the results of the State Controller's Office (SCO) audit of the California Prison Health Care Services' (CPHCS) administrative and internal accounting controls over its service contract process as well as its compliance services contract codes and guidelines. The audit covered service contracts initiated from July 1, 2008, through August 31, 2009. The audit is a result of an interagency agreement between the SCO and the California Department of Corrections and Rehabilitation, entered into on August 12, 2009.

Our audit disclosed the following:

- California Prison Health Care Services (CPHCS) lacks complete, formalized policies and procedures to govern its contract process.
- CPHCS did not demonstrate compliance with the State Contracts Manual.
- CPHCS did not comply with the substitute contracting process approved by a federal court order.
- The electronic contract log is not accurate and not reliable.
- CPHCS has one instance of inappropriate contract splitting.
- CPHCS does not have defined responsibilities for contract management.

According to its response, the CPHCS management recognizes the severity of problems identified in our audit report and is committed to take appropriate action to address them. We are particularly encouraged by the proactive action taken by your department administrators since our exit conference on December 17, 2009.

Throughout the course of our audit, we received excellent cooperation from various staff members of your department. Their effort and assistance is appreciated.

If you have any questions, please contact Cathleen Dinubilo, Manager, State Agency Audits Bureau at (916) 327-3928.

Sincerely,

Original signed by

JEFFREY V. BROWNFIELD
Chief, Division of Audits

JVB/sk:wm

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Audit Report

Summary

This report presents the results of the State Controller's Office (SCO) audit of California Prison Health Care Services' (CPHCS) administrative and internal accounting controls over its service contract process, as well as its compliance with applicable services contract codes and guidelines. The audit is a result of an interagency agreement between the SCO and the California Department of Corrections and Rehabilitation, entered into on August 12, 2009, for the SCO to perform an internal control review of CPHCS. The audit covered service contracts initiated from July 1, 2008, through August 31, 2009.

Our audit disclosed that CPHCS lacks complete, formalized policies and procedures to govern their contract process; CPHCS did not demonstrate compliance with the State Contracts Manual; CPHCS did not comply with the substitute contracting process approved by a federal court order; the electronic contract log is not accurate and not reliable; CPHCS has one instance of inappropriate contract splitting; and CPHCS does not have defined responsibilities for contract management.

Background

In 2001, a class action law suit (Plata v. Schwarzenegger) was brought against the State of California over the quality of medical care in the state's 33-prison system. The suit was settled in 2002, and in the settlement, the State agreed to a range of remedies that would bring prison medical care in line with acceptable standards. The State attempted to fulfill the agreement in 2003, 2004, and 2005. However, in 2005, the court found that the State failed to comply with the court's direction, and the court appointed a receiver to provide leadership and executive management of the department's prison medical health care system. To carry out this mission, the Receiver established the California Prison Health Care Receivership Corporation, which is now CPHCS. The court gave the Receiver all powers vested by law in the Secretary of the California Department of Corrections and Rehabilitation as they relate to the administration, control, management, operation, and financing of the California prisons health care system. CPHCS is generally referred to as the Receivership and provides administrative support for the implementation of the receiver's projects.

Office of Procurement Services

In November 2007, CPHCS created the Office of Procurement Services (OPS). The Medical Support Contracts Unit of OPS was created to process non-medical service contracts in December 2008. Information Technology (IT) Acquisitions is a separate unit from OPS and was created in August 2008. IT Acquisitions was moved into Business Support Services in May 2009.

Objectives, Scope, and Methodology

On June 4, 2007, the Receiver obtained a federal court order waiving state contracting statutes, regulations, and procedures. The process under the federal court order is referred to as the substitute contracting method, or California Prison Receivership (CPR) method.

The specific objectives of the audit included, but were not limited to, determining whether CPHCS has internal controls in place to ensure that:

- The entity has written policies and procedures for activities related to service contracts.
- Adequate separation of duties exists over the service contracting function.
- Service contracts are approved by responsible persons and the approvals are documented.
- Service contracts are accompanied by the required supporting documentation and contain the required language.
- Solicitations are properly followed.
- Service contract splitting is avoided.
- Exemptions to service contracts are appropriately applied and documented.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to provide reasonable assurance as to whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management. We believe that our audit provides a reasonable basis for our opinion.

The scope of our review included a review of CPHCS's current policies, processes, procedures, and practices relative to its IT and non-IT service contract process for contracts initiated from July 1, 2008, through August 31, 2009. Per CPHCS management request, the audit did not include the following items:

- Medical contracts
- Non-service contracts such as purchase of commodities
- Follow-up to the Bureau of State Audits report dated January 2009

The following is a demographic of the 87 CPHCS service contracts initiated from July 1, 2008, through August 31, 2009:

<i>Bidding Method</i>	<i>CMAS</i>	<i>MSA</i>	<i>CPR</i>	<i>Fed Process-RFP</i>	<i>IA</i>	<i>NCB</i>	<i>RFP</i>	<i>F&R</i>	<i>Total</i>
IT Service Contracts	13	31	14	0	1	1	0	0	60
Non-IT Service Contracts	3	4	10	2	5	0	1	2	27
Total	16	35	24	2	6	1	1	2	87
<p>Legend:</p> <p>CMAS = California Multiple Award Schedule</p> <p>MSA = Master Agreement</p> <p>CPR = Contract was completed by California Prison Receivership, former management of CPHCS, under the substitute contracting process approved by federal court.</p> <p>Fed Process RFP = Contract was completed by CPHCS under the substitute contracting method approved by federal court.</p> <p>IA = Interagency Agreement</p> <p>NCB = Non-competitively Bid</p> <p>RFP = Request for Proposal</p> <p>F&R = Fair and Reasonable</p>									

The contract file did not have the following types of contracts; therefore, the compliance of SCM sections pertaining to these service contracts were not tested:

- Non-IT consultant contract
- Non-IT NCB
- IT RFP

We performed limited testing on IT NCB and non-IT RFP because only one of each contract type was completed by CPHCS during the audit period.

The procedures we performed included, but were not limited to, the following:

- Reviewed Public Contract Code, Department of General Services (DGS) procurement policies, and CPHCS's policies and procedures related to the contracts process;
- Reviewed reports issued by Bureau of State Audits;
- Interviewed individuals involved in initiation, bidding, development, authorization, billing, and monitoring of the contracts;
- Reviewed process flowcharts;
- Performed a walk-through of the system and prepared a narrative of the process as it relates to the specific contracts process;
- Reviewed and analyzed written policies and procedure for activities related to contracts;
- Designed an internal control questionnaire and interviewed managers for controls relating to the IT and non-IT contracts process;

- Verified that adequate separation of duties exists over the contracting function;
- Verified that contracts are approved by responsible persons and the approvals are documented;
- Judgmentally selected for substantive testing a sample of services contracts with various bid methods from the electronic log;
- From the selected sample, tested if contracts are accompanied by the required supporting documentation and contain the required language;
- Tested whether solicitations are properly followed;
- Tested whether contract splitting is avoided;
- Tested whether the alternative contracting process is appropriately applied and documented; and
- Interviewed contract managers to determine if contract management is sufficient.

Conclusion

Our audit of the California Prison Health Care Services' administrative and internal controls over the service contract process disclosed that CPHCS is not in compliance with rules and regulations for contracts as described in the Findings and Recommendations of this report.

Views of Responsible Official

We issued a draft audit report on February 10, 2010. Clark Kelso responded by the attached letter dated March 30, 2010. Mr. Kelso stated "we recognize issues identified in the report and have already begun taking the appropriate action to address them."

Restricted Use

This report is intended for the information and use of the California Prison Health Care Services, California Department of Corrections and Rehabilitation, and the SCO; it is not intended and should not be used by anyone other than these specified parties. This restriction is not intended to limit distribution of the final report, which is a matter of public record.

Original signed by

JEFFREY V. BROWNFIELD
Chief, Division of Audits

June 23, 2010

Findings and Recommendations

**FINDING 1—
CPHCS lacks complete formalized policies and procedures for its contract process**

The California Prison Health Care Services (CPHCS) does not have formalized policies and procedures for the contract process. Instead, CPHCS has a draft CPHCS Procurement Manual dated July 2009 that the Office of Procurement Services is supposed to follow. Our review of the draft CPHCS Procurement Manual found that the manual is not thorough, updated, or complete as indicated below:

- The manual is not detailed enough for an analyst to follow;
- The manual has no forms or examples;
- Many sections/procedures of the manual refer back to the State Contracting Manual (SCM) without listing internal procedures;
- The manual is not updated; for example, the signature approval level in the manual does not reflect the current limits;
- The manual does not include areas such as contract management and civil service consideration.

In addition, we found that some staff members are not using the manual.

The lack of a detailed and comprehensive manual has caused variations in the contracting process between the two contracting subdivisions.

The SCM, Volume 1, section 14.1.2, states:

A department procurement manual should include both purchasing policies and procedures. The policy section of the manual should discuss the purposes and objectives of the department's purchasing program while the procedure section establishes and describes, using considerable detail, the internal procedures of the purchasing program.

**FINDING 2—
CPHCS did not demonstrate compliance with the State Contracting Manual**

We judgmentally selected the following 17 contracts for testing:

<i>CMAS</i>	<i>MSA</i>	<i>NCB</i>	<i>RFP</i>	<i>F&R</i>	<i>IA</i>	<i>Fed Process-RFP</i>	<i>Total</i>
4	4	1	1	2	3	2	17

Legend:
 CMAS = California Multiple Award Schedule
 MSA = Master Agreement
 NCB = Non-competitively Bid
 RFP = Request for Proposal
 F&R = Fair and reasonable
 IA = Interagency Agreement
 Fed Process RFP = Contract was completed by CPHCS under the substitute contracting method approved by federal court.

We found instances of noncompliance in 15 out of the 17 (89%) contracts tested. The sample of 17 contracts tested represented 20% of the 87 active contracts reviewed during the audit period. Of the 17 contracts tested, 15 were completed under the SCM rules and two were under the substitute contracting process approved by the federal court. Many of the 17 contracts tested had more than one noncompliance issue.

The result of the review of two CPR contracts is in Finding 3. Of the 15 contracts completed following the SCM, we found instances of noncompliance:

1. In four MSA contracts tested, we noted the following instances of noncompliance with the SCM:
 - The central contract files maintained by the Office of Procurement Services are not centralized. The central contract files should maintain the complete contract file but they are incomplete. The IT group maintains its own IT contract files, and the Project Management Office (PMO) has some solicitation responses.
 - For one contract, the original contract rates were greater than the leverage procurement agreement (LPA) maximum rates. The first amendment added a project manager position as well as an additional scope, but the rate for the new position on the amendment is not listed for the project manager.
 - The contract files lack sufficient documentation, such as the contract award report (STD. 16), best value determination form, certification of compliance with SAM section 4819.32, a copy of the contract, the contract request form, and the request for quote.
 - For IT service contracts, the IT team did not prepare and retain in the procurement file a written justification that includes specific and detailed factual information that shows how the purchase document meets one or more of the conditions specified in Government Code section 19130. The IT team developed a "Civil Service Consideration Form" that listed only the conditions specified in Government Code section 19130(b) and selected a condition for each IT contract.
2. In four CMAS contracts tested, we noted the following instances of noncompliance with the SCM:
 - The central contract files maintained by the Office of Procurement Services are not centralized. The central contract files should maintain the complete file, but they are incomplete. The IT group maintains some documents, and the PMO has some solicitation responses.
 - The contract files lack required documents, such as the contract award report (STD. 16), best value determination form, certification of compliance with SAM section 4819.32, a copy of the contract, the contract request form, and the request for quote.

- The scoring sheet, which serves as the best value determination worksheet, is incomplete. It did not consider all criteria listed and indicate the successful bidder.
 - CPHCS did not document an explanation in the procurement file when fewer than three bids were received.
 - The results of LPA offers are not well documented (SCM Volume 3, section 5.A.4.0). The CPHCS should document all LPA suppliers that were contacted and include a recap of their offers. The CPHCS should also document how the selection was made, including what criteria was used for determining “best value.”
 - For IT service contracts, the IT team did not prepare and retain in the procurement file a written justification that includes specific and detailed factual information that shows how the purchase document meets one or more of the conditions specified in Government Code section 19130. The IT team developed a “Civil Service Consideration Form” that listed only the conditions specified in Government Code section 19130(b) and selected a condition for each IT contract.
3. In three Interagency Agreement contracts tested, we noted the following instances of noncompliance with the SCM:
- CPHCS does not keep evidence that they send the Contract Award Report for contracts in excess of \$5,000 to the California Department of Fair Employment and Housing.
 - An amendment was entered after the expiration of the original contract with no reference to the effective date.
4. In the only NCB contract tested, we noted the following instances of noncompliance with the SCM:
- Work was commenced prior to NCB contract approval by the Department of General Services (DGS). The NCB contract justification, dated July 23, 2008, was dated the day that work had commenced. DGS approved the NCB contract on December 4, 2008.
 - The IT team did not prepare and retain in the procurement file a written justification that includes specific and detailed factual information that shows how the purchase document meets one or more of the conditions specified in Government Code section 19130. The IT team developed a “Civil Service Consideration Form” that merely listed the conditions specified in Government Code section 19130(b) and selected a condition for each IT contract.

5. In the RFP contract, we noted the following instance of noncompliance with the SCM:
 - Solicitation documents did not include most of the provisions required by the SCM, volume 1, section 5.09.

6. In addition to the above, we made the following observations:
 - CPHCS does not keep evidence that it sends the Contract Award Report for contracts in excess of \$5,000 to the California Department of Fair Employment and Housing.
 - CPHCS does not keep evidence that it sends completed contracts to DGS.
 - Checklists are incomplete or inconsistent.
 - Daily logs of activities are not evident.

The applicable portion of the SCM for each type of contract is listed on the table below:

<i>Bidding Method</i>	<i>CMAS</i>	<i>MSA</i>	<i>NCB</i>	<i>RFP</i>	<i>F&R</i>	<i>IA</i>
Criteria for IT	SCM, Vol. 3, Ch. 5		SCM, Vol. 3, Ch. 4	N/A	N/A	SCM, Vol. 1, Ch. 3
Criteria for Non-IT	SCM, Vol. 2, Ch. 6		N/A	SCM, Vol. 1		SCM, Vol. 1, Ch. 3
Legend: CMAS = California Multiple Award Schedule MSA = Master Agreement NCB = Non-competitively Bid RFP = Request for Proposal F&R = Fair and reasonable IA = Interagency Agreement						

The SCM, Volume 2, section 2.B3.3, states:

For each personal service and/or consulting service transaction, regardless of purchasing approach or category utilized (i.e. competitive, LPA, etc.), the department must prepare and retain in the procurement file a written justification that includes specific and detailed factual information that demonstrates how the purchase document meets one or more of the conditions specified in GC 19130.

The SCM, Volume 2, section 6.A4.0 states, in part:

Departments must document all LPA suppliers that were contacted, provide a recap of their offers and record how the selection was made, including criteria for determining “best value.”

The SCM, Volume 2, section 6.A4.2, states, in part:

If the complete LPA is not maintained in the procurement file, buyers shall document, within the procurement file, where the complete contract is located.

The SCM, Volume 3, section 5.A2.0, states, in part:

The prices in the purchase document should be at or below contract rates.

The SCM, Volume 3, section 5.B2.2, states, in part:

All suppliers that were contacted, a recap of their offers and how the selection was made, including criteria for determining “best value” must be documented.

The SCM, Volume 3, section 5.A3.6, states:

If a department contacts 3 sources and receives:

- 1 offer – document the procurement file with the reasons why, e.g., the other two (2) suppliers did not respond
- 2 offers – document the procurement file with the reasons why, e.g., the third supplier did not respond

The SCM, Volume 3, section 5.A4.0, states, in part:

All LPA suppliers that were contacted, a recap of their offers and how the selection was made, including criteria for determining “best value” must be documented.

The SCM, Volume 3, section 5.A4.2, states, in part:

If the complete LPA is not maintained in the procurement file, the location of the complete contract must be documented in the procurement file.

**FINDING 3—
CPHCS did not
comply with the
substitute contracting
process approved by a
federal court order**

Our audit disclosed that CPHCS did not demonstrate compliance with requirements contained in the June 4, 2007 Federal Court Order Waiving State Contracting Statutes, Regulations and Procedures (Federal Court Waiver) and the substitute contracting process approved therein. The Federal Court Waiver was set forth to authorize the Receiver to seek approval to issue contracts using the Substitute Contracting Process (Expedited Formal Process, Urgent Informal Process or Sole Source) for those contracts falling within the scope of the Federal Court Waiver. Such approval should be sought where time is of the essence and use of standard state contracting procedures would delay or prevent delivery of essential goods and/or services. We selected and reviewed two contracts that were completed under the Substitute Contracting Process.

We observed the following instances of noncompliance:

- Lack of evidence to identify which of the three alternative bidding processes was used.
- Lack of evidence from the legal department of approval to use Substitute Contracting Process.
- Lack of evidence of Request For Proposal (RFP) posted on Web site.
- Lack of evidence of RFP published in a trade publication or on-line clearinghouse.

- Lack of evidence of notification to Prison Law Office and Plata dependents upon RFP issuance, and
- Lack of evidence of conflict-of-interest forms obtained from selection committee.

The Federal Court Waiver and the Substitute Contracting Process approved therein specify the following:

Expedited Formal Process

- The RFP must be approved by Receiver's Office Legal Affairs (ROLA);
- The RFP must be posted on CPHCS Web site;
- The RFP must be published in a trade publication or on-line RFP clearinghouse;
- Notice must be sent to Prison Law Office and Plata defendants;
- Three or more bids must be received;
- Additional bids must be solicited (if fewer than three bids received);
- Conflict-of-interest forms must be obtained from selection committee (three committee);
- CPHCS must have interviews with two or more bidders (\$750,000 and up); and
- CPHCS must attach bidder list, identifying those solicited directly.

Urgent Informal Process

- RFP issued (optional);
- At least three proposals solicited;
- Proposals received and filed; and
- Bidder list attached that identifies those solicited directly.

Sole Source

- Effort to identify alternate bidders exhausted

CPHCS noncompliance with the provisions of the Federal Court Waiver and the Substitute Contracting Process approved therein could result in abuse of state funds, lawsuit, and risk of fraud.

FINDING 4— CPHCS's electronic contract log is neither accurate nor reliable

The electronic central tracking log provides contract information to management for decision-making. Our review of the electronic log indicates the following:

- Of the 17 contracts reviewed, we found that 7 (41%) included information on the electronic log that did not match with information contained in the contract files.
- One IT service contract was not included on the central log.

- Contract listing did not differentiate between IT and non-IT contracts.
- The electronic contract log did not track the original contract amount, but instead overrode the amount to add the amendment (the log does not show separation of original contract and amendment).
- The log did not have prior-year encumbrance amounts and the total per contract amount.

**FINDING 5—
CPHCS had one
inadvertent instance of
inappropriate contract
splitting**

We found that Contract No. C08.0014 and Contract No. C08.0015 have the same vendor name and the same contract term. Contract No. C08.0014 is for the position of Deployment Manager on Strategic Offender Management System (SOMS) project, while Contract No. C08.0015 is for the Data Conversion Manager position on the same project. Both contracts have the same RFO, dated November 24, 2008, seeking multiple candidates to be proposed individually for project management consulting services. The first contract is for \$245,000 and the second contract is for \$235,400 for the same date of services. Both contracts have a provision to allow additional funds up to the maximum IT MSA threshold. The DGS delegation is \$1,500,000 per contract. Splitting the contract into two orders allows the same vendor to double the DGS delegation amount.

The SCM, Volume 2, Chapter 1.3.5, addresses order splitting as follows:

PCC section 10329 for non-IT goods and by policy for IT goods and services state that “no person shall willfully split a single transaction into a series of transactions for the purpose of evading the bidding requirements of this article.”

Departments may not split orders to circumvent approved purchasing authority thresholds.

**FINDING 6—
CPHCS does not have
defined contract
management
responsibilities**

A contract manager administers a contract and monitors the contractor’s performance to ensure that the State and its contractors honor agreements and deal with one another in good faith. Our interviews of CPHCS management regarding contract management indicated that CPHCS does not have clear responsibilities for:

- Writing the scope of work
- Completing appropriate forms
- Determining if funding is available
- Reviewing draft contract files for completeness
- Notifying contractors to begin work
- Ensuring appropriate people have a copy of the fully executed contract
- Reviewing, approving, and maintaining invoices
- Maintaining a log sheet of contract activities
- Documenting and maintaining contractor correspondence
- Monitoring and documenting ongoing contractor performance

- Documenting and acting on contractor non-performance issues
- Monitoring contract balances
- Identifying low spending levels
- Disencumbering funds if warranted
- Monitoring DVBE and small business participation
- Verifying that a vendor has fulfilled all contract requirements prior to final invoice payment
- Completing and maintaining Contractor Evaluation forms
- Sending required forms/copies to DGS and documenting such in contract logs
- Closing the contract file

The SCM, Chapter 9, section 9.00, states:

The contract manager is the authorized representative of the State of California responsible for administering a contract and monitoring the contractor's performance. The contract manager serves as a liaison with the contractor and may perform administrative tasks ranging from the request of contract services through the performance and final payment for completed services.

This chapter further lists the typical responsibility of a contract manager.

RECOMMENDATIONS

- CPHCS should develop a thorough, complete, and current contract manual. CPHCS should also develop specific desk procedures for staff to use in order to maintain standardization of procurement processes.
- CPHCS should develop checklists for each type of contract to ensure that all contract files are complete. All completed contract files should be reviewed and approved by appropriate management prior to filing.
- CPHCS should ensure that future contracts using the court-approved alternative processes follow policies and procedures and that keeps it all documentation in the contract file.
- For RFPs, CPHCS should ensure that the SCM policies are strictly adhered to and that all information is appropriately documented in the contract file.
- CPHCS should establish policies and procedures with specific instructions to maintain good recordkeeping activities as well as appropriate review procedures to ensure that all contract files and tracking logs are monitored, accurately updated in a timely manner, and contain sufficient details as identified above. In addition, CPHCS should correct its current contract log to reflect accurate contract information that includes the type of contract, original contract amount, and amendments.

- CPHCS should develop a contract management function. CPHCS should establish a contract manager's handbook to provide guidelines and processes for CPHCS contract managers to follow when managing a contract. The handbook should cover the roles and responsibilities of a contract manager as outlined in the State Contracting Manual, Chapter 9, sections 9.00 through 9.16. The CPHCS should consider adopting the California Department of Corrections and Rehabilitation's Contract Manager's Handbook.

**Attachment—
Department’s Response to
Draft Audit Report**

STATE OF CALIFORNIA
PRISON HEALTH CARE SERVICES

J. Clark Kelso, Receiver



March 30, 2010

Ms. Cathleen Dinubilo, Audit Manager
State Controller's Office,
Division of Audits - State Agency Audits Bureau
P.O. Box 942850
Sacramento, CA 94250-5874

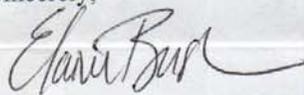
Re: Response to SCO Audit Report – February, 2010

Dear Ms. Dinubilo:

Thank you for the opportunity to review and respond to your draft audit report on the California Prison Health Care Services' administrative and internal accounting controls over the service contract process. We recognize the issues identified in the report and have already begun taking the appropriate actions to address them. These actions are summarized on the enclosed document as well as comments that improve the accuracy of some information on the report. I appreciate the review your staff conducted and welcome the opportunity it provides us to improve our processes.

If you have any questions or need additional information, please contact Johnny Hui, Senior Management Auditor at (916) 323-2310.

Sincerely,


J. Clark Kelso, Receiver
California Prison Health Care Services

Enclosure

cc: Elaine Bush, Chief Deputy Receiver, California Prison Health Care Services
Jamie Mangrum, Chief Information Officer, California Prison Health Care Services
Mitzi Higashidani, Director, Administrative Support Services,
California Prison Health Care Services
Stan Ota, Deputy Director, Business Support Services, California Prison
Health Care Services
Johnny Hui, Senior Management Auditor, California Prison Health Care Services

STATE CONTROLLER'S OFFICE (SCO) Audit Recommendation Responses - March 26, 2010
California Prison Health Care Services (CPHCS)

SCO Report Page Reference	Report Clarifications	
Page 2, Paragraph 4	CPHCS created the Office of Procurement Services (OPS) in November, 2007 and the Medical Support Contracts Unit of OPS was created to process non-medical service contracts in December, 2008. Information Technology (IT) Acquisitions is a separate unit from OPS and was created in August, 2008. Thus, OPS is not divided into an IT and non-IT related subdivisions.	
Page 4, 6th bullet	In the "Objectives, Scope, and Methodology" section of the report, it is indicated that procedures performed included interview and "observation" of individuals involved in initiation, bidding, development, authorization, billing, and monitoring of the contract. CPHCS is unaware of any observations performed during the review.	
Page 5	Finding 1 - Report states "The CPHCS lacks complete formalized policies and procedures for its contract process." To substantiate the finding the report refers to reviewing CPHCS' Procurement Manual. Although CPHCS agrees with the finding, the Procurement Manual was not intended to include formalized policies and procedures of the contract process. The manual mainly includes policies and procedures on acquisition of commodities which were not a part of the review scope.	

STATE CONTROLLER'S OFFICE (SCO) Audit Recommendation Responses - March 26, 2010
 California Prison Health Care Services (CPHCS)

6	<p>CPHCS should develop a contract management function. CPHCS should establish a contract manager's handbook to review provide guidelines and processes for CPHCS contract managers to follow when managing a contract. The handbook should cover the roles and responsibilities of a contract manager as outlined in the State Contracting Manual, Chapter 9, sections 9.00 through 9.16. The CPHCS should consider adopting the California Corrections and Rehabilitation's Contract Manager's Handbook.</p>	<p>Guidebook draft Based on the CDCR, OBS, Contract Management Handbook, CPHCS' Contract Management Handbook was drafted and submitted for management's review in January, 2010.</p>	<p>The draft Contract Management Guidebook has been completed and is under review by management.</p>
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STATE CONTROLLER'S OFFICE (SCO) Audit Recommendation Responses - March 26, 2010
 California Prison Health Care Services (CPHCS)

3	<p>CPHCS should ensure that future contracts using the court approved alternative processes follow policies and procedures and keep all documentation in the contract file.</p>	<p>Issue resolved</p>	<p>CPHCS has distributed the federal court waiver process information to staff and management, and conducted internal training for Buyers and Managers. Additionally, checklists have been developed to ensure that all steps of this process are followed according to established policy.</p> <p>The information CPHCS has distributed to staff includes procedures for staff to follow when acquiring goods and services under the expedited formal, urgent informal and sole source contracting processes. Staff have been trained to keep all documentation in the contract file.</p>	<p>This issue has been resolved in conjunction with the CPHCS Legal Office.</p>
4	<p>For RFPs, CPHCS should ensure that the SCM policies are strictly adhered to and all information is appropriately documented in the contract file.</p>	<p>Issue resolved</p>	<p>CPHCS conducts internal training for its staff on the processing of all purchase and service agreements (IT, non-IT, purchasing authority or federal process) on a continuous basis. CPHCS also requires additional training for its staff, and certain training courses are designated by classification for Buyers, Support Staff, and Managers. Cal-PCA workshops are attended as schedules allow.</p> <p>Checklists are placed in contract files and used to ensure all required documentation is present.</p>	
5	<p>CPHCS should establish policies and procedures with specific instructions to maintain good recordkeeping activities as well as appropriate review procedures to ensure that all contract files and tracking logs are monitored, accurately updated in a timely manner, and contain sufficient details as identified above. In addition, CPHCS should correct their current contract log to reflect accurate contract information that includes the type of contract, original contract amount, and amendments.</p>	<p>Contracting - Guidebook - June, 2010 Database - April, 2010 Staff training - ongoing</p>	<p>A detailed Contracting Guidebook is being developed, and it is based on the CDCR, OBS, Contracting Guidelines, as well as all other applicable laws, rules and regulations. The guidebook will contain specific procedures to maintain good recordkeeping activities as well as appropriate review procedures to ensure that all contract files and the acquisitions database are monitored and updated in a timely manner. Checklists are placed in contract files and used to ensure all required documentation is present.</p> <p>The database under development will ensure availability of contract data including but not limited to the type of contract, contract amount and amendment information. CPHCS is currently testing data entry methods to ensure the database will perform as required. Since the database is expected to be operational soon, there are no plans to update the contract tracking log.</p>	

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